Allianz Life Insurance Company of North America

LIFE ADVANCED MARKETS

Selecting a suitable trustee for your trust

Selecting a trustee is an important decision since this person will have power over all of the assets in the trust. There are several key criteria that you should carefully consider in consultation with your attorney:

INDIVIDUAL VS. CORPORATE TRUSTEE

A primary decision in selecting a trustee is whether to select an individual person to serve, or a professional trustee, sometimes referred to as a "corporate trustee." Examples of a corporate trustee include a bank's trust department or a trust company.

An individual trustee is often seen as offering more personal attention and potentially lower administrative fees.

A corporate trustee is generally seen as providing more expertise, impartiality, and continuity, but generally with higher fees and perhaps less personal connection.

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AMK-817 (10/2025)

A caution about individual trustees

A common choice of trustee is an individual, such as a spouse, daughter, son, or other family member. For many trusts, selecting an individual may be just fine. But keep in mind that individuals are all subject to certain potential frailties, including:

- **Inexperience** – failing to understand what actions are required or the limit of authority
- **Procrastination** – not taking action by a required deadline (e.g., failing to timely file tax returns)
- **Neglect** – failing to take action or make a decision when necessary, or not responding to a beneficiary's request for information or a distribution
- **Ego, pride, overconfidence** – failing to admit the limit of knowledge or potential risks and engage qualified experts such as attorneys, accountants, and investment advisors when necessary
- **Selfishness, greed** – putting the trustee's personal desires above those of all beneficiaries

Being appointed as a trustee can often be a challenging, stressful, and sometimes thankless job for the individual appointed. In some cases, it may even lead to potential family conflict as illustrated in **the following two examples.**

1

Grantor's surviving spouse as trustee

First, consider the example where a trust is established by a grantor to benefit the surviving spouse for the remainder of the spouse's life, with the remaining assets in the trust distributed among the grantor's surviving children. In this case, the children would naturally be interested in investing for growth and preserving as much of the trust as possible for future distributions to them. However, the surviving spouse may be more interested in investing the assets to produce income, or spending the assets (i.e., principal of the trust) during his/her lifetime, leaving very little for the children.

If the surviving spouse is appointed as trustee, then there is an inherent conflict and at least the potential for the children to question the trustee's management of the trust.

2

Grantor's child as trustee

Now, consider the example where the grantor (or parents as grantors) establish a trust with their children as beneficiaries. The powers granted to the trustee include the power to determine when to make distributions to each of the beneficiaries. The grantor appoints one of several children as sole trustee. Consequently, the grantor has effectively put one child in charge of distributions for his or her siblings.

While in some cases that may be just fine, the appointment also has the potential to create friction among siblings.

CHOOSING A TRUSTEE

The choice of a trustee depends on the trust's complexity, the grantor's financial goals, the family's dynamics, and a balance between personal knowledge and professional, administrative efficiency. The following chart compares the attributes of an individual serving as trustee as compared to a corporate trustee.

Comparing attributes of individual vs. corporate trustees

Attributes	Individual as trustee	Corporate trustee
Fees and costs	• Generally lower cost • Fees often based on an hourly rate	• Higher fees • Fees often based on a percentage of value of assets held in trust • May charge additional fees for managing unique assets (e.g., farm management)
Fiduciary knowledge	• May have limited fiduciary knowledge • No established processes • Generally must rely on advice from outside attorneys, accountants, tax advisors, and investment managers	• A team of professionals provide separate fiduciary subject-matter expertise (e.g., asset managers, tax experts, trust officers, portfolio managers) • Generally a trust officer is assigned to the trust
Administrative process	• Generally no established process for recordkeeping, processing transactions, or preparing periodic accounting to beneficiaries	• Established process for trust administration and distributions • Ability to maintain detailed records, process transactions, separately track income and principal, prepare or review income and other tax returns for the trust, and generate statements and annual accounts
Investment knowledge and management expertise	• May have limited knowledge of investments and money management	• Generally a portfolio manager is assigned to manage the financial assets held in the trust
Risk of loss	• Limited protection against theft or other loss • May require the individual be bonded	• Potentially lower risk of loss than using an individual trustee • Generally maintains a fiduciary insurance policy • Trust transactions are subject to regulatory review
Potential for outside influence	• Family dynamics could potentially influence decisions	• Impartial • Generally immune from influence of family or other outside influence
Oversight of trustee actions	• Limited oversight of trustee’s actions unless trust is court-supervised	• Oversight by state or federal regulatory examination
Continuity	• Limited continuity – individual may serve only as able or willing • An individual’s death, incapacity, or other disability may limit ability to serve	• More continuity • Corporate trustees generally have perpetual existence

WHAT TO CONSIDER WHEN SELECTING AN INDIVIDUAL AS TRUSTEE

To serve effectively as a trustee, an individual should ideally have the following personal qualities and organizational capabilities, as well as great communication skills:

Personal qualities

Ability to exercise sound judgment; a commitment to ethical behavior, empathy, patience, integrity, impartiality, and fairness; and the ability to maintain confidentiality.

Organizational skills

The ability to prepare and maintain detailed records, process transactions, separately track trust income and principal, prepare and review income and other tax returns for the trust, and generate periodic statements or accountings.

Communication skills

Ability to keep beneficiaries reasonably informed as to the administration of the trust, investment performance, and, depending upon the trust instrument and the state laws regarding trust administration, the delivery of periodic accountings; ability to promptly respond to requests from beneficiaries relating to requests for information and distribution requests.

WHAT TO CONSIDER WHEN SELECTING A CORPORATION AS TRUSTEE

Eligibility

A corporate trustee may have a minimum account size requirement, typically ranging from $1 million to $5 million. To meet the requirement, the total value of the assets held in trust must be at least equal to the stated amount. Some trust companies, particularly those which are part of a bank, may take into consideration other accounts held at the bank, or the total financial relationship the bank has with a customer, in determining whether it will agree to serve as trustee.

Fee structure

Understand how fees will be calculated and how they will be charged. Also, understand other costs that may apply, including account setup charges; management fees for special assets (e.g., life insurance, real estate, family farms, business interests, receivables such as promissory notes); account closing fees; litigation fees; and any extra fees for specialized services, such as sale of real estate.

Fees are often calculated based on a percentage of the total value of assets in the trust. However, many corporate trustees use a graduated fee schedule so that the larger the account size, the smaller the fee percentage. Most corporate trustees also have a written fee schedule available upon request. Obtaining the fee schedule will allow you to compare costs across different corporate trustees.

Ability to serve the specific needs of the trust

If the trust has held, or will hold, assets other than cash and marketable securities, then be sure the corporate trustee has sufficient experience and staff to manage those unique assets. Examples of unique assets requiring special expertise and administration include: life insurance, real estate, closely held business interests, foreign assets, family farms, virtual currency (e.g., Bitcoin), boats, aircraft, and collector cars.

Regulatory compliance history

Corporate trustees are subject to regulatory review by either state or federal regulatory agencies, depending on how the trustee is organized as a business. This oversight provides an extra layer of security, accountability, and assurance that the trustee follows strict standards of conduct. While the internal details of a compliance review are private, the legal and financial actions taken by the corporate trustee, or asserted against it, are often documented in public court and government records.

YOUR FINANCIAL PROFESSIONAL CAN HELP SUPPORT YOU and your attorney through the estate planning process and discuss how life insurance can play a part. Don't hesitate to ask for their help.