

# Revocable Living Trust

## *How It Works*

A Revocable Living Trust is a flexible estate planning tool that can be used to help reduce probate and administrative costs. It is a trust created by the Grantor during lifetime in which the Grantor retains the right to terminate the trust, change its terms, or remove trust property. It may be funded during lifetime (to obtain potential probate avoidance benefits) or remain unfunded until the Grantor's death. Since the Grantor hasn't irrevocably disposed of the trust assets, the entire trust will be includable in the Grantor's gross estate for estate tax purposes. However, to the extent the trust is funded during lifetime, the formal probate process may be avoided with respect to the trust assets. The major characteristics of a Revocable Living Trust are:

- The Grantor establishes the terms and conditions by which assets in the trust will be managed and names the beneficiaries to whom the trust assets will ultimately be distributed.
- Property is transferred to the trust during the Grantor's lifetime or pours over to the trust under the terms of the Grantor's Will.
- The trust can reduce probate and administrative costs, simplify asset management and provide greater privacy for the distribution of assets at death.

## **Advantages of a Revocable Living Trust**

- In the event of the mental or physical incapacity of the Grantor, the Trustee continues to manage trust assets without interruption or the need for a court-appointed guardian.
- By avoiding the formal probate process, the Grantor's family may be afforded privacy with respect to the nature and amount of trust assets and the identity of the beneficiaries.
- The Trustee can distribute or manage trust assets immediately upon the Grantor's death and does not need to wait for admission of the will or other time consuming probate delays. "Ancillary" probate proceedings for property located in another state can be avoided.
- Probate and administrative costs can be reduced.
- Some estate planning can be accomplished.

## **Disadvantages of a Revocable Living Trust**

- All trust assets are includable in the Grantor's gross estate for estate tax purposes.
- Establishment of the trust may generate legal costs and trustee fees.
- If probate avoidance is desired, assets generally need to be transferred to the trust during the lifetime of the Grantor.