

It's a matter of principle — and trust — when using a principle trust

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For many, an important estate planning goal is to encourage their children or other heirs to lead responsible, productive lives. One tool for achieving this goal is a principle trust.

By providing your trustee with guiding values and principles (rather than the set of rigid rules found in an incentive trust), a principle trust may be an effective way to accomplish your objectives. However, not everyone will be comfortable trusting a trustee with the broad discretion a principle trust requires.

Discretion and flexibility offered

A principle trust guides the trustee's decisions by setting forth the principles and values you hope to instill in your beneficiaries. These principles and values may include virtually anything, from education and gainful employment to charitable endeavors and other "socially valuable" activities.

By providing the trustee with the discretion and flexibility to deal with each beneficiary and each situation on a case-by-case basis, it's more likely that the trust will reward behaviors that are consistent with your principles and discourage those that are not.

Suppose, for example, that you value a healthy lifestyle free of drug and alcohol abuse. An incentive trust might withhold distributions (beyond the bare necessities) from a beneficiary with a drug or alcohol problem, but this may do little to change the beneficiary's behavior. The trustee of a principle trust, on the other hand, is free to distribute funds to pay for a rehabilitation program or medical care.

At the same time, the trustee of a principle trust has the flexibility to withhold funds from a beneficiary who appears to meet your requirements “on paper,” but otherwise engages in behavior that violates your principles. Another advantage of a principle trust is that it gives the trustee the ability to withhold distributions from beneficiaries who neither need nor want the money, allowing the funds to continue growing and benefit future generations.

Not for everyone

Not everyone is comfortable providing a trustee with the broad discretion a principle trust requires. If it’s important for you to prescribe the specific conditions under which trust distributions will be made or withheld, an incentive trust may be appropriate. But keep in mind that even the most carefully drafted incentive trust can sometimes lead to unintended results, and the slightest ambiguity can invite disputes.

On the other hand, if you’re comfortable conferring greater power on your trustee, a principle trust can be one way to ensure that your wishes are carried out regardless of how your beneficiaries’ circumstances change in the future. We can help you decide which trust type might be more appropriate for your specific situation.

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