



TRUSTS

Financial planning tools for today — and tomorrow





A Guide For Financial Professionals and Their Clients

LIVING TRUST

FEATURES AND USE

- Gives donor full control of assets, flexibility and access to professional management throughout lifetime

ADVANTAGES

- Is easy to revise or terminate
- Is harder to challenge than a will; prenuptial protection for children in case of second marriage
- Provides protection in case of incapacitation
- Avoids probate

DISADVANTAGES

- Offers few or no estate or income-tax benefits

IRREVOCABLE TRUST

FEATURES AND USE

- Transfers assets and any subsequent appreciation to heirs

ADVANTAGES

- Provides estate and income-tax benefits
- Avoids probate

DISADVANTAGES

- Requires grantor to surrender assets and the right to change trust terms
- May be subject to possible gift taxes
- Requires that gains on assets sold within two years be taxed at donor rates

CHARITABLE REMAINDER TRUST

FEATURES AND USE

- By making a gift of highly appreciated assets to charity, donor may receive income from assets for life as well as current income-tax deduction
- Trust can also serve as a supplemental retirement plan

ADVANTAGES

- Generates income from assets that might not otherwise generate income
- Provides income tax deduction
- Defers or eliminates capital-gains tax
- May minimize estate and gift taxes
- Wealth surrendered may be replaced by an Irrevocable Life Insurance Trust
- Enables tax deferred compounding

DISADVANTAGES

- Requires grantor to surrender assets

IRREVOCABLE LIFE INSURANCE TRUST

FEATURES AND USE

- Properly drafted trusts will keep proceeds from a life insurance policy out of donor's estate and provides beneficiaries with liquidity to pay estate taxes

ADVANTAGES

- Provides estate-tax advantages
- Offers generation-skipping tax advantages

DISADVANTAGES

- Is subject to possible gift and estate taxes if there is insufficient advanced planning. Death benefits paid within three years of the date that policy is transferred to trust included in donor's estate

CREDIT SHELTER TRUST

FEATURES AND USE

- Created under a living trust or by will; removes taxes from a surviving spouse's estate; provides for both surviving spouse and heirs through the use of applicable estate and gift-tax credit

ADVANTAGES

- Allows \$2 million* to pass tax-free to heirs

*current for 2007-2008 and is subject to change

DISADVANTAGES

- May not provide sufficient income for surviving spouse

QUALIFIED TERMINAL INTEREST PROPERTY TRUST (QTIP TRUST)

FEATURES AND USE

- A "marital deduction trust" often used by remarried individuals; allows donor to provide income after death to second spouse while preserving assets for children of first spouse

ADVANTAGES

- Allows control of assets after death
- Provides for spouse and children from a different marriage

DISADVANTAGES

- Is subject to taxes on assets in estate of surviving spouse

MARITAL DEDUCTION TRUST

FEATURES AND USE

- Created under a living trust or by will; the trust is established to receive an amount on behalf of the surviving spouse that qualifies for the marital deduction

ADVANTAGES

- Provides for needs of surviving spouse where spouse needs assistance in managing assets
- Allows surviving spouse to have partial or total control of assets

DISADVANTAGES

- Is subject to estate taxes on assets at death of surviving spouse

MINORS' TRUST

FEATURES AND USE

- Controls gifts to child under annual gift tax exclusion, providing asset management until child reaches age of majority

ADVANTAGES

- Allows undistributed income to be taxed at trust rates
- Enables trust to be continued after child reaches age of majority, with consent of donor

DISADVANTAGES

- Transfers full control of assets to child at age of majority
- Donor receives no income from the assets held in the trust



RABBI TRUST

FEATURES AND USE

- Non-qualified employment compensation; can be protected against change of management by the employer

ADVANTAGES

- Enables employee's income to be deferred and invested for gain

DISADVANTAGES

- Requires deferred compensation assets to be paid to employer's creditors if employer becomes insolvent

QUALIFIED PLAN TRUST

FEATURES AND USE

- Required for all qualified employee pension and profit-sharing plans, except 403(b) and 457 plans

ADVANTAGES

Enables employee's income to be deferred and invested for gain

DISADVANTAGES

- Is required for all qualified plans; depending on type of plan, distribution restrictions and requirements may apply
- Possible punitive income, estate and excise taxes may be applied



TRUST TERMS

BENEFICIARY

A person who is legally entitled to benefits, usually money or other property, from a trust.

DONOR

A person who creates a trust; also referred to as a “trustor,” “grantor” or “settlor.”

MARITAL DEDUCTION

A deduction for the amount of property that passes to a spouse for estate- and gift-tax purposes.

PROBATE

The procedure in each state required to legally settle the estate of a deceased person and transfer his or her property.

TRUST

A relationship in which one person (the trustee) is the holder of legal title to property (the trust property) to keep or use for the benefit of another person (the beneficiary).

TRUSTEE

An individual or professional organization that holds the legal title to property for the benefit of another person or persons.

GIFT AND ESTATE TAX CREDIT

A tax credit, allowed by the federal government, that may be applied to either gift or estate taxes that are due.

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