Making your wishes known

Property and assets, part two: trusts

There are a variety of reasons for establishing a trust, but almost all of them are rooted in concerns for someone else – family members, a business or a charity you support.

A trust is a document that describes how your property and other assets are managed for the benefit of others. An important part of setting up a trust is naming a trustee. Review a related Making your wishes known guide, *Who will act for you: your personal decision makers*, for more information on this role.

Why you might want a trust

Trusts can be established for many reasons, most of which focus on protecting or preserving your assets for your heirs. Here are a few common reasons to establish a trust.

- **Care for dependent loved ones:** If you have minor children or other dependents, you may establish a trust to manage money or other assets that you left to them. You may have an adult child or other dependent with disabilities who could be helped financially by a trust.
- **Make gifts to charity:** You can use a trust to give a gift to a charity while providing income and reducing income taxes. If your children are financially independent, treating your church or a charity as one of your heirs can speak to your values about helping others.
- **Manage estate tax issues:** Without a trust, large estates are subject to high taxes, up to 50 percent or more. Estate taxes (due on the amount above the government's exemption limit) affect fewer people today than in the past. If your estate is above that limit, placing some or all of your assets in a trust can reduce the taxes that your heirs would owe.

Two basic types of trusts

Testamentary trusts are set up through your will upon your death. With this type of trust, you can spread out payments from the trust over a period of time, instead of making a one-time distribution.

For example, these trusts are often established to care for minor children in cases where both parents die. These trusts can provide regular payments until the child reaches a certain age. They can also be set up to pay for specific expenses, such as college tuition.

Inter vivos (living trusts) are established while you are still alive. You can name someone else or even yourself as the trustee. You also name a successor trustee to take over should you become incapacitated or die.

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Individuals or institutions involved in a trust

The **grantor** (also called the settlor or donor) is you, the person who funds the trust.

The **beneficiaries** are the ones you name to receive your assets.

The **trustee** is responsible for managing and distributing your assets in the best interests of the beneficiaries.

An important benefit of a living trust is continuous management of your assets through death. After you pass, no new account or structure is needed to manage your money. Assets in a living trust usually are not subject to probate proceedings, meaning a quicker distribution of funds to your beneficiaries.

There are two types of living trusts – revocable and irrevocable. As the names suggest, a revocable living trust can be canceled and the assets returned to your estate. An irrevocable living trust is permanent.

Common types of trusts by purpose

Trusts are also categorized by the reason you establish one. Some of those common trusts named by their purpose are:

Charitable remainder trusts allow you to place some of your assets into a trust that will eventually go to a designated charity when you die. These trusts offer tax advantages, such as tax deductions for charitable giving. They can also provide an income stream for you and your beneficiaries over a period of time. Upon your death, the remainder of the trust then goes to the charity.

Special needs trusts are set up to financially benefit a dependent who is physically or mentally disabled. This allows someone else to manage the assets for loved ones who can't do it on their own. It also keeps them eligible for government benefits.

To qualify for Social Security's Supplemental Security Income (SSI), a person with disabilities may not hold property worth more than a certain value. By placing the assets in a special needs trust, the person still qualifies for benefits, while also benefiting from the inheritance.

Charitable lead trusts. Property is transferred into a trust for a designated period of time. The income from the property is donated to a favorite charity. At the end of the designated time, the property passes to your heirs.

The amount of the charitable contribution is credited against the value of the property, which may be enough to exempt it from estate taxes. In such cases, the beneficiary receives the property tax free, while a charity benefits beforehand.

Children's inheritance trusts usually are set up for young children. Instead of giving each child a lump sum when you die, money is placed in a trust, and distributed when the children reach a certain age. Until they reach the designated age, they still have access to the funds through a trustee.

Irrevocable life insurance trusts are usually set up so proceeds from your life insurance policy will go to someone other than your surviving spouse, such as children, and will not be included in your or your spouse's taxable estate. By holding a life insurance policy (or policies) in an irrevocable life insurance trust, taxation on the proceeds can be avoided. Once the policy is placed in the trust, or is purchased by the trust, it is no longer yours, and you may not cancel it or make changes. However, trustees can make some changes, based on the powers given to them by the trust.

How Everence can help

Estate planning: Everence can help you plan a trust, advising you about whether a trust is right for you as well as offer assistance in choosing the right kind to fit your needs.

Fiduciary services: Everence Trust Company can also serve as a fiduciary, managing your trust assets and/or acting as trustee on your behalf. As a faith-based organization, Everence will respect and honor your values in carrying out your trust.

Trust administration: Everence can help to establish and administer your trusts, as well. Trust services are administered through Everence Trust Company or Mennonite Foundation, an affiliate of Everence.

For more information about these services, contact your Everence representative, visit Everence.com or call (800) 348-7468.

Getting started: questions to ask yourself

- How would establishing a trust benefit my loved ones?
- Would a trust help manage possible estate taxes?
- Are there charities and ministries I might want to help through a trust?
- Who would I designate as my trustee?
- Do my loved ones, lawyer and financial advisor know of the trusts I have established?

Information provided is for educational purposes only and should not be considered as offering specific tax, legal or investment advice. State laws vary. Please consult your legal advisor about your individual end-of-life decisions.

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Everence helps individuals, organizations and congregations integrate finances with faith through a national team of advisors and representatives. Everence offers banking, insurance and financial services with community benefits and stewardship education. Everence is a ministry of Mennonite Church USA and other churches.

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