NORTHSTAR
FINANCIAL PLANNERS INC.

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FINANCIAL PLANNING NOTES
CLIENT NEWSLETTER

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WHO'S YOUR SUCCESSOR TRUSTEE?

A wonderful tool to help you and your family achieve some of your most important financial goals is a revocable trust. Once you've decided that a revocable trust makes sense for you, it doesn't take long to realize that one of the key components to the trust's success is deciding who will be the trustee. And perhaps more importantly, who will be the *successor* trustee.

For most folks, the choice of initial trustee is obvious and easy. They're creating their own trust, putting their own assets into it, which they've controlled their whole lives. So, rightly so, the natural first pick for the initial trustee is most often themselves—the creator and grantor of the trust.

But problems tend to arise when deciding who their successor will be to replace them when they are no longer able or gone.

Many of us look at this important role and evaluate who we know or who in our family is the person or persons we believe will take on this role well. Ironically, while making this decision, many of us have never been in this role ourselves. We really don't have a good concept of what is involved in being a trustee.

After many years of experiencing trusts in action, I believe many folks end up short-changing the potential of their trust by limiting their successor trustee choices to family members or close friends. Selecting a family member as a *sole* successor trustee or even multiple family members as joint trustees can raise some serious questions, including:

- **What if the family trustee makes a mistake?** Most likely, they won't have any sort of fiduciary or trustee insurance coverage to take care of what has the potential to be a very expensive error. A mistake by an inexperienced trustee could cost thousands of dollars and reduce what the trust beneficiaries receive.
- **What if the family member trustee is subject to significant emotional stress when the family goes through difficult times?** Even the tightest, most stable families can have discord and tensions that could affect the trustee's performance.
- **Will the family member remain unbiased and impartial?** This can be very hard for a family member going through different life stages or after the loss of a loved one.
- **What if the individual trustee doesn't always have the time, energy, expertise, good health, or resources to fully administer a trust?** They might be forced to hire expensive outside managers and administrators to handle things beyond their capability.
- **Who's overseeing the family trustee?** An individual trustee is not monitored by any independent or governmental entity. There's no requirement to keep detailed records.

One viable solution to all those concerns is to use a corporate trustee who operates as a "directed trustee," allowing the grantor or the beneficiaries to use their preferred financial advisor to handle the investment management of assets in the trust.

Using a directed trustee eliminates the conflict of interest that can exist when a trustee also manages the assets of the trust. This allows the financial advisory firm to add an additional layer of safeguards to trust accounts by overseeing invested assets and account activity.

If an objective of the trust is to have a family member maintain a role in trust management, appointing a corporate trustee to serve jointly and alongside the family member may be a good solution. This allows a means for family input, while the corporate co-trustee provides technical expertise.

No matter what your goals are, you want your trust to have the stability, expertise, unbiased support, and consistency your family deserves. Who you select as your successor trustee will have a lot to do with whether you achieve those objectives.

