Revocable Living Trusts

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A revocable living trust is an estate planning tool. It does not affect your income taxes nor give you any asset protection benefit (aside from making it slightly harder to figure out what you own.) Some types of revocable trusts do help you to reduce the estate tax burden, if it applies. The primary reason for a revocable trust is to avoid the cost, hassle, and loss of privacy entailed by the probate process.

There are three people involved in a trust. First is the settlor/trustor/grantor. This is you, the person who creates and funds the trust. Second is the trustee. This is the person who holds title to the trust property and manages its affairs. This is generally you until you die, then someone you appoint in the trust documents. Third is the beneficiary. This is the person who will receive the principal and income from the trust. It can be you until your death, but is often a spouse, children, or a charity.

The nice thing about being the trustee of your own revocable trust is that it is all reversible, at least until the time of your death. So if you change your mind, and want to take something out of the trust, no problema. An irrevocable trust, which doesn’t allow you to do this, does provide for some additional estate tax benefits as well as a great deal of asset protection benefits. Of course, that comes with a significant loss of control over the assets.

If you have a will, and no trust, many of your assets will have to go through the probate process. This can cost thousands of dollars, require months or even years of time, and make your assets publicly known. Under some circumstances and in some states the probate process can be abbreviated.

Setting up a trust will cost more than a will no doubt, but for a typical physician, will likely cost less in the end. It can be done by yourself using online resources for as little as $100, but will probably cost $1500-3000 for an estate planning attorney to ensure it is done correctly. Even if you have a trust, you should still have a will (AKA a "pour-over will). This basically says that anything not put in the trust will be put in there at the time of death. You will also need a will to nominate a guardian for your kids.

There is no benefit to putting some assets into your trust. Life insurance, annuities, 401Ks, and IRAs don't have to go through the probate process anyway, since you designate a beneficiary when you set them up. Bank and brokerage accounts can also have a "payable on death" option that keeps them from having to go through probate. Real estate generally has to go through probate, however, so many people will own their home and/or investment properties through a trust. This is particularly useful in complicated families where you don't necessarily want all of your assets to go to your spouse. You can still deduct the mortgage interest from your home even if you own it in a revocable trust.

A surprising number of people form trusts but then never fund them. You generally have to retitle property for it to be in the trust. There is generally some hassle and fees associated with retitling assets.

Most doctors should form a revocable living trust at some point in their life. It doesn't need to be done the week you walk out of residency, but as you accumulate assets without a designated beneficiary and begin doing estate planning, you need to establish one as part of your estate plan. Other than a will (needed as soon as you have children even if you're dirt poor) and designating appropriate beneficiaries on retirement and life insurance accounts, it is the most important estate planning step to take.