Investor's Edge

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Why (and how) to establish trusts for minor beneficiaries

If you are a parent (or grandparent), the kids are never far from your mind. They show you a way of looking at the world you may have forgotten since you were their age. And in them you see your dreams for the future. These may be some of the reasons the financial well-being of the children in your life may be among your top priorities.

Beyond a happy and carefree childhood, you may want to provide them with a formal education and other experiences that enrich their lives and help them become successful adults. This may include teaching them the personal values and responsibilities necessary to effectively manage the wealth they will someday inherit from you.

In this way, you may hope to create a financial legacy for yourself and your family. This, too, is an important goal. According to the 2016 RBC Wealth Management client survey, ensuring the smooth transfer of wealth to children/heirs is the top-ranked wealth management concern of respondents.

A disconnect between intention and action

Yet most Americans are woefully underprepared. The 2017 Wealth Transfer Report, *Lasting Legacy* – published in February by RBC Wealth Management in collaboration with Scorpio Partnership – finds that only 30 percent of survey respondents have created a comprehensive wealth transfer plan. And another 30 percent have done nothing to prepare for the transfer of their estates to heirs.

There is some good news. Fifty-four percent have a will in place. However, a will is often just the first step. Trusts are estate planning tools that offer a broad range of wealth transfer benefits. This includes helping ensure minor children will be provided for properly if you are no-longer around to do it yourself.

Setting the record straight about trusts

Many investors have misconceptions about trusts. One is that they are intended only for the extremely wealthy. The fact is, trusts are versatile wealth management tools that people of all income levels can use to protect and transfer assets.

Another misconception is that a primary purpose of trusts is to manage estate taxes. While reducing a taxable estate can be an important outcome in some cases, many individuals and families whose estates are exempt from

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Why (and how) to establish trusts for minor beneficiaries, continued

estate taxes use trusts to help ensure their wishes regarding wealth transfer are honored and the privacy of their estate settlement is assured.

Perhaps the greatest misconception is that another primary use of trusts is to enforce restrictions on irresponsible beneficiaries or "control assets from beyond the grave." In truth, the purpose of a trust is to PROTECT the best interests of the beneficiary by providing parental guidance on behalf of the grantor.

So in the case of minor children, establishing a trust may be a practical way to say, "I love you."

Imagine what you could do

Looking at a real-life example may give you some ideas to consider for your own family. To help provide financial security for my son in my absence when his father and I divorced, I established a revocable trust funded with life insurance. The house was also placed in the trust, to enable my parents to move in and care for him. This was intended to help minimize the disruption in my son's day-to-day life and soften the emotional blow for him and my parents.

To help teach my son the life and money lessons that are important to me, the trust was structured to pay half of his undergraduate studies, with provisions he graduate within five years and maintain a C-average or better. The trust was also structured so that upon his graduation, it would match half of his taxable earnings, up to age 35, then pay out distributions at ages 35, 40 and 50.

Provisions such as these help empower beneficiaries to make choices and be productive adults. To help set expectations, my son and I periodically had open conversations about the trust. He asked questions and I helped him understand the logistics and the "whys" underpinning my intentions. This is an important step. Only 37 percent of those who received an inheritance were readied for it by their benefactors, according to the *Lasting Legacy* report.

As a single mother, the trust created an additional level of comfort in knowing my son would be financially set and that he would still benefit from some of my guidance during his formative years. My son has grown up to be a responsible adult with a promising life ahead of him. And since the trust was revocable, I was able to update it when I remarried. My life – and our family's needs – have changed dramatically over the years. The flexibility offered by revocable trusts is a tremendous benefit to blended families.

Additional trust advantages

Making mistakes is often how minors and young adults learn important concepts. But financial mistakes can be expensive setbacks. Assets held in an irrevocable trust are protected from creditors and may not be commingled with a spouse's assets. Distribution requirements may also help prevent your child or grandchild from being victimized by "friends" who have ideas about what to do with trust assets.

Important considerations

Trusts are complex legal documents. Be sure to consult with your accountant and attorney, as well as your financial advisor and insurance specialist, when establishing a trust. Periodically review your trust to confirm it still meets your needs. Always update your trust when you experience a major life event, such as marriage/divorce, birth of a new child/grandchild and so on.

Choosing a capable trustee is also important. He or she must understand the responsibilities and be able to say "no" to a beneficiary when a distribution request cannot be fulfilled according to trust provisions. For these reasons, many families depend on an independent professional trustee instead of a family member.

