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Financial Briefs

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Should You Consider Incentive Trusts?

You're looking for an effective way to ensure your heirs do what you think is best for them, for the family, and for the world. Is an incentive trust the right vehicle to accomplish that?

An incentive trust is much like a traditional irrevocable trust, except that it sets specific conditions on trust distributions. Some people establish incentive trusts to make sure beneficiaries stay in the family business. Others want to encourage higher education or public service. Some want to discourage behavior — laziness, reckless spending, or drug use. Still others want to encourage beneficiaries to get married and raise a family.

Incentive Trusts Have Advantages and Disadvantages

If you think an incentive trust may be a useful part of your estate plan, consider the advantages and disadvantages.

The advantages of incentive trusts include:

- If you write the conditions for disbursement properly, they provide objective criteria for when and how to make these disbursements.
- They encourage beneficiaries to behave in ways that are important to you.
- They allow you to condition disbursement on your beneficiary's age, so you can decide when he/she is old enough to responsibly manage the inheritance.
- They can help you accomplish goals through your beneficiaries, such as continuing the family business or pursuing philanthropic interests.

But there are also disadvantages:

- While incentive trusts allow you to specify conditions for distributions, they restrict the ability of trustees to make different decisions if new circumstances arise.
- Incentive trusts can cause resentment among beneficiaries, who may feel it is not your place to tell them how to live their lives.
- Encouraging goals you think are important may cause beneficiaries to neglect other good opportunities. For example, you may want a beneficiary to start a business, but she may be better suited to another career choice.
- Incentive trusts may be plagued by the law of unintended consequences. How can you foresee the future long after you've died? You may instruct the trust to pay out a stipend for your beneficiaries to go to school, but that can encourage them to become professional students.
- Because incentive trusts are often more complicated than traditional irrevocable trusts, they may be

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5 Facts about Estate Planning

When it comes to the future, most Americans have a blind spot: estate planning. Maybe it's because of an unwillingness to think about mortality or a sense that wills and trusts are only for the wealthy that people put off this important financial planning task. Whatever the reason, there are a lot of estate planning slackers out there. That's a problem, because not having an estate plan could put your family's financial future in jeopardy and cause other serious consequences. Here are five facts everyone should know about estate planning.

1. Everyone Needs an Estate Plan

Yes, estate planning is absolutely necessary for the wealthy. But the rich are far from the only ones who need to think about the future. Pretty much everyone needs an estate plan, regardless of how old they are or how much money they have, and can benefit from putting documents in place that clarify who should receive their property after they die,

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more expensive to establish and maintain.

What to Think About

There are a number of issues that could affect the design and implementation of an incentive trust. Consider these points carefully:

- **Goals** — What behaviors do you want to promote? Incentive trusts are often created to encourage beneficiaries to pursue higher education degrees. Discouraging reckless consumption and unproductive behavior are other common reasons behind incentive trusts. Think about what matters to you and your beneficiaries. What goals are fair and reasonable for you to expect your beneficiaries to achieve?
- **Coordination with your estate plan** — Incentive trusts are just one component of an estate plan. Decide whether you want to create a separate incentive trust or build incentive clauses into a trust designed for another purpose. Make sure the incentive trust doesn't conflict with or detract from other components of your estate plan.
- **Duration** — How long do you want the incentive trust to last? For grantors with substantial wealth, a trust may span many generations. Can you realistically set expectations for beneficiaries who aren't even born yet?
- **Beneficiaries** — Who will benefit from the monies disbursed from the incentive trust? Considerations here are similar to those for any kind of trust: who do you include and exclude?
- **Trustee designation** — The trustee of an incentive trust typically has a more difficult job than the trustee of a simple traditional trust, since he/she must decide when beneficiaries have met the conditions you specified. Make that job easier by writing conditions that are objective and easily measured.

How to Prepare an Incentive Trust

If you decide an incentive trust may be right for you, you should:

- Sit down with your beneficiaries and trustee to discuss your goals for the incentive trust. The likelihood that your beneficiaries will later resent the incentives is greater without this discussion.
- Build flexibility into the trust to accommodate changes in circumstances. This will mitigate unintended and undesirable consequences.
- Ensure that the conditions you want to include comply with state and federal laws.

If you don't want to establish an incentive trust, you can limit each beneficiary's inheritance to an amount that isn't likely to encourage reckless consumption and unproductive behavior. Another alternative, if your interest lies in philanthropy, is to establish a private foundation and name your beneficiaries as board members. That way, your money is still controlled by your beneficiaries, but it is put to charitable use.

