Should you try to compel specific behavior through your trust provisions?

In an ideal intergenerational wealth transfer scenario, children or other heirs will be prepared to handle family wealth, applying a positive attitude established from early childhood. In this ideal, children understand their parents' values and parents have confidence in children's ability to make engaged and mature decisions.

But what if that confidence is lacking? Parents may find themselves asking:

> *"How can I ensure that my children maintain productive lives, even after they receive this level of wealth?*
>
> *"How can I be certain that not just my money will be passed on—but that my values will be too?"*

In our experience working with families, the best way to approach these questions is by encouraging conversation—and not by "trying to rule from the grave," as Calamos Wealth Management Senior Wealth Advisor Richard Gotterer, CFP®, Vice President puts it. He says, "With capable beneficiaries, the ideal is to help them fully develop and be ready to make decisions on their own. Hold family conversations about values and what wealth is meant to do and provide. By establishing what wealth means to the family, you can provide the next generation with valuable guidance."

Still, sometimes parents simply don't have a level of confidence that their children can handle successfully family wealth upon coming into an inheritance. In these cases, an "incentive trust" might indeed be appropriate to consider.

About Incentive Trusts

Fear of raising a modern "trust fund baby" has motivated some parents and caregivers to seek strategies for reigning in potential entitlement and privilege through controlling the purse-strings of future inheritances. So-called "incentive trusts," or trusts threaded with instructions and conditions for their recipients, have been used to enforce employment standards, encourage good money management, and coerce beneficiaries into certain lifestyles. A financial parenting vehicle of sorts, this works by building clauses into the otherwise traditional trust that state conditions beneficiaries must meet. If the beneficiary exhibits the desired conduct, he or she will be rewarded with more money from the trust.

Advocates of incentive trusts point out that the built-in conditions may be used to enhance the lives of their beneficiaries by ensuring that they remain productive and display positive behaviors. However, properly drafting these conditions with enough specificity to be clear yet flexible enough to give beneficiaries some degree of control in life remains difficult.

Ex. A mother wishes to encourage certain educational standards for her children, and therefore includes a provision for university attendance in the trust. Eventually her son chooses to train for a vocational career through an apprenticeship rather than attend a 4-year accredited college. Did her well-intentioned incentive provision become something other than she envisioned?

A popular provision, wage matching, distributes one dollar for every dollar earned in a bid to reward employment. While good in theory, wage matching effectively rewards those in more lucrative career paths. Providing extra incentives for non-profit or other personally and socially rewarding paths can solve that dilemma, but this highlights the need for careful consideration of provisions.

Unforeseen circumstances such as economic recession, mental/physical disability, or varying career choices can complicate an already complex document. The incentive trust process also involves saddling a trustee with more responsibilities than usual, often for long periods of time. They might need to analyze school grades, income tax returns, volunteer hours or more. This bestows the trustee power to investigate and have knowledge of many parts of the beneficiary's private life.

An alternative option to manage spending habits of beneficiaries may be a spendthrift trust, which distributes money in the form of monthly payments—an allowance. While spendthrift trusts may seem distrustful of the beneficiary, they actually safeguard against outside interference. By design, they protect trust assets from attack by creditor for indebtedness, or prevent a divorcing spouse from laying claim.

If you decide to establish a conditional trust, employing strategy and deliberation is key. "You don't want children to continue making the mistakes you anticipate because you never provided them with education and knowledge to do otherwise," says Gotterer.

The Role of Trustee

In situations in which incentive trusts are used because children's readiness or parents' confidence is lacking, the selection of the trustee is especially important to consider with care. "It may be unkind to ask a family member or friend to step in and try to do the work that parents couldn't accomplish during their lifetimes," says Gotterer. "That's where a corporate trustee can serve as a useful buffer."

When corporate trust services do prove helpful, Calamos Wealth Management can arrange them in all 50 states through our partnership with National Advisors Trust Company (NATC). The corporate trust is able to provide the oversight and administration of provisional trusts, thus alleviating the burden on family members, friends or other appointed trustees.

Ideally, a thorough conversation and consequent plan for wealth transfer may eliminate the need for provisional trusts. Whatever path you choose, the advisors at Calamos Wealth Management and Calamos Private Trust can be helpful professionals with whom to consult prior to developing and implementing the trust strategy that's right for you and for those you care about.

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