Abstract: A living trust is fully effective only when it's fully funded. What does it mean to "fund" a trust? A person must transfer ownership of all or most of his or her assets to the trust or designate the trust as beneficiary of IRAs, qualified retirement plans or insurance policies. This short article explains which assets to include in a living trust.

Estate Planning Red Flag

You haven't funded (or fully funded) your living trust

A revocable living trust is the centerpiece of many estate plans. It serves many purposes, including avoiding probate and managing your assets in the event you become incapacitated. A will alone does neither.

A living trust is fully effective only when it's fully funded. Having a trust that you neglect to fund is like buying a top-of-the-line safe but neglecting to lock your valuables inside.

What does it mean to "fund" a trust? You must transfer ownership of all or most of your assets to the trust or designate the trust as beneficiary of your IRAs, qualified retirement plans or insurance policies.

Assets you leave out of the trust may have to go through probate when you die, and they won't be subject to the trust's control if you're incapacitated. So, it's critical to take inventory of all of your assets, determine how each asset is owned, and talk with your estate planning advisor about whether and how each asset should be transferred to the trust.

Assets to address include real estate, bank accounts, certificates of deposit, IRAs, retirement plans, stocks and other investments, partnerships and other business interests, insurance policies and annuities, vehicles, and personal property (such as jewelry and collectibles).

The steps you need to take to transfer title depend on the type of property. Real estate, for example, is transferred by a deed recorded in the county where the property is located. Transferring a bank account may be as simple as executing a new signature card or presenting the bank with a letter of direction.

To avoid triggering current income taxes and penalties, you shouldn't transfer ownership of IRAs or retirement plans to your trust. Rather, name the trust as beneficiary. For insurance policies and annuities, you can transfer ownership or change the beneficiary designation; your advisor can help you decide which approach is appropriate.

Funding a living trust is an ongoing process. For each substantial asset you acquire, consult your advisor to determine whether it belongs in your trust.