

Trusts

The versatile estate planning
and wealth management tool





Setting the record straight

You don't need a last name like "Gates" or "Buffett" to benefit from a trust

Who knows where the misperception that trusts are only for the extremely wealthy came from? The fact is, people and families from all walks of life and from all regions of the country use trusts to:

- Protect assets
- Avoid probate
- Produce a steady income stream during retirement
- Create legacies for the future

So chances are, a trust may be a practical solution for one of your financial needs, too.

Learn what everyone needs to know

This brochure will help demystify trusts, clarify the terms used and introduce you to some of the trust strategies you may want to consider. Talk with your financial professional, your attorney and your tax advisor for assistance in designing and setting up a trust.

Because your dreams are worth it

You've worked hard to accomplish what you have in life. While it may take some time to draw up the papers—and you'll have important decisions to make—establishing your trust is probably not as hard as you think. In the long run, you'll be glad you did.

A trust may be an effective way to accomplish your financial goals—regardless of your objectives, concerns or net worth.

Trust basics

Fortunately, the concepts aren't that hard after all

A trust is essentially a separate legal entity, like a corporation, that is established by a written trust agreement. The purpose of the trust is to hold and manage assets placed in the trust—either for you or for the benefit of others.

There are three key players

1. **The grantor** is the person who establishes the trust, funds it with assets and decides who will benefit from it.
2. **The trustee** is the person, or often an institution, responsible for administering the trust according to the grantor's instructions and applicable laws.
3. **The beneficiary** is the person (or group of people) designated by the grantor who benefits from the trust.

Virtually any type of asset can be placed in a trust. For example:

- Money
- Securities
- Life insurance and other financial products
- Real estate
- Business interests
- Family heirlooms
- Art/collectibles
- Personal property

Trusts fall into two broad categories

1. **Revocable trusts** allow the grantor to modify the terms of the trust, change beneficiaries or terminate the trust as his or her goals change.
2. **Irrevocable trusts** cannot be changed and assets placed in them cannot be removed. Irrevocable trusts may provide significant savings on federal and state estate taxes.

In a revocable living trust, the grantor is usually the original trustee and is also the primary beneficiary for life.

Trusts also can be established two ways

1. **Inter-vivos trusts** can be established under an agreement and funded while the grantor is alive.
2. **Testamentary trusts** are established under the terms of a person's will and are funded after the grantor's death.

Trust features and benefits

Trusts are popular wealth management tools, because they offer several key advantages

Flexibility

There are many kinds of trusts with different purposes and parameters. Some are designed for minors, some for charities. Some can be modified at any time, some are irrevocable. Based on your goals, your financial professional, attorney and tax advisor can help you choose the most appropriate trust structure for your needs.

The flexibility, control, privacy and tax efficiency offered by various trusts mean they can be customized to your specific circumstances and provide for a broad range of needs.

Control

A trust is a binding legal document and your instructions must be followed to the letter—while you are living, if you become incapacitated and after you die. You are free to include any types of instructions, restrictions or conditions in your trust document, giving you control over the actions of your future trustee.

Privacy

A trust can help confirm the smooth transition of your assets and the privacy of your affairs after you die. In contrast, a will must be submitted to court supervision and go through a process called “probate”—which makes the information in your will a court record and available to anyone who cares to look it up. Another advantage trusts have over wills is that a trust can help your heirs avoid some of the delays and fees associated with the probate process.

Tax efficiency

A properly designed trust can help you and your beneficiaries avoid or minimize gift taxes, estate taxes and/or generation-skipping transfer taxes. This will help preserve and share more of what you have worked a lifetime to accumulate.

Who trusts are designed to serve

Because there are so many kinds of trusts—and because trusts can be designed to satisfy so many different specific needs—people you know are using trusts to address their personal concerns and accomplish their financial goals.

Business owners (or others who want to preserve their privacy)

Trusts permit estate assets to be transferred to beneficiaries without a probate proceeding in court. Wills, however, require a probate proceeding—which are a matter of public record. A competitor or other party might be able to take advantage of a business in transition, based on information revealed during the probate proceeding.

Owners of highly appreciated assets

Charitable trusts can shelter highly appreciated assets (such as securities or real estate) by deferring capital gains taxes, which can create a significant taxable event when they are sold. The total sales proceeds, unreduced by taxes, are available for re-investment to generate income for the trust beneficiary.

Beneficiaries

Trusts can help a grantor provide ongoing income for his or her beneficiaries. Trusts can also streamline the orderly passage of property to beneficiaries without the delay, publicity or cost of the probate process. Trusts can provide protection against creditor claims and the grantor can tailor the conditions under which distributions are made to beneficiaries.

Retirees, widows and widowers

Trusts can provide a regular income stream to the beneficiary from the trust assets and free the recipient from dealing with daily management, administrative and investment decisions. A trust can also provide for the management of a beneficiary's financial affairs, should he or she become incapacitated. Remember, a grantor can name himself or herself as the trust beneficiary.

Family members, friends, neighbors and coworkers: many people with financial goals similar to yours are using trusts to address their personal concerns.

Spouses in second marriages

Trusts can help oversee that a second spouse may be amply protected for life and that children from the previous marriage receive family heirlooms and the remaining assets when the second spouse has passed away.

People with dependents who have special needs

Trusts can help parents, grandparents and others provide for lifetime care, support and happiness of individuals with special needs. A special needs trust can provide the extras that improve the quality of life of the beneficiary without reducing the governmental benefits that provide basic care.

People concerned about declining health

Trusts can help see that a beneficiary's financial affairs will be handled properly when he or she becomes unable to take care of them because of illness or advanced age. This will eliminate the need for a court-appointed guardian or conservator.

