

Spendthrift Trust Assets Protected from Beneficiary's Creditors

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In a recent *Take Note* alert, we shared with you developing law regarding the protections available to beneficiaries of estates and trusts who may have debts that lead them to seek the protections of the bankruptcy code.

[Click here for "Effective Disclaimer of Anticipated Bequest by Beneficiary Saves the Day!"](#)

In another recent case, a debtor filed for bankruptcy protection just one year shy of attaining the age specified to receive a distribution from an irrevocable spendthrift trust. The bankruptcy trustee attempted to reach the assets of the spendthrift trust so that they could be made available for the creditors of the debtor. However, the court determined that the Pennsylvania spendthrift law prohibited the bankruptcy trustee from reaching the assets protected in the trust. This spendthrift trust was established by another individual for the benefit of the debtor prior to the debtor's bankruptcy filing. The debtor had a vested interest in the spendthrift trust at the time of his bankruptcy filing, even though he would not receive the trust's assets until reaching a certain age - about one year after his bankruptcy filing. The court commented on the frustration of the bankruptcy trustee and the bankruptcy court by this inability to reach the trust's assets, but nonetheless upheld the validity of the state spendthrift law, and the long held public policy reasons behind spendthrift statutes.