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Trusts 101: Skilled Advisors Navigate Toward Smoother Seas - Growing and Protecting Your Business Using Trusts

Optimizing the benefits of trusts can help grow and protect your business, expanding your existing client relationships while strengthening your position as their most trusted advisor. Trusts can help you successfully address the challenges posed by the diverse factors impacting the financial services industry today while helping clients define and achieve their financial goals.

Get on Board

An estimated \$70 trillion dollars is going to change hands over the next two decades, in the largest generational wealth transfer in modern history. Looking more deeply into the impact of that wealth transfer reveals that [87% of children](#) who inherit wealth from their parents intend to terminate the relationship with their parents' financial advisor after receiving an inheritance. [Nearly 90%](#) of them indicated they never considered retaining their parents' financial advisor. In addition to children, any discussion of wealth transfer is incomplete if it does not address the increasing role of women in wealth management. Historically, the majority of financial advisors and the clients making financial decisions [were men](#). By 2030, much of the \$30 trillion in wealth held by U.S. Baby Boomers is expected to be controlled [by women](#). Research has shown that [70% of women](#) change their financial advisor following the death of their spouse. For the future focused Advisor, trusts are one of the best ways to avoid becoming a statistic.

Assets in trust increase the likelihood of retaining your hard won AUM's as those assets are transferred across generations. In South Dakota, the use of a directed trust model allows your client to name you in the trust document. This appointment serves two very important purposes. First, it clearly articulates the client's intent that their chosen financial advisor continues to manage the family's wealth even after their death. Secondly, being appointed in the trust document creates security, stability, and predictability that will increase the value of any financial advisor's book of business. Since the average age of an investment advisor is 59 years old, the value of an advisor's book of business is more relevant than ever. For advisors managing assets in trust, partnering with an independent trustee means that if you ever change broker dealers or take your book of business to another firm, we'll follow you.

Learning the Ropes

The barrier to most advisors' utilization of trusts as a key component of their client's financial ecosystem is the same barrier that decreases the likelihood of trust assets escaping your control. The inherent complexity of trust architecture can be a tremendous advantage for advisors managing the trust investments. Assets that are held in trust are nearly twice as likely to remain with the existing advisor than non-trust assets. Non-trust assets can be transferred from one advisor to another in the blink of an eye, but trust assets are not so easily moved. The trust document itself may place restrictions on

removing and replacing the investment advisor, there may be a number of ways or a number of individuals granted the power to make substantive changes. In addition, no material changes are made to the trust structure without the trustee's consideration as the trustee is ultimately bound by their fiduciary duty to act in the client's best interest. A potential material change would include a newly permissible beneficiary requesting to remove or replace the trust's existing investment advisor. A relatively straightforward change for non-trust assets presents a much more laborious and time-consuming process for assets held in trust. The complexities of trusts and the process required to remove and replace an advisor represent a significant hinderance to the removal of those AUM's from an advisors book of business. Assets held in trust are often referred to as "sticky assets," and now you know why.

All Hands on Deck

Helping your clients (and your business) leverage trusts can be made easy with the help of a qualified, reputable and highly skilled trustee. Trustees come in many shapes and sizes including an individual such as a family member, accountant or attorney; an institution such as a bank trust company or investment firm; or an independent corporate trustee. It is imperative to choose a trustee with knowledge and experience you can count on to serve your clients and grow your business in a profitable way.

An individual trustee may seem like the logical choice, but appointing an independent trustee can also introduce many unintended consequences. Conflicts can arise amongst the individual trustee and beneficiaries who may not have the knowledge to deal with the potential issues. Limited familiarity with applicable laws and tax requirements can have major punitive and monetary consequences. Successor issues can arise with the inevitable death, or possible disability or unavailability of an individual trustee. In addition, such individual trustees often lack the sophisticated technology necessary to capture and report on trust assets and transactions. The independent trustee is not the only option.

A client may choose a large bank trust company or investment firm as trustee. Unfortunately, an institutional corporate trustee oftentimes suffers from conflicts between what is in the best interests of the trust client and what is most profitable for the firm. When these organizations fill a dual role as both trustee, responsible for administering the trust, *and* money manager, responsible for buying and selling assets, impartiality gets clouded. Objectivity in administering a trust only comes from independence of outside influence or monetary motivation.

An independent corporate trustee can offer objectivity and unlike the individual trustee or corporate trustee, an independent corporate trustee can make decisions that are unbiased. The reliability of an independent corporate trustee is unsurpassed by individuals, as illnesses, vacations, injuries or death will not prevent them from administering the trust or threaten its continuity throughout its full term. The trust company, bank or financial institution acting as corporate trustee cannot compare with consistency and transparency of an independent corporate trustee in its objectivity and motivation. Independent corporate trustees are also knowledgeable and experienced in all legal and tax requirements, and are fully insured against lawsuits as well as losses due to negligence. While an independent corporate trustee will not manage a trust for free like a family member might do, clients can rest assured that their money is well-spent, as the company is guaranteed to carry out all of the fiduciary duties given to them. Between the internal and external auditors and the government regulators, independent corporate trustees are subject to many levels of oversight.

Sterling Trustees is an independent corporate trustee, providing boutique trust administration services. Sterling Trustees is custodian agnostic, preserving independence between investments and trust administration. In addition, the Sterling business model is based on flat fees, not commission, which means no hidden motives in their guidance, no quotas to fill and no platform products to peddle, just balanced and objective world-class service. At Sterling Trustees, we partner with investment advisors to safeguard their business and their clients' interests without any risk of losing control of the client relationship or accompanying fees. As an independent trustee, Sterling will ensure that a family's legacy continues under their advisor's watchful eye, while growing the investment firm's client roster as assets pass to the next generation.

Stem the Tide

Take the next step toward business benefits by investing some time to plan how you will incorporate Sterling into your work. Consider what we've shared over these last few articles: the challenges facing your business, the ways in which trusts can preserve your AUM, and the ways in which trusts can expand your business and increase stickiness.


If any of these points caught your eye, Sterling is offering an exploratory workshop during which we can:

- Meet with your team
- Answer questions
- Share more information about trusts
- Explain how RIAs are leveraging trusts to strengthen and grow their businesses

If that's of interest to you, let's get in touch and we'll work with your team. Put some of your clients' assets in trusts, so that we can handle the management heavy lifting and you can get the glory.

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