Why trusts are for everyone

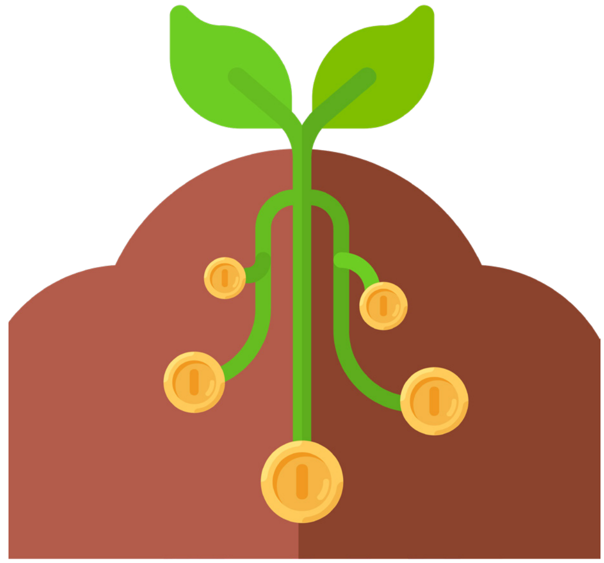
Trusts give people more control over their assets, among many other uses.

While the concept of a trust fund may conjure images of fictional characters with ultra-wealthy parents—like Nick Young from Crazy Rich Asians or Bruce Wayne, the orphan who inherited a billion-dollar fortune and became Batman—in real life, trusts are not just for the privileged few.

Yes, a trust can be used to manage a child's inheritance, but it's actually a far more versatile tool that allows you to control the way a specific amount of money is used—even after you give it away. You can create a trust for funds intended to be used by a beneficiary after you die—called a testamentary trust—or even for money you want to provide while you're still living, called a living trust. Trusts can also help reduce tax—the growth of assets in a living trust is taxed in the benficaries hands, for example—and protect assets from getting divided during a divorce.

In most cases, assets held in a trust are no longer owned by the asset holder, also known as the settler, but they're not yet owned by the beneficiaries, either. Instead, the person or firm that you choose to act as trustee takes ownership of the fund and is responsible for administering the assets according to the instructions you have specified. (It is also possible for the settler to be the trustee.)

Here are a few situations in which you might want to establish a trust to help you pass along your assets in a more precise fashion.



Testamentary Trusts

You have children from a previous marriage

Say you want your current spouse to be looked after upon your death, but you also want your assets to eventually be passed on to your kids, who are from a previous marriage. A testamentary trust can be set up so that the surviving spouse can draw an income from the trust for as long as they live, or until they remarry, with a provision that the assets would then be given to your children.

Your spouse/child isn't good with money

Because assets held within a trust do not belong to the beneficiaries, those assets cannot be taken away by creditors—even if your beneficiaries are up to their eyeballs in debt.

You have a disabled family member

A trust can also be established to ensure that an inheritance will not prevent a disabled beneficiary from receiving income-tested disability benefits.

You want to control the conditions of a beneficiary's inheritance

This runs the gamut from dictating when a beneficiary gets the money (e.g., waiting until a child turns 18 or completes university); to encouraging particular behaviours by a beneficiary (such as offering more to grandchildren with high academic scores or those who participate in sports); to how you want the money in the trust to be spent (for example, on international travel).

Living Trusts

You prefer to help children or grandchildren while you're still alive

Sure, you can gift them the money, but then you won't have any control over how they use it. A living trust, on the other hand, lets you help out your loved ones on your terms, while you're still around to watch them enjoy it.

You want to sidestep probate

Assets held in an living trust, including real estate, are not subject to probate taxes. As such, a trust can be an advantageous way to transfer the title of a cottage or other family vacation property without paying additional taxes.

You like to keep your finances private

Probate is a public process, which means the details of a will or testamentary trust are accessible by others. Because living trusts bypass probate, no one but the trustee will be privy to the stipulations you outline regarding the administration of those assets.

While there are plenty of reasons to use a trust, there are some downsides to be aware of, too. It typically costs money to set up a trust, and you may have to pay a trustee to help administer the account, depending on who you hire. Maintaining one can also be time consuming. A trust, for instance, is considered a separate legal entity, which means it needs to file a tax return.

Before setting one up, talk to an investment counsellor to see which type of trust is right for you.
