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## Appointing a Child as Trustee: How a Well-Intentioned Choice Can Compromise Your Irrevocable Trust

Parents may appoint a child as trustee, trusting that they will manage the trust responsibly, safeguarding the family's wealth for current and future generations. They reason that the values they've demonstrated to their child—combined with the lifelong bond of siblings—all but guarantees the child will have the same dedication. Unfortunately, that assumption is not always correct.

Even with the best of intentions, a family member managing a trust may not have the legal, financial, and tax knowledge to do the job effectively. Worse, they might not have good decision-making skills or a fiscally responsible outlook. In these cases, selecting a family member as the trustee can be catastrophic for everyone – the trustee, the family, and the [family trust](#).

Facing a personal financial challenge, for example, the trustee may see the trust's assets as a potential solution, they may assume that they can borrow from the trust and repay it later. They may be so concerned about solving their current financial difficulties that they ignore future consequences for their siblings, the trust, or themselves. They may also rationalize that borrowing from the trust is acceptable, seeing it as their own money to manage and use as needed

### **The Costly Consequences of Poor Decision-Making**

Consider the real-world example of a father who created a trust for the benefit of his five children: a son and four daughters. The father ran a successful business and was a prodigious earner and saver, accumulating over \$35 million in the trust before his death. When the father died, the son – who is the oldest of the five siblings – was named trustee.

Unfortunately, the son lacked his father's business acumen and was facing pressing financial difficulties.

Immediately after the father's death, the son's business filed for bankruptcy. The son owed his creditors a lot of money. Since he was now trustee of \$35 million in assets, the son decided to "borrow" money from the trust to get out of his financial difficulty. He settled with his creditors, liquidated all the trust assets, then used the proceeds to pay off his creditors.

His sisters eventually learned that he was using the trust assets for himself, prompting one of the sisters to sue her brother for misappropriating all the trust funds. A judge removed the son as trustee and appointed the daughter as the new successor trustee.

However, by that point it was too late. There were zero assets remaining in the trust and a seven-figure income tax deficiency. Even after using all of the trust assets, the son remains broke, and the daughters lost their entire inheritance. Not to mention the irreparable damage to the family unit.

## Could This Have Been Avoided?

If the father had chosen a professional trustee to manage the trust, instead of one of his children, this family would still have their inheritance, and the son would surely be in a better financial position.

It is advisable to avoid this type of financial disaster by appointing an **independent trust company** to manage your trust instead of choosing a child. No matter how much faith you have in your children, it is impossible to predict how their financial circumstances may evolve over time or to anticipate with certainty how they will respond to potential financial challenges.

In the example provided, the son did not initially intend to deprive his sisters of their rightful interests. Confronted with bankruptcy and pressure from creditors, he perceived the trust as a means to address his financial crisis. He mistakenly believed that he could borrow from the trust and later restore the funds without adversely affecting his sisters' interests.

## An Independent Trust Company Prevents These Issues

An independent trust company would have prevented this scenario from developing. Independent trust companies, like [Sterling Trustees](#), act as objective agents, not conflicted family members. They have one goal in mind, keeping your assets safe and administering your trust fairly.

The word “[independent](#)” is key here. Sterling is completely neutral and independent in every aspect of what they do, so they cannot be influenced by one family member’s hardships. Their independence from outside influences and profit motives drives objectivity, and they avoid conflicts of interest by delegating investment management to best-of-breed investment advisors and separating the trusteeship from the management of the underlying assets.

Independent trust companies also possess the legal, financial, and tax expertise required to handle complex trusts, ensuring adherence to ever-evolving regulatory standards.

The benefits are clear:

- **Objectivity** – An independent trust company such as Sterling Trustees ensures decisions are made without biases and are in the best interest of all family members.

- **Specialized knowledge and expertise** – Professional trustees have the legal, tax, and financial expertise required to administer even the most complex trusts.
- **Compliant trust administration** – An independent trust company ensures your trust is administered in compliance with all relevant legal and regulatory requirements.
- **Proper succession planning** – If the original trustee cannot continue, a professional trustee will have succession plans in place so there are no costly delays.


## Interested in Learning More?

Sterling Trustees has been administering trusts of all types for over 15 years. Because the firm is not compensated by commissions or finder's fees, they are completely objective and equipped to do what's in the best interest of all beneficiaries. Sterling is a [South Dakota-chartered trust company](#), helping you leverage the most progressive trust laws in the U.S.

To ensure the financial security of your family's trust, [contact us](#) today and learn how an independent trust company like Sterling Trustees can safeguard your assets for generations.

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