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Planning for “*What If...?*”

Tools for Protecting Your Family and Managing Your Assets

Trusts

What Is It? A legal entity designed to hold title to property so that the trustee (the person named to administer the trust) can use the property for the benefit of a beneficiary.

A trust can

- maintain privacy in the settling of an estate.
- provide a means for handling one's affairs in the event of incapacity.
- provide a mechanism for managing assets for the benefit of minor children.
- avoid probate for property placed in a trust before death.
- remove property from the taxable estate (irrevocable trusts only).

Who Should Have It and Why?

Trusts can accomplish many estate planning goals. If you have enough assets to justify the cost of setting up the trust, you might use a trust to:

- have someone of your choosing manage your assets in the event of your incapacity.
- keep assets you owned prior to marriage separate from marital assets, thereby allowing you to retain control, through the trust, of who receives the assets or the income from them.
- provide a lifetime income for your spouse while preserving the assets themselves for your children.
- select a person who can provide professional management of assets until the children are older.
- provide the financial support for the care of a disabled child who will not be able to manage his/her own finances.
- reduce your taxable estate by taking advantage of the annual gift tax exclusion (\$11,000 in 2003 and adjusted for inflation), but without giving children immediate control of the gift.
- keep proceeds of a life insurance policy (or other assets) out of your estate for estate tax purposes.

Terms to Know

Grantor: the person who creates a trust and, usually, funds the trust.

Trustee: the person or institution that holds the legal title to property in a trust for the benefit of someone else.

Beneficiary: the person(s) who will receive the benefits from the property placed in a trust.

Principal or corpus: the property in a trust.

Testamentary trust: a trust created by the instructions contained in a will. This type of trust only comes into existence at death.

Inter vivos or living trust: a trust that is in effect during the lifetime of the grantor.

Revocable: a trust that, according to the trust's provisions, may be terminated or altered.

Irrevocable: a trust that cannot be terminated or altered.

Issues and Limitations

- You must pay an attorney to set up a trust. Then you must re-title your assets to place them in the trust.
- Even if you have a trust, you probably still need a will.
- Trusts are not appropriate for everyone, and the same trust doesn't fit all needs. Be wary of seminars that imply everyone needs a trust and that sell the same boilerplate trust document to all purchasers rather than tailoring it to the individual's situation.

Ask Yourself

Do I have a trust? If so, what type of trust is it? Have I re-titled my assets in the name of the trust?

If I don't have a trust, is my estate large enough and complex enough to justify the cost of setting up a trust?

Would a Power of Attorney work just as well for me?



<http://www.ace.uiuc.edu/cfe/whatif/index.html>

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