ESTATE PLANNING

Wealth Obscures the Need for Life Insurance

"I have more than enough to provide for my loved ones after I'm gone. I don't need life insurance."

The Scenario

Ike Fernandez was a success in the world of social media, having created the world's first networking website for investment professionals. He had always been fascinated with architecture, and invested a large portion of his wealth in multi-million dollar properties designed by famous architects, mostly in the Chicago area where he lived. He was also a big supporter of the Chicago Architecture Foundation.

At the time of his fatal aneurism, Ike's estate was valued at nearly $80 million. He was a widower and his will named his three grown daughters as his only heirs. He named the eldest, Lillian, as the executor of his estate, despite her track record of unsuccessful internet ventures. The other two daughters, Sylvia and Eliza, didn't trust Lillian to handle the estate.

Sylvia, an attorney at a prominent law firm, immediately threatened to contest Lillian's authority if she didn't receive at least a portion of her inheritance within a few months of Ike's death. Eliza had fallen out with her father over her choice of a husband. She eloped, then divorced within 18 months, and hadn't spoken to anyone in the family for years. Now, however, she is struggling and anxious for her share of the estate. Both Sylvia and Eliza call Lillian constantly demanding to know when they will receive their inheritances.

Several creditors filed large claims against Ike's estate which the estate did not have sufficient liquidity to pay. Feeling pressure to obtain cash, Lillian instructed the attorney to sell the properties as quickly as possible. The speed of the sales forced the attorney to settle for significantly less than the properties were worth, greatly reducing the value of Ike's estate. Upon learning this, Sylvia filed a claim contesting Lillian's management of estate assets in probate court.

CHARACTERS AND CONCERNS

Ike Fernandez – A wealthy internet entrepreneur and philanthropist with significant real estate holdings. His wife predeceased him and he left his entire estate to three daughters who do not get along.

Lillian Peterson – Ike's eldest daughter and executor of his estate. She is married with two children and has a history of failed business ventures.

Sylvia Fernandez – A high-profile attorney, anxious for her share of the estate. She remains single, devoting herself to her career.

Eliza Enos – Estranged from her father and sisters and struggling financially after a bitter divorce, she is now eager for her share of the estate. She is single with one child.

A Planning Strategy

Choice of Executor

Ike had made a will, which was a good start. However, his choice of Lillian as executor was not carefully thought out. Just because she is the oldest daughter does not mean she is financially knowledgeable or capable. In fact, she was the least capable of the three daughters. Ike might have even considered an executor outside the family—one who was well versed in real estate transactions and who could have handled the large number of expensive properties.

Life Insurance

During life, Ike never felt the need for life insurance because he assumed his great wealth would be enough to take care of everything. However, much of his estate was tied up in illiquid assets, creating a severe lack of necessary liquidity upon his death. Life insurance could have provided that estate liquidity. In addition, a policy or policies with his daughters as beneficiaries would have provided them with equal and immediate inheritances to keep their fighting at bay.

Charitable Gift

Ike failed to make any provision in his will to continue his generous support of the Chicago Architecture Foundation. If he had provided estate liquidity and inheritances through life insurance and other liquid assets, he might have donated the properties to charity or placed them into a charitable trust. By choosing the right trustee, he could have ensured the proper care and management, and eventual sale, of these historically and artistically significant properties.

MORAL OF THE STORY

Significant wealth does not mean sufficient estate liquidity. Planning for enough cash to pