

IDENTIFYING THE RIGHT TRUST FOR YOUR SITUATION  
PLAN FOR TOMORROW, TODAY



RAYMOND JAMES®



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Should the time come when you are no longer able to handle your own affairs, you need someone who is experienced and objective to “mind the store.” Family members may not be well-suited for this role because of emotional involvement, geographic distance, unfamiliarity with your situation, lack of knowledge in managing estates and investments, or other factors.

The often-complex, modern family may create additional issues. A former spouse and perhaps children and grandchildren from other marriages may play into the picture. Distributing assets among the heirs of blended families is often complicated and emotional. And not all heirs are “created equal” – some may be more capable of successfully managing a parent’s or grandparent’s financial affairs or an inheritance than others, and those who are disabled may require very special assistance to ensure that an inheritance doesn’t disqualify them from receiving other benefits or to make certain the funds they inherit are used as you intended.

Avoiding probate may be another concern. Court involvement can be expensive, complex and time-consuming. In addition, your private affairs become a matter of public record.

A trust is a legal agreement between two parties, the person who creates it (the grantor) and the person or institution responsible for administering it, the trustee. By planning today for tomorrow’s eventualities, and using the time-tested trusts explained on the following pages, all of these circumstances can be addressed.

THINGS MAY BE FINE TODAY, BUT WHO KNOWS WHAT  
MAY HAPPEN TOMORROW? TRUSTS CAN PROVIDE  
PEACE OF MIND.

## LIVING TRUSTS

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A living trust, as the name implies, is a trust that is created during one's lifetime. Unlike a will, a living trust avoids probate and does not become a matter of public record. It may be revocable or irrevocable.

A revocable trust allows the grantor to retain total control over it by retaining the power to cancel or change the trust's terms or to terminate it at any time. The trust can be easily changed if circumstances warrant. An *irrevocable* trust cannot be changed or canceled – and so great care must be used in creating such a trust. Irrevocable trusts are usually set up to provide tax savings, protect assets, make gifts to individuals with “strings” attached, or offer some other benefit important to the person who creates it.

While you are alive, willing and capable, you may ordinarily act as your own trustee. In the event of your incapacity or death, a successor trustee you choose can immediately step in to manage the trust and its assets – without court involvement. This is perhaps the most important benefit of a living trust – if you suffer serious illness or disability, your plan is in place to take care of your needs and the needs of your loved ones. The trustee then responsible will be the one that you choose.

A living trust offers the assurance of knowing that loved ones are provided for. It allows assets to be distributed quietly without lengthy court proceedings – and can also continue for the benefit and protection of beneficiaries whose judgment and financial acumen are of concern. Finally, a living trust can also greatly reduce estate settlement costs and estate taxes.

An attorney drafts living trusts. The trustee is responsible for funding the trust, managing the assets and maintaining proper records.



A LIVING TRUST KEEPS YOUR PERSONAL WISHES PRIVATE AND ON TRACK.



# LIFE INSURANCE TRUSTS

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## AN IMPORTANT ESTATE PLANNING TOOL

Few things give investors more peace of mind than knowing their assets are protected and preserved for their heirs. Those who have appropriately planned their estates take comfort in the knowledge that their final wishes will be faithfully carried out.

Yet, without planning, huge portions of estates are often sacrificed to taxes. Estate taxes can devour a substantial percentage of an estate. The law requires that these taxes be paid in cash, usually within nine months after death. If most of the estate's holdings are in real estate or other illiquid investments, heirs may have trouble raising cash to pay the estate taxes.

But estates do not have to be consumed by taxes. For many individuals, the tax issue can be largely resolved through a life insurance trust.

Like a living trust, a life insurance trust is a legal agreement between two parties: the person who creates the trust (the grantor) and the trustee, the person or institution responsible for carrying out the trust's terms.

### HOW IT WORKS:

A life insurance trust allows the trustee to purchase a life insurance policy on the life of the grantor. The trust is the beneficiary of the policy. After the grantor's death, the trust may use the proceeds from the life insurance policy to make loans to or purchase assets from the estate, thereby providing the funds to pay taxes or other expenses owed. When all of these debts are paid, the trustee distributes the remaining proceeds to the beneficiaries, according to the instructions in the trust.

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Most important, a life insurance trust is not considered part of the insured's taxable estate since he or she does not directly own the policy. By transferring ownership of an existing life policy to a trust, estate taxes can be dramatically reduced and possibly eliminated. In addition, life insurance proceeds are usually available immediately upon death, so the assets in the estate may not have to be liquidated hurriedly, possibly below fair market value, to pay obligations coming due in the short term.

