

# **Naming a trustee may be one of the most important decisions of your life**

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When it comes to estate planning, trusts are appealing for many reasons. They can enable you to hold and transfer assets for beneficiaries, avoid probate and reduce estate tax exposure. But they can be complicated to set up. One of the major decisions you'll need to make when establishing a trust is who will act as your trustee. As the name implies, this individual or financial institution must be above reproach. But that's just one quality of many that your trustee requires.

## **Both mundane and significant duties**

Trustees have significant legal responsibilities, primarily related to administering the trust for the benefit of beneficiaries according to the terms of the trust document. But the role can require many different types of tasks. For example, even if a tax expert is engaged to prepare tax returns, the trustee is responsible for ensuring that they're completed and filed correctly and on time.

One of the more challenging trustee duties is to accurately account for investments and distributions. When funds are distributed to cover a beneficiary's education expenses, for example, the trustee should record both the distribution and the expenses covered by it. Beneficiaries are allowed to request an accounting of the transactions at any time.

The trustee needs to invest assets within the trust reasonably, prudently and for the long-term benefit of beneficiaries. And trustees must avoid conflicts of interest — that is, they can't act for personal gain when managing the trust.

Finally, trustees must be impartial. They may need to decide between competing interests, while still acting within the terms of the trust document.

## **A tall order**

Several qualities help make someone an effective trustee, including:

- A solid understanding of tax and trust law;
- Investment management experience;
- Bookkeeping skills;
- Integrity and honesty; and
- The ability to work with all beneficiaries objectively and impartially.

And because some trusts continue for generations, trustees may need to be available for an extended period. For this reason, many people name a financial institution or professional advisor, rather than a friend or family member, as trustee.

Naming a friend or family member as a trustee may seem appealing because it appears to be a way to reduce or avoid the fees associated with an institutional trustee. But it's important to recognize that taking on the responsibilities of a trustee requires an investment of time, energy and expertise, and that trustees deserve compensation. Even if trust documents don't provide a fee for the trustee, many states allow for a "reasonable fee." Before engaging a trustee, make sure you understand what services are included in the fee. But it's generally not a good idea to try to avoid paying a trustee fee.

### **Consider all options**

Naming a trustee is an important decision, as this person or institution will be responsible for carrying out the terms outlined in the trust documents. We can help you weigh the options available to you.

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