Aldrich Wealth LP
888-299-3102

Asset Protection – For You and Your Heirs

The wealth that you have worked diligently to create could be vulnerable to potential creditors. Liability claims can come from several sources including the IRS, business and personal creditors, credit card companies and marital partners. There are strategies that can help you protect your wealth and the wealth you leave to your heirs.

ASSET PROTECTION STRATEGIES

It is important to identify your potential loss exposure and then explore strategies that will reduce that exposure without compromising your other estate planning objectives. Four basic asset protection techniques that may be beneficial to you include:

- **Insurance** – Insurance is your first line of defense, and we recommend that you regularly review your existing coverage and identify any potential new risks. A properly executed insurance plan can help protect you against the financial risks associated with death, disability, medical expenses (including long-term care), property damage, personal liability and business losses.
- **Statutory Protection** – Certain property is exempt from creditor liens under federal or state law. Protection levels vary between states, and the exemption amounts may not cover the entire value of a specific asset. Exemptions are often extended to qualified retirement plans, IRA's, life insurance proceeds, 529 plans, and all or a portion of the equity in your primary residence. For example, homestead laws generally allow you to exclude a specific amount of the equity in your home from claims by unsecured creditors.

> Offshore trusts also provide asset protection. When a foreign country has jurisdiction over trust assets, a US court cannot exert any power over the offshore trustee. It is complicated and expensive for creditors to file a suit against these assets.

- **Asset Placement** – How your assets are owned is very important. If you are potentially at a higher risk of liability, it may be advisable for you to shift assets to your spouse. You may choose to retain assets that receive statutory protection in your name while moving unprotected assets to your spouse. Asset division should be agreed upon in writing to protect both parties if the marriage ends in divorce. Separating assets is more difficult if you live in a community property state, but there are certain strategies that you can explore with your estate planning attorney.
- **Irrevocable Trust** – Establishing and funding an irrevocable trust is another avenue for protecting assets. Once executed and funded, you cannot change the terms of the trust or remove assets. The assets are out of your control and therefore are generally beyond the reach of your creditors. Moreover, these trusts can contain spendthrift provisions that protect your assets from the beneficiary's creditors.

> Personal assets should not be placed inside business entities, such as corporations, partnerships and LLC's. Doing so would expose these assets to potential business creditors and liability lawsuits.

PROTECTING YOUR CHILD'S INHERITANCE

Once you have taken steps to protect your wealth during your lifetime, consider strategies that could protect that wealth for future generations. Given the high rate of divorce and bankruptcy, parents are often concerned about the risk of their assets being awarded to their child's spouse or creditors.

Creating an irrevocable trust for the benefit of your child will protect assets that remain in the trust. Once funds are distributed from the trust, they are no longer protected. Trust strategies include:

Distribution Alternatives	Trust Instruction	Advantages	Disadvantages
Irrevocable Mandatory Income and Support Trusts	• Upon death, the trustee will distribute as much of the trust income as is necessary for the health, maintenance, education or support of the beneficiary	• Lifetime income for descendants • Assets retained in the trust are protected and are not part of descendant's estate	• Amounts distributed are no longer protected from creditors or divorce • Distributed assets are included in the descendant's estate
Staggered Distributions from an Irrevocable Trust	• Upon death, the trustee is directed to distribute assets to the beneficiary at certain ages	• Allows for staggered distributions vs. outright lump sum • Assets retained in the trust are protected and are not part of descendant's estate	• Amounts distributed are no longer protected from creditors or divorce • Distributed assets are included in the descendant's estate
Discretionary Distributions from Irrevocable Beneficiary-Controlled Trust	• Upon death, the trustee may distribute as much income and principal as the beneficiary desires	• Beneficiary remains in control of his/her inheritance but can choose to keep assets protected in the trust • Assets retained in the trust are protected and are not part of descendant's estate	• Amounts distributed are no longer protected from creditors or divorce • Distributed assets are included in the descendant's estate

Note – trusts may be subject to higher tax rates and additional tax filing requirements. They are complex legal instruments and can potentially be costly to administer and maintain.

WE CAN HELP

Asset protection strategies are intricately connected to your overall estate and insurance plans. At Aldrich Wealth, we can help you evaluate your existing plans and determine if you might benefit from additional strategies. We will work closely with your estate planning attorney and insurance agent to ensure you implement the best strategic plan given your unique financial situation.