Different people have different feelings about how the proceeds from their life insurance trusts should be used. The best way to ensure that your wishes are carried out is to provide specific instructions in the trust. No one can change these instructions and the trustee must follow them to the letter. Whether you choose to provide income to a surviving spouse, fund education for your children or grandchildren, or contribute to a favorite charity, the trustee complies with the trust's instructions, and thus with your wishes.

## GIFT TAX IMPLICATIONS

If the money that would be used to buy a life insurance policy were instead to be transferred directly to the trustee, it could be subject to a gift tax. But if gifts can be made first to the individual beneficiaries, the annual gift exclusion allowed by law may be used to avoid gift tax liability.

The process is simple. Money is given to the trustee on behalf of the beneficiaries. The trustee then notifies the beneficiaries that gifts have been received for them and, unless they elect to take the money immediately, the trustee will use the funds to pay the insurance policy premium.

Life insurance trusts are usually funded with a new policy on the life of the insured – but existing policies may be used as well. However, if the insured on a transferred policy dies within three years of the date of the gift, the IRS will ignore the gift and include the insurance death benefit in the taxable estate. A gift tax may also be incurred.

# SPECIAL NEEDS TRUSTS

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## LONG-TERM PLANNING FOR FAMILY MEMBERS WITH DISABILITIES

Families are most often the primary providers of care for children and adults with disabilities. As the number of disabled adults grows, so does the need for support that will enable them to continue functioning and living as independently as possible when families are no longer around to help.

### DO YOU SHARE ANY OF THESE CONCERNS?

- | Someday my disabled child will have to face life without my financial help.
- | My adult disabled child will never be capable of managing significant assets.
- | I want to ensure that my disabled child has the basic benefits that the government provides. But I want to give him or her more, to improve the quality of my child's life but not disqualify him or her from receiving those basics.



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ENABLE YOUR BENEFICIARIES TO LIVE UP TO THEIR POTENTIAL.

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# SPECIAL NEEDS TRUSTS

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## ESTABLISHING A SPECIAL NEEDS TRUST

A special needs trust is a legal instrument for managing resources while maintaining a disabled person's eligibility for needs-based government programs. Separate from your estate, it can help ensure that your child or other family member receives appropriate care and available government benefits while preserving assets you set aside for special needs.

Your wishes will be followed, enabling your beneficiary to live as productively and independently as his or her potential allows.

A special needs trust is designed to improve the quality of your beneficiary's life and provide you with peace of mind for the future. The trust prevents the assets you've designated from disqualifying the beneficiary from Supplemental Security Income and/or Medicaid benefits.

What's more, while government services may be helpful, the actual cash benefits available are generally quite small and may pay only for the most basic needs. Without a special needs trust, the extras that can improve your loved one's quality of life may have to be limited or eliminated.

A special needs trust guides the trustee regarding any allowances considered necessary to your family member's needs. This trust is also useful when different people – such as relatives – want to contribute to help meet the beneficiary's future needs.

The trust does not belong to your beneficiary; rather, you establish it, and the trustee administers it. The beneficiary is usually the only one who receives the benefits. However, the trustee has discretion to determine when and how much the beneficiary should receive.

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## CHARACTERISTICS OF A SPECIAL NEEDS TRUST:

**THESE TRUSTS ARE IRREVOCABLE** | The instructions cannot be changed once the trust is created and funded.

**SUPPLEMENTAL BENEFITS** | An attorney can structure the trust document to provide supplemental benefits to the beneficiary but not provide for his or her basic support.

**DISCRETION** | The trustee can have discretion to support your family member as a beneficiary, paying for supplemental items that add to his or her quality of life.

**REMAINING FUNDS** | You can plan now who should receive the remainder of the trust when your child dies.

Often a parent or grandparent will set up a special needs trust under the terms of his or her will to provide for a disabled child or grandchild. The trust, however, can also be set up during the lifetime of the person establishing the trust and be a standalone trust. By establishing a special needs trust during your lifetime, you can prevent probate from delaying the actual creation of the trust, while ensuring that the trust is managed according to your wishes after your death.

# CHARITABLE REMAINDER TRUSTS

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## HELPING YOU DO WELL WHILE DOING GOOD

Frequently, people without heirs choose to leave all or part of their estates to worthwhile charities. Even if benefactors have heirs, they may still provide for a charity in addition to their families. Generally, gifts to charities are made in cash, but there can be advantages to contributing highly appreciated assets like stock or real estate.

