



A trust representative office of National Advisors Trust Company, FSB

Monthly Update for Administration of Trusts from a Trust Administrator's Perspective.

It is our hope that our Monthly Update will be helpful to you and your clients to better understand the administration of trusts from a Trustee's viewpoint.

March, 2016

PROVIDING INCENTIVES TO YOUR CHILDREN

As a parent, you want the best for your children. You want them to become responsible, hardworking, well-educated adults. At the same time, you may worry that the assets you intend to pass on to your children may somehow spoil them and act as a disincentive to their reaching their full potential.

The good news is that parents who want to distribute wealth to their children in a responsible, yet structured way can do so while instilling positive values by establishing a family Incentive Trust.

MISPERCEPTIONS

Sometimes children, although of adult age, are not mature enough to realize that assets held in Trust for their benefit were intended by the parents to supplement the child's income, and not fully support the child. Regrettably, it is not uncommon for adult children to attempt to live solely on distributions from the Trust, which results in the Trust funds being completely exhausted in a short period of time, leaving the child with no future distributions and the unpleasant reality of having to fully support himself or herself, solely on his or her own earned income.

WHAT IS AN "INCENTIVE TRUST"

An Incentive Trust is a Trust that contains unique terms regarding how often and under what specific circumstances distributions should occur, and how much the

distributions should be. The Trust terms can include requiring your children to achieve various goals -- or refrain from certain activities -- before they can receive distributions.

WHAT CAN AN INCENTIVE TRUST ACCOMPLISH?

An Incentive Trust can reinforce your values and allow you to exercise a degree of control you wouldn't have otherwise had if your assets are distributed to your children outright.

For an Incentive Trust to be effective, you should set reasonably-attainable goals.

"POSITIVE" INCENTIVES

You can include terms in your Trust to fit your specific family's needs and personal objectives. Examples include rewarding your children with distributions upon such child attaining a certain grade point average, earning an undergraduate degree, a post-graduate degree, etc. It is not uncommon for parents to include terms that in some manner or another adjust the amount of distributions to your children based upon the child's income earned from gainful employment.

"NEGATIVE" INCENTIVES

While an Incentive Trust always contains positive incentives, and encourages the children to be good stewards of their inheritance, including terms that would discourage self-destructive behavior, such as the use of illegal drugs, excessive alcohol

consumption and gambling habits can also help the children to develop into a responsible adult.

SUMMARY

An Incentive Trust will help encourage children to be self-supporting, and discourage children from developing a thought process of wanting to become a "Trust Fund Baby", relying solely on distributions from the Trust as your child's only or primary source of income.

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WealthTrust Oklahoma is the Oklahoma Trust representative office of National Advisors Trust Company, FSB, which currently has more than \$9 billion under administration. We hold a federal charter and are independent.