

# **Inheritance with Guardrails: The Benefits of a Bloodline Trust**

By Matthew T. Kikta, CELA  
July 2021

When it comes to protecting a beneficiary's inheritance during their lifetime, clients have one of two reactions. The first is "I don't care what happens, I'll be dead." The second reaction exhibits concern over what can happen to their estate once the next generation inherits if planning has not been sufficiently addressed. Based on my experience and after working with hundreds of families up to this point in my career, it is my position that one should be concerned about the distribution strategy of their estate to the next generation(s). The purpose of this article is to discuss the benefits and consequences of an estate plan that distributes outright to beneficiaries versus to a protective bloodline trust.

Estate plans that do not consider protection for the generation inheriting an individual's estate typically have dispositive language in the will or trust that simply leaves the estate outright and free to the inheriting parties. From a practical standpoint, this means that the individual inheriting the funds will typically take said funds and immediately add them to an already established account that they hold, whether individual or marital. Upon doing so, these funds may now be considered in future actions against the individual including divorce proceedings, bankruptcy, creditors, disability, etc. Many of my clients have children/grandchildren beneficiaries that are very responsible adults. But even a responsible individual can face a curve ball in life that they did not anticipate, nor that they caused. However, an inheritance with no protection could be impacted by any of the above events. Many clients also express concern over one of their potential beneficiaries passing away prematurely and the surviving spouse remarrying and possibly even having children with said new spouse. If inherited funds were transferred to said beneficiary without built in protection, there is a chance that a client's assets could support and even transfer to a bloodline that is entirely different from their own. These are the potential perils of transferring one's estate to beneficiaries without sufficient planning for the next generation(s).

To address these concerns while also allowing a beneficiary to benefit from an inheritance, we employ estate planning techniques that add guardrails to how said inheritance is received and used. The most common technique we recommend is a bloodline trust. Rather than a beneficiary receiving an inheritance outright and free of trust with no protection, a bloodline trust

is created to further hold the inheritance for the lifetime of the beneficiary. The bloodline trust is a separate entity from the beneficiary, even carrying its own tax identification number. Assuming the beneficiary at the time of receiving the inheritance is of an appropriate age and not in the midst of one of “life’s curve balls,” said beneficiary can serve as their own trustee of their bloodline trust. A bloodline trust typically has certain rules for distribution to the beneficiary. The most common being that the beneficiary (who is also serving as their own trustee) may access bloodline trust assets unilaterally for distributions only falling within the categories of Health, Education, Maintenance and Support (HEMS). This essentially means the beneficiary can make distributions for the following without any other individual’s permission: pay their mortgage, buy a car, go on vacation, pay utilities, pay for educational pursuits, buy clothing and pay for home improvement expenses.

A beneficiary can even make bloodline trust distributions for reasons that are not considered HEMS, however those distributions would require the beneficiary to also have an Independent Special Trustee approve said beyond HEMS distribution. This allows the beneficiary to benefit and enjoy an inheritance while also having a level of protection for the assets that make it less likely for them being squandered. Because of the benefits of a bloodline trust, many clients are now requesting that this be built into their respective estate plan for their beneficiaries. Furthermore, a client’s retirement account can also enjoy the protection associated with a bloodline trust if they make the beneficiary’s bloodline trust a designated beneficiary on the account rather than to an individual beneficiary outright. Because of the protective characteristics, a bloodline trust also helps to ensure that any inheritance stays in the bloodline should a primary beneficiary pass away.

Given that uncertainties in life only grow as time moves forward, using a bloodline trust as a part of your estate plan to protect future beneficiaries is a very considerate and sensible decision for both yourself and your future beneficiaries. The assets that comprise your estate took an entire lifetime to accumulate. It would be a tragedy to see them unnecessarily lost because of adverse life circumstances of the beneficiary inheriting them. Incorporating a bloodline trust into your estate plan can give peace of mind that an inheritance will likely be a blessing in your beneficiaries’ lives and not a curse.

Talk to your Certified Elder Law Attorney about incorporating a bloodline trust in your estate plan.