Potential Advantages of a Corporate Trustee and the Value of a Corporate Fiduciary

**Executive summary**

Navigating today’s financial world is an increasingly complex task. Federal and state laws relating to income, investment and estate taxes change frequently. Legal issues can arise with many types of transactions. Those who own businesses deal with even more complexity and the issues tend to be magnified as wealth accumulates.

Estate planning takes on a more central role in your overall financial strategy as you accumulate wealth. One potentially effective way to manage your legacy may be to establish trusts, which are drafted by an attorney and require the naming of a trustee to oversee many or all aspects of trust administration.

In today’s complex environment, the role of a trustee can be burdensome. Family members or other associates may be considered for the role, but the task can be time consuming and demanding. In some cases, it may require a level of financial and trust administration expertise that could test the limits of an individual’s time and capabilities. With wealth and a legacy at stake, careful consideration should be given to the person or entity appointed to handle this responsibility.

In many situations, a corporate trustee may be a more prudent choice to effectively administer the trust. A corporate trustee offers experienced and knowledgeable professionals who deal with trusts as part of their day-to-day responsibilities and can provide the level of expertise required to ensure that the wishes of the grantor are carried out in the most effective way possible. A corporate trustee is well positioned to stay abreast of changes in the economic environment and tax laws that may have an impact on the trust. A corporate trustee also provides a level of objectivity that may be difficult for family members or other individual trustees to match.

In addition, a corporate fiduciary acting as a trustee or agent can actively manage and oversee the investment management of trust assets and other assets. Individual trustees often engage a corporate fiduciary as an agent in order to leverage their expertise. A corporate fiduciary can play an important role in helping individuals and trustees work toward key investment, retirement and planning goals.

**Important considerations in naming a trustee**

As wealth accumulates and financial circumstances become more complex, the need for a carefully structured legacy strategy may become imperative. In some cases, individuals will want to consider working with their attorney to establish trusts as a way to manage the disposition of assets both during life and beyond. A properly drafted trust can help with the transfer of assets to desired beneficiaries in a more tax-efficient manner.
An important step in the process of creating a trust is to name a trustee to manage the trust. Grantors have almost complete flexibility in choosing a trustee. It can be a family member, a friend, a professional such as an attorney or a firm such as the trust department of a bank. This is one of the most important decisions individuals have to make as they establish trusts. The trustee is responsible for:

- administration of the trust in accordance with the terms of the governing documents
- compliance with applicable law, including tax filings
- management of trust investments
- mandatory and discretionary disbursements to beneficiaries per the terms of the trust documents
- accurate recordkeeping of all trust activity

These responsibilities can represent a significant burden for an individual, particularly one who is not a full-time professional trustee. This is particularly the case where the trust itself involves complex provisions and/or changes in applicable laws occur that may have an impact on trust administration. An additional challenge for any individual named as trustee is to deal with controversial and/or sensitive family issues that may arise relating to the administration of trust assets.

For these reasons, many people decide the role is best left to a corporate trustee with deep experience in administration and oversight. A corporate trustee offers a range of services that can potentially ensure a smooth trust administration process over time, helping to meet the objectives of the grantor of the trust.

Key potential advantages of a corporate trustee

A corporate trustee may offer several advantages not easily duplicated when naming an individual (particularly a friend or family member) as trustee, including:

- Assuming direct responsibility for determining and monitoring proper valuation of trust assets
- Developing an investment strategy with consideration of the current and future needs of beneficiaries
- Ensuring that statements of account are delivered to appropriate parties on a periodic basis
- Reviewing the investment performance of managed trust assets on a regular basis and making changes as necessary
- Accounting for all income and other investment earnings
- Ensuring that distributions to beneficiaries are carried out in accordance with the directives of the trust
- Filing tax returns and delivering required tax information to beneficiaries on a timely basis

These are among the numerous responsibilities that trustees must be relied upon to carry out. For most circumstances, a corporate trustee, with the infrastructure and resources already in place to conduct such duties, could be in an advantageous position to consider the expectations of the trust grantor and beneficiaries.

Beyond the tangible professional advantages that a corporate trustee can offer, there are intangible benefits as well. A corporate trustee may be in a more objective position to carry out the responsibilities expected of a trustee. When family members are placed in the position of trustee, they can be influenced by emotions and personal agendas. They may face pressure from certain family members about the decisions they are required to make and duties they are directed to carry out as outlined in the trust. At times, family member trustees may have conflicts of interest with the grantor or beneficiaries that could influence their decisions and leave them subject to criticism and potential legal action.

A corporate trustee has a duty to make impartial decisions based on the trust document’s requirements. While the corporate trustee will always be concerned about how those decisions will affect family relationships, the corporate trustee’s primary concern will be carrying out the grantor’s intent, as expressed in the trust document. Sometimes, difficult decisions must occur that may make a significant difference over the life of the trust, particularly after the passing of the grantor.

