

In Trusts We Trust: Helping Beneficiaries Manage Inheritances

BY GARY ALTMAN, ESQ.

One of the top questions we hear from clients these days is, “How can I protect against my beneficiaries mismanaging their inheritance?” People often agonize over this, and with good reason! It’s all too common for people to blow through inheritances, whether intentionally or simply because they don’t know how to manage their newly inherited wealth. So, what, if anything, can be done?

young beneficiaries are involved, helping them avoid the temptation to spend through the money all at once.

- Since trusts often avoid probate, your beneficiaries may gain access to these assets more quickly than they might to assets that are transferred using a will.
- Trusts can also be effective for minimizing estate taxes and protecting your estate from lawsuits and creditors.
- Trusts can protect your child(ren)’s inheritance from predators.
- Trusts can be tailored for specific purposes such as making donations to charitable organizations or planning for the lifetime care of a special needs child.

“Trusts are the ideal solution for people who have very specific ideas in mind for how they want their assets distributed and used and who want to prevent the mismanagement of those assets.”

In Trusts We Trust

A trust is a highly effective estate planning tool that allows you to protect and control your assets long after you’re gone. It is a legal agreement that allows a third party, or trustee, to hold assets on behalf of a beneficiary or beneficiaries.

People often associate trusts with the uber-wealthy – the Gates’, Buffets and Trumps of the world. Indeed, many very wealthy people use trusts, but you certainly do not have to be a multi-millionaire or billionaire to use and reap the benefits of one.

Benefit Highlights:

- Trusts can be arranged to specify exactly how beneficiaries can use money distributed through the trust. For example, you could set aside funds and require that they be used only for educational purposes.
- Trusts can be arranged to specify exactly when beneficiaries can use money distributed through the trust. For example, you can require distributions to be made over time – rather than all at once. You may also wait to distribute money to a beneficiary until they reach a certain, presumably more mature, age. This approach may be particularly useful if

Customizing Your Trust

There are many types of trusts; a major distinction between them is whether they are revocable or irrevocable.

Revocable trust: Also known as a living trust, a revocable trust allows you to retain control of the assets during your (the grantor’s) lifetime. It is adaptable and can be dissolved at any time, should your life circumstances or wishes change. During your lifetime, it is treated like any other asset you own, so it is subject to income taxes. After your death, though a revocable trust may bypass probate, it is usually still subject to estate taxes. A revocable trust typically becomes irrevocable upon the grantor’s death.

Irrevocable trust: An irrevocable trust typically transfers your assets out of your estate. The purpose is to put assets out of the reach of estate taxes and probate as well as creditors and predators. Once executed, it cannot be altered. This means that you may lose some control over the use and investment of your

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assets. This also means that you are relieved of the tax liability on the income generated by the trust assets. (Distributions, however, will typically have income tax consequences).

A Trustworthy Trustee

Selecting the right trustee is critical. First and foremost, you want a person or entity with proven integrity that will make sound investment and/or distribution decisions. They should be up for the task (willing to serve) and have the time to do so. They should have the ability to be impartial and not have a conflict of interest. It is also helpful to enlist a trustee that is familiar with managing the

types of assets being held in the trust. For these reasons, a family member doesn't often fit the bill. Occasionally our clients ask us to serve as their trustee. Ultimately, the decision is yours.

The Bottom Line:

Trusts are the ideal solution for people who have very specific ideas in mind for how they want their assets distributed and used and who want to prevent the mismanagement of those assets. They can be complicated, however, and require the guidance of an experienced estate planning attorney.

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