



THE
NORTHERN TRUST
INSTITUTE

MODERN TRUST SERIES

NAVIGATING TRUSTEE SELECTION



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A FRAMEWORK FOR SELECTING THE BEST FIDUCIARY OPTIONS
FOR YOU AND YOUR BENEFICIARIES

Ultimately, how well your wealth transfer plan fulfills your legacy and meets the needs of the next – and future – generations depends on whom you name as your trustee(s). This makes your selection one of the most critical aspects of an already complex wealth transfer planning process.

WHERE TO BEGIN

To help you navigate this selection process, we created the following framework for understanding your specific needs and selection criteria across three core fiduciary capabilities. Since every family's situation is unique, evaluating candidates in this way will help you select the right trustee(s) for carrying out your vision for your family and legacy.

THE THREE KEY COMPONENTS OF A TRUSTEE EVALUATION

01 COMPETENCY

02 CONTINUITY

03 COMPLEXITY



COMPETENCY

IDENTIFYING THE RIGHT SKILLSET

Identification of trustees with the right mix of expertise and compassion to manage your wealth is fundamental to the success of your wealth transfer plan. You will want to select someone who can effectively communicate with your beneficiaries and provide the stewardship needed to address their needs and concerns in a fair and balanced manner ... all while fulfilling your intentions.

Answering the following set of questions as they pertain to your specific situation can help you narrow the field of potential trustee candidates for further consideration.

ASSESSING ABILITY TO SERVE YOUR FAMILY'S UNIQUE NEEDS

- Are your family dynamics complex? For example, are there multiple marriages, children from different marriages, premarital, cohabitation or co-parenting factors that will need to be accommodated?
- Among the family members or advisors you are considering to serve as trustees, are there individuals who understand the careful balance between providing information to beneficiaries and maintaining confidentiality among the beneficiaries?
- Are you concerned there may be conflict within your family that your trustee will need to resolve as an objective, neutral participant?
- Do you have concerns about sharing information regarding your wealth with younger family members?
- Do you need a trustee who can provide family education to the next generation?
- Do you need a trustee who can work with you on a philanthropic plan?
- Does your trustee understand the distribution standard in your trust and are they prepared to handle unusual requests for trust distributions or to decline requests that do not meet the standard in the trust?
- Is your trustee equipped to handle broad discretion to make distributions to address the evolving needs of beneficiaries? If so, do you expect your trustee to first investigate changes to financial status, behavior, employment, family situations, etc. before distributions can be made? Will your trustee be comfortable asking for this information?

JUDGMENT CALLS

The duties of a trustee include acting in accordance with your intentions as expressed in your trust in a consistent and impartial manner over time and as your family's circumstances evolve. As you consider your alternatives, make sure to assess how flexible and fair each would be in meeting the needs of current and future generations.



CONTINUITY

EVEN A WEALTH TRANSFER PLAN NEEDS A SUCCESSION PLAN

Wealth plans can range from simple and straightforward – like those involving the outright distribution of all assets upon your death – to long-term trusts intended to benefit multiple generations and designed to minimize estate and generation-skipping transfer taxes. If your intention is to establish a wealth plan to benefit your children and grandchildren, a trustee succession plan is essential. Even if your plan is shorter in duration, with distributions to children at specified ages, there is a real possibility that one or more of your named trustees or advisors will be unable to serve at some point. Planning for these contingencies requires careful evaluation of your family dynamics and assets.

PLANNING FOR FUTURE GENERATIONS

- If you are establishing a “Dynasty” or long-term trust, who will be available to serve as trustee after the current trustees are no longer serving?
- Before deciding to name a single competent party as your trustee, have you considered that doing so could introduce “key person” risk to your plan?
- Have you mapped out a succession plan for trustees of multi-generational trusts?
- Even if you have an individual trustee, do you want to have a corporate trustee to provide consistency and continuity over the long term?
- Is your trustee comfortable with their fiduciary duty to distribute funds to your beneficiaries in an impartial manner including consideration of the future needs of your beneficiaries?
- Are you worried that your individual trustees might favor one or more beneficiaries over other beneficiaries over the long term?

SKILL PLUS THE WILL

When defining the set of competencies your wealth plan requires, bear in mind that the corollary to “skill” is “will.” While having capable and skilled family members, friends or close advisors serve as your fiduciaries is an option, consider whether they are willing and able to serve in this demanding role especially in light of the liabilities they may assume by doing so.

COMPLEXITY

UNDERSTANDING THE LAYERS OF WEALTH MANAGEMENT AND HOW TO ADDRESS THEM

Two different, but interrelated, factors – family dynamics and your investment portfolio – must be assessed to understand the true complexity of your wealth transfer goals and trustee designations.

FOCUSING ON FAMILY DYNAMICS

- How do you define family? Families have evolved significantly over the last decade; more young adults are choosing not to marry or co-parent children. Your children or grandchildren may now have more than two parents; the concept of “de facto” parents (stepparents) is gaining legal and social recognition.
- Is there inherent family conflict or existing expectations regarding the family wealth?
- Are family expectations realistic in light of your wealth plan?

