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What is a Revocable Living Trust?

A Revocable Living Trust is a legal document that allows the grantor (the person who creates the trust) to take personal assets and transfer ownership of them into the trust during his or her lifetime. While the trust technically owns the assets, the grantor can continue to use them as he or she normally would. The trust controls the assets during the grantor’s lifetime and distributes them to named beneficiaries after death.

Generally, it is a good idea to place as many assets as possible into the trust to maximize its benefits. However, certain assets, such as Individual Retirement Accounts, are not eligible for transfer into the Revocable Living Trust.

When a Revocable Living Trust is established, the grantor names a trustee to manage the assets in the trust during the grantor’s lifetime. Most grantors name themselves as trustee, giving them complete control over the trust’s assets. Typically, a successor trustee is also named to take over management of the trust and distribute trust assets after the grantor passes away. The grantor can specify when heirs will receive their inheritances from the trust. This can prevent an heir from squandering an inheritance if he or she is not yet mature enough to manage money on his or her own.

The benefits of a Revocable Living Trust include:

- The grantor can unilaterally make changes to the trust after it is set up.
- Avoiding probate, which can be an expensive, time-consuming, and frustrating process. In addition, heirs cannot receive their inheritances until the probate process has been completed, which can take many months or years. Probate is also a public process, so anyone can learn about the decedent’s debts, creditors, financial situation, and more.
- Protecting the grantor and the grantor’s family from a stressful and expensive guardianship proceeding to manage finances.
- Ensuring assets are managed according to the grantor’s wishes even after the grantor passes away.

It is important to note that Revocable Living Trusts must be properly “funded” to accomplish a client’s goals. Let’s take a closer look at trust funding.

What is “Trust Funding” and Why is it Essential?

What do we mean by the term “funding” a Revocable Living Trust? Essentially, it involves retitling your assets into the name of the trust, as well as making sure that the beneficiaries of any life insurance policies or retirement accounts coincide with the provisions of the trust. If you fail to fund your Revocable Living Trust, your estate plan won’t work as you intended.

The consequences of not properly funding your trust include:

- Assets held outside the trust cannot be managed by the trustee. For example, if you become mentally incapacitated, your loved ones may need to seek a court-supervised guardianship to manage the assets not held in the trust.
- Assets held outside the trust may be subject to probate, defeating one of the main benefits of creating the trust in the first place.
- Assets held outside the trust may not go to your beneficiaries as intended.

The bottom line is this: make sure your Revocable Living Trust is properly funded. Also, be sure to keep it up to date so that any changes in your personal and financial situation, together with those of your loved ones, can be taken into account. In this way you can be sure your Revocable Living Trust is helping you to accomplish all of your goals and maintain complete control over your affairs.

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