

Ea\$y Money – Wealth: Trusts

What it is: A trust is an artificial entity, like a corporation, created by a document or instrument. A trust requires four basic elements—trustee, trust property, trust document, and known or discernible beneficiaries. The trust document specifies the rules of operation for the trust, the powers of the trustee, the beneficiaries to share in the income and principle from the trust, and instructions for distribution of the trust property. (Source: Evaluating Your Estate Plan)

How it works: Determining the objectives of an estate plan is the most important step. If you can identify and articulate your objectives—what the property is to be used for and for whose benefit—the chances are quite good that a plan can be developed to accomplish your goals. Since there are many ways of transferring property, much flexibility exists.

Why it matters: There are two main types of living trusts: revocable and irrevocable. A revocable trust transfers property ownership into the trust but retains to the grantor the power to alter, amend, or terminate the trust. A typical revocable trust arrangement provides that the grantor receives the income for the grantor's remaining life, with distributions to beneficiaries (spouse, children, grandchildren, etc.) at death.

An irrevocable trust cannot be altered, amended, or terminated by the grantor. The property transfer is complete without retention of powers over the trust or its property. A completed transfer of property is made, subject to gift tax, and the value of the irrevocable trust is not subject to federal estate tax, attorney's fees, or executor's fees.

Who should care? Parents' objectives often are to maintain security and dependability of income while both are living, and for the surviving spouse. Generally, the parents are interested in an equitable distribution of property among children. Finally, most are interested in minimizing estate taxes and estate settlement costs. There may be some special concerns, however, such as the rights of a surviving spouse who remarries, or management of certain types of property by the survivor. (Source: PM993, Estate Planning)

NOTE: This information is provided as an educational service and is not intended as, nor should it be considered legal advice but provides general information. It is recommended that the services of an attorney be obtained when dealing with the legal considerations of estate planning.

For more information:

- Iowa State University Extension and Outreach publication, *Evaluating Your Estate Plan: Trusts as an Estate Planning Tool*
- Iowa State University Extension and Outreach publication PM993, *Estate Planning*
- Iowa State University Extension and Outreach Human Sciences website at www.extension.iastate.edu/humansciences/