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Do I need a trust as part of my estate plan?

BY HALLMARK CAPITAL MANAGEMENT, INC.

Standing, left to right:
George R. Kress, Thomas S. Moore;
seated, left to right:
Cynthia Bechmann, Steve Erikson

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TEAM

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Thomas S. Moore, CFA®, Executive Vice President, Chief Investment Officer

Cynthia Bechmann, Senior Vice President, Chief Operating Officer

Steve Erikson, CFP®, President and Chief Executive Officer

ASSETS UNDER MANAGEMENT
$1.198 billion (as of 6/30/16)

MINIMUM ASSET REQUIREMENT
$500,000 (for investment services)

NUMBER OF CLIENTS
946 (as of 6/30/16)

PRIMARY CUSTODIAN FOR INVESTOR ASSETS
Multiple—please inquire

PROFESSIONAL SERVICES PROVIDED
Planning and money-management services

FINANCIAL SERVICES EXPERIENCE
Steve, 32 years; George, 26 years; Thomas, 36 years; Cynthia, 32 years

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ILLUSTRATION BY KEVIN SPROULS

According to *Investment News*, over the next 30 years, $30 trillion will be passed down from baby boomers, to Generation X, to millennials.[1]

That's why, when meeting with new clients, I'll often say, "Tell me about your estate plan or any trusts you have." Then I'll ask: "Are they set up to help carry out your wishes?"

And a lot of times I'll hear clients respond, "Trusts are only for the wealthy," while others will say they have trusts set up, but several years have elapsed since they have reviewed them.

In the interim, the children of these clients will have grown, married and now have children of their own.

And those are good reasons to consider a trust now. This financial vehicle, after all, can be an important part of an estate plan, since it holds assets on behalf of a beneficiary and can specify exactly how and when the assets are to be distributed.

Trusts not only help facilitate the disposition of assets by detailing who gets what, but they can also last for many years—throughout the surviving spouse's lifetime and the children's lifetimes, as well. Trusts can also provide an "incentive" for beneficiaries to match the income they earn so they don't become "trust fund babies."

> "There are reasonable ways to use trusts to protect assets for the next generation and beyond."

Whatever the motive for setting up a trust, all parents want to make sure that their minor children are taken care of in the event of their death. For adult children, other considerations may arise. Consider a situation where an inheritance is left outright to a child who is married, and the inheritance is commingled with other assets. What happens to the inheritance if the couple gets divorced? It is likely that the assets may be split between their children and the ex-husband or ex-wife.

Another potential problem: How financially responsible are the children? Has one child done very well financially so that leaving money outright to him or her will increase this individual's estate taxes (plus inheritance taxes if the state of residence has such a tax)? And what if other children need more help and can't manage their assets by themselves?

By setting up a trust, you can communicate how you want the money you leave to your children to be managed, the circumstances under which it will be distributed and when it should be withheld. You can also determine if your children will be able to control the money at a certain age as either co-trustees or recipients of the full balance of the trust.

As second marriages become more common, they pose yet another issue. While remarriage can bring great happiness to people's lives, it can also bring challenges for structuring an estate plan that provides support for the surviving spouse and any children from the previous marriage.

Here, a credit shelter trust (or bypass trust) can provide income to the surviving spouse, while preserving the deceased spouse's control over the remainder beneficiaries, who may include children from a previous marriage. Another type of trust is a qualified terminable interest property (QTIP) trust that can provide income and even principal (if needed) for a surviving spouse, while preserving the underlying assets and controlling how they are distributed to children from a previous marriage, or to other beneficiaries.

While many clients we meet understandably don't want to control their assets "from the grave," there are reasonable ways to use trusts to protect assets for the next generation and beyond. It is essential that you work with your financial advisor, attorney and CPA to properly establish an estate plan that fits you. ●

This article was contributed on behalf of Hallmark Capital Management, Inc. (Hallmark) by Steven B. Resler, CFP®, vice president and client relationship manager at Hallmark.

[1] *Liz Skinner, "The great wealth transfer is coming, putting advisers at risk," Investmentnews.com, July 13, 2015.*

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