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Risks of amateur trustees

More and more affluent families are turning to trust-based solutions for their wealth management and inheritance problems. However, a trust is only as good as its trustee. Have you been asked to serve as trustee, perhaps for a parent's trust? Do you plan to ask your child to be your trustee? Although such a course of action may be a natural impulse, it may not be the best approach.

A family member has the advantage of personal understanding of the trust beneficiaries, and that is no small thing. Unfortunately, family members usually lack experience and ability in several other crucial areas.

Amateur trustees—watch out for these traps

There are many ways for a trustee to fail to meet the obligations of sound trust management.

Faulty records. There's much more to trust accounting than balancing checking accounts and keeping track of portfolio statements. Income, asset values and distributions must be reported to the beneficiaries on a regular basis. "Beneficiaries" refers not only to those who receive current trust income, but also to those who will receive the assets when the trust terminates. We suggest a team approach, including a trust attorney, a tax professional and an investment manager. *Note: We are pleased to serve as agent for a trustee!*

Failure to diversify. Laws governing the prudent investment of trust assets vary from state to state. In general, concentration of assets should be avoided. According to many experts, a red flag should go up when any one holding accounts for more than 10% of a trust. Problems with that holding could lead to lawsuits by disgruntled beneficiaries against the trustee. On the other hand, the person who creates a trust may override the diversification requirements. For example, shares in a family business could be exempted from the diversification mandate.

Biased distributions. One of the most important benefits of trust-based wealth management is delivery of financial resources to multiple generations, today and in the future. Trouble is, finding the appropriate balance between current and future interests is not easy. Trustees need to document reasons for allowing or denying invasion of a trust for particular beneficiaries, for example. What's more, the investment strategy chosen for a trust may inadvertently favor some beneficiaries over others. When a family member is a trustee, the issue of bias can become quite emotional.

Expecting a payday. Trustees should be paid, but beneficiaries don't always see it that way. When the trustee is a family member with an interest in the trust, the payment issues can be especially sensitive. Compensation matters should be settled before the trustee assumes the duties of trust management.

False sense of safety. Some amateur trustees assume that, given their relationships to the family and trust beneficiaries, their work won't be scrutinized closely. Not so. The role of trustee has potentially unlimited liability. Trustees may be called to account for their investment choices, as well as for the quality of their fiduciary judgments about trust distributions.

Consider the professional alternative as *your* trustee

Given the complexities of modern trust management, one would expect that businesses, such as trust companies and bank trust divisions, would become available to meet the need. One would be absolutely correct! That's us!

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Key qualifications that we bring to the table:

• *Integrity*. The single most important qualification for any trustee is … trustworthiness. A trustee must live up to standards higher than those that prevail in everyday business.

• *Investment experience*. A trustee may be called upon to consider the current income needs of a surviving spouse and the capital growth needs of two children who face heavy education expenses in years to come, and then to come up with an investment program that does justice to both requirements.

• *Administrative know-how*. A trustee must make sure that trust assets are properly titled and safeguarded, collect income and distribute or reinvest it as the terms of the trust direct, and perform any number of other chores.

• *Tax and accounting capabilities*. A trustee must be aware of federal and state tax requirements, keep detailed, accurate records, and submit timely reports to beneficiaries.

• *People skills.* The ability to serve as a trustworthy financial advisor, both for the individuals who create trusts and the beneficiaries that they name, may not be a formal requirement of trusteeship, but it's important nonetheless.

We offer you our technical skills and our financial and auditing infrastructure for the successful implementation of your trust plan. Most importantly, we offer you our experience as trustee. It's a truism that every wealthy family is different, and so is every trust plan. Yet all trust management is governed by the legal standards of *fiduciary duty*. We've seen a range of family circumstances, of market environments, of trust purposes and objectives. We invite you to put our experience to work for you and your family.

Shall we discuss your needs?

We invite you to learn more about our capabilities as trustee for your family. You may designate us to serve as sole trustee, or as cotrustee along with family members. Call on us to discuss the possibilities.

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