

How revocable living trusts work

A revocable living trust can be a useful estate planning tool, but it's important to understand how they work first. When it comes to estate planning, some people create wills and leave it at that. Others, however, establish trusts that offer certain benefits that wills simply cannot. A trust is an agreement that allows a third party, known as a trustee, to hold and manage assets for a designated beneficiary. Though there are different types of trusts, revocable living trusts are a popular estate planning tool because of their inherent flexibility. With a revocable living trust, you, as the benefactor, have complete control over your assets as long as you're alive. You can revoke or change the terms of your trust at will to ensure that your assets are available to you and disbursed to your beneficiaries as you see fit.

When you set up your trust (typically with the help of a lawyer), you can appoint yourself as its trustee, which gives you the authority to manage whatever assets you transfer to be covered under that trust. Such assets might include real estate, stocks, bonds, or even cash.

While you're alive, you can maintain control over those assets and reap any benefits from them as you see fit. You also get the right to amend the terms of your revocable living trust, or even terminate it altogether. Upon your passing, whoever you name in your trust document as your successor trustee will be responsible for managing the assets covered under the trust. That trustee must then disburse those assets as per your instructions.

Revocable trusts can be a useful legacy planning tool. In my next column I will discuss the benefits and drawbacks and also give you some tips so you can decide what makes sense for you.

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