—Allen P. Giese

529 PLANS: HOW YOU CAN USE THEM FOR MORE THAN JUST TUITION

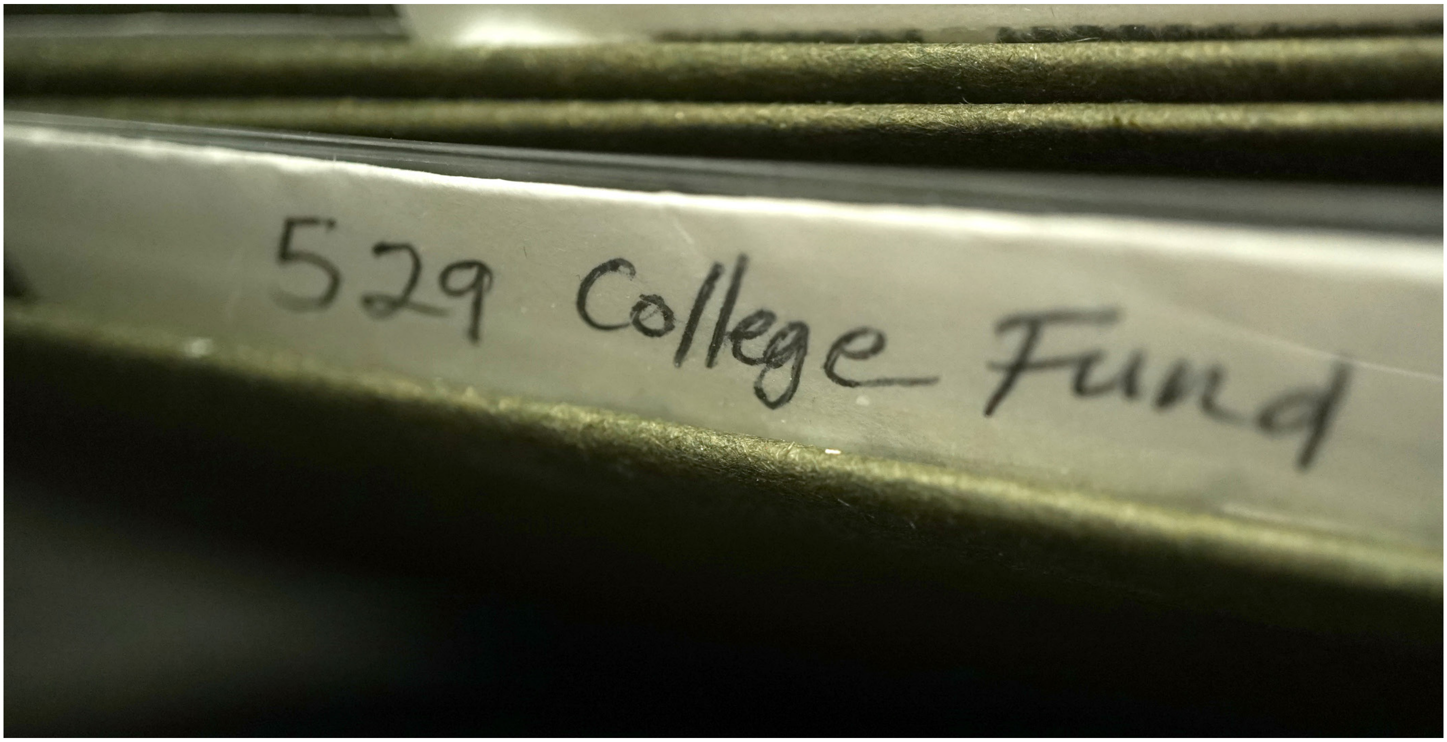
The 529 savings plan is a great way to save money toward your child's college tuition. But did you know you can do more with your 529 plan? Read this article to learn about the 529 plan's tax benefits and how the account can help beyond tuition.

What a 529 Account Is

A 529 plan is a tax-advantaged account traditionally used to save for your child's higher-education tuition. The federal government won't tax account earnings, and withdrawals are tax-free when used for eligible expenses. Some states offer tax deductions, although our state of Florida doesn't since we don't have a state income tax.

The states administer 529 plans, and there are two types of 529 accounts. With the first type, the prepaid tuition plan, you buy credits at current prices for future tuition at a participating college or university.

The second type, the education savings plan, is an investment account that allows you to save for your beneficiary's education costs at any eligible college or university—meaning you don't have to know in advance where your kid will go.



We cover the savings plan in this article.

What You Can Do with a 529 Savings Plan

Your 529 plan beneficiary isn't limited to college tuition. They can also use it for **college expenses** such as:

- Fees
- Books and supplies
- Room and board
- Computer technology and equipment
- Internet service

Your child can also use the 529 account to pay for an **eligible vocational school, community college, graduate program, or apprenticeship.** To find out if a program is eligible, contact the admissions office or use the U.S. Department of Education's accreditation search at https://ope.ed.gov/dapip/#/home.

You don't have to wait until college to use the 529 plan. As of 2019, you can make plan distributions to pay for **K-12 tuition and fees**. You can withdraw up to $10,000 each year per beneficiary for public, private, or religious school expenses.

However, this may not be the best move if you live in a state like Florida, which doesn't provide a tax deduction for 529 plan contributions. You might find greater value in allowing your 529 account earnings to compound over time for your beneficiary's higher-education years. Talk to your financial advisor or tax professional to determine the right strategy for you.

Once your child has graduated from college, the 529 account can help them with **debt payoff**. Each beneficiary can use up to $10,000 for education loan payoff over their lifetime.

Finally, you can roll over the 529 plan balance into an **ABLE account**, which may serve your child better if they have a disability. ABLE stands for "Achieving a Better Life Experience," and ABLE plans allow you to contribute money toward disability-related expenses, including education costs.

What happens if your child doesn't go to college or if you have money left over after they graduate? A great feature of 529 plans is the ability to change beneficiaries. You can name a new beneficiary in your family if your original beneficiary doesn't need the money—you can even name yourself!

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You can also withdraw the money for non-education expenses, but you will be subject to federal income taxes and a 10% penalty on your earnings. Your state might levy taxes/penalties as well.

Before you make a non-qualified withdrawal, we recommend you speak to us or a tax professional to understand the potential tax impact.

Final Thoughts

The 529 savings plan is a flexible way to help pay for your child's education and related expenses. You can make withdrawals for a broad array of uses, including your child's K-12 years. And given the federal government's broad definition of family, you can help other family members, including yourself, secure the education and training needed for lifetime success.