Please call your financial advisor today to discuss whether establishing a trust for minor beneficiaries is appropriate for your wealth transfer goals. You may also contact him or her to request a complimentary copy of the Lasting Legacy report. Papers that specifically address wealth transfer experiences of millennials or blended families are also available.

A security checklist for your international vacation

You have already booked your suite, checked the menus at top-ranked restaurants and reserved your flights. But have you checked "financial security" off your summer getaway to-do list?

Excited travelers often overlook this simple yet important task. But should their wallets, purses or passports be stolen, tourists to foreign lands may waste valuable time securing bank accounts and waiting for replacement tickets, passports and credit cards to arrive before resuming plans – not to mention risk having memories of the trip spoiled by the experience.

Before you leave home, here are recommended steps to help secure your finances, according to Briane Grey, head of security at City National Bank which recently joined the RBC family of companies.

- Notify your bank and credit card providers that you will be out of the country; store their helpline phone numbers so you can quickly close accounts if necessary.
- Pay bills before you go to avoid transmitting sensitive data over unsecured networks.
- Leave excess cash and unnecessary credit cards and ID cards at home.
- Bring one credit card equipped with an RFID security chip; many overseas retailers do not require you to input a PIN.

Know the risks and scams

Do not wear designer watches and expensive jewelry, or carry your Prada bag, while you are touring the city or taking in a museum. Americans already stand out to crooks who scour train stations and tourist sites looking for wealthy travelers who may make easy crime victims.

And be wary about your valuables even while they are in your room. A common scam involves visitors claiming to be "room inspectors." While one distracts you at the door, the other enters your room and takes cash or jewelry you have left on a nightstand or in an open room safe. Never let people into your room if you were not expecting them, and lock your valuables in a safe-deposit box at the hotel desk rather than using the not-so-secure safe in the room.

While taking in the sights, be aware of your surroundings. Perennial scams, such as picking pockets and overcharging people unfamiliar with local currencies, still rip off many travelers every year.

Here are some additional tips:

- Avoid connecting to Wi-Fi, especially if it is public; activate your phone's global capabilities before you leave, and use your connection.
- Protect your phone and other mobile devices with passwords so thieves cannot access your data.
- Make copies of your passports, driver's licenses, health insurance cards and tickets, and store them separately from your wallet.
- Leave a copy of a detailed itinerary with a friend or relative so they can reach you in an emergency.

Going someplace exotic is exciting. Following these commonsense steps will help ensure that you do not lose your shirt while you are having the adventure of a lifetime.

To discuss your portfolio needs while you are away – or to learn about additional financial topics relevant to foreign travel – please call your financial advisor.

Consider using multiple income streams during retirement

Increasing longevity is a practical reason you may want to develop an income plan to cover your expenses. To help you enjoy a long and comfortable retirement, using many different types of income streams can help balance your need for both growth and income while providing options to help minimize taxes throughout your retirement.

Retirement accounts — Your IRA and your employer-sponsored retirement plan, such as a 401(k), can be essential sources of retirement income. Distributions from a traditional IRA or employer-sponsored plan are taxable, and distributions from a Roth IRA or employer-sponsored plan are tax-free. So you may want to consider allocating assets to both types of retirement accounts.

Dividend income — Some stocks have regularly increased their dividends for years. These "dividend kings" can provide you with a source of rising income, which is essential to helping you stay ahead of inflation during your retirement years. (Companies can lower or discontinue their dividends at any time.) Because of the preferential tax treatment of dividend income, these types of stocks generally are best used in taxable (non-IRA) accounts.

Bond income — Consider building a "ladder" of short-, intermediate- and long-term bonds. You can reinvest the proceeds of the maturing short-term bonds into new ones, issued at a potentially higher rate, while you continue to receive income from your long-term bonds, which typically pay more than shorter-term ones. Bond mutual funds and exchange-traded funds also provide interest income.

Sale or conversion of investment assets — Once you reach age 70½, you will need to take required minimum distributions from your 401(k) and your traditional IRA. But you may need to sell investments outside these accounts as well, or at least convert some investments into income-producing vehicles. Be aware of the tax consequences, however.

Social Security benefits — Although the rules have recently changed, the best way to maximize Social Security benefits may still be to wait as long as possible before taking benefits, especially for the higher-earning spouse. You can start receiving benefits at age 62; however, benefits received before your "full" retirement age (currently age 66 or 67) will be permanently reduced. If you delay taking benefits past full retirement age, the amount you receive will increase every year until age 70.

