Estate equalization

Distributing assets fairly and equitably

INSURANCE PRODUCTS	
MAY LOSE VALUE	NOT A DEPOSIT
NOT BANK GUARANTEED	NOT FDIC INSURED
NOT INSURED BY ANY GOVERNMENT AGENCY	

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Concerns

Dividing your assets fairly among heirs can be difficult. Deciding what and how much to leave will be two main considerations for your estate plan.

For example, leaving certain assets, such as a residence, to more than one heir can create administrative and practical challenges for multiple owners. Similar difficulties can arise with a family business, especially if some heirs are more active in the business. On the other hand, leaving a single asset entirely to one heir could create inequality unless your estate has sufficient liquidity to balance inheritances. In circumstances like these, liquidating the asset and distributing the proceeds often seems like the only option to maintain good relations. Life insurance could be the solution to provide liquidity for estate equalization.

Solution

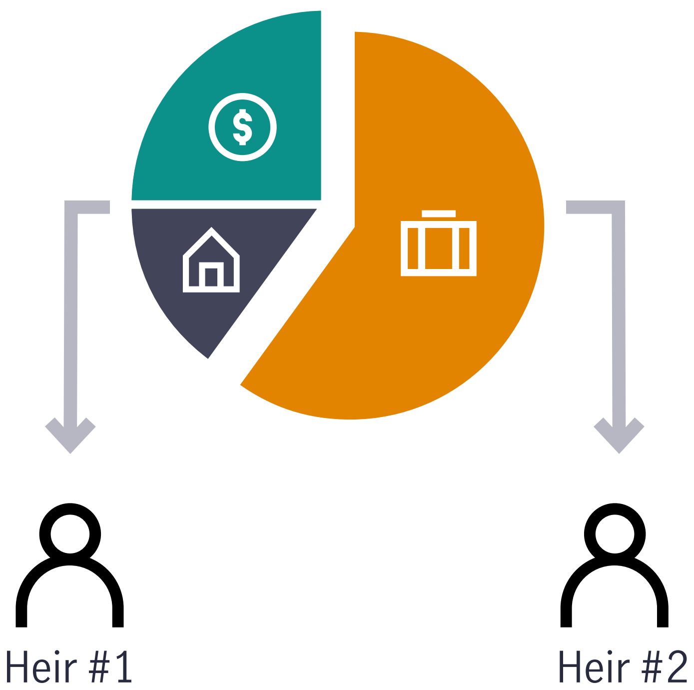
Your estate's liquidity will be an important factor in achieving a distribution of assets among your heirs in the proportions that you would like. Life insurance can provide that liquidity, helping to ensure each heir receives the inheritance you intend for them.

How life insurance can help

Determining how you want to divide your estate can help you decide how much insurance to purchase.

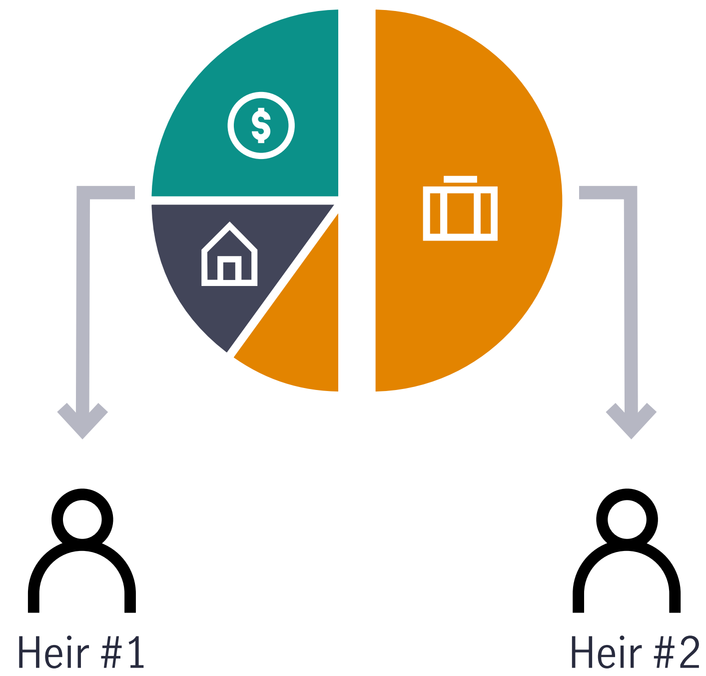
Equal share

You may decide to divide your estate into equal shares, based on the current composition of assets. This may be appropriate if only one child is involved in the business, and you want them to benefit from the growth in the business.



Equal amount

Alternatively, you may want your children to receive equal amounts. If you have allocated the hard to divide asset to one child (e.g., a vacation home), you may need additional liquidity to ensure all children receive equal amounts of the total estate.



How it works

You (or your trust, if estate taxes are a concern) **purchase a life insurance policy** on your life.

At your death, you can **pass the hard to divide asset** to your designated heir.

The death benefit proceeds can be used to **provide a legacy** for the rest of your family.

Benefits

- Life insurance can help provide cash to equalize inheritances among your heirs, as well as help protect your family's income in the event of premature death.
- Heirs may receive more money and a better return on the premiums than if those dollars had been invested in a taxable asset.[1]
- Life insurance provides an income tax-free death benefit.[2]
- The cash value of a life insurance policy grows tax deferred, and tax-free withdrawals and loans are permitted when structured properly.[3]
- You may be able to use income from the family business as a source of premiums.

Considerations

- Selecting an appropriate level of death benefit protection for estate equalization will be affected by the projected values of your assets for the number of years selected. Please consult qualified professionals to determine reasonable projections. Consider potential future heirs, such as those who might come to the business after estate planning is completed.
- Life insurance eligibility will be based on financial and medical underwriting, and you must have sufficient resources for the desired level of death benefit protection.

1. The rate of return (ROR) on death benefit is equivalent to an interest rate at which an amount equal to the illustrated premiums could have been invested outside the policy to arrive at the net death benefit of the policy.

2. Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for tax purposes. There are a few exceptions such as when a life insurance policy has been transferred for valuable consideration.

3. Loans and withdrawals will reduce the death benefit, cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½. Cash value available for loans and withdrawals may be more or less than originally invested.

Insurance policies and/or associated riders and features may not be available in all states.

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Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are a few exceptions such as when a life insurance policy has been transferred for valuable consideration.

Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including the generation-skipping tax). Failure to do so could result in adverse tax treatment of trust proceeds. There can be costs associated with drafting a trust.

Withdrawals in excess of the cost basis (premiums paid) will be subject to tax and certain withdrawals within the first 15 years may be subject to recapture tax. Additionally, policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½. Withdrawals are available after the first policy year.

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