

NORTHWEST TRUSTEE & MANAGEMENT *Services*

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by Stephen Trefts, President

A YEAR OF REWARDS & CHALLENGES—

Last year presented unique opportunities and challenges to the firm. Our major challenge was the revision of our proprietary trust administration software and conversion to a web-based program. We completed most of the conversion by year-end, which was a major victory. While this was a

time consuming effort, we had a very successful year, which included the addition of more than \$6.7 million in new trusts and other agreements. From a personal perspective, it has been extremely gratifying to receive recommendations from the many estate planning attorneys and financial advisors who trust us to care for their clients.

We take seriously the confidence placed in us and feel honored to assist people who often have major challenges in their lives. Following are examples from our new trusts of the diverse nature of our responsibilities:

ESTATES

We are acting as the personal representative for two individuals who passed away last year. This entails gathering assets, paying taxes, fees and costs and eventually distributing the estate to heirs through the probate process. Our duties also include safeguarding residences and sorting through personal effects, obtaining appraisals for high value assets, selling estate assets through private, estate and/or real property sales, and distributing personal property and assets to heirs who are frequently located in other geographic areas. Our services as an impartial third party personal representative are particularly useful when there is the potential for family conflict.

GENERATIONAL PLANNING

A local college asked us to assist with an elderly donor who resides in another state. His estate planning goals were:

- ♦ To provide estate management for himself should he become incapacitated
- ♦ To eventually support a disabled son through a “special needs” trust which would allow the son to receive supplemental financial assistance while retaining his state and federal benefits
- ♦ To ultimately create endowed scholarship funds at his favorite educational institutions to assist future generations of students

It was a pleasure to work with his attorney to create instruments that would accomplish these goals and an honor to be named as trustee.

THE “LINE OF CREDIT” TRUST

For many years, we provided a safety net as alternate trustee for a couple who had a living trust. When they experienced health concerns, we were called into service. The trust contained cash, securities and real estate (both residential and commercial). However, what made the trust unique was the couple’s desire to continue to make business loans to their son. This involved creating a segregated fund for a line of credit for the son’s business within the trust assets.

THE “HIGH TOUCH” TRUST

When a young family relocated to the Inland Empire from another state, they sought a local trustee who would be more responsive to their needs than their former bank. The trust was established from the proceeds of a medical malpractice lawsuit for permanent birth injuries sustained by their young son. As newcomers to the area, they had many needs. To assist them, we are working with government agencies to obtain benefits and have engaged a medical expert to develop a care plan. Moreover, we are helping the family relocate to a home closer to medical providers and locate specialized educational programs.

In summary, it has been a rewarding year. We appreciate the opportunity to serve the individuals who require personalized and specific care to meet their diverse and unique life needs.



by Sandy Calbreath, Trust Officer

THE IRA STRETCH—

An elderly widower, whom we will call Joe Smith, wanted to provide for his disabled son through his estate and eventually provide for charities. Since his major assets were an Individual Retirement Account (IRA) and a tax-deferred annuity, Joe’s plan for the IRA and the annuity was to make monthly

payments to his son after Joe’s death. There were several drawbacks to his plan:

- ♦ There would be a substantial income tax liability upon Joe’s death.
- ♦ The monthly income from Joe’s IRA and tax-deferred annuity would disqualify the son from receiving state and federal disability benefits.
- ♦ There was no provision for charity after the son’s lifetime.

In order to resolve these problems we worked with Joe’s attorney and CPA to create a better plan. The attorney drafted a charitable remainder trust (CRT) which Joe then designated as the beneficiary of his IRA and tax-deferred annuity. A “special needs” trust for the son was created to provide for his supplemental needs over and above federal and state disability benefits.

After Joe’s lifetime, the CRT will pay a fixed percentage of the trust assets into the special needs trust for the son’s lifetime. Since the special needs trust allows the trustee to make discretionary payments that are supplemental to state and federal aid

and are not meant for the son’s basic support requirements, payments for the son’s benefit from the special needs trust will not disqualify him from receiving disability benefits.

After the son’s life, the balance in the special needs trust will repay the state for the son’s unreimbursed medical costs. The balance of the CRT will go to the charities that were close to Joe’s heart. To summarize, the benefits of this plan are:

- ♦ Joe’s estate will save over \$100,000.00 in income taxes.
- ♦ The son will continue to receive state and federal disability benefits.
- ♦ The son will have professional asset management and assistance with his personal care.
- ♦ The charities will ultimately receive a sizable endowment.

Individual Retirement Accounts now comprise a significant asset in most people’s estates because the government allows them to accumulate on a tax-deferred basis. Naturally, when funds are withdrawn, either during retirement or due to death, the taxes must be paid. If one is in a high income tax and high federal estate tax bracket, it is possible that 80% of a retirement account could be lost to taxes. Therefore, the coupling of an IRA with a CRT could provide a significant tax shelter. The IRS encourages this form of planning because it promotes support of charitable causes by the private sector.

As discussed above, special care must be taken when an individual is disabled and receiving state and federal benefits since outside income could cause him or her to lose those benefits. We were pleased to be part of the solution for Joe and his family in this creative and tax-wise solution to a difficult situation.

HAIL AND FAREWELL—

Trust Officer Sharon Carter has left Northwest Trustee & Management Services to embark on a new career as a mom. She will be missed for her technology expertise, compassionate trust administration, and her willingness to assist others.

This fall, Jaime Morrison and Lisa Trefts joined the staff as part-time Trust Assistants. Jaime returned to the company after a 5-year hiatus during which she started her family. Her willingness to take on a wide variety of tasks and her attention to detail make her uniquely qualified for her new position.



Jaime Morrison and Lisa Trefts

Lisa Trefts, also a former employee, returned to the company after obtaining her business degree at George Fox

University and extensive international travel. Currently studying for a Masters of International Management at Whitworth College, Lisa enjoys the challenges of working in the area of trust and asset management.



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