Please call if you'd like to discuss incentive trusts in more detail.

Your Parents' Estate Plans

Estate planning can be a difficult subject to discuss with your parents. You don't want to seem concerned about how much money they may eventually leave you, while they may fear you are interfering with their finances. But to help ensure their estate is settled quickly according to their wishes, family members should have some basic information. You don't need to know the specifics about who will receive what, but you should find out:

- **Where important estate planning documents are located.** Don't ask for specifics, just make sure documents are in place so their wishes will be carried out. Find out if they have a durable power of attorney and a healthcare proxy. With a durable power of attorney, they designate someone to control their financial affairs if they become incapacitated. If your parents are concerned that this person may assume control prematurely, suggest leaving the document with their attorney, who can deliver it to the appropriate person when necessary. A healthcare proxy delegates healthcare decisions to a third person when your parent is unable to make them. Usually, this document also outlines procedures to be used to prolong life.
- **How to contact their advisors.** Ask for a list of names, addresses, and phone numbers of lawyers, accountants, and financial advisors.
- **Their rationale for distributing their estate.** Often, when heirs understand why an estate is being distributed in a particular manner, it can prevent problems among those heirs. If your parents are reluctant to discuss this now, suggest they leave a personal letter with their estate planning documents explaining their rationale for distributions. This is a good place to explain unequal bequests or large charitable contributions.
- **Preferences for the future.** Find out where your parents would like to live if they're not physically able to live in their current home. Do they want to move in with relatives or live in an assisted-living facility? Discuss in detail what procedures they want performed to prolong life in the event of a terminal illness. Determine their preferences for funeral arrangements.

While these topics are sometimes not easy to discuss, they are important to know to ensure that your parents' estate is properly handled.

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what kind of healthcare they'd like to receive if they are incapacitated, how surviving family members will be provided for, and more. Estate planning is especially important for those who have children, complicated family situations, special needs family members, or own certain types of assets (like art, intellectual property, or a small business).

2. A Will Is Not Enough

Wills are an important part of estate planning, but they are just one piece of a larger puzzle. Wills clarify who should receive your assets after you die. But you may also need other documents, like a living will, which explains what kind of medical treatment you'd like to receive if you can't make decisions on your own, a healthcare proxy (a person who will make healthcare decisions on your behalf), and a power of attorney (a person who is authorized to make legal decisions on your behalf when you're not able to). In some cases, you may want to set up trusts to provide for your heirs or charities. An estate planning attorney can help you understand which estate planning documents are necessary in your situation.

3. Your Beneficiary Designations Supersede Your Will

Many people assume the instructions in your will take precedence over any other directions. That's not always the case. Beneficiary designations on retirement accounts, life insurance policies, and bank accounts aren't superseded by your will. So, even if your will leaves your entire estate to your surviving child, a retirement account that names your brother as the primary beneficiary will still go to your sibling. That's why it's important you review your beneficiary designations regularly and update them when your life changes (birth of a child, divorce, etc.).

4. You Can Leave More to Your Heirs if You Structure Your Estate Properly

If you have a sizable estate — one that exceeds the $12.06 million federal estate tax exemption in 2022 — you may want to look into strategies that will allow you to pass that money to your heirs in a way that avoids estate taxes. There are numerous legal techniques you can employ to do this, such as transferring assets and property to a trust, making gifts during your lifetime, setting up family foundations, or leaving money to charity. Even those with smaller estates should keep taxes in mind. Did you know, for example, that life insurance proceeds pass tax-free to beneficiaries? That's important to keep in mind when you're considering how to make sure your spouse and children will be provided for if you die unexpectedly.

5. It's Important to Talk to Your Family about Your Estate Planning Decisions

Disagreements among family members about how to distribute an estate are far from uncommon. Often, those squabbles break out over unexpected or unclear provisions in the deceased's estate plan. If one member of your family feels that they aren't getting their due, it can make the process difficult for everyone. Drawn out legal battles that eat away at the wealth you've accumulated — and wanted to leave to your heirs — may result. Even if you think your family can handle your estate civilly, it may still be a good idea to sit down as a group or with individual family members to discuss your wishes and explain your estate planning choices. If you plan to leave more of your wealth to one child than the other, make sure your children know about that so they don't end up feeling blindsided and betrayed after your death.