By transferring these assets to a charitable remainder trust, the donor is able to give generously to a favorite charity and enjoy several *additional* advantages, including:

- | A regular (and often tax-advantaged) income to supplement other sources for a period of years or for life,
- | A partial income tax deduction for up to five years after the gift is made,
- | Deferring the capital gains tax on the sale of trust assets, and
- | Reducing or eliminating estate taxes.

## THE MANY USES OF CHARITABLE REMAINDER TRUSTS

Charitable remainder trusts are very versatile. For example, you might choose to use one to:

- | Fund a scholarship at your alma mater,
- | Donate a family home to a women's resource center,
- | Contribute shares of stock for cancer research, or
- | Provide funds for any number of other causes.

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## GENERATE AN INCOME STREAM

By establishing a charitable remainder trust and transferring assets to it, you can support a favorite charity and still receive an income stream from the trust for a period of years or for life. That's because these trusts have two beneficiaries. The income beneficiary is the person who creates the trust, his or her family or someone else. The final, or "remainder," beneficiary is the charity that receives the assets when the trust terminates. Hence, the name "charitable remainder trust."

In addition to generating income, charitable remainder trusts also enable individuals to receive a charitable deduction on their income taxes. One of the biggest advantages, however, is the deferral of capital gains on trust assets.

Suppose that, 15 years ago, a couple bought stock for \$20,000. Today, that stock is worth \$300,000. If the couple were to sell the stock, they would owe \$42,000 in capital gains tax, leaving them with an after-tax balance of \$258,000. Reinvested at a 7% annual return, the couple would receive \$18,060 a year in ordinary income.

However, if the couple places this highly appreciated stock in a charitable remainder trust and the trust sells it, neither the couple nor the trust will pay capital gains tax immediately. More important, the trustee will be able to invest the stock's full value of \$300,000. If the trust was designed to pay out 7%, the couple would receive \$21,000, and a substantial portion of that would be taxed as capital gains, rather than as ordinary income – a genuine tax advantage. Of course, this is a hypothetical illustration and is not intended to reflect actual performance of any particular security.

Creating a charitable remainder trust may not be right for everyone. It is irrevocable; it cannot be altered. Once the assets are transferred to the trust, they are controlled by the trustee, the person or institution responsible for administering the trust. If the trust allows, the trustee and/or the charity can be changed, but the basic trust cannot.

However, for charitably minded investors seeking lifetime income, tax deductions and capital gains advantages while generously supporting a favorite cause, a charitable remainder trust may be the perfect choice.

## CHOOSING THE RIGHT TRUSTEE IS IMPORTANT.

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SELECTING THE RIGHT PERSON OR INSTITUTION AS YOUR TRUSTEE IS A DECISION TO BE CONSIDERED CAREFULLY. YOUR TRUSTEE SHOULD DEMONSTRATE THE HIGHEST LEVELS OF PROFESSIONALISM, KNOWLEDGE AND ETHICS. IN ADDITION, THE TRUSTEE MUST BE ABLE TO INTERACT WELL WITH HEIRS AND/OR OTHER MEMBERS OF YOUR FINANCIAL TEAM.

GENERALLY, THE SAFEST OPTION IS AN INDEPENDENT TRUST COMPANY, PREFERABLY ONE THAT IS HIGHLY SKILLED AT DEALING WITH THE INTRICACIES OF LIVING TRUSTS. NAMING AN INDEPENDENT TRUST COMPANY ELIMINATES MANY RISKS AND ENSURES THAT YOUR WISHES ARE FULFILLED EXACTLY AS THEY ARE SPELLED OUT IN THE TRUST.

## THE BEST TIME TO PLAN FOR TOMORROW IS TODAY.

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DON'T WORRY ABOUT TOMORROW. PLAN FOR IT. ENJOY THE PEACE OF MIND THAT COMES FROM KNOWING THAT YOUR HEIRS ARE PROVIDED FOR PROPERLY, YOUR PRIVACY IS ASSURED, AND YOUR ESTATE IS PROTECTED FROM SETTLEMENT COSTS AND TAXES. TO EXPLORE THE ADVANTAGES OF A LIVING TRUST, PLEASE CONTACT YOUR FINANCIAL ADVISOR TODAY.

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**LIFE WELL PLANNED.**

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