

NORTHWEST TRUSTEE & MANAGEMENT *Services*

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by Stephen Trefts, President

REFLECTIONS—

As we look forward to the renewal of spring, we also reflect on the past year and are grateful for significant growth in our business in 2003. Among the highlights were over a dozen new trusts, each one with unique characteristics and personalities.

THE 'HEALTH' TRUST

Generally known as a special needs trust, these trusts are established to provide supplemental needs above what is covered by other benefits. A recent trust was established by a mother for her son who was facing significant health challenges, including a recent heart transplant. Her foresight in providing a special needs trust enables him to qualify for state and federal benefits to meet his basic needs, thus allowing her funds to be used to enhance his quality of life and care.

THE EDUCATIONAL TRUST

Carefully written in a manner that will encourage successful college completion, two educational trusts were established by the court to provide educational assistance for minor children. This type of trust is also often established by family members, particularly grandparents, for the education of future generations. It is a pleasure to see the results of these trusts as young people complete their education and begin productive lives without the huge burden of educational loans.

THE 'HAVE YOUR CAKE AND EAT IT TOO' TRUST

Two charitable trusts were established by individuals who exchanged their low basis assets for an income for their lives, after which the balance will go to several charities of their choice. We manage many charitable trusts. There are several benefits to this type of planning that include: professional management, increased income and estate

tax benefits, and the present satisfaction of making a future gift.

THE ENDOWMENT FUND

Many years ago, we worked with a generous parishioner and her professional advisors to establish an endowment in her will for her church. She passed away this year, but her legacy lives on as we provide funds for scholarships, missions, and a matching grant program for the church.

FAMILY ISSUES

Often a trust is established for the benefit of family members who, for reasons of mental incapacity, chemical or alcohol dependency, or inability to handle finances, are deemed unsuitable to manage their affairs. Each year we receive a number of these trusts, and this year was no exception. Another unfortunate, but common situation, is a

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by Sandy Calbreath, Trust Officer

THE BEST OF BOTH WORLDS—

NEW LAW GIVES TRUSTEE
POWER TO ADJUST BETWEEN
PRINCIPAL AND INCOME

THE SCENARIO

Michael Brown, an unmarried man, wanted to leave his estate to his brother's children and his favorite charity. However, he was concerned that his widowed sister, Mildred, might not have enough income for the remaining years of her life. He resolved his problem by establishing a testamentary trust through his will.

After his lifetime, Michael's estate was placed into a trust which would pay Mildred the net income from his

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THE BEST OF BOTH, continued —

assets for her lifetime. After her death, the assets would then be divided between his nephews and the charity. It was a good plan.

THE DILEMMA

The trustee had an obligation to invest the trust assets prudently in a balanced and diversified portfolio which would benefit both the income beneficiary now and the remainder beneficiaries later. Even though the long-term advantage to Mildred of a growth-oriented portfolio could be an increasing income stream as the assets grew, her income would be limited to dividends and interest and she would not receive income from capital appreciation.

Unconcerned about the future value of the trust, Mildred desired maximum income to meet her present needs. Therefore, she wanted the portfolio invested solely in income-producing assets. Obviously, her nephews and the charity did not share that point of view; they wanted the assets to increase in value. Conflicting needs of beneficiaries are a common dilemma faced by trustees.

THE SOLUTION

In 2002, the state of Washington passed legislation which afforded the trustee a solution to the dilemma. Under certain circumstances, the trustee can now

invest the assets in a balanced and diversified portfolio, and by adjusting income and principal, can pay the net income beneficiary income comparable to a fixed income portfolio.

There are many rules governing the application of the new law, but the bottom line is that the trustee can now invest trust assets for total return, that is, growth *and* income, and may still provide the maximum allowable income to the trust beneficiary. This is good news for the income and remainder beneficiaries of net income trusts, and for trustees who are charged with protecting their opposing interests.

REFLECTIONS, continued —

lack of trust between family members when one of them serves as trustee. This often results in accusations and dissension among the parties. In several instances, family members or close friends resigned as trustee in favor of Northwest Trustee & Management Services, an unbiased professional trustee.

In order to efficiently manage these trusts, we invested in new computers and software enhancement. Additionally, we promoted two of our staff members to trust officer status. They have 20 years of combined experience with Northwest Trustee & Management Services. Finally, we encourage our staff to continue the educational process, and to that end I personally completed 27 hours of continued legal training for trusts and guardianships.

These new guardianship and trust relationships are examples of the life issues in which we are involved. We are honored to serve and thank the Lord for His guidance and provision.



EMILY'S ANNIVERSARY—

Emily Davis recently completed her first year as Office Assistant for Northwest Trustee & Management Services. Emily's organizational skills and strong work ethic make her an invaluable addition to our staff. Dividing her energy between work and college, Emily still has time to enjoy reading, playing her flute and volunteering at her church. The Spokane Falls Community College student is concentrating on a business curriculum with a minor in music. Naturally creative and friendly, Emily enjoys the challenge of learning about the trust business and providing clerical assistance for the staff who appreciate her conscientious attention to details.



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