Periodically Review Beneficiaries

Many assets, including individual retirement accounts (IRAs), 401(k) plans, life insurance policies, and annuities, have beneficiary designations that dictate who receives the asset after your death. These selections should be made carefully, since they typically override any provisions in your will or other estate planning documents. Consider the following points:

- **Select the most appropriate person as beneficiary for each asset.** First, list all your assets with beneficiaries, noting the owner, primary beneficiary, and contingent beneficiary. Then determine whether you have selected the appropriate person as beneficiary for each asset. In some cases, tax and estate planning considerations may help dictate whom to select. For instance, spouses typically have more options when inheriting an IRA, so that may be the better choice for your IRA.
- **Name contingent beneficiaries.** Without a named contingent beneficiary, the asset will be included in your probate estate if your primary beneficiary dies before you. The asset may then have to go through the probate process and may be distributed to someone you had not intended to receive the asset.
- **Indicate what percentage of the asset each beneficiary should receive.** Also, in the event a beneficiary dies before you, decide whether each beneficiary's share should be distributed to that person's heirs or divided among the remaining beneficiaries.
- **Assess whether beneficiaries are capable of managing the asset.** If not, you may want to set up a trust to control the asset's distribution.
- **Periodically review your beneficiaries to see whether changes are warranted.** A divorce, remarriage, spouse's death, or child's birth are all events that may require changes to your beneficiaries. You should also review your beneficiary choice if you make changes to your will.

News and Announcements

From the Alexander Household

My mother-in-law, Nikki, loved Frank Lloyd Wright's work. Our last trip with her was to stay at The Inn at Price Tower in Bartlesville. She particularly loved the Tower tour, guided by a local architect, and we loved spending time with her.

When our son, Luke, played in a soccer tournament in the Phoenix area, we were close enough to visit Wright's studio and residence in Scottsdale, Taliesin West. In addition to Wright's designs, Dale Chihuly glass has been installed around the property and will be on display through June 19. Chihuly Nights allows access to the exhibit, which pairs the work of Wright and Chihuly, both of whom were inspired by light, color and nature.

When we visited, it had been a long day, so we expected to make a loop around the exhibit and go to dinner. But that didn't happen. We kept taking photos of the glass and grounds in the changing light as the sun set. It was magical! We thoroughly enjoyed the evening and barely made it to dinner before the restaurant closed. I find it interesting how photography can change the way you see your surroundings.

Carol Ringrose Alexander,
CFP®, AIF®, CEPS, RLP®, CDFA™

From the Franke Household

"We can complain because rose bushes have thorns or rejoice because thorn bushes have roses."

~ Abraham Lincoln

Spring has finally arrived! The Franke household could not be more excited. While we are grateful for each day we have, we are abundantly grateful for those days spent during spring. I was working in my garden and noticed signs of life on a peony bush. Bear in mind, I thought this bush was dead. I cut it down to the base and did not have high hopes of it surviving the winter storms. Yet there were signs of growth! Doesn't that sound like life? You think all hope is gone, then, to your surprise, there is still hope.

Current events can easily strip you of joy or hope. You may feel helpless, and to a point, you are. However, if you choose to seek joy, you will find it. You will find joy in the sunshine, beauty in the flowers, comfort with family. Do not let the darkness outweigh the beauty.

I encourage you to step outside and feel the sun on your face. Smell the flowers. Let the rain fall upon your skin. Let nature remind you that not every day will be good, but there is good in every day.

Jade Franke,
FPQP™, IACCP®
Compliance Associate

Exciting Book Release!

Our CEO Randy L. Thurman's latest book, ***The All-Weather Retirement Portfolio*** is being released by ForbesBooks on May 3, 2022. Randy is really excited to be included in the distinguished list of featured ForbesBooks authors. In order to celebrate with our clients and friends, Full Circle Bookstore at 50 Penn Place in Oklahoma City will be holding a book signing with Randy on Thursday, June 23 from 3-5 pm. Stop by and pick up your copy, meet Randy, and have your book signed.

Featured ForbesBooks AUTHOR

Our current Form ADV has been updated as of March 31, 2022. A material change noted in the ADV states that WealthTrust Oklahoma is separating from Retirement Investment Advisors, Inc. This transition will decrease our December 31, 2021 assets under management by $71,078,275. Our Form CRS has been updated as of March 31, 2022. Our minimum account size has been adjusted from $120,000 to $250,000. Find the disclosures here: **TheRetirementPath.com/disclosures.** If you would like a paper copy, please contact us at **info@TheRetirementPath.com** or call us at **405-842-3443.**