

April 2022

Trusts 101: Shelter from the Storm – How Trusts Help Protect Investment Advisor Businesses and Their Clients’ Assets

In recent years, RIAs have been the “[fastest-growing category](#)” in the wealth management market of the United States. A [2020 report](#) of the Investment Advisor Association and the National Regulatory Services found that 14,000 RIAs were managing assets for more than 60 million clients with a total value of \$110 trillion. Nearly [88% of the RIA firms](#) are small businesses (with 50 or fewer employees).

Given the prevalence of small RIAs, most advisors are best served by creating an effective and reliable ecosystem around their business to protect client wealth. This also protects RIAs, increasing and preserving AUM. Since half of all assets in the RIA channel are handled by advisors [older than 55](#), maximizing the value of the advisors book of business upon retirement is a pressing concern.

Industry experience suggests that RIAs have an 80% chance of retaining the AUM of a deceased client if the assets are in a trust, and only a 20% chance of retaining the AUM if the assets are not. If you haven’t done so yet, you may want to take a closer look at how trusts can help protect your AUM.

Below, we’ll highlight some of the key benefits of trusts in two parts. First, we’ll focus on the benefits of trusts for your own clients, then, we’ll turn our attention to the benefits for your own future.

3 Benefits of Trusts for Your Clients

If you are not familiar with the benefits of trusts, it may help to start by thinking of them as a “safe deposit box” for your clients’ assets. By this we mean that using a trust locks assets away, safely and privately, shielding them from intrusive scrutiny and the many threats they would otherwise face.

This protection for client assets also protects and stabilizes your current book of business and your company’s valuation. Let’s move beyond the imperfect safe deposit box analogy to identify 3 ways in which the power and versatility of trusts protects client assets.

1. CONTROL

Trusts offer control, allowing grantors to manage and direct the allocation and disbursement of assets; potentially reduce the tax burden on assets; and protect beneficiaries from creditors, financial inexperience, immaturity, or litigation, and can shield and support beneficiaries with special needs.

2. FLEXIBILITY

Trusts offer flexibility, allowing grantors to pursue their objectives with regard to charitable giving or their specific vision for the future use or distribution of their accumulated assets; maintain and manage unique, non-liquid assets like art or real estate; and hold insurance policies and their proceeds for distribution according to the wishes of the grantor.

3. PRIVACY

Trusts offer privacy, and the opportunity to avoid probate and the resulting delay in asset distribution after the death of the grantor; engage in private planning for business succession; and select beneficiaries without being limited by traditional definitions of family or relationships and make arrangements that - unlike probate - are not readily subject to challenge.

There are different types of trusts, each with its own benefits. The type best suited to each client depends on their specific circumstances. Even a brief review reveals that trusts offer distinct advantages for a significant number of your own clients. Now, let's look at some of the key benefits that trusts offer you.

3 Benefits of Trusts for Investment Advisors

How do the varied protections that trusts provide to your clients also advance and provide stability for your AUM and your company's valuation?

Access, Stickiness, Support

1. ACCESS

Trusts allow RIAs access to generations beyond the grantor providing an opportunity over the life of the trust to engage and interact with the next-generation beneficiaries; facilitating the building of relationships with the beneficiaries; and increasing your chances of retaining the business moving forward. With the use of directed trusts for instance, you as the investment advisor can actually be written into the trust document ensuring your continued management of assets across wealth transfers and transitions.

2. STICKINESS

Trusts increase resistance to change, or “stickiness,” because they are the result of careful long-term planning by the grantor; offer a sustainable asset protection strategy that does not require assets to be periodically shifted; and can be bundled with other services to provide an even broader range of services, options, and protection to clients, further enhancing retention.

3. SUPPORT

Trusts also offer RIAs the opportunity to leverage the support of an independent trust administration company to serve as a knowledgeable, neutral, objective partner to expand your options; provide services not motivated by commissions or outside influences and avoid conflicts of interest while optimizing assets; and reliably oversee compliance issues and trust management, ensuring that administrative, legal, and tax requirements are met while directing assets and distributions according to the grantor’s wishes.

Industry averages suggest that assets in trust remain with an RIA nearly twice as long as assets in non-trust accounts.

Should You Explore Trusts for Your Clients and Your Advisory Business?

Are you currently focused on retaining existing AUM or building new business? When did you last assess your client base with an eye toward the loss of departing clients? Where are you in terms of your own exit strategy - how will you preserve the nest egg you’ve spent a career building?

Sterling Trustees helps RIAs who want to take a deeper look at their business position and make the kinds of decisions necessary to optimize their business over its complete lifecycle. If these issues are top of mind for you, call us. We have assisted attorneys and registered investment advisors to navigate their way to beneficial business outcomes and would be happy to do the same for you.

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