Directed Trusts

What is a Directed Trust?

The most appealing aspect of the directed trust model is that a grantor or co-trustee can work with the advisor they choose while the trust administrative function is performed by an independent trust company, such as Bridgeford Trust Company. This approach gives more control back to the client and beneficiaries by allowing them to work with long-time trusted advisors in the trust planning and administration process.

The directed trust model bifurcates liability between an independent trust company and investment advisor by distinguishing between the investment, distribution, and administrative functions of asset management and trust administration. A directed trust statute (only 6 states in the nation have such statutes) formally defines the separate duties and responsibilities of the trustee and advisor (asset manager) and allows the grantor to appoint both as fiduciaries in a trust agreement. Therefore, the advisor is charged with and held responsible for all investment duties while the directed trustee is charged with and held responsible for all trust administration duties. The combined fee charged by both entities is comparable to, and often lower, than traditional "bundled" trustees.

How does a Directed Trust Work?

A directed trust generally utilizes the unique statutes of a state, such as South Dakota, to trifurcate the traditional role of a trustee into three distinct functions: 1) an Investment Committee, which is responsible for selecting outside investment advisors and managers to direct the trust's investments; 2) a Distribution Committee, which is responsible for determining when and how distributions should be made; and 3) an Administrative Trustee, which receives contributions, handles day-to-day responsibilities and the administration of the trust, and is directed by the committees/trustees to make investments and distributions.

The Investment Committee

The Investment Committee is typically comprised of the client's family members and/or advisors. The investment committee generally hires experts in the fields of: Investment Management, Insurance, Art, FLPs, LLCs, Real Estate, Closely-Held Stock for the purpose of maintaining trust assets. The expertise, experience, and diverseness of this group of experts provides exceptional investment advice and asset diversification to the investment committee, which in turn directs the administrative trustee on how the trust will be invested, pursuant to the trust document and an Investment Policy Statement (IPS). The IPS is generally drafted taking into account the investment provisions in the trust document and the family's goals.

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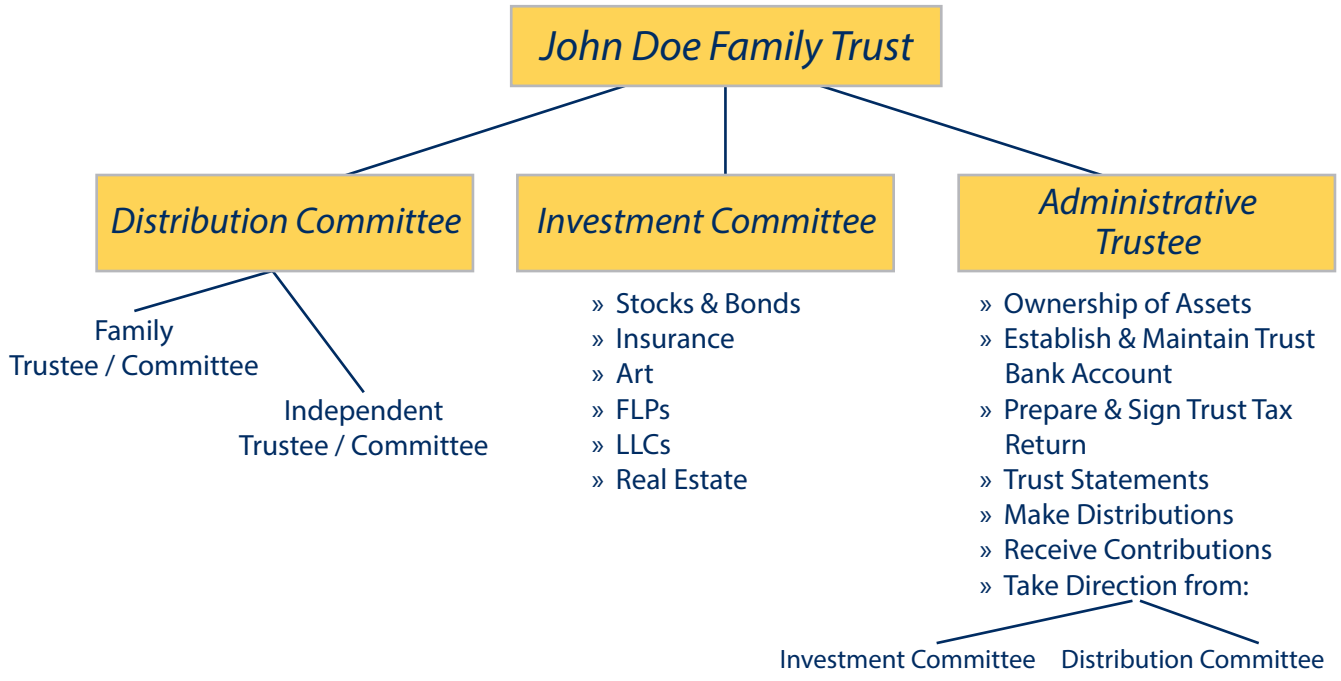
The Distribution Committee

The Distribution Committee determines how and when trust distributions should be made. Typically, family members serve on this committee and determine all distributions of income and principal for "health, education, maintenance, and support" (HEMS). Additional distributions are generally considered tax sensitive and therefore require an independent trustee, advisor or committee comprised of one or more of the following: CPA, Attorney, or another independent third party. Alternatively, Bridgeford Trust Company can serve this function alone.

The Administrative Trustee:

Bridgeford Trust Company usually assumes the role of Administrative Trustee. The Administrative Trustee's duties may include taking title and ownership of the trust assets, establishing and maintaining a trust bank account, preparing or signing the trust tax returns, preparing and sending trust statements, and making distributions and receiving contributions. The Administrative Trustee is also responsible for ensuring that the trust document is followed with respect to distributions, investment policy, and administration. Typically, the Administrative Trustee can fill in for the any of the committee functions of the Distribution Committee and the Investment Committee, if desired.

The following chart outlines a typical modern directed trust.

Typical Modern "Directed" Trust Structure: