

Should you keep your trust a secret?

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When planning their estates, many people agonize over the negative impact their wealth might have on their children. To address these concerns, some people establish quiet trusts, also known as silent trusts. In other words, they leave significant sums in trust for their children; they just don't tell them about it. An interesting approach, but is it effective?

A questionable strategy

Many states permit quiet trusts, but the risks associated with them may outweigh the potential benefits. For one thing, it's difficult — if not impossible — to keep your wealth a secret. Even if your children are unaware of the details of your estate plan, their expectations of a future inheritance can encourage the same irresponsible behavior the quiet trust was intended to avoid.

A quiet trust may also increase the risk of litigation. The trustee has a fiduciary duty to act in the beneficiaries' best interests. When your children become aware of the trust years or decades later, they'll likely seek an accounting from the trustee and, with the help of counsel, may challenge any past decisions of the trustee that they disagree with.

A better alternative

The idea behind a quiet trust is to avoid disincentives to responsible behavior. But it's not clear that such a trust will actually accomplish that goal. A better approach may be to design a trust that provides *incentives* to behave responsibly — sometimes referred to as an incentive trust. It provides an opportunity for you or the trustee to help shape the beneficiaries' future behavior.

With a quiet trust, you keep your beneficiaries' inheritance a secret and hope that, without the negative influence of future wealth, they will behave responsibly. With an incentive trust, on the other hand, you provide positive reinforcement by communicating the terms of the trust, letting beneficiaries know what they must do to receive their rewards, and providing them with the help they need to succeed.

Questions on the benefits of either of these trusts? We can provide the answers.

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