The Value of Creating a Trust

Trusts can be an excellent way to control the distribution of your assets in a private, efficient manner. Although trusts can be complex to set up and oversee, there are significant advantages of creating a trust.

Here are some common objectives and benefits of trusts:

Avoiding Taxes:

An irrevocable life insurance trust is a tax-saving trust. An irrevocable life insurance trust shelters your life insurance death benefits from estate taxes. After you pass away, the proceeds from your life insurance policy - the death benefit amount - are added back into your estate. After you establish the trust, you still have life insurance, and your beneficiary or beneficiaries will still receive the proceeds from your policy after your death, but without the added burden of estate taxes.

Avoiding Probate:

By keeping certain property out of your probate estate, you may be able to avoid many of the costs and lack of privacy concerns related to probate.

Protecting Your Estate:

One of the primary uses of trusts is to protect your property, even after it becomes someone else's estate. For example, you can use a trust to parcel out the money to your beneficiaries as you wish. Or, you can add conditions to how the money in the trust is dispersed. For example, you can specify that your beneficiaries receive a certain amount of money until a certain age, and then receive the rest if they meet criteria that you determine.

Providing Funds for Educational Purposes:

Trusts can make money available to your children, grandchildren, other relatives, or even non-relatives for educational purposes, such as college tuition and living expenses. For example, you can set up and fund trusts that parcel out money for educational purposes with a no-school, no-money restriction.

Charities and Institutions:

You can help your favorite charities by setting up a type of charitable trust that may, for example, give money annually to the charity while you're still alive, give a larger amount upon your death, and then continue to make regular payments out of the remaining trust. You can also set up a charitable trust to make regular payments to the charity for some amount of time but eventually "give back" whatever is left to you or, upon your death, to someone else in your family.

Alternatively, you can set up a charitable trust to pay you while you're still alive, and upon your death, the remaining amount in the trust goes to the designated charity.