Protecting wealth

How family trust companies compare to other trustee structures

INTERVIEWED BY ADAM BURROUGHS

Cindy L. Steeb, JD, MBA
Senior Managing Director
Clearstead Advisors, LLC

216.353.9594
csteeb@clearstead.com

WEBSITE: To learn more the Family Trust Company structure and whether it's right for you, connect with Cindy at www.clearstead.com/cindy-steeb.

Under the current lifetime gift tax exemption, in 2023 a person can make tax-free gifts of up to $12.92 million. At the end of 2025, that figure is expected to revert to the 2017 amount (indexed for inflation), which could cut the current lifetime exemption in half. Now may be the time for families to consider evaluating the wealth they plan to pass on to future generations.

"Within this window of opportunity, families could remove nearly $13 million in assets from their estates and put them in a trust tax free for the benefit of their spouse and future generations, with the goal of protecting the assets from estate taxes now and into the future," says Cindy L. Steeb, JD, MBA, Senior Managing Director of Clearstead.

Families who are setting up long-term trusts and want to control the family's wealth strategy now and into the future should consider setting up a family trust company (FTC). An FTC must be owned and controlled by family members and is designed to go on in perpetuity serving as trustee of family trusts.

Smart Business spoke with Steeb about the FTC structure as a means of protecting and controlling family wealth across multiple generations.

WHAT ARE OTHER COMMON TRUSTEE STRUCTURES?

An individual trustee is cost effective and typically knows the family well, so they understand the family dynamics. However, individual trustees can only oversee a family trust for so long, which is proving to be problematic as more trusts span multiple generations of beneficiaries. Individual trustees may also have limited expertise, and their close relationship to a family can make them vulnerable to persuasion, which can lead to decisions that cause disharmony within the family.

A corporate trustee can provide trustee services in perpetuity and has standardized policies, and procedures for handling trust administration. But they may not have intimate knowledge about the family and they can be expensive.

An FTC can provide the benefits of both individual and corporate trustees in states that have statutes authorizing them, such as Ohio. Because it is a corporate trustee, it can serve across multiple generations. Family members populate the board and the committees, and can bring trusted advisers and individuals into the corporate structure to serve alongside family members. The FTC establishes and follows its own policies and procedures, as well as sets and controls its own budget.

Different than an FTC, a family office can be set up in any jurisdiction to provide varying services to families such as taxes, accounting, investment, legal, etc. However, legal limitations in many states can prohibit them from providing trustee services.

WHO SHOULD USE AN FTC?

FTCs could be a fit for families engaged in multi-generational trust planning who need to select a trustee to oversee those assets for many years. They also may work for families that are looking to formalize a family governance structure, but they don't want to set up a family office.

This structure allows families to control their financial future. They can put shares of the family business into a trust, overseen by the FTC, which can remove the shares from the shareholders' estates for tax purposes, including any appreciation in that company into the future, all while keeping control of the shareholder decisions with the family.

FTC setup should start by engaging an experienced consultant, who can then work with service professionals — lawyers, accountants — who might not have direct experience creating FTCs, to guide them through the process.

The goal of the FTC structure is to allow families to control the future of their family's wealth for generations while bringing their family together at the same table. Families today can shield $12.92 million in generational wealth. Those doing multi-generational planning should consider leveraging this opportunity now and protecting a family's legacy far into the future. ●

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