



LM Federal Credit Union

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**Wealth Management &
Financial Planning Services**

What is a living trust?



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A living trust is a popular estate planning tool that lets you (1) retain control over the trust property while you are alive, (2) avoid guardianship in case you become incapacitated and can no longer handle your own financial affairs, and (3) pass trust property outside of probate when you die.

Legally, a living trust is a separate entity that you create while you are living to "own" property, such as a house, boat, jewelry, or mutual funds. The trust is revocable, which means that you can make changes to it, or even end it, at any time. For example, you may want to remove certain property from the trust or change the beneficiaries. Or you may decide not to use the trust anymore because it no longer meets your needs. A living trust gives you the flexibility to do any of these things.

However, you do pay a price for this flexibility. A living trust does not avoid estate or income taxes, nor does it protect your assets from potential creditors.

A big advantage of the living trust is that it allows a successor trustee to automatically take your place and manage the trust assets if you become incapacitated. For example, you have an accident and are in a coma for six months. Your successor trustee can take your place and manage the trust while you are unable to do so. That way, your affairs continue as usual, and you should suffer no financial setback.

In addition, assets in the living trust do not pass through your will when you die. Instead, the assets in the trust are distributed by the trustee according to the terms you establish in the trust. Also, the assets in the trust are not part of your probate estate. This may get them into the hands of your beneficiaries faster or, if you desire, provide that the assets be held until the beneficiaries meet certain criteria or attain a certain age. Finally, since the trust is not subject to probate, the terms of the trust are private.

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