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When to Bring in a Corporate Trustee: Red Flags and Conversation Starters for Advisors

Most financial advisors will face this situation at some point: a client mentions that a family member - a sibling, an adult child, a spouse - has agreed to serve as trustee of an irrevocable trust. The client seems satisfied. The estate attorney has moved on.

And the advisor quietly wonders whether this is a problem waiting to happen.

Often it is. Not because the family member has bad intentions - they almost never do - but because trustee responsibilities are genuinely complex, and the consequences of doing them poorly fall on the beneficiaries, the estate plan, and occasionally the advisor who didn't raise the issue.

Here's a practical framework for identifying when an independent corporate trustee makes sense, and how to start that conversation without overstepping.

What a Trustee Actually Has to Do

Before identifying red flags, it helps to be clear about what trustees are actually responsible for. Many clients - and some advisors - underestimate the scope. A trustee must:

- Manage and safeguard trust assets prudently (the "prudent investor" standard)
- Make distributions in accordance with the trust document
- File annual trust tax returns (Form 1041) and provide accountings to beneficiaries
- Keep meticulous records of all transactions
- Remain impartial between current beneficiaries and remainder beneficiaries
- Respond to beneficiary requests and disputes
- Potentially serve for decades - or the rest of their life

For a modestly complex trust, this is a part-time job. For a large, multi-asset, multi-beneficiary trust, it can be a significant ongoing burden. An individual trustee who wasn't expecting that reality can quickly become overwhelmed, inconsistent, or inadvertently liable.

Red Flag #1: Family Conflict Is Already Present - or Likely

This is the most common reason independent corporate trustees are brought in, and it's often underweighted at the time of trust formation because families prefer to believe conflict won't happen to them.

When one family member serves as trustee and others are beneficiaries, any distribution decision becomes personal. If the trustee gives one beneficiary more than another - even for legitimate, documented reasons - it can look like favoritism. Look for these signals:

- Blended families with children from multiple marriages
- Significant wealth disparity between beneficiaries
- A history of conflict over money, business interests, or prior inheritances
- A trustee and beneficiary who have a complicated relationship

An independent corporate trustee removes the family member from the line of fire. Distribution decisions become institutional and documented, not personal.

Red Flag #2: The Trust Has a Long Time Horizon

Dynasty trusts - trusts designed to last multiple generations - are built to outlive the people who set them up. That's the point. But an individual trustee cannot serve forever, and trustee succession in long-duration trusts is consistently one of the most overlooked planning issues.

Who succeeds the original trustee? What happens if the successor trustee predeceases the grantor? What if the successor trustee is incapacitated? These questions are often answered with optimistic assumptions rather than rigorous planning.

> ***The trustee that seemed like the right choice at trust formation may be completely wrong for the trust twenty years later. Institutional trustees provide continuity that individuals cannot.***

South Dakota's directed trust statutes make this particularly clean: the corporate trustee handles administration, the advisor manages the investments, and the trust can run for generations without disruption.

Red Flag #3: The Trust Holds Complex or Illiquid Assets

A trust holding a publicly traded stock portfolio is one thing. A trust holding an interest in a family limited partnership, a vacation property, a privately held business, or alternative investments is another.

When a client's trust includes any of the following, the case for a professional corporate trustee becomes substantially stronger:

- Business interests or closely held stock
- Real estate
- Private equity or hedge fund investments
- Life insurance policies
- Significant concentrated positions

These aren't administrative nuisances - they're potential liability traps for an unprepared individual trustee.

Red Flag #4: The Estate Is Large Enough to Attract Scrutiny

At larger trust sizes, the liability exposure for an individual trustee grows considerably. A family member serving as trustee on a large trust faces real personal liability if beneficiaries can demonstrate a breach of fiduciary duty - whether or not that was the intent.

Independent corporate trustees carry errors and omissions insurance, maintain rigorous documentation practices, and are subject to regulatory oversight as licensed trust companies. That professional infrastructure matters when the stakes are high.

How to Raise It: Conversation Starters That Don't Overstep

A few ways to open the conversation naturally:

If a client is in the planning stage: "Before we finalize the trust structure, I want to make sure we've thought through trustee succession. Who's serving as successor if [named trustee] isn't available?"

If a client already has a trust with an individual trustee: "I want to revisit the trustee setup on your trust. As the trust grows and your family situation evolves, it's worth making sure the current structure is still the right one."

If the estate attorney is in the room: "I've worked with South Dakota directed trust structures where Sterling Trustees handles administration and I continue managing the investments - that model works well for [client's] situation. Is that worth exploring?"

The Takeaway

Most trustee problems are entirely predictable - and entirely avoidable. Family conflict, succession gaps, complex assets, and high stakes are all visible at the time of trust formation. The question is whether anyone raises them.

As an advisor, you're often in the best position to see these patterns. Raising the issue of trustee selection isn't overstepping - it's part of doing the job well.

Ready to talk through a specific client situation?
Contact Antony Joffe or schedule a call here.

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Antony Joffe, Chairman | (605) 593-8950 | | sterlingtrustees.com