

## Office Hours Study Guide

# Understanding the Different Types of Revocable Trusts

## **A Practical Overview for Financial Advisors**

Revocable trusts are powerful estate-planning tools, but clients are often confused about the differences between joint and individual trusts. Advisors who can clearly explain these distinctions help clients make informed decisions, avoid drafting mistakes, and ensure estate plans align with their goals and state-specific laws.

### **INDIVIDUAL VS. JOINT TRUSTS: THE BASICS**

A joint revocable trust is a single trust created by two people, typically a married couple, who serve as co-grantors and co-trustees.

- The trust holds and manages their combined assets during life.
- The surviving spouse generally retains control and can continue managing or amending certain aspects of the trust after the first spouse's death
- Joint trusts often simplify administration for couples with shared assets.

In contrast, individual trusts are two distinct trusts, one for each spouse or partner. Each person controls their own trust, can name their own beneficiaries, and can tailor terms to personal or family circumstances.

### **WHEN EACH STRUCTURE MAKES SENSE**

One size does not fit all. The appropriate structure depends largely on state law, tax considerations, and the client's family situation.

- Community property states (e.g., California, Texas) often favor joint trusts because they align with community property rules and can simplify tax basis adjustments at the first death.
- Separate property states and states with state-level estate taxes often lean toward individual trusts to maximize each spouse's estate tax exemption and preserve planning flexibility.
- Blended families or clients with separate property may benefit from individual trusts that clearly define each spouse's beneficiaries and asset control.

As a best practice, advisors should always defer to the estate planning attorney's recommendation because state nuances and tax implications can significantly affect the outcome.

### COMMON PITFALLS AND HOW TO AVOID THEM

The costliest estate-planning errors often arise when attorneys draft outside their area of expertise or when clients request trust types that don't suit their jurisdiction.

- A joint trust drafted in a separate-property state without proper sub-trust provisions can waste one spouse's estate tax exemption leaving unnecessary tax exposure.
- Conversely, two separate trusts in a community-property state may complicate administration or miss valuable tax benefits.
- Advisors should ensure clients understand that the success of any trust depends on correct drafting, titling, and funding, not merely the trust type.

### The Bottom Line

Trust selection is not about choosing "better" or "worse." It's about aligning structure with each client's goals, family dynamics, and state tax landscape. Advisors who understand these distinctions can help clients collaborate effectively with estate planning attorneys to create well-structured, tax-efficient trusts.

### During annual reviews, revisit your clients' trust structures and verify that:

- The trust type fits their current state of residence,
- All assets are properly titled or funded into the trust, and
- Estate tax considerations have been updated for any changes in law or wealth level.

Engage with estate planning attorneys proactively to ensure your clients' trusts work as intended, protecting wealth and family relationships for generations. To learn more about this topic, please watch our [Office Hours video](#) or reach out to your investment consultant.

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