



How trusts work

If you have a large lump sum and you'd like it to generate income that would be used by a designated beneficiary, the vehicle you're looking for is probably a trust.

A trust is essentially a financial structure for providing a beneficiary of your choice with a source of income. Trusts can play an important role in estate planning and may offer some tax advantages.

According to Thane Stenner, first vice-president with CIBC Wood Gundy in Vancouver, and author of *True Wealth: An Expert Guide for High-Net-Worth Individuals (and Their Advisors)*, every trust is a legal arrangement between at least three parties: the grantor, the beneficiary and the trustee.

There are many kinds of trusts that go by different names, but most trusts fall into one of two categories: the kind that transfers funds to a beneficiary while you

are still alive, and the kind that comes into effect after your death.

TYPES OF TRUSTS

True to its Latin name, an *inter vivos* trust (*inter* means "among"; *vivos* means "life") can be created at any time during your life for various purposes, says Stenner.

"Some of the more common uses of such a trust are to fund tuition and other costs of a post-secondary education for children or grandchildren, to provide ongoing gifts to charities, and to establish protection and privacy for certain assets," he says.

A testamentary trust, on the other hand, is "born from your Will," says Stenner. It takes effect after your death, and one of its primary purposes is to minimize taxation. Most testamentary trusts are either spousal or family trusts. Spousal trusts typically enjoy the same tax-deferral treatment as any other spousal transfer, says Stenner. A family trust is typically used to





bequeath funds to children who will be too young at the time of death to manage a large inheritance wisely.

CHOOSING A TRUSTEE

You can ask almost anyone you like to be a trustee, from an old friend to a qualified professional. But consider the responsibilities and choose carefully, says Stenner.

“The pivotal role in any trust arrangement is the trustee,” says Stenner. “As the legal custodian of your assets, your trustee will have a tremendous impact on the effectiveness and the longevity of the trust (and by extension, the financial well-being of your beneficiaries).”

Trusts have pros and cons that can be quite complex. If you’re considering setting one up, it would be wise to consult an expert about the advisability of doing so – and about how to do it properly.

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