Other key reasons that the selection of a corporate trustee may be an advantageous option to consider include:

- Trusts typically can last for many years. It is possible that an individual trustee will pass away before the trust is terminated, requiring a new individual trustee to assume responsibilities. With a corporate trustee, there can be continuity throughout the term of the trust.
A corporate trustee administers trusts under the supervision of bank regulators. While individual trustees are expected to fulfill the same duties, they are not generally subject to regulatory scrutiny or accountable to regulators to the same degree.

Corporate trustees stand accountable on a continuing basis and are generally backed by deep resources. While a corporate trustee may lack the personal family knowledge that would reside with a family member, friend or even an attorney, the firm providing the service should seek to gain a clear understanding of the grantor’s wishes within the trust and focus on making sure those wishes are carried out.

Another option to consider is a co-trustee relationship, combining the services of a corporate trustee with the personal connection of an individual trustee. In this situation, the responsibilities of each of the co-trustees should be clearly outlined in the trust document.

An important consideration in deciding on whether a corporate trustee should be selected is cost. In many cases, the expense may be greater than that incurred by appointment of an individual trustee. But if an individual is selected, the trustee may need to utilize the services of an investment manager, tax accountant and other professionals to fulfill his/her duties as a trustee, which will add to the expense. A good rule of thumb is that a trust should be valued in the range of $500,000 or more in assets to justify the expense of a corporate trustee. However, a grantor with a trust holding less than that amount is free to choose a corporate trustee for peace of mind that the responsibility will be in the hands of experienced professionals.

The value of a corporate fiduciary

As individuals try to manage an increasingly complex financial marketplace, many find that professional guidance in the management of assets can be of significant value. In certain circumstances, this may require the involvement of a corporate fiduciary. While the most obvious example of a corporate fiduciary relationship is a trustee situation, an individual can also appoint a corporate fiduciary as an agent. In this role, the corporate fiduciary can, if desired, help manage the financial assets of an individual or organization, assuming a significant, hands-on role. A corporate fiduciary can also provide services related to investment management, retirement planning and analysis of wealth planning strategies in conjunction with the family’s tax and legal advisors.

Investment oversight can be a primary benefit of working with a corporate fiduciary in either a trustee or agency capacity, but there are other possible advantages, including:

- Providing recommendations and support in the decision-making process and executing approved transactions
- Protecting privacy, including data privacy, which should reduce exposure to fraud and/or potentially misleading practices
- Managing financial matters and, if appointed, making key decisions when an individual is no longer physically or mentally capable of doing so and ensuring that family members are informed about those decisions in appropriate circumstances
- Providing insights on all financial matters that may be of concern to individuals who have enlisted the help of the corporate fiduciary
- Developing tax-efficient strategies based on the specific tax circumstances of the individual and delivering timely tax reporting for the preparation of tax returns
- Collaborating with other professionals that are part of the individual’s wealth management team, including attorneys and CPAs

A corporate fiduciary contributes significant expertise for the benefit of those seeking more oversight of their assets. It can be critical in helping individuals plan for the management of investments, funding income strategies for retirement, implementing plans to work toward other important goals (such as the education of children or grandchildren), and developing a legacy strategy for the ultimate disposition of an individual’s estate.

When an individual selects a fiduciary, he or she creates a trusting relationship with another party. However, this selection can have much broader significance. After all, a corporate fiduciary’s actions will have a direct impact on all individuals who have an interest in the assets under management, including future generations. An important point to keep in mind is that corporate fiduciaries are bound by regulatory and common-law standards to act in the best interests of the individuals being served. The duty of loyalty to the individual is paramount for a corporate fiduciary.
Conclusion

Today’s financial landscape includes a number of potential obstacles that can make it challenging for individuals to determine the best path to work toward their most important financial objectives. As financial circumstances become more sophisticated, the value of professional guidance may become more important. This can be true at any stage of your financial life.

U.S. Bank is positioned to offer the professional fiduciary guidance you may need, whether it be as your trustee and/or agent. We’ve served the fiduciary needs of individuals and organizations for more than 100 years. We believe that our long-term commitment to the highest fiduciary standards is the best way to meet the expectations of the clients we serve.

We may provide an important advantage for those looking to build a relationship with professionals that will be relied upon to deliver fiduciary services—a strong local presence backed up by national resources. You can build a personal relationship with a professional who can leverage the experience of our broad organization for your financial needs.

As you deal with the complex matters of executing an estate plan or developing strategies to meet other financial challenges, consider the potential benefits of tapping our extensive fiduciary resources to help—in the role of corporate trustee and/or your agent.

Contributed by:
Sally A. Mullen
Chief Fiduciary Officer, The Private Client Reserve

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