

Failing to Plan for the Loss of a Trustee: How Relying on Family Friends Can Put Your Trust at Risk

Many parents appoint a close family friend as trustee of their family trust because they know a close friend will administer the trust for the best interest of the beneficiaries – their children. They choose a second close friend as the alternate trustee because they believe their friends care about their children and are therefore deeply invested in the trust's success. They will likely discuss the responsibilities as trustee with both friends to ensure everyone understands what the role will require and is prepared to take on the responsibility.

What parents who choose friends as trustees often fail to consider is what happens to the trust if both of their friends are unable to act as trustees. Even if they are prepared and committed to managing the [family trust](#), potential consequences and complications can arise if they become unable to fulfill their duties as trustees. This scenario can lead to significant financial losses, unpaid debts and expenses, legal complications, and a reduction in the overall value of the trust due to taxes, legal fees, and other expenses incurred during the period without active trust administration.

Unadministered Trusts Decrease in Value

Consider the real-world example of a woman who made a close family friend a trustee and chose a second close family friend as alternate. After the woman died, her first friend was appointed trustee and was prepared to manage the trust. Regrettably, he was convicted of a crime and sentenced to prison shortly thereafter, rendering him unable to act as trustee.

At this point, the alternate trustee was assigned to manage the trust. Unfortunately, the alternate was also deemed unfit to take on the responsibility of trustee, leaving no one to manage the trust. Therefore, there was no trustee and no process in place to assign a new one.

The trust was completely unadministered for two years, and all its debts and expenses went unpaid during that time period. Before the woman passed away, she had secured a line of credit using her house as collateral. After her bills went unpaid for over a year, the bank that provided the line of credit took possession of her house and sold it for below market value.

The situation was finally resolved after the children's attorney got the court to appoint the attorney as the trustee. However, as a result of the lengthy delays, the trust's value was significantly reduced by taxes, legal fees, and bank fees, as well as the house that was sold for much less than it was worth. All of the extra expenses and lost value could have been avoided if the trust had a process in place to assign new trustees immediately after a trustee was lost.

Protect Your Children and Your Trust with a Third-Party Trustee

You can avoid this type of financial disaster by appointing an independent trust company to manage your trust instead of choosing friends or family members. No matter how committed they may be to safeguarding your trust, you can't foresee how their lives will unfold or what events in their lives can result in their inability to act as trustee.

In the example provided, neither the mother, original trustee, or alternate trustee envisioned that the trust would lose both trustees. The mother assumed she had protected the trust for her children by securing two trustees, and the trust lost significant value as a result.

Independent trust companies like Sterling Trustees act as professional trustees, with succession planning built in to ensure there are never gaps in trust administration. The trustees are completely neutral and independent in every aspect of what they do, and each individual can be easily replaced if they can no longer fulfill the role as trustee.

Benefits of Using an Independent Trust Company

The benefits of using an independent trust company 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.


Trust Sterling Trustees

Sterling Trustees has been administering family trusts for over 18 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 family members. Sterling is also a [South Dakota-chartered trust company](#). South Dakota has the most progressive trust laws in the U.S., and Sterling can help you leverage them.

[Contact us](#) today and learn how Sterling Trustees can help ensure long-term financial security for your family's trust.

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