Trust fundamentals

Understanding benefits and trade-offs

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A trust is a common estate planning structure designed to help you achieve your estate and legacy goals. Contrary to popular belief, they aren't only for the wealthy or those with large estates. Trusts address many issues and help safeguard the transition of assets to future generations. Understanding trust fundamentals can help you evaluate whether a trust might address your needs, how it could impact your beneficiaries and what trade-offs exist.

Key takeaways in this report

- Elements of a trust
- Steps to create a trust
- Key considerations for revocable or irrevocable trusts
- Trade-offs of irrevocable trusts

Trusts defined

A trust is a legal arrangement that allows assets to be transferred from the trust creator (known as the grantor) to a trustee, who manages and administers those assets for the benefit of the trust's beneficiaries. There are two primary types of trusts: revocable and irrevocable.

Parties to a trust

- Grantor
- Trustee
- Beneficiary(ies)

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- A **revocable trust**, also known as a living trust or inter vivos trust, allows you, the grantor, to amend or revoke the trust during your lifetime. In most cases, you're the initial, primary beneficiary of your revocable trust. Revocable trusts are often used to address your potential incapacity and, in conjunction with a will, can simplify estate administration by avoiding probate.
- An **irrevocable trust** cannot be revoked and is created either during your lifetime or upon your death. It might be used for wealth transfer, creditor protection or tax-planning purposes.

The type of trust you select has a significant impact on how trust assets are taxed and what types of protections might be available.

Benefits of using a trust

Different types of trusts offer different benefits, including:

Privacy: The administration of a trust is generally a private matter between the parties named in the trust. Upon your death, assets in trust usually avoid the public nature and cost of probate, preventing your information from becoming part of the public record.

Protection: Trusts can protect you or your beneficiaries in multiple ways:

- If you're concerned about incapacity, revocable trusts appoint a trusted party to act as your trustee and use your trust assets for your benefit should you become incapacitated. Your trustee can work with those appointed under your financial and health care powers of attorney to address your needs.
- If you're concerned creditors may file claims against your beneficiaries, you can design your trust to have spendthrift provisions — which may protect trust assets from your beneficiaries' creditors (including commercial creditors, legal judgments or future ex-spouses).

Control over asset distribution: You define how you'd like trust assets distributed to your beneficiaries — providing flexibility to treat beneficiaries differently. This can be particularly helpful if you have:

- Dependents with special needs
- Concerns about a beneficiary's financial or money management skills
- Blended families

Note: It's important to consider the practicality of your trust's terms — including the costs, feasibility and impact to your beneficiaries.

Tax planning: Many trusts are designed to mitigate federal or state estate or gift taxes* and/or generation-skipping transfer (GST) taxes.** For example:

- Revocable trusts allow spouses to optimize the use of both spouses' lifetime federal and state estate tax exemptions, potentially mitigating taxes.
- Creating an irrevocable trust and gifting assets to it during your lifetime removes the gifted assets and their appreciation from your taxable estate, which can also potentially reduce estate taxes.

*In 2025, an individual can pass $13.99 million either during life or upon their death before paying any federal estate tax. The exemption is adjusted annually for inflation. In addition, 12 states and the District of Columbia have state estate taxes.

**Generation skipping transfer (GST) tax is assessed when assets are transferred to a "skip person" — a family member who is more than one generation away from you (such as a grandchild) or is unrelated and more than 37.5 years younger than you. Every U.S. citizen has a GST tax exemption of $13.99 million in 2025.

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Role of a trustee

The trustee is responsible for administering the terms of your trust and can be an individual, a professional trustee or an institution, such as Edward Jones Trust Company (EJTC). The trustee acts as a fiduciary — which means they're held to certain standards of care and have legal obligations to your beneficiaries. If they fail to meet these standards or obligations, the trustee can be liable for damages.

Trustee options

1. Grantor*
2. Spouse, child, family member or friend
3. Attorney, tax preparer or professional fiduciary
4. Corporate trustee, such as EJTC

*The grantor cannot serve as trustee of some irrevocable trusts without invalidating the trust's purpose. Discuss trustee options with your estate-planning attorney to determine whether there are restrictions or best practices in appointing trustees to your chosen trust.

A trustee's duties may include:

- Managing trust assets, including brokerage assets, real estate, business interests, insurance products, retirement accounts (after the death of the owner), intellectual property and tangible personal property
- Supplying routine accountings, appropriate notices and other information to grantor(s), beneficiaries and other interested parties
- Filing of federal and state tax returns and any required regulatory notices or registrations
- Executing distribution terms, including exercising discretion as needed

Individuals or institutions named as trustee aren't obligated to accept the appointment and have no legal duties (or rights) until they've accepted the role. If they don't accept the responsibilities, the next in line of your appointed successor trustees can serve.

It's very important to appoint successor trustees to serve should your current or chosen trustee become unable or unwilling to do so. This prevents a court from appointing a new trustee if there's a vacancy. You can also appoint co-trustees or successor co-trustees to administer the trust together. You'll decide whether decisions must be unanimous or can be decided by a majority, but keep in mind that having co-trustees can create delays because of coordination needs or the inability to come to an agreement.



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Trust beneficiaries

The beneficiary(ies) of your trust can be individuals, a group of people (e.g., "my descendants") or charitable organizations. The initial beneficiary of a revocable trust is commonly you, or you and your spouse. In contrast, many irrevocable trusts prohibit the grantor from benefiting from trust assets.

Plan for extreme contingencies by naming successor or contingent beneficiaries. This helps prevent a court from determining where your assets should transfer should all your named beneficiaries pass away before the trust terminates.