FOCUSING ON YOUR PORTFOLIO

- Is your wealth concentrated in a certain asset class (for example, alternative investments) or single stock (for example, employer stock, inherited assets)?
- Do you want to explore contemporary investment options such as socially responsible and environmental, social, and governance (“ESG”) investing?
- Have you engaged in sophisticated tax planning with multiple investment entities or partnerships?
- Do you have foreign assets or structures?
- Will you or your advisors direct investments?

FOCUSING ON YOUR PORTFOLIO (CONTINUED)

- Do you anticipate that you will need a succession plan for your closely held business interests, real estate, farmland or oil, gas or mineral interests?
- Do you work with an investment consultant?
- Do you need an administrative trustee, with responsibilities limited to administrative functions (for example, reporting) not including investment management nor distribution decisions?
- Do you have or plan to establish trusts that require the knowledge and ability to serve in jurisdictions with flexible laws and tax advantages?

FOCUSING ON THE INTERSECTION OF FAMILY AND PORTFOLIO INTERESTS

- Does your trustee have the time and expertise to enhance the value of trust assets for the benefit of beneficiaries?
- A trustee's investment and distribution decisions must be documented; is your trustee prepared to undertake the required documentation?
- Beneficiaries have a right to receive information about the trustee's actions; does your trustee have the time and skill to provide recurring formal reports on asset values, trust expenses, investment transactions and distributions to beneficiaries?
- Is your trustee prepared to say no to beneficiary requests for changes to investment management that would violate the trustee's fiduciary duties?

MORE THAN A TRUSTED FRIEND, AN EXPERT

Wealth is created in many different ways and the composition of balance sheets reflects this diversity. Who among your family and trusted advisors has the in-depth knowledge of your business and investments, including concentrations of employer stock, real estate, private investments and the time to oversee your portfolio?

THE RIGHT TRUSTEE ARRANGEMENT FOR YOU

After working through the considerations and needs specific to your intentions, you may want to consider a blended solution – naming multiple co-trustees. This may take the form of appointing an individual family member or close family friend along with a corporate fiduciary.

CONSIDERING A HYBRID APPROACH

- Do you need a spectrum of trustee services: directed trustee, co-trustee and traditional trustee?
- Do you or your family have access to a Private Trust Company?
- Have you identified existing or potential conflicts among family members or advisors who are currently named in your wealth plan?
- Would it be advantageous to leverage a corporate trustee for difficult conversations and to help facilitate decision-making?
- Do your family members or advisors have concerns about potential liability for serving as trustee?
- Can you unbundle fees to allow for multiple trustees with specific responsibilities?

By taking a team approach to naming trustees, individuals with personal familiarity of your family's situation are united with a corporate resource that offers the ongoing financial and regulatory expertise complex wealth requires. It also leads to all three core selection components being fully addressed: competency, continuity and complexity.

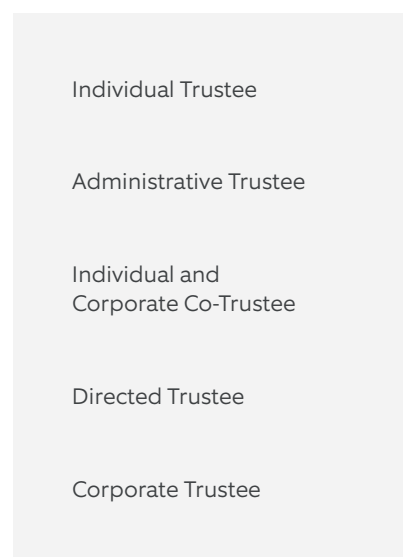
Additionally, you may be able to appoint specific trustees to specific responsibilities by using directed trustees. Certain states allow for the appointment of a fiduciary to perform distinct duties such as investment management or beneficiary distributions.

GIVEN THE RANGE OF TRUSTEE RESPONSIBILITIES AND EXPECTATIONS, NAMING A TEAM OF CO-TRUSTEES MAY BE THE MOST EFFECTIVE SOLUTION

TRUSTEE CONSIDERATIONS



A FULL SPECTRUM OF OPTIONS



While the three core components – competency, continuity and complexity – should be given the most weight, the other three – confidentiality, conflicts and cost – should also factor into your consideration.

ALIGN YOUR TRUSTS AND FAMILY GOALS WITH PURPOSE

WHILE THIS FRAMEWORK OF QUESTIONS IS BROADLY APPLICABLE, THE “RIGHT” ANSWERS FOR YOU ARE YOURS ALONE. FOR ADDITIONAL GUIDANCE IN ALIGNING YOUR TRUSTS WITH YOUR FAMILY GOALS AND ARTICULATING YOUR WEALTH’S PURPOSE, CONTACT A NORTHERN TRUST ADVISOR.



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