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Financial Planning & Investment Management

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The Savvy Investor

Three Living Trust Mistakes

Living trusts can reduce or eliminate estate taxes, as well as a lengthy, costly and needless probate. Many people do the right thing by having a living trust prepared. But it's very easy to make costly mistakes, both before and after the trust is set up. Here are three common mistakes.

Error #1: Leaving Assets Outright to Heirs

Trusts that leave assets outright to heir's means that the heirs are free to squander the assets and the heir's creditors are free to attach these assets. Wouldn't it make more sense to leave the assets to heirs in a trust so that they will be protected from outside forces and so that you can also control the squandering of the assets? Additionally, assets left in a trust are kept out of the heirs estates, so they avoid estate taxes.

Error #2: Not Managing the Bypass Trust Correctly

When one spouse dies, a bypass trust (the "B" trust) is created and funded with assets of the deceased spouse. Many people give no thought to which assets to place in the bypass trust and how they should be managed. **Assets in the bypass trust should have two objectives — grow as much as possible and generate no taxes.** Unfortunately, these assets are often mismanaged in the following way.

The surviving spouse invests the bypass assets to generate income for his/her own benefit, rather

than investing these assets for growth. At the same time, their own assets are growing in value and become subject to estate taxes. This makes no sense. The surviving spouse should spend down their own assets before using any part of the "B" trust.

You should allow the assets in the bypass trust to grow as much as possible, since the initial investment and all future growth escape estate taxes.

Error #3: Selecting the Wrong Trustee

Parents often select one or all of their children as successor trustee. Selecting only one child when there are additional siblings is a sure formula for misunderstandings. Selecting all the children might work if the children have business savvy and are compatible. Otherwise, this too can be a formula for disaster and create hard feelings among siblings, misunderstandings, and even costly mistakes. A solution is to consider an independent trustee who is knowledgeable in estate matters and can settle an estate efficiently. An experienced and trusted attorney, accountant or financial advisor is a logical choice.

Please contact us and visit our web site www.Sherwood-Investments.com for independent advice and to learn more about living trusts. We will work with you to determine if they are appropriate for your needs.