



Proper Funding of Revocable Trust is the Key to Unlocking its Benefit

If an estate plan includes a revocable trust — also known as a “living” trust — it’s critical to ensure that the trust is properly funded. Revocable trusts offer significant benefits, including asset management (in the event that the owner becomes incapacitated), probate avoidance and privacy. But these benefits aren’t available if the trust isn’t funded.

Funding the trust

Funding a living trust is a simple matter of transferring ownership of assets to the trust or, in some cases, designating the trust as beneficiary. Real estate, bank accounts, stocks and other investments, interests in partnerships and businesses, vehicles and certain collectibles are assets that should be retitled and transferred into the revocable trust. It is important to note that moving an IRA or qualified retirement plan to a revocable trust can trigger unwanted tax consequences. Rather than transfer these assets to the trust, the owner must change the beneficiary designation of the IRA or retirement plan to be the revocable trust. For insurance policies and annuities, the owner can either transfer ownership or change the beneficiary designation. In some cases, it may be advisable to hold a life insurance policy in an irrevocable life insurance trust to shield the proceeds from estate taxes.

Avoiding a pitfall

Most people are diligent about funding a trust at the time they sign the trust documents. But trouble can arise when they acquire new assets after the trust is established. Unless the owner transfers new assets to the trust, or designates the trust as beneficiary, they won’t enjoy the trust’s benefits. An annual review of financial documents, such as bank statements and ownership records, will uncover assets incorrectly titled.

So to make the most of a revocable trust, be sure that each time the owner acquires a significant asset, he or she takes steps to transfer it to the trust or completes the appropriate beneficiary designation. A living trust is a key component of many estate plans. For assistance ensuring that trusts are properly funded, contact your Anchin relationship partner or Tamir Dardashtian and Michael Rudegear, members of Anchin Private Client, at 212.840.3456 or info@anchin.com.



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