

SPECIAL REPORT

The Benefits of Bloodline Trusts

CASE STUDY 1: Inheritance partially lost in equitable distribution settlement

Bill and Linda have a daughter, Sally, who marries Harry. While Harry is attractive and likeable, he has difficulty holding a job and is a poor money manager. Harry also likes to spend money lavishly, mostly on himself, rather than on Sally and the children. Sally's parents die and their estate is left to her. After several years of marriage, Sally and Harry divorce. Under the rules of equitable distribution, Harry receives half of Sally's inheritance. Harry moves to another state and refuses to pay any child support for Bill and Linda's grandchildren.

CASE STUDY 2: Inheritance preserved through Bloodline Trust

Sherry and Mark have a daughter, Cindy, who marries her high school sweetheart, Joe. Cindy and Joe have two children, Anne and Katie, and Joe has two children from a previous marriage. Joe is emotionally and physically abusive to Cindy, Anne and Katie. Sherry and Mark die and, two years later, Joe and Cindy divorce. Sherry and Mark established a Bloodline Trust for Cindy's benefit. Cindy is the trustee and is permitted to use money for the health, education, maintenance and support of herself and her children. When Joe files for divorce, Cindy automatically is removed as trustee and her brother Don assumes that role. When the divorce ends, Cindy is reinstated as trustee. The monies in the trust can be used only for Cindy and her blood descendants. Joe is unable to reach the assets in the trust for equitable distribution.

WHEN SHOULD YOU CONSIDER A BLOODLINE TRUST?

The old saying, “we can pick our friends, but we can’t pick our family,” is particularly applicable in the case of sons- and daughters-in-law. Often, our children choose wonderful, trustworthy spouses with whom we get along very well. But occasionally, they choose partners who cannot be trusted, leaving us concerned for the emotional and financial well being of our children and grandchildren.

A child’s poor choice of spouse can translate into a parent’s estate-planning headache, particularly when there is a divorce. And with 50% of all marriages and 60% of second marriages ending in divorce,¹ this is not an uncommon dilemma.

If you want to protect your child’s inheritance from an irresponsible spouse or ex-spouse, consider establishing a Bloodline Trust. A Bloodline Trust should always be considered when the son- or daughter-in-law:

- ◆ Is a spendthrift and/or poor money manager.
- ◆ Has difficulty holding a job.
- ◆ Is a gambler.
- ◆ Has an addictive illness such as alcoholism or drug addiction.
- ◆ Is emotionally and/or physically abusive to your child and/or grandchildren.
- ◆ Has children from a previous marriage.
- ◆ Is unfaithful.
- ◆ Is not close to and/or not on good terms with children from your child’s previous marriage.

WHAT PROBLEMS CAN ARISE WITHOUT A BLOODLINE TRUST?

Without a Bloodline Trust, a number of circumstances can put your child’s inheritance at risk.

- ◆ The inheritance can be squandered by your son- or daughter-in-law.
- ◆ If the inheritance is commingled with the assets of your son- or daughter-in-law during marriage, in a divorce, it will be subject to equitable distribution.
- ◆ Grandchildren from your child’s first marriage could be disinherited by a son- or daughter-in-law from a second marriage.

¹Divorce Magazine. <http://www.divorcemag.com/statistics/statsUS.shtml>

- ◆ Your grandchildren could effectively be disinherited if your son- or daughter-in-law receives part of the inheritance and squanders it through misuse or poor money management.

WHAT ARE THE BENEFITS OF A BLOODLINE TRUST?

A Bloodline Trust is designed to keep money in the family, protecting the inheritance of your children and their descendants: Bloodline Trusts offer a number of important benefits:

- ◆ Trust assets can be used only for blood descendants - your children and grandchildren. Specifically, assets in the trust can be used only for your children’s or grandchildren’s health, education, maintenance or support.
- ◆ Trust assets are never available to a son- or daughter-in-law, either during the marriage or in a divorce, through equitable distribution or alimony.
- ◆ Trust assets are protected from your children’s creditors and those of your sons- or daughters-in-law.
- ◆ Your child may be given control over the trust.
- ◆ Your child, acting as trustee, can distribute principal to or for the benefit of himself or herself or to his or her descendants.
- ◆ The trust terminates at your child’s death and the remaining principal can be paid only to your child’s descendants.
- ◆ The trust is revocable during your lifetime, but only by you.

WHO SERVES AS TRUSTEE OF THE BLOODLINE TRUST?

Your child can serve as initial trustee of the Bloodline Trust or share this responsibility with an independent co-trustee. At any time, your child can resign from the trustee role. He or she will be removed from the role automatically in the event of a divorce or lawsuit and reinstated only when the divorce is complete, the divorce action is terminated or the lawsuit is resolved. An independent successor trustee can be appointed by you in your will or trust or can be nominated by your child. That successor trustee may be another child in the family or a financial institution.

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