PNC CENTER FOR FINANCIAL INSIGHT

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Using Trusts to Help and Protect You and Your Family

Estate planning is so much more than addressing transfer taxes. A key to effective wealth management and family wealth transfer is recognizing the risks that threaten you and your family's wealth and developing strategies to minimize them. Below we review 11 ways a good trust and estate plan can help you navigate life's challenges.

Unexpected disability, divorce, predators—these are just a few of the risks families face. We have found that a well-designed and, more importantly, well-administered trust is among the most effective tools for managing life's risks and achieving wealth goals.

Following are some of the most common risks and possible trust solutions for you to explore with your advisor.

Disability

Disability—personal or of a spouse, child, or grandchild—resulting from aging, illness, or accident is a reality that affects many families. If, for example, a loved one is afflicted with Alzheimer's disease, the aftermath of a stroke, or another catastrophic illness or accident, a trust may be particularly effective in addressing the day-to-day tasks of dealing with wealth. These include such things as bill paying and asset management, shifting these tasks seamlessly to the trustee. Family privacy is preserved because court-appointed financial guardianship is most likely unnecessary. A so-called "special needs" trust may enable a disabled person to qualify for government support programs while still providing extra funds to supplement governmental benefits.

Second Marriage

A second marriage raises the question of how to provide adequately for a surviving spouse while not disinheriting children of a prior marriage. The qualified terminable interest property (QTIP) marital trust is one of many methods to address this concern by providing resources so that assets are protected for both your spouse and children. An impartial professional trustee may help prevent family disharmony.

Divorcing Spouses

Divorce rates in the United States are high, and family wealth may be lost to a divorcing spouse if a child inherits assets directly. Assets you intend to take care of your children and grandchildren can end up in the pocket of the nonfamily divorcing spouse with no guarantee those assets will ever make their way to your grandchildren. Leaving your desired inheritance to your children and grandchildren in a trust will help confirm that your assets only take care of family.

In our experience, a professionally managed trust may be an effective solution to protect assets for children and/or grandchildren. It can provide them with needed cash flow, funds to maintain a standard of living, meet emergencies, or provide for education, while insulating assets from divorce proceedings.

Education

Education of children, especially grandchildren, is important to many individuals. What if your child dies before you, leaving grandchildren with insufficient assets to pay for their support and education? A trust may confirm that the family wealth benefits them, providing for their support and education. Additionally, a trust shelters grandchildren from inheriting a substantial amount when too young and/or too inexperienced. A trust for grandchildren provides a manager to help future generations of your family realize their education goals while making sure the funds are protected.

Family Management

Death may come without warning or proper planning for the orderly management of your family wealth. If you die without a will, the state determines who inherits your wealth and in what proportions. Unintended consequences may result, such as disinheriting your intended heirs or a child inheriting too much too soon. Worse yet, dissension within the family occurs all too often and wealth becomes destructive, something we have witnessed often. Trusts may provide an orderly arrangement of your desires so that your family receives the inheritance you want them to have, in the order you want, at the time of your choosing, and in the disbursement manner you wish.

Predators

There are many stories in the news about activities of unscrupulous advisors and their scams, and even the most intelligent individuals may be fooled. How many times have you heard about people, especially the elderly, who have given life savings to an advisor who guarantees high interest rates, increased value, and return on investment? Or consider a widow or widower, who may be preyed upon because they are in a delicate state. A trust provides that the trustee act in the best interest of you and your family, may not engage in acts of self-dealing or self-enrichment, and will help protect vulnerable beneficiaries from the opportunists they encounter.

Family Pressures

It is not unheard of for a child to ask a parent for funds to buy a new car or fund a substantial home down payment, even if the parent is not in a financial position to do so or feels the need to equalize gifts among all the children. A trust includes protecting the assets from such pressures. A professional trustee can counsel about the appropriateness of such a payment and intervene, making an unbiased, objective, and independent judgment, as well as insulating your spouse from such pressures. For those who are vulnerable, the trust is a tailor-made solution.

Creditors

Creditors may become a threat to the preservation of family wealth. A beneficiary may have inadequate insurance for a claim resulting from accident, business failure, or professional malfeasance. A spendthrift trust can shield assets from judgments levied against a beneficiary, preventing assignment of income or assets from the trust to a creditor, while still providing cash flow and security to the beneficiary. This also protects the assets for future generations.

Lack of Sophistication, Interest, or Ability

An often-heard comment is "my child has little interest or experience in financial matters," raising the question, "will substantial assets become a burden rather than a blessing?" Consider the child who inherits $1 million and is involved in business, a professional career, academia, or the arts. The child may be too busy, inexperienced in handling money, disinterested, or prone to other influences. Or consider a grandchild where money burns a hole in their pocket or one who suffers from a chemical dependency. A well-written trust may help in these situations. The trust manages the funds for the beneficiaries and protects them from neglect, benign or otherwise; unwarranted generosity; unwise spending; scams; or advice from an unscrupulous advisor.

Motivation

Many of our clients are concerned about whether an inheritance will destroy a child's or grandchild's ambition and goals. They want them to be productive, to pursue their dreams, and make their lives easier, but not necessarily easy. An experienced trustee can help a beneficiary understand wealth and its benefits and pitfalls so that the beneficiary does not become dependent on the trust. Imparting guidance to a beneficiary is part of what a professional trustee does so that wealth is a positive, not destructive, influence.

Asset Management

One of the concerns we hear is, "I have assets everywhere and cannot keep track of everything." Consolidating assets in a revocable trust helps organize your assets more effectively. There is one statement to review rather than several, and assembling tax information could become much easier as you provide your tax professional a single statement rather than dozens of statements. Assets that are in one place facilitate a better understanding of cash flow, asset allocation, and adjustments necessitated by change in circumstance and/or markets. Analyzing and reevaluating your willingness and ability to accept risk at varying stages of your life becomes easier. Overall the trust may free up your time, improve the overall management of your assets, and help protect against mistakes and missed deadlines.

Conclusion

Planning for the minimization of taxes is a critical part of every wealth management plan. Trust and estate plans can also address a myriad of nontax issues that if left unaddressed can destroy wealth and well-being. All such strategies should be considered and coordinated in the context of overall family objectives.

In PNC's more than 150 years of working with wealthy families, we have found trusts to be valuable tools to help preserve wealth and manage risks while allowing beneficiaries to pursue their ambitions and goals.

For more information, please contact your Wealth Management advisor.