

What Is an Account in Trust?

An account in trust or trust account refers to any type of financial account that is opened by an individual and managed by a designated trustee for the benefit of a third party in accordance with agreed-upon terms.

For example, a parent can open a bank account for the benefit of his or her minor child and stipulate rules as to when the minor can access the funds or assets in the account as well as any income they generate. In most cases, the trustee who manages the funds and assets in the account acts as a fiduciary, meaning the trustee has a legal responsibility to manage the account prudently and manage assets in the best interests of the beneficiary.

How an Account in Trust Works

Accounts in trust can hold different assets, including cash, stocks, bonds, mutual funds, real estate, and other property and investments. Trustees can vary as well. They can be the person opening the account, someone else they designate as a trustee, or a financial institution, such as a bank or brokerage firm.

Trustees have the option to make certain changes to the account in trust. These can include naming a successor trustee or another beneficiary. A trustee may even close the account in trust or open a subsidiary account to which he or she can transfer some or all of the assets in the account in trust. However, the trustee is obligated to follow the instructions of the document that established the account in trust.

Types of Accounts in Trust

The specifics of accounts in trust can vary depending on the type of account, terms outlined in any trust agreements, as well as applicable state and federal laws.

One example of an account in trust is a Uniform Gifts to Minors Act (UGMA) account. This type of account in trust created allows minors to legally own the assets held in these accounts. But they can't have access to the account's principal and income until they reach legal age. This type of account in trust is typically opened by parents to fund their children's higher education expenses and to secure certain tax protections.

Another type of account in trust is a Payable on Death (POD) trust also called a Totten Trust. These accounts are essentially bank accounts with named beneficiaries who can legally take possession of the trust's assets and income upon the death of the individual who opened the account. POD trusts are protected by the Federal Deposit Insurance Corporation (FDIC) as are traditional bank accounts. In addition, this type of account does not need to clear probate for assets to transfer to the rightful beneficiary upon the death of the initial owner.

In the housing world, an account in trust is a type of account usually opened by a mortgage lender. The lender uses this account to pay property taxes and insurance on a homeowner's behalf. This type of account in trust is also called an escrow account, and funds to be deposited into it are usually included in the monthly mortgage payment.