



# 6 Reasons You Should Include Trusts in Your Retirement Plan

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If you have embarked down the path of estate planning, you have probably asked yourself, Do I need a trust? While not everyone may need a trust, specific circumstances warrant utilizing a trust. Estate planning and trust utilization should be considered in unison with your retirement plan. These areas are often planned in separate silos but are very much intertwined. When it comes to retirement planning, estate planning is often overlooked. However, to create a cohesive plan, it is important to consider and integrate both your retirement and estate, especially when incorporating trusts.

## Trusts Vs Wills

The first step in completing your estate plan is to determine if a will is sufficient. To answer, it is important to identify the differences between a will and a trust.

A will is a legal document that provides instructions for handling matters after your death and states how your individually owned assets should be distributed. As such, Will's do not become effective until death. They are public documents and require probate.

In comparison, a trust is a legal entity where a grantor gives a trustee authority to manage property for the benefit of a designated party. They can also avoid probate, and some trusts may maintain their tax identification number. Numerous types of trusts exist, and all are either revocable or irrevocable. It's important to understand revocable vs irrevocable trusts. While each type has its own set of advantages and disadvantages, the difference is simple. Revocable trusts offer less protection from creditors and estate taxes but provide more flexibility since they can be modified during the grantor's lifetime. Irrevocable trusts can protect assets from some creditors and estate taxes; however, they are less flexible because they are more complex and often unable to revoke or amend. (1) (2)

## Is a Trust Necessary?

It is crucial that most people have a will, but the need for a trust is dependent on your personal situation. A trust is a valuable tool to control and protect assets even after you are deceased. A well-constructed trust can minimize taxes, expenses, and unnecessary delays in the disposition of your property. There are numerous uses for trusts, as well as a variety of types. While a will is sufficient for many people, there are situations where a trust can enhance and better accomplish your estate planning needs. Be sure to talk to your financial advisor to learn more about how to set up a trust. They will help you weigh the costs and benefits. Trusts can be expensive and may not be necessary in all situations, potentially adding unnecessary complexity.

## 6 Ways Trusts Provide Value to Your Retirement

It is important to note that trusts are created and administered under state law, so their uses and requirements can vary from state to state.

Although, when it comes to retirement planning there are six common scenarios where trust can provide great value. (3) (6)

### Gifts to Charity

There are a few ways to use a trust for your charitable endeavors. The two primary types of charitable trusts are Charitable Lead Trusts (CLTs) and Charitable Remainder Trusts (CRTs).

Charitable Lead Trusts distribute funds to a charity for a specified term, with the remaining assets either passed back to the donor, or distributed to heirs

In contrast, Charitable Remainder Trusts provide an income stream to the donor while they are alive, with the remainder ultimately going to charity. It is vital to incorporate your retirement planning and consider potential needs when setting up these types of trusts, as they are irrevocable and not very flexible once established. Suppose flexibility and control are more important than a charitable trust's advantages. Other strategies can be used, including Qualified Charitable Distributions from an IRA, gifting highly appreciated securities, or simply listing charitable organizations as beneficiaries. (3) (4) (5)

### Beneficiaries with a Disability

Utilizing a trust for heirs with disabilities or special needs can be beneficial in planning for their long-term needs. The most common type of trust used in this scenario is a Special Needs Trust (also called a Supplemental Needs Trust). The main goal of a Special Needs Trust is to help protect the assets of an individual with a disability. If set up properly, a Special Needs Trust can avoid limiting government benefits or disability payments since an outright inheritance could erase or decrease other aid or benefits. A Special Needs Trust can also provide guidelines and support to an individual who cannot handle an inheritance outright.

### Blended Families

Blended families can require more complex estate planning. Commonly, the goal is to provide for a spouse while ensuring children from a prior marriage are cared for. Retirement planning can be complex in these scenarios, and utilizing a trust may be necessary. You can establish a trust to provide adequate funding for a spouse in the event of your death while also ensuring other family members still receive a share of the estate; this is usually accomplished with a Qualified Terminal Interest Trust or QTIP. Also, there are typically other mechanisms within the trust to prevent estates from being liquidated prematurely in the surviving spouse's lifetime. This is not only useful for providing for everyone but also provides some control of your assets after you pass. (3)

### Heirs that Need Guidance

For various reasons, some heirs are not capable of inheriting a windfall. A trust will allow you to leave money to these heirs but maintain

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a level of control over how it is consumed. In most cases, the goal is to preserve the assets and prevent the beneficiary from wasting the funds. A trust can be set up for heirs to access funds for a specific need based on a preset amount or at the trustee's discretion. In this case, the trustee can provide guidance in the form of financial education and act as a barrier or sound mind to accessing the funds. A spendthrift trust is commonly used for this scenario; it prevents the beneficiary from using the assets to pay the beneficiary's creditors or as collateral to get a loan. Typically, the trust will distribute funds periodically based on a predetermined schedule. (3) (7) (10)

#### **Credit or Asset Protection**

Some individuals are more susceptible to litigation and targeted by creditors because of their occupation or net worth. A spendthrift trust may be helpful. In addition, an asset protection trust can be used to guard assets from future litigation and creditors. The protection and regulations are specific to states and can vary greatly, and not all states allow these types of trusts. (8)

#### **Maximizing Life Insurance Payout**

While life insurance is not always determined to be necessary for retirement, it can be a valuable tool for some. There are numerous ways trusts can be used regarding life insurance. The most widely used trust for this scenario would be an irrevocable life insurance trust (ILIT). A primary advantage of an ILIT is its ability to bypass your federal estate while allowing you to designate who inherits the proceeds and direct how the death benefit is used. The proceeds can provide liquidity to prevent the sale of a business or assets you do not wish to sell to fund estate expenses. You can also use ILITs in conjunction with other trusts to assist with other estate or retirement planning needs. As with all trusts, working with an estate planning expert is important, as specific stipulations need to be met for the trust to be valid. (3) (9)

#### **Summary**

Trusts are complex, so it is imperative you consult a professional for guidance. Your financial advisor can assist with identifying estate planning strategies that fit your retirement objectives and bridge the gap between you and the lawyer helping with your estate planning. Remember that coordinating your retirement and your estate plan is important. Many people plan for retirement; estate planning is often overlooked in doing so. Many types of trusts exist, but these six scenarios represent a foundation for how trusts can be included in retirement planning.



#### **Sources:**

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6. [Why Do I Need a Trust? | Kiplinger](#)
7. [Spendthrift Trust: What Is It & How Does It Work? | MetLife](#)
8. [Asset Protection Planning \(americanbar.org\)](#)
9. [What Is an Irrevocable Life Insurance Trust \(ILIT\)? | Northwestern Mutual](#)
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