Estate Equalization

If you have one or more children actively involved in your successful business how do you plan for the smooth continuation of your business, and at the same time treat all of your children fairly?

The scenario

John and Mary, both aged 60, have built a successful closely-held business over the last thirty years. Assets in their estate total approximately $5 million with $4 million estimated to be the value of John's business.

They have also raised three successful and independent children. One child, John Junior, age 32, showed active interest in the business early on and has now been active in it for over seven years. His brother and sister on the other hand, have expressed no interest in the business.

If John Senior dies before retiring, his plan is to transfer ownership of the business to John Junior. However, since his business constitutes about 80 per cent of John's estate, John Junior would receive the bulk of John's assets, leaving little else for the other two children.

An undesirable outcome

With no planning, the worst of all possible outcomes may play out—John Junior assumes responsibility for the business when his mom and dad have deceased. At that time, their wills call for an equal division of their estates. John may be forced to either incur significant debt to buy out his brother and sister, or continue to share ownership of the business with "disinterested" partners.

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Use life insurance to divide estate assets equitably

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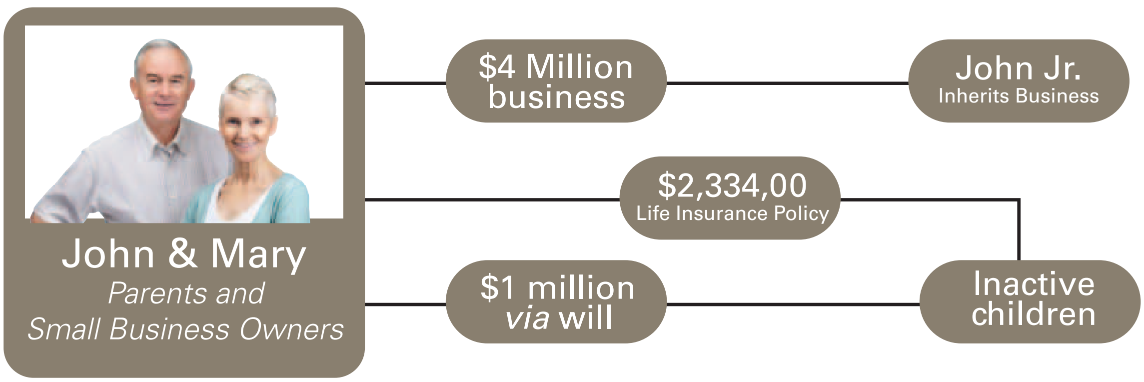
An alternative

If there were a way to give John's business to his active son, yet still provide fair estate distributions to his other children, wouldn't this merit consideration? Fortunately, there is. Life insurance, when structured properly, can substitute for shares in John's business so that his other children are assured of a fair and caring distribution of assets, while his active son becomes 100 percent owner of the business.[1]

For example, with no planning, and if John's $5 million estate were divided equally among his three children, each would receive approximately $1,667,000 of estate distribution.[2]

Thus, if John were to purchase a life insurance policy with a benefit of approximately $2,334,000, this amount, together with the remaining $1 million of non-business estate assets (or a total of $3,334,000), would be sufficient to give each non-active child $1,667,000. John Junior would own 100 per cent of his father's business and his brother and sister would receive a "fair and caring" share of the estate.

A fair and caring estate plan with life insurance



[1] Assumes that the estate owner and/or spouse is insurable.
[2] Not an actual case; presented for illustrative purposes only.

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