What your Financial Planner needs to know about an IPUG™ Trust

Most financial planners are unfamiliar with some of the modern twists available with irrevocable trusts. They tend to be familiar with the older style of irrevocable trust that can pose several problems for those who use them. These problems include:

1. Loss of control over the management of the assets;
2. A separate EIN number for tax reporting purposes;
3. A larger tax bills because of the way traditional irrevocable trusts are taxed;
4. A loss of the step up in basis available to assets owned by an individual upon the death of the settlor; and
5. The inability to change provisions or beneficiaries in the future.

The irrevocable trust, you have chosen does not suffer from any of the traditional problems discussed above. It is an Irrevocable Pure Grantor trust, and can have many of the advantages that are traditionally only found with a revocable trust. Some may ask, why should we use an irrevocable trust instead of a revocable trust. Here is a summary of the reasons that the irrevocable trust is superior to the revocable trust and does not pose the problems that a traditional irrevocable trust presents:

1. This is a grantor trust that you create and are in control. No beneficiary ever has a right to demand a distribution of income or principal during your life.
2. The trust provides asset protection from future liability like car accidents, professional or personal negligence, and even can be structured to provide protection from Medicaid ineligibility.
3. The trust is a disregarded entity for tax purposes and uses your social security number. This means you are taxed as if you owned the assets yourself.
4. The trust does not remove assets from your estate so your beneficiaries receive a full step up in basis upon your death, just like with personally owned assets or those in a revocable trust.
5. The assets in this trust are protected from the surviving spouse's future marriage in much the same way that a prenuptial agreement would protect the assets.
6. The assets are protected from an elective share claim in the future.
7. You can change the beneficiary at any time without risking loss of the assets to creditors.
8. The trust has special provisions to protect inherited IRAs from the claims of creditors. (A recent Supreme Court case held that inherited IRAs are not protected from creditors)
9. All assets that can be transferred to a revocable trust can be transferred to an irrevocable trust without penalties or termination.

10. The irrevocable trust can contain trust protectors that enable changes to the documents if the laws change in the future, in much the same way as one would have with a revocable trust. Changes can be made even after the death of the first spouse. As you can see there are some major advantages to using an irrevocable trust instead of or in conjunction with a revocable living trust. These should permit financial planners to have greater flexibility with investing their clients' funds without the risk of loss to creditors or the severe investment limitations that are necessary to offer a reduced level of protection to their clients through annuities and life insurance options.

The irrevocable trust is a great tool for estate planning, asset protection, protecting from risks of loss from the surviving spouse and the risks of loss from the eventual beneficiaries. Given all the advantages to the irrevocable trust over a revocable trust, financial planners should embrace this powerful modern twist to traditional estate planning without fear of the restrictions on a traditional irrevocable trust.