

9/11 FAMILIES | ENDOWMENT LOGIC

The Inheritance Invisibility Cloak

Shielding multi-generational wealth through irrevocable trust structures that protect principal from creditors and estate taxation.

BOTTOM LINE UP FRONT

A personal inheritance is a "deep pocket" target for lawsuits and a 40% federal estate tax. Simple accidents, like a guest slipping on a rug, can allow a court to seize your family's personal legacy to pay damages.

The Problem: Visible Wealth Attracts Risk

When assets are held in your personal name, they are fully exposed to two categories of risk: creditor claims and estate taxation. These risks compound over time and across generations.

Creditor Exposure

Any personal asset -- bank accounts, investment portfolios, real estate -- can be attached by a court judgment. This includes not just business liabilities but personal tort claims: car accidents, slip-and-fall incidents on your property, even social media disputes that escalate to defamation suits. For families with significant USVSST distributions, the visible accumulation of wealth makes them potential targets.

Estate Tax Exposure

The federal estate tax imposes a 40% levy on estates exceeding the exemption threshold (currently \$13.61 million per individual, but scheduled to be cut roughly in half after 2025 under current law). For families whose combined assets -- including life insurance death benefits, retirement accounts, and real estate -- approach or exceed this threshold, the tax can consume nearly half of the intended inheritance.

The Solution: Safety Net Trust (HEMS)

We move assets into a "Safety Net Trust" -- technically, an irrevocable trust with a Health, Education, Maintenance, and Support (HEMS) distribution standard. Once assets are in this structure, the trust owns the money, making it invisible to personal creditors.

How the Trust Protects You

The HEMS standard gives the trustee authority to distribute funds for the beneficiary's health, education, maintenance, and support needs. This means you retain practical access to the money for all reasonable living expenses while the legal ownership resides with the trust entity.

Because the trust -- not you personally -- owns the assets, they cannot be seized in a personal lawsuit. They also do not appear on your personal balance sheet for estate tax calculation purposes.

The "Key" Concept

Think of the trust as a vault where you retain a "key" for daily living needs. You can access funds for healthcare, your children's education, mortgage payments, and maintaining your standard of living. What you cannot do is use the trust for speculative purchases or gifts -- and that restriction is precisely what makes it invisible to creditors and the estate tax.

The Goal

You retain a "key" to use the funds for health, school, and your standard of living, while the core principal remains untouched. The result is a family wealth structure that provides current lifestyle support while building a protected legacy that passes to future generations with minimal tax erosion.

Timing Considerations

These structures must be established before a creditor event occurs. Transfers made after a lawsuit is filed (or even anticipated) can be reversed by a court as "fraudulent conveyance." The optimal time to implement is during a period of calm -- ideally as part of a comprehensive planning engagement initiated well before any potential exposure.

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