

# Estate Planning: Introduction To Trusts

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A [trust](#) is an agreement that describes how assets will be managed and held for the benefit of another person. There are many types of trusts, designed for different purposes, so let's begin discussing the elements common to most types of trusts.

## Trust Terminology You Need to Know

### *Grantor*

All trusts have a [grantor](#), sometimes called a "settler" or "trustor". This is the person that creates the trust and is the one who has the legal capacity to transfer property held under the trust.

### *Decedent*

The person who has died. This person is usually the grantor of the trust.

### *Trustee*

The [trustee](#) of the trust can be any legal individual or corporation that can take title to property on behalf of a beneficiary. The trustee is responsible for managing the property according to the rules outlined in the trust document, and must do so in the best interest of the beneficiary. This person may be the grantor, the spouse or adult child of the trust or a third party. It is important to note that the trustee must be prepared to be held accountable to the grantor and/or beneficiaries.

### *Beneficiary*

The [beneficiary](#) is the person benefiting from the trust. The beneficiary can be one or multiple parties. Multiple trust beneficiaries do not have to have the same interests in the trust property. An interesting thing about trust beneficiaries is that they do not have to exist at the time the trust is created.

### *Property*

[Property](#) is what gets put inside a trust and it is sometimes called the "principal" or the "corpus." Property can be any type of asset and can be transferred to the trust during the lifetime of the grantor (inter-vivos/living trust) or under the will of the grantor after death (testamentary trust). Property can include things like money, securities, real estate, jewelry, etc.

### *Surviving Spouse*

The spouse who survived the decedent.

## Trust Classifications

Trusts can have the following types of classifications:

### *Living Trust*

A [living trust](#) is usually created by the grantor during his or her lifetime through a [transfer](#) of property to a trustee. The grantor generally retains the power to change or revoke the trust. When the grantor passes away, this trust becomes irrevocable, which means that the terms of the trust cannot be changed and the trustee must follow the rules set forth in the trust concerning the distribution of property and the payment of taxes and expenses.

### *Testamentary Trust*

[Testamentary trusts](#), sometimes called trusts under will, are trusts that are created by a will after the grantor dies. This type of trust is designed to accomplish specific planning goals, such as:

- Preserving assets for children from a previous marriage.

- Protecting a spouse's financial future by providing lifetime income, available under a [qualified terminable interest property](#) (QTIP) trust.
- Skipping the surviving spouse entirely as a beneficiary.
- Ensuring that a special-needs beneficiary will be taken care of.
- Preventing minors from inheriting property outright when they reach the age or majority as defined by the state - usually from age 18 to 21.
- Gifting to charities.

#### *Funded*

A trust may be fully or partially [funded](#) by the grantor during his or her lifetime or after death. In the case of a funded trust, it means that property has been put inside the trust.

#### *Unfunded*

An unfunded trust is simply the trust agreement. Some trusts remain unfunded until the death of the grantor, or may just stay unfunded.

#### *Revocable*

A [revocable trust](#) (also called "modifiable") is a trust that can be changed by the grantor during his or her lifetime.

#### *Irrevocable*

An [irrevocable trust](#) (also called "non-modifiable"), by contrast, is a trust that cannot be changed by the grantor once the trust is deemed irrevocable. The grantor loses total control of the property and has to obey the trust rules. A trust can be revocable during the grantor's lifetime and becomes irrevocable upon death.

### **Goals of Trusts**

There are many reasons why you may choose to have a trust as part of your estate plan, including the ability to pick your successor trustee who will care for you in the event of dementia or other disability, avoiding probate, providing financial support to family members and gaining privacy advantages if the state where you live requires filing an inventory of assets.