Annuity income — Annuities are insurance company products that may help assure a predictable lifetime income. Similar to creating a "personal pension", they come in a variety of forms and can provide a guaranteed income stream for as long as you live, no matter what happens in the markets. Read the prospectus carefully to understand the objectives, risks, charges and expenses before investing in an annuity.

Reverse mortgage equity — While a reverse mortgage is not suitable for everyone, for those needing to tap the equity in their homes, it can be something to think about. A reverse mortgage can either provide you with additional regular income payments or be used as a strategy during down markets when withdrawals from your portfolio may be unfavorable.

By taking full advantage of these sources of income, you can go a long way toward enjoying the retirement you have envisioned. So plan ahead, learn all your options and make those choices that are right for you.

To learn more about planning for your retirement income, please call your financial advisor.

Effect of early or delayed retirement

Social Security benefit payable based on age

			Benefit percentage, beginning at age			
Year of birth	Full retirement	Credit per year delay	62	66	67	70
1947-54	66	8%	75%	100%	108%	132%
1955	66 & 2 mo.	8%	74 1/6%	98 8/9%	106 2/3%	130 2/3%
1956	66 & 4 mo.	8%	73 1/3%	97 7/9%	105 1/3%	129 1/3%
1957	66 & 6 mo.	8%	72 1/2%	96 2/3%	104%	128%
1958	66 & 8 mo.	8%	71 2/3%	95 5/9%	102 2/3%	126 2/3%
1959	66 & 10 mo.	8%	70 5/8%	94 4/9%	101 1/3%	125 1/3%
1960 and later	67	8%	70%	93 1/3%	100%	124%

People born in 1946 or earlier have already reached full retirement age and surpassed the age 70 limit on annual increase for delaying retirement benefits
Note: Persons born on January 1 of any year should refer to the previous year of birth

Source: Social Security Administration, Office of the Chief Actuary

Women play a key role in family wealth management

As a group, women are an economic powerhouse. Beyond controlling household spending, women are attaining higher levels of education, achieving success as business owners and professionals, and earning more. For these and other reasons, it is important to recognize the contributions women make to helping manage family wealth today – as well as the priority women place on creating a legacy for tomorrow.

The results of a survey conducted by RBC Wealth Management in collaboration with Scorpio Partnership underscore the key role women play in family wealth management. According to the recently published report titled *The influence of women on building the family legacy*, women may have specific needs and interests regarding the transfer of family wealth.

Retirement planning — Of the women surveyed, 84 percent reported that they are either fully or partially responsible for the family investment portfolio. Because of women's generally longer life expectancies, in terms of investing for retirement they may need to both accumulate more assets and invest for more growth potential. Considerations women may face include potentially lower income levels and possible time away from work to raise families and care for older parents.

Inheritance guidance — Regarding their inheritance experience, 36 percent of women surveyed received no guidance through the process, and those who did tended to get support solely from family members. When receiving an inheritance, do not be afraid to seek professional assistance. Consult with tax, legal and financial advisors before making any decisions.

Legacy planning — The survey results made it clear that women tend to think about how to leave something for their loved ones. In fact, 57 percent of women surveyed reported that they intend to pass on their wealth. Of this group, more than half would welcome the chance, while they are still alive, to give money away to their family members, but they fear not having enough left to maintain their lifestyle.

Gifting can be a powerful estate planning tool. Beyond reducing potential estate tax consequences, lifetime gifts can reduce probate and administrative costs. Removing assets from a probate estate through lifetime gifts also helps assure the privacy of the transfer of wealth and protects the assets from being vulnerable to estate creditors or unhappy heirs.

Gifts of more than the annual gift tax exemption amount may be subject to gift taxes. Gifts to third parties for the benefit of the recipient (e.g., paying tuition directly to a school) may not be subject to gift tax.

Financial education — Almost nine out of 10 women surveyed have pursued independent learning to improve their wealth management knowledge – and 92 percent have started, or intend to start, educating the next generation on wealth matters.

Results of the most recent RBC Wealth Management client survey further show that women clients, as compared with men, assign higher levels of importance to retirement planning, estate planning, tax planning, insurance and philanthropy. By getting professional assistance, educating yourself on wealth management issues and making well-informed choices, you can build financial security for yourself and create the legacy you envision for your loved ones.

To discuss your wealth goals or to request a complimentary copy of the report on women and wealth transfer, please call your financial advisor.

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