# Directed & Delegated Trusts: An Advisor's Primer

## The 3 R's for Advisors and Their Clients: Risk, Responsibility, and Rewards

Trusts used to be simple: pick a trustee, hand them the assets, and let them handle everything. That world is gone.

Today, clients want control, flexibility, tax efficiency, and the ability to keep you—their advisor—at the center of the relationship. Modern trust law has responded with two main structures that matter for your practice: delegated trusts and directed trusts.

On paper, the difference looks technical. In reality, it drives:

- Who is legally on the hook for investment performance
- How much the trustee charges
- How much freedom you have to run your investment process and broader planning
- How easy it is to adjust the structure later

This paper breaks all of that down in advisor language, not lawyer language. It's high-level by design and aims to give you enough clarity to steer the conversation with clients and their attorneys.

## 1. Directed vs. Delegated: Who's Actually on the Hook?

Let's start with two simple definitions, framed the way an advisor needs to hear them.

Delegated trust: The trustee leads the charge, delegating to the financial advisor managing the trust's investments.

In a delegated trust, the trustee is legally responsible for the investments, but may hire (delegate to) an investment advisor to manage the portfolio, who also bears legal responsibility for the investments. The trustee must:

- Choose a qualified advisor
- Set reasonable expectations and guidelines
- Monitor the advisor's work
- Fire and replace the advisor if needed

Because delegation is itself a fiduciary act, the trustee and the investment advisor share the investment fiduciary risk. The trustee can't simply shrug and say, "The advisor did it." If things go badly and the beneficiaries sue, a large share of the liability usually lands on the trustee, because the trustee chose to delegate in the first place.

Directed trust: The financial calls the investment shots, the trustee just follows.

In a directed trust, the trust document names an investment advisor (or investment committee) with authority to direct the trustee on investments. The trustee's job is primarily administrative:

- Hold legal title to trust assets
- Execute trades as instructed
- Do accounting, statements, tax reporting, and basic compliance
- Make all discretionary distribution decisions

When the trust is drafted clearly and the right state law is used, the investment advisor typically has 100% of the fiduciary risk for investments; the trustee has 0%—for the investment piece.

That's the core distinction:

Delegated trust: Trustee delegates but retains oversight and risk.
Directed trust: The advisor is given the wheel and the risk; the trustee steps back from investment oversight.

A quick analogy: General contractor vs. order-taker

- Delegated trust
  Think of the trustee as a general contractor on a home remodel. They hire you (the electrician). If the wiring is bad, the homeowner sues both of you—but the contractor is in big trouble for hiring and supervising you poorly.
- Directed trust
  Here the trustee is more like a title company and bookkeeper. You are the contractor, the architect, and the electrician rolled into one. If something fails, it's your problem, not theirs.

Why advisors should care

From your perspective, that difference cascades into everything that matters:

- Cost to the client – Directed trusts usually mean lower trustee fees but often higher up-front legal cost and more moving pieces. Delegated trusts usually mean higher trustee fees but a simpler structure and often lower drafting costs.

- Your risk profile – Directed = more control and more legal risk. Delegated = less control, but you share the liability with the trustee.
- How "advisor-friendly" the structure really is – It isn't just whether you can manage the money; it's whether the trust is drafted so your role is clear and workable.

With that groundwork, let's look at each structure through an advisor's eyes.

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## 2. How Directed Trusts Work Day-to-Day (From an Advisor's Seat)

Directed trusts have exploded in popularity in "trust-friendly" states like South Dakota, Delaware, Nevada, Alaska, and Tennessee, where statutes clearly separate the duties of a directed trustee from those of the investment advisor and other "trust directors" (like distribution committees or trust protectors).

### What a directed trust looks like in practice

In a well-drafted directed trust:

- The trust document names you (or your firm) as investment advisor or investment director.
- The trustee is clearly described as an administrative trustee—they do recordkeeping, statements, tax coordination, and legal administration.
- The document explicitly states that the trustee has no fiduciary oversight over the investments and must follow your directions unless they're clearly unlawful. (Wealth Advisors Trust)

You might also see:

- A distribution committee making decisions about when and why to make distributions.
- A trust protector with authority to remove/replace trustees or advisors, adjust administrative provisions, or move the trust to a different state. (Wealth Advisors Trust)

In other words, a directed trust slices up the traditional trustee role into separate jobs and assigns each one—investments, distributions, administration—to different specialists.

### Cost implications: Where the dollars go

Because the trustee's legal risk is lower, trustee fees under a directed trust are usually lower than under a delegated trust.

But clients often get blindsided by the rest of the cost picture:

- Up-front legal cost is higher.
  You typically need:
    - Local estate attorney to design the plan
    - Attorney in the chosen "trust-friendly" state to ensure the document complies with that state's directed trust statute
      Result: more legal hours, more billable time. ([Wealth Advisors Trust](Wealth Advisors Trust))
- More players = more fees.
    - You (investment advisor) charge your advisory fee.
    - The administrative trustee charges a (usually lower) trustee fee.
    - A trust protector or distribution committee might have their own compensation.

