ESTATE EQUALIZATION

Problem:

Distribution of illiquid assets, such as a family business, can present challenges for the heirs upon the death of the owner. Ownership of a family business by multiple children might lead to conflict if some heirs are actively running the business and others are not. Additionally, without sufficient assets outside of the business to leave to other children, leaving the family business to one child will create inequality in the distribution of the estate.

Solution:

The business owner can set up his estate plan to distribute the business to the child actively involved in running the business. The business owner can then purchase a life insurance policy providing a death benefit sufficient to provide the other children with an inheritance equal to the current or future value of the business. This equalization of the estate distributions meets the desired objective of the business owner and helps to maintain good relations among the heirs of the estate.

Case Study

Andy, a single business owner, runs a successful manufacturing business with the help of his son, Bill. At his death, Andy plans to leave the business to Bill, and will divide the balance of his estate between his other two children, Cindy and David. The business has a current value of $3 million and Andy's remaining assets total $2 million in value. Upon Andy's death, Bill would inherit the business valued at $3 million and Cindy and David each would inherit other assets valued at $1 million.

Andy purchases a life insurance policy with a death benefit of $4 million and names Cindy and David as equal beneficiaries of the policy. Upon Andy's death, Cindy and David will each receive $2 million of life insurance death benefit in addition to the $1 million of other assets for a total of $3 million each, the same value received by Bill.

Without Equalization

Business Value = $3 Million

Other Assets Value = $2 Million

Inheritance for Bill	Inheritance for Cindy	Inheritance for David
$3 Million	$1 Million	$1 Million

With Equalization

Business Value = $3 Million

Other Assets Value = $2 Million

Life Insurance Proceeds = $4 Million

Inheritance for Bill	Inheritance for Cindy	Inheritance for David
$3 Million	$3 Million	$3 Million