Unmarried couples

Trusts can help a grantor provide for a "significant other" who is not a spouse while keeping the assets within the grantor's family.

People who need help handling their finances

Trusts can take the burden of managing assets, record keeping and tax preparation away from people who are unwilling or incapable of handling their finances.

Trust strategies to consider

A highly appreciated asset may be an especially good choice for placement in a charitable trust.

A variety of irrevocable trusts can be customized to meet a broad range of specific financial needs. Your financial professional, attorney and tax advisor can help you choose a strategy that is right for you.

Charitable trusts

Charitable remainder trust

Choose a trust designed to accomplish your charitable giving goals.

A charitable remainder trust allows you to:

- Designate assets to a charity
- Take an immediate income tax deduction
- Receive an income for life from the donated assets

While donated assets are transferred to the designated charity upon the death of the income beneficiary, many people find that a charitable remainder trust is a practical way to reduce their current tax liability, benefit their favorite charities and supplement their retirement income plan.

Charitable lead trust

A charitable lead trust allows you to:

- Pay income from the assets gifted to the trust to a designated charity for a set period of time
- Transfer the balance (principal) left in the trust at the end of the term—including any growth—to the designated beneficiary(ies) at reduced tax rates

Many people use charitable lead trusts to accomplish philanthropic goals during their lifetime, while reducing their estate tax exposure when transferring assets to heirs.

Other trusts help meet various estate planning needs. Some of the more common trust vehicles used in estate planning are:

Revocable living trusts

A revocable trust estate plan has the benefits of providing for the use of the trust assets during the grantor's lifetime, making provisions should the grantor become incapacitated and providing for the disposition of the trust assets after the death of the grantor. A revocable trust plan is accompanied by a "pour-over will" which moves any assets not registered in the name of the trust into the trust after the death of the grantor.

Trusts can help you accomplish almost any wealth management goal: asset protection, producing a steady stream of income during retirement or creating your legacy for the future.

Credit shelter/marital deduction (A/B) trusts

The purpose of an A/B trust plan is to reduce estate taxes assessed by the IRS upon death. Each individual is allowed a \$12.92 million exemption (2023) from estate taxes. This exemption equivalent amount funds the credit shelter trust. The remaining assets fund a marital deduction trust or pass to the spouse outright. Any married person may leave an unlimited amount of assets to their spouse at death, so the result is no federal estate tax on the first death and a reduced taxable estate at the second death.

Qualified terminal interest property trusts (QTIP)

If you have children and are remarrying, a QTIP trust can help you:

- Provide for a surviving spouse for life
- Confirm that the assets placed in the trust are transferred to the designated beneficiaries (your children from a previous marriage) upon the death of the surviving spouse

Minor and education trusts

You can use minor and education trusts to convey gifts to children or grandchildren, up to the annual gift tax exclusion, with no gift tax consequences. Many people choose these trusts because they often provide greater control and flexibility than a uniform gift to minors account (UGMA) or uniform transfer to minors account (UTMA).

Life insurance trusts

You can use a life insurance trust to:

- Keep the proceeds from life insurance out of your taxable estate
- Provide your beneficiaries with a means to pay estate taxes and final expenses
- Replenish assets consumed by estate taxes
- Provide family with cash for replacement of assets transferred to charities
- Avoid the distress sale of a large, illiquid asset like a family farm, business or real estate



Important information about the role of trustee

Your trustee could be anyone: a relative, a dear friend or sometimes even a favorite charity. But not everyone is comfortable with the personal liability and all the responsibilities it entails. Recordkeeping, disbursements, legal and tax matters—they all require ongoing, diligent attention.

Fulfilling all the education, reporting, oversight and compliance requirements can be challenging and time-consuming. This is why few people truly enjoy being a trustee. If you are concerned about choosing a trustee or accepting a trusteeship, using a professional trustee is often the best option.

Three reasons to engage a professional trustee:

1. Do you own complicated assets? Managing closely held assets, a business, real estate, mineral interests or partnerships requires special expertise.
2. Is your family situation complex? Multiple marriages and blended families can make it challenging for someone close to you to manage your trust objectively.
3. Does your potential trustee have the time and/or fiduciary aptitude to be successful? Learning to be a trustee can be a complex and full-time undertaking.

Three benefits of engaging a professional trustee:

1. The professional trustee has the training and experience to manage all types of assets.
2. The professional trustee will follow your instructions to the letter—emotions or personal agendas will not interfere with the fair administration of the trust.
3. The professional trustee offers stability and continuity to effectively manage the trust for generations to come.

Plus, the professional trustee is highly regulated for the beneficiary and grantor's protection.

A professional trustee has the training, experience and resources to help confirm trusts are managed according the grantor's instructions, in the best interests of the beneficiaries and according to all relevant state laws and federal tax laws.

Join the trust generation

You've worked hard to achieve the standard of living you enjoy. And many people just like you are using trusts to see that their lifestyle and interests will be carried forward. It's true: trusts are no longer only for the elite.

Our firm's ability to collaborate with leading professional trustee service providers who serve as trustee means administration of your trust will be in experienced, capable hands. Plus, your financial professional will be part of the trust team, which means he or she can help:

- Provide investment expertise for the assets placed in trust
- Confirm your trust complements your overall financial objectives
- Simplify your experience by working with all the other professional advisors involved in your trust
- Assist your beneficiaries when your trust assets are someday transferred to them

Trusts can help you accomplish almost any wealth management goal: asset protection, producing a steady stream of income during retirement or creating your legacy for the future.

Talk with your financial professional today about your asset protection, retirement income planning and legacy planning concerns. He or she can work with your attorney and tax advisor to recommend and implement a trust strategy that is well-suited for your overall financial goals—now and for future generations.



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