Common ways a trust can provide for your beneficiaries

- Income distributions or annual fixed amount payments
- Discretionary distributions (e.g., health, education and general support payments)
- Specific expenses or goal attainment (e.g., college tuition, first home purchase)
- Payment at specific ages or times (e.g., ages 30, 35 and 40; 10 years following grantor's death)

Note: Your trustee may decide or be obligated to keep beneficiaries of certain trusts notified of aspects of the trust's administration. However, beyond any notice requirements, consider sharing your plans with your beneficiaries, as it gives you an opportunity to set expectations and share the reasoning behind your decisions.

Steps to create a trust

To create a trust, you'll need to work with an estate-planning attorney and other advisors. First, to help you prepare for that meeting, your financial advisor can review your assets and goals and help you document your intentions. The attorney will then help you to:

1. Determine an appropriate type of trust based on your goals.
2. Select your trustee and successor trustees.
3. Choose primary and contingent beneficiaries.
4. Design distribution terms.
5. Review and execute a trust agreement, which usually requires witnesses and/or a notary public.
6. Retitle or gift assets in accordance with your estate-planning attorney's recommendations.
   a. If you're creating a living trust (a trust created during your life that could be revocable or irrevocable), you'll fund it during your lifetime, which might include retitling accounts, signing new deeds or completing new beneficiary designations.
   b. If you're using a testamentary trust (which is created after your death through either a will or other trust), it won't be funded during your lifetime, but you may still need to update beneficiaries or joint owners on your assets.

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Key considerations for revocable or irrevocable trusts

When assessing the suitability of trusts, consider the potential benefits and trade-offs.

Costs: Drafting and execution of a trust generally costs several thousand dollars and may require retitling fees, valuation fees or other legal or accounting expenses. In addition, professional or corporate trustee fees can range from 0.5%–2% of trust assets.

Trust taxation: Whether a trust is classified as either a grantor trust or non-grantor trust defines how the trust is taxed, as outlined in the table.

Type of trust	Grantor or non-grantor status and tax treatment
Revocable trust	Grantor trust • Trust activity is reported on the grantor's individual income tax return, IRS Form 1040.
Irrevocable trust	Can be grantor or non-grantor • Grantor trust — Trust activity is reported on the grantor's individual income tax return, IRS Form 1040. • Non-grantor trust — Trust income is reported on trust tax return (IRS Form 1041), and the liability is either paid by the trust or passed to the beneficiaries via IRS Form K-1. - Income reported by the trust is subject to trust tax brackets, which escalate more quickly than the individual brackets (e.g., a trust reaches the 37% bracket at just $15,650 in income in 2025). - If income tax liability is passed to beneficiaries, they report it on their own returns and are taxed at their individual tax rates.

Funding restrictions or limitations: Not all assets can be transferred to a trust.

- Retirement accounts cannot be retitled to revocable or irrevocable trusts during the account owner's life.
  - If you name a trust as beneficiary of a qualified retirement account, how the trust is structured and the individual beneficiary's characteristics determine beneficiary distribution options. Discuss how to meet your goals with your financial advisor, attorney and tax professional.
- Some trusts aren't eligible to hold S corporation shares, and the transfer could trigger a conversion into a C corporation.
- Trusts cannot own Health Savings Accounts (HSAs) or Medical Savings Accounts (MSAs).
- Some partnerships or LLCs might prohibit transfer of ownership shares to trusts.

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Trade-offs of irrevocable trusts

There are additional considerations when using an irrevocable trust that aren't applicable to revocable trusts.

- **Surrender of benefits:** When you gift assets to most irrevocable trusts, you give up your rights to use or benefit from the transferred asset. Review your cash flow and anticipated spending needs to ensure you have adequate assets to meet your goals.
- **Cost basis concerns:** Assets transferred to an irrevocable trust retain your cost basis and won't receive a step-up in basis at your death. Either the trust or your beneficiaries will be responsible for capital gain tax liabilities upon the sale of assets.
- **Asset funding:** Your goals will influence which assets to gift to your irrevocable trust. Work with your financial advisor, attorney and tax professional to evaluate your options.
- **Gift-tax filing requirements:** When you gift a non-spouse beneficiary more than the annual gift exclusion* outright or to an irrevocable trust, you're required to file a gift-tax return. A gift-tax return may also be required if you split gifts with your spouse. Consult your attorney or tax professional to determine whether you'll have to file a gift-tax return for your gift.
- **Valuation requirements**: A valuation or qualified appraisal may be required to report the value of your gifts. Annual valuations and accountings may also be required for calculating distributions and administrative needs.
- **Trust modification:** Generally, irrevocable trusts cannot be modified after execution, so it's important you're confident in your planning decisions. While there are methods to address changes in circumstances or laws — including judicial modification, non-judicial settlement agreements, decanting statutes and amendment by trust protectors — these strategies aren't always available.



*In 2025, the annual exclusion amount is $19,000, which means you can gift up to that amount to any other individual without using any of your lifetime estate and gift tax exemption.

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Goal planning

A trust can be used to meet a wide variety of your financial goals.

Addressing goals with trust planning

Core planning	Advanced planning	Tax planning
Incapacity planning	Control over distributions	Minimizing estate taxes
Avoidance of probate	Assets in multiple states	Multigenerational planning
Planning for minors	Beneficiaries with special needs	Charitable planning
Planning for blended families	Creditor protection	Shared asset ownership

Specialized planning may be required if your goals include providing for beneficiaries with more complex situations, such as non-U.S. citizens, individuals with special needs or remote beneficiaries. Your financial advisor, attorney and tax professional can help determine which trust structures and funding choices are suitable for your specific situation.

For more information about trust fundamentals or whether a trust might be a good fit for your financial strategy, talk with your financial advisor.

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