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Consider these three suggestions if you inherit a trust

David "Chico" Esparza, Senior Fiduciary Advisory Specialist with Wells Fargo Private Bank, remembers meeting two clients, a brother and sister whose parents had passed away. "Unfortunately, their parents had not discussed their estate plans with the adult children. When the siblings learned they were the beneficiaries of a sizable trust," Esparza recalls, "they had no idea what to do next."

The brother and sister had many questions. Who handles the estate? What are the terms of the trust? And what should their next steps be? "Wells Fargo Bank, N.A., was the trustee, so we explained the timeline and process for settling the trust estate," Esparza says. "It helped to ease their minds to know that professionals would be handling everything."

As Esparza's clients found, stepping into the role of beneficiary can feel a bit like stepping into the unknown. Here, Esparza offers three suggestions to ease the process.

1. Build an advisory team

A good first step for the beneficiary is to meet with the trustee who is tasked with executing the terms of the trust. It may be an individual, such as a CPA or lawyer, family member, or a corporate trustee.

"There will be a lot of questions, so it's important to establish a communication plan and a general timeframe for how long it will take to settle the estate," Esparza says.

In some instances, once the estate is settled, a new trust is funded with the beneficiary's share of the estate; in other cases, assets will be distributed outright to the beneficiary. If the assets will be retained in trust, the trustee typically collaborates with an investment advisor to help manage the assets according to the terms of the trust.

"The trustee and investment advisor will create a plan that is based on the terms of the trust and considers the needs of the beneficiary," Esparza says. "Beneficiaries also should consider seeking the guidance of a tax consultant regarding tax implications related to trust distribution."

2. Understand the terms of the trust

One of the first questions a beneficiary might have for the advisory team is, "What does the trust mean for me?"

Esparza explains that a trust is a useful tool for holding, managing, and distributing property as outlined by the trustor(s) — the creator(s) of the trust — in the trust agreement, but each trust is unique in how assets can be distributed to beneficiaries. It is important to understand the terms of the trust. Some key trust aspects to discuss include:

- **Beneficiary or beneficiaries:** Is there a sole or several beneficiaries of the trust? How do the terms address the rights different beneficiaries have to distributions from the trust?
- **Age restrictions:** Does the beneficiary have to reach a certain age before accessing some or all of the trust?
- **Distribution restrictions:** Can beneficiaries access the principal or just the income from the trust? Does the beneficiary need to provide the trustee with proof of the beneficiary's own income and expenses to receive distributions? What categories of expenses can the trust cover for the beneficiary? For what reasons may distributions be adjusted?
- **Lifetime of the trust:** Does the trust terminate once the beneficiary reaches a certain age, or is it meant to last the beneficiary's lifetime? Is any portion of the trust designated for future generations?

"Trusts are an opportunity to build generational wealth, not only for the trustor but also for the beneficiary," Esparza says. "For that reason, the trustee should be thoughtful in administrating the trust to help the funds last not only through beneficiary's lifetime but also potentially for future generations."

3. Ask questions before taking distributions

"Before taking a trust distribution, some beneficiaries find it useful to inquire about the potential tax consequences. That's where a tax advisor should provide guidance," Esparza says. "Beneficiaries also may consider consulting with the trustee and investment advisor about additional considerations or impacts a trust distribution may have." In addition, beneficiaries should consult with their own legal counsel if they have specific questions regarding their rights with respect to a trust or the possible impact of a trust distribution.

Esparza shares the story of a young beneficiary who wanted to use her trust fund to purchase a luxury car when she turned 16. "As trustee, I posed this question: 'Would a less-expensive car meet your transportation goals and preserve trust assets for the long term?'" he says. "It is important for beneficiaries to stay connected with the trustee and to ask clarifying questions so they understand the impact certain distributions may have to the trust. As a fiduciary, a trustee is there to educate and can help the trust sustain longer term financial well-being for the beneficiary."

As always, if you have any questions on this topic or any others, feel free to contact any of us at any time.

We are happy to help.

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