CASE
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SELECT SOLUTIONS

Estate Equalization Using Life Insurance for Heirs of a Business Owner

Clients whose primary asset is the family business often want all of their children to inherit equal shares of their estates. The situation becomes more complicated when some of the children are directly involved in the business and others are not. Often clients feel strongly that the children working in the business should be rewarded for their efforts, yet they don't want to slight the others. If this describes a situation you have run into, your clients may want to consider the following idea.

Facts: Bill has carved a very successful niche in the business world. Much of his success is due to the marketing skills of his daughter. Bill's son has his own career path and has no interest in joining the business now or in the future.

Bill, who is widowed, has recently turned 50 and plans to eventually turn control of the business over to his daughter. He has refused to consider any type of buy-sell arrangement stating that he will pass the business to his daughter when he dies. He also feels that his son should be treated equitably. Bill's current total net worth is $3 million, which includes the $2 million business, an $800,000 personal residence, and $200,000 in cash and investments.

If the business passes to his daughter at Bill's death, with the balance of assets going to the son, the son will receive only half as much as the daughter. A quick estate calculation reveals that if Bill were to die today, it would be difficult to pay estate taxes without liquidating assets. If non-business assets were liquidated to pay the taxes so that the business is preserved, the son would receive even less. Life insurance could be an appropriate solution that would allow Bill to treat both of his children equitably.

Solution: When purchasing life insurance for estate equalization purposes, what is equitable? Is it equal shares, or some other division of property?

Will $2 million of tax-free life insurance proceeds at Bill's date of death be equal to a business valued today at $2 million? Or should a factor be used to anticipate future growth of the business and the estate? Is there a need for additional insurance beyond the "equity"? Each situation needs to be discussed with the client and his advisors to get answers to these questions and to determine the total insurance needed.

Another important consideration is how to exclude the life insurance from Bill's estate. In our scenario, where the son is the only intended beneficiary of the policy proceeds, the son could own the policy outright - if he is reliable and there are no concerns about creditor protection or money management. Where there are multiple children, second wives, creditor or money management concerns, etc., an irrevocable life insurance trust (ILIT) could be used.

As in any third party ownership estate planning scenario, premium amounts must be modeled to maximize the use of annual gift tax exclusions and applicable exclusion amounts and avoid gift tax on premium amounts gifted to the son or the ILIT.

Properly structured, premium dollars can be leveraged into life insurance proceeds for Bill's son, with the daughter retaining control of the business. The result: two children with "equal" inheritances.

Product Choice: PruLife® Universal Protector has the following features and benefits that make it appropriate for this scenario:

- Issued to age 90, based on actual age
- Lifetime no-lapse guarantee available.[1]
- "Dial-able" no-lapse guaranteed coverage at all issue ages and guaranteed limited pay scenarios.[1]
- Competitive compensation structure, unreduced by age or risk impairment, including 24-month rolling commissionable target premiums (except in NY)

QUESTIONS TO ASK ON THE NEXT PAGE

[1] All guarantees are based on the claims-paying ability of the issuer. "Dial-able" means the policyholder can secure the length of guarantee desired.

PruLife® Universal Protector is issued by Pruco Life Insurance Company in all states except New York where it is issued by Pruco Life Insurance Company of New Jersey. Both are Prudential Financial companies located in Newark, NJ. All guarantees are based on the claims-paying ability of the issuing company, and each company is responsible for its own financial condition and contractual obligations.

QUESTIONS? CALL ADVANCED MARKETING

Name
Address
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Prudential Financial

Questions To Ask The Business Owner

Questions	Yes	No
Does your business account for more than half of your net worth?		
Does the value of your estate currently exceed the applicable exclusion amount - the amount sheltered from estate tax?[2]		
Would you like your business to remain in the family, managed by family members?		
Are family members currently active in the business?		
Do the active family members have the management experience necessary to succeed?		
Do you have other family members that are not involved in the business that will share in your estate?		
Is it your intent to have your heirs inherit equal shares of your estate?		
Does the thought of your assets shrinking due to estate taxes and capital gains taxes upset you?		
Would you like to provide a source of funds, other than the business, for paying taxes that may be due at your death?		
Would you like another source of funds, other than the business, to provide for your heirs who are not active in the business?		

If the answers to any of these questions is "yes"
Fax this questionnaire to Advanced Marketing to learn more about Business Continuation

Broker:	Phone:
Fax:	Email:

[2] Scheduled as follows: 2006 –2008: $ 2,000,000; 2009: $3,500,000; 2010: estate tax repealed for one year; 2011 and forward: $1,000,000.