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Trusts 101: Why Partner With An Independent Corporate Trustee

When setting up a [trust](#), choosing the trustee is the most important decision you can make. The trust must be maintained and administered with the same care and attention that went into creating the trust. When choosing a trustee, you have to investigate a number of different paths, including using a bank trust company, individual or family member or, lastly, an independent trust company.

Traditionally, most families choose either a big-name trust company or a large bank with its own trust department. But they often don't recognize the conflict of interest within these behemoth entities – a conflict that manifests itself in two ways. First, because the trust company acts as both a trustee and also invests the trust's assets, it's unlikely that the trustee would improve performance by firing the investment side of the house and moving those assets to a more experienced financial advisor.

The second conflict arises around distributions. Many large trust companies make beneficiaries jump through hoops to get a distribution. That's because trust companies are paid based on assets under management, and if the trustees make a distribution to a beneficiary, it may lower their fee-earning assets under management base.

Meanwhile, on the other end of the scale, a family member or friend could be named a trustee – again posing both significant conflict of interest, as well as fiduciary risk. When a family member becomes a trustee, he/she must put aside any bias or conflict when making distribution decisions. For example, in many families, the oldest sibling is commonly named as trustee. He/she now has the burden of making distribution decisions for his siblings as well as himself – usually causing additional strife that can be avoided. From a fiduciary risk perspective, many family members are not fluent with trusts, and they don't possess the legal, accounting and investment knowledge to manage the trust properly. This oftentimes leads to mistakes which ultimately results in even more family division.

Today, independent corporate trustees are exciting, new players in the trust management arena. These objective experts are chartered in the country's most progressive states, like South Dakota. An independent corporate trustee eliminates all conflicts of interest, while providing a savvy solution to fiduciary risk associated with an individual trustee.

What is an Independent Corporate Trustee?

[Independent corporate trustees](#) are generally state-chartered, non-depository trust companies. That means they never handle any investment management and act purely as a trustee. Independent corporate trustees have grown quickly, as they remove the conflict of interest and distribution bias inherent in all the large trust companies and bank trust departments. This combined with poor service and high employee turnover leads families to seek out alternative solutions, such as an independent corporate trustee. What makes independent corporate trustees so appealing is they allow a family to work with any investment advisor of its choice while at the same time reaping the benefits of a truly objective partner who makes unbiased distribution decisions. Independent corporate trustees remove bias by charging clients on a fixed fee basis. That means they make distribution decisions in the best interest of the beneficiaries vs. the bottom line of the trust company who might be reducing the principal they earn AUM fees on. Lastly, independent corporate trustees oversee trust administration and play an important role in making sure the trust is effectively handled according to a grantor's wishes.

Independent corporate trustees are highly qualified and knowledgeable. They're experienced in all legal and tax requirements, making them far more reliable than an individual trustee. Independent corporate trustees will also be insured for any potential lawsuits or losses due to negligence.

The Difference between a Trustee and an Independent Corporate Trustee

View :90 [video](#) here

Partnering With an Independent Corporate Trustee

An independent corporate trustee offers a better and more reliable choice for trust administration. Here's why:

Extensive Knowledge and Expertise

Unlike an individual trustee, independent corporate trustees have complete professional knowledge of trust administration, from tax and accounting to legal and investment management, allowing them to manage complex trusts and deal with sensitive family wealth issues. Individual trustees may have some know-how about investment management, but most lack the legal and tax expertise needed to review annual tax returns or understand legal ramifications of trustee decisions.

Risk Mitigation

With fiduciary responsibility comes the threat of litigation. Since all independent corporate trustees are regulated by state banking authorities, they are always insured against errors and omission, financial fraud, cyber crimes and more. Individual trustees can't afford this costly coverage, so if they're ever sued for negligence, the beneficiaries are left holding the bag. Most trust companies also have various levels of oversight, such as regularly scheduled internal, external and regulatory audits. All duties of an independent corporate trustee are carried out with the highest degree of care to ensure all assets are properly protected long-term. The same cannot be guaranteed for individual trustees.

Impartiality

Independent trustees offer an unmatched level of impartiality which eliminates any conflict of interest, including outside influence or monetary motivation. For example, a bank trust company cannot objectively manage assets for which they are also trustees. In this case, any distribution made to a beneficiary will lower their base to earn asset management fees. This clear motivator influences how a bank handles a trust – especially when it comes to distributions.

Independent corporate trustees are free from any conflicting interest in managing trusts. Typically paid on a fixed fee basis, they only make decisions in the beneficiaries' best interests.

Unbiased

One major problem with individual trustees is that they maintain personal – and biased – relationships with the grantor and/or beneficiaries. An individual trustee can't act objectively when he/she makes a distribution decision, as possible conflicts of interests may arise between beneficiaries, relatives and trustee. Even if they are not paid a fee for their services, external influences can create a biased management system.

An independent trustee has no personal interest or relation to a family. An independent corporate trustee maintains professional relationships with all beneficiaries, ensuring that distribution decisions are made with full knowledge and insight.

Reliability

Nothing will prevent an independent corporate trustee from administering the trust throughout its full term. With individual trustees, events like death, illness, vacation or injury can prevent them from their administrative duties. An independent trustee's continuous oversight offers a consistent administration of the trust's term. So the trust

remains in capable hands without any changes or surprises. Consistency and reliability are necessary for better peace of mind.

Why Sterling Trustees


At Sterling Trustees, we offer an independent corporate trustee service that doesn't manage assets. This means we can give our clients unbiased trustee services without any inherent conflict of interest. Through this approach of unbundling financial services, both trustee and advisor can collaborate to provide comprehensive wealth management without losing any control of your relationship or your fees.

By separating duties of an independent trustee, investment advisor and custodian, the risk of fraud or gross negligence disappears. Sterling Trustees ensures the trust's best interests are taken care of without any external influences.

Above all, we are a [South Dakota](#) chartered trust administration firm. South Dakota is the [leading trust situs](#), offering a wide range of advantages. These include no state income or capital gains taxes, no rule against perpetuities and advanced asset protection and privacy. Make the right choice for the benefit of your trust and choose a South Dakota independent corporate trustee for an unparalleled advantage.

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