

INCENTIVES – The Holistic Estate Planner

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What Is an Incentive Trust

Incentive trusts are becoming a very popular tool for encouraging children (or other beneficiaries), addressing behaviors, or promoting a general family philosophy. The incentive for “good behavior” is often a financial reward. If the beneficiary exhibits the desired behavior, he or she typically receives more outright distributions in the trust document. This type of trust creation also is designed to prevent “trust fund baby” syndrome.

Typically, a family will start with a family philosophy outlined in the trust itself. This family statement can be general or specific as it is typically written by the grantors themselves. Warren Buffet said it well, the perfect inheritance is “enough money so that they feel that they could do anything, but not so much that they could do nothing.” In the perfect inheritance, anything over that amount would be given to charity or other beneficiaries.

For most clients, they want their beneficiaries to still be involved in productive employment. How do you draft this into a trust document? Very carefully. There are many considerations. What if the beneficiary is still in school? Disabled? Stay at home parent? A caregiver? Predicting the future is impossible and is typically more difficult to administer if not drafted correctly. Therefore, if this type of incentive trust is used, the Trustee would need *broad* powers to investigate circumstances of the beneficiary and require objective proof thereof.