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The Right Trust For You

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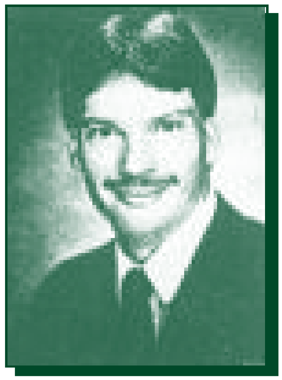

The estate planner's toolbox contains many useful tools, including a broad selection of trusts. Many find this assortment of trusts to be a confusing collection of acronyms such as GRITs, GRATs and GRUTs, CRTs and CLTs, ILITs and QPRTs. The characterization of trusts as either inter vivos or testamentary, revocable or irrevocable often makes for more confusion. Here is a glossary of the various types of trusts frequently employed by estate planners. Chances are one of these trusts is right for your estate plan.

1. **Charitable Lead Trust (CLT)** – trust created to benefit both a charity and the grantor's family. With the Lead Trust the charity receives distributions from the trust for a specified period of time. At the expiration of that period the trust assets are distributed to the grantor's family.

2. **Charitable Remainder Trust (CRT)** – similar to the CLT except the grantor's family receives distributions for the fixed term and the charity receives the trust assets at the end of the term.

3. **Grantor Retained Annuity Trust (GRAT)** – trust under which the grantor reserves the right to receive from the trust for a term of years a periodic payment of a fixed amount. At the expiration of the term the trust assets are distributed to the grantor's family.

4. **Grantor Retained Income Trust (GRIT)** – trust under which the grantor reserves the right to receive the income from the trust for a period of years. The remainder of the trust assets are distributed to the grantor's chosen beneficiaries after the expiration of the fixed term.

5. **Grantor Retained Unitrust (GRUT)** – trust under which the grantor reserves the right to receive from the trust for a term of years a periodic payment of a fixed percentage of the trust assets. At the expiration of the term the trust assets are distributed to the grantor's family.

6. **Inter vivos Trust** – trust created and effective during the lifetime of the grantor.

7. **Irrevocable Trust** – trust that cannot be revoked, changed or amended. Assets transferred to an irrevocable trust are a completed gift and cannot be removed from the trust by the grantor.

8. **Irrevocable Life Insurance Trust (ILIT)** – an irrevocable trust specially designed to hold insurance policies on the life of the grantor so as to remove the proceeds of the insurance policy from the grantor's gross estate for estate tax purposes.

9. **Living Trust** – revocable trust used primarily to avoid the probate of the grantor's assets.

10. **Joint Revocable Trust** – revocable trust created by a husband and wife. This trust typically holds most of the assets of a married couple. It is administered for their benefit during their lifetimes. At the death of the surviving spouse the trust assets are distributed to the couples' children without probate.

11. **Qualified Personal Residence Trust (QPRT)** – special trust designed to remove the value of a personal residence form the grantor's gross estate for estate tax purposes.

12. **Revocable Trust** – trust which the grantor may revoke. A revocable trust may be amended or modified. If the trust is revoked the trust assets are returned to the grantor. Generally used to provide lifetime administration of trust assets and to pass property to family members without probate.

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13. Revocable Disclaimer Trust – revocable trust used to administer and distribute the assets of a married couple when estate taxes are a concern. Generally each spouse uses a revocable disclaimer trust when the value of all of the couples' assets exceeds $850,000.

14. Qualified Terminable Interest Property Trust (QTIP) – special trust often used in second marriage situations. This trust allows the grantor to pass his or her property to both his/her spouse and children (from a previous marriage) in a manner qualifying for the estate tax marital deduction.

15. Supplemental Needs Trust – trust created for the benefit of a person with a disability. The assets held in a supplemental needs trust are not considered available to the disabled beneficiary and accordingly do not disqualify the disabled beneficiary from receiving public assistance. The assets of the supplemental needs trust are used to supplement (not replace) the amounts the disabled beneficiary receives under government benefit programs.

16. Testamentary Trust – trust that does not take effect until after the grantor's death. A testamentary trust is usually created by will.

Please feel free to contact Watson and Speight if you have questions or need assistance with an estate plan.

Reviewing Your Trusts

Jim McNary, Attorney

If you are one of our many clients using trusts in your estate plan, now may be a good time to review your situation and make sure your trusts are fully funded. Remember, your trust will help you avoid probate only if your (non-qualified) assets are held in trust at the time of your death. We recommend that you periodically review all of your assets so that you may satisfy yourself that everything you own is held in trust and your family will be able to avoid probate.