



Protective Trust

Protective trusts are an efficient way of protecting assets, which are intended for a friend or relative whose personal circumstances cannot guarantee the safety of those assets.

Circumstances where a protective trust may be useful are where the beneficiary:

- Is involved in a speculative or hazardous business, which may result in bankruptcy.
- Is a spendthrift.
- Is dependent upon alcohol or drugs, which makes him vulnerable financially.

The creation of a protective trust during your lifetime can guarantee that assets are set aside for the benefit of such a relative, giving them a continuing income, without leaving assets, which may pass to that relative after your death, vulnerable.

Strategy

The Settlor sets up a Protective Trust, places assets (which can include family heirlooms) into the trust and appoints a beneficiary. The beneficiary has the right to use and enjoy the assets during his or her lifetime and receives an income from any investment assets settled. At all times the assets remain in the trust.

Should the beneficiary become bankrupt, the beneficiary's interest can cease under the terms of the trust. When this happens the trust becomes a trust for the benefit of a class of beneficiaries (which can include the original beneficiary's spouse and children) at the discretion of the trustees. The original beneficiary's creditors cannot force the sale of the trust assets to settle his debts.

Where the beneficiary is financially vulnerable he or she made need protecting from less scrupulous acquaintances or from themselves. The trust allows the trustees to keep a close eye on the funds to ensure that they are not advanced to the beneficiary or "invested" inappropriately, whilst ensuring that the ongoing interests of the beneficiary are maintained.

Advantages

- Assets are protected from financially vulnerable situations.
- The class of beneficiaries of the discretionary trust can be wide therefore the trustees can decide who can benefit from the trust assets.
- The settlor can ensure that assets are passed to the family member of his choice e.g. the grandchildren.

For further information contact

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