

At  
Property/  
CASUALTY

# The Hidden Risks of Holding Assets in Trusts and LLCs

Advisors typically aren't involved in creating these vehicles, but they can still provide valuable service to clients

If there is one thing financial advisors understand, it's the critical importance of clarity in who owns a particular securities account. Make even an innocent mistake in the ownership record of an inherited individual retirement account, for example, and your client may wind up with a tax bill of several thousand dollars.

Other kinds of costly ownership record problems can arise for wealthy clients when they place assets such as homes, boats and other property into trusts and limited liability corporations (LLCs).

Financial advisors don't usually get involved with the decisions to create these legal vehicles, which can be useful tools for tax, privacy or other reasons. But if advisors are aware that trusts and LLCs exist, they can help clients avoid problems that may jeopardize a client's total wealth.

## INSURING TRUSTS

Specifically, the problems involve trusts and LLCs often being inadequately insured, inappropriately insured or — usually inadvertently — not insured at all. This often occurs because those involved in the creation of the trust or LLC neglected to consider relevant insurance implications. When a trust or LLC is not properly protected, its assets are put at risk, and that can present unexpected and unpleasant surprises for the trust's beneficiaries and those with interests in the LLC.

Advisors should know that insurance on property that has been put in a trust or has been transferred to an LLC



can be handled in one of two ways: The LLC or trust can be the “named insured” on the policy, or it can be the “additional insured or additional interest” on the policy of the person(s) who placed the property in the trust or transferred ownership to an LLC. There are advantages and disadvantages to each option.

If the trust or LLC is the named insured, the advantage is that there is more complete separation between the trust or LLC and the beneficial owners. In the case of a house put in a trust that is the named insured, for example, the beneficial owners living in the house probably would have to buy renters' insurance to cover their personal belongings and personal liability insurance if they do not have such coverage extended from another location or policy. The reason for what might seem like duplicate coverage is that the beneficial owners and the trust are completely separate legal entities that require independent protection.

When a trust or LLC is named an additional insured or additional interest

on the policy covering the property, the beneficial owners remain as the named insureds and don't need a separate renter's policy or personal liability policy for the property.

The downside to this is that there is not true separation between themselves and the legal entity that actually owns the property. That may create risks that the beneficial owners were trying to avoid when they placed the ownership of the property in the trust.

## OTHER RISKS TO CONSIDER

Often, an LLC will employ domestic staff to maintain a residence. If it does, the LLC requires coverage for employment liability exposures. If the property owned by an LLC or trust is used to generate income or as a business enterprise (a ranch, farm or winery, for example), the LLC or trust will need commercial coverage.

This is an area where insurers with extensive experience in insuring successful individuals and families can provide family offices and other wealth managers with insights and sophisticated coverage options that will accomplish the objectives the client wishes.

For advisors, taking a holistic approach and asking clients about the legal entities they may have created can wind up greatly reducing client risk and delivering real peace of mind.

If you have any questions about this topic, please feel free to email me at [AskFran@Chubb.com](mailto:AskFran@Chubb.com). **IA**

*Fran O'Brien is division president of North America Personal Risk Services for Chubb.*

# Earn and Manage your CE Credits with ThinkAdvisor



Earn credits through your computer, tablet, or phone.



Report credits automatically to the CFP Board



View all credits on a detailed dashboard – only CE provider offering this feature!

**Start Earning CE Credits today at [ThinkAdvisor.com/CE](http://ThinkAdvisor.com/CE)**



Quizzes based on articles featured in *Investment Advisor Magazine* and ThinkAdvisor.com

The FREE ThinkCE app:

- Manages and records your CE credits
- Tracks your progress from all sources
- Offers customizable alerts



Download the ThinkCE app at [ThinkAdvisor.com/ThinkCE](http://ThinkAdvisor.com/ThinkCE)

# ThinkCE