The sales pitch to the client is usually:

"Yes, the setup and structure are more complex, but the ongoing trustee fee is lower and we keep control with your existing advisor."

That's true as long as the assets are large enough (often 7–8 figures) for the math to work in their favor.

What directed trusts mean for your investment and planning work

Upside for advisors:

- Full investment control.
  You're not trying to persuade a trust department to approve your strategy; you own it.
- Continuity across the household.
  When a client funds a directed trust, you can keep the same models, IPS framework, planning assumptions, and reporting style across taxable, retirement, and trust accounts.
- Deeper seat at the planning table.
  In many directed setups, you're not just the money manager—you're effectively the

CIO of the family trust, coordinating with the administrative trustee, estate attorney, CPA, and sometimes a distribution committee.

Downside for advisors:

- You own the fiduciary risk for investments.
  If performance is challenged and there's a lawsuit, beneficiaries will point directly at you. Both the Comerica paper and Wealth Advisors Trust emphasize that in a properly drafted directed trust, the investment advisor, not the trustee, carries the investment liability.
- You need real process, not just good intentions.
  That means:
  - Documented IPS for the trust
  - Regular review meetings and notes
  - Rationale for concentrated positions, illiquid assets, or alternative investments
  - Alignment with the Prudent Investor Rule (diversification, risk/return, time horizon, liquidity needs)
- You must understand the trust document.
  If the trust quietly gives the trustee some level of oversight or veto on investments (which can happen in weaker statutes or vague drafting), your risk sharing changes. You can't just assume "directed = 100% mine, 0% theirs" without checking.

Real-world scenario: Directed trust in action

Your client, Mark, has:

- $18M net worth
- A $7M closely held operating business
- $6M in brokerage assets you already manage
- Second marriage, kids from both marriages

He wants:

- His spouse taken care of
- His kids to eventually control and benefit from the business

- You to keep managing the liquid portfolio

Why a directed trust often fits:

- The trust can name the kids (or a business manager) as "investment advisor" for the company stock and you as investment advisor for marketable securities.
- A directed administrative trustee handles accounting and compliance but doesn't meddle in how you invest.
- The trustee fee is relatively lean; the tradeoff is higher drafting cost and a more complex document that must be followed to the letter.

Your takeaway: a directed trust can be amazing for keeping you embedded with complex, multi-generational families—if you're willing to carry the investment fiduciary load and build the processes to match.

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3. How Delegated Trusts Work Day-to-Day (and Your Role There)

Think of a delegated trust as "modernized traditional trust" rather than a radical redesign.

What a delegated trust looks like in practice

In a delegated trust:

- The trustee is still responsible for both administration and investments.
- The trustee can delegate investment management to you (or another advisor) but must:
  - Perform due diligence on you
  - Approve your strategy or IPS
  - Monitor your ongoing performance
  - Replace you if needed

Legally, delegation is itself a fiduciary act, so the trustee and the advisor share the fiduciary risk for investment management.

Most existing trusts today are functionally delegated trusts—even if the term isn't used in the document—because they allow the trustee to hire outside advisors while still owning the responsibility. (Wealth Advisors Trust)

Cost implications: Where delegated gets more expensive

Compared with directed trusts:

- Trustee fees are typically higher.
  The trustee carries heavier risk: they decided to delegate to you and must supervise you. If things go south, courts often view them as the primary target. That extra risk shows up in their fee schedule.

- Legal drafting is usually simpler and cheaper.
  You can often keep the trust under the client's home-state law and use more standard language. There's less need to coordinate between multiple sets of lawyers or to build an intricate governance structure. (Wealth Advisors Trust)

- Fewer paid roles.
  You might still have a trust protector, but you're less likely to see a full-blown distribution committee plus a separate administrative trustee plus multiple specialty advisors.

For many clients in the $2–10M range, that balance—simpler structure, somewhat higher trustee fee—is perfectly acceptable.

What delegated trusts mean for your investment and planning work

Upside for advisors:

- Shared risk instead of solo risk.
  The trustee is in the boat with you. They must vet your strategy and are responsible for supervising your work. That can be comforting from a liability standpoint. (Wealth Advisors Trust)

- Familiar feel.
  The day-to-day often looks like managing any other account where you're an outside manager and the trustee is the legal owner. You deal with their IPS, their compliance, their reporting.

- Good fit for "plain vanilla" portfolios.
  If the trust holds diversified marketable securities, some cash, maybe a muni ladder—not a complex operating business or highly illiquid positions—a delegated structure often delivers everything everyone needs without over-engineering.

Downside for advisors:

- Trustee's risk = trustee's rules.
  Because the trustee is responsible for investments, they may:

   - Limit concentration in single stocks or alternatives
   - Push you toward their standard asset allocation models
   - Second-guess strategy shifts, especially in volatile markets

That can constrain your investment philosophy and your ability to customize deeply for the client.

- More friction on unusual or illiquid assets.
  If the trust holds non-marketable assets (private equity, oil & gas, closely held business interests), the trustee's job of verifying your competence in those areas is hard. That extra risk can make them reluctant to delegate or may come with additional conditions and higher fees.
- You are easier to replace.
  Because you're an agent hired by the trustee rather than named directly in the trust document, the trustee (or in some cases, a protector or beneficiaries) may be able to swap you out more easily.

Flexibility and "changeability"

One sneaky advantage of delegated structures:

Well-drafted delegated trusts often allow a trust protector or beneficiaries to remove and appoint trustees without court involvement and to move the trust to a different state if needed.

That means if:

- The original trustee's service slips, or
- The state's trust law falls behind competitors

...the family has a cleaner path to pivot. That's very attractive to clients who like optionality and to advisors who don't want their client's legacy welded to a mediocre trust company forever.

Real-world scenario: Delegated trust in action

Your clients, Sarah and Tom, have:

- $4M in investable assets (all marketable securities)
- A straightforward first marriage, two kids, modest but not extreme estate-tax exposure

They want:

- A revocable living trust that becomes irrevocable at the second death
- Basic "health, education, maintenance, support" distributions for the kids
- You to continue managing the investments

Why a delegated trust often fits:

- The trust can name a corporate trustee that delegates investment management to you under its standard policy.
- You operate under a jointly agreed IPS; the trustee monitors but doesn't micromanage.
- Legal drafting is simpler and cheaper; trustee fees are higher than a bare-bones directed setup, but total complexity and up-front cost are lower.

Your takeaway: delegated works well when the assets are straightforward, the family doesn't need exotic "bells and whistles," and you're comfortable sharing investment oversight with a trustee.

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4. Which Trust Setup Fits Your Client—and Your Practice?

Ultimately, both Comerica's analysis and the Wealth Advisors Trust discussion come to the same conclusion: the choice between delegated and directed largely comes down to complexity vs. simplicity and the family's philosophy around control.

Quick comparison: Role, risk, and cost

| Question | Delegated Trust | Directed Trust |
|---|---|---|
| Who makes investment decisions? | Advisor acts under delegation from trustee | Advisor (or committee) directs trustee |
| Who carries investment fiduciary risk? | Shared – trustee and advisor | Primarily advisor; trustee often has little or no investment liability if drafted correctly |
| Trustee fee level | Typically higher, due to oversight and risk | Typically lower, due to limited investment responsibility |

| Question | Delegated Trust | Directed Trust |
|---|---|---|
| Legal drafting cost | Often lower; more standard language | Often higher; multi-state counsel and detailed role-splitting |
| Complexity of governance | Simpler; trustee remains central hub | More complex; multiple actors (advisor, trustee, protector, committees) |
| Best fit | Straightforward assets; clients prioritizing flexibility and simplicity | Larger/complex estates; special assets; clients who want maximum control and specialization |

How this impacts your client relationships

Ask yourself a few blunt questions for each trust opportunity:

1. What does the client really want to control?
    - If they care deeply about which advisor manages the money and want that advisor embedded for decades, a directed structure deserves a hard look.
    - If they mainly care about keeping options open—including the option to change trustees later—delegated may be better. (Wealth Advisors Trust)
2. What is your appetite for fiduciary risk?
    - If you are comfortable being the clear, primary target for investment liability (with the right process and insurance to back it up), directed trusts can cement your central role. (Wealth Advisors Trust)
    - If you'd rather share that responsibility with a corporate trustee, delegated is the cleaner fit.
3. How complex are the assets and the family dynamics?
    - Multi-generational plans, special needs beneficiaries, family businesses, or unique assets often need the menu of "bells and whistles"—distribution committees, trust protectors, separate investment roles—that directed trusts handle well.
    - More vanilla situations usually don't need that overhead.
4. Does the fee story make sense over 20+ years?

- On a $20M trust, lower ongoing trustee fees in a directed structure can easily offset higher legal and setup costs.
- On a $2–3M trust, the legal spend and complexity of a directed structure may be hard to justify.

A simple framework you can use with clients

When you're sitting in a conference room (or Zoom) with a client and their estate attorney, you can frame it this way:

- "If you want maximum control and are okay with more complexity and upfront cost, let's explore a directed structure."
- "If you want something easier to live with, with the ability to change trustees and even move the trust later, a delegated structure may be the cleaner choice."

Then layer in your own reality:

- "In a directed trust, I'll be fully responsible for investment decisions. That means we'll need strong ongoing documentation and review, and my fee will reflect that level of responsibility."
- "In a delegated trust, I'll work under the trustee's oversight. We'll collaborate on the IPS, and they'll monitor my work. Their fee will be higher because they share the risk."

Your next steps as an advisor

If you don't already have a point of view on this, you're behind. Here's a concrete action list:

1. Pick 2–3 trust companies—at least one focused on directed, one comfortable with delegated—that are genuinely advisor-friendly.
2. Ask them for their playbooks on both structures: sample trust language, fee schedules, and their view of advisor fiduciary risk.
3. Work with your compliance and E&O carrier to understand what being a named investment advisor under a directed trust really means for your firm.
4. Build a one-page client explainer (you can adapt this paper) so the conversation doesn't start from scratch every time.

If you get this right, you stop being “the person who manages the portfolio” and become the architect of how your client’s wealth is governed for generations—whether the trust ends up delegated, directed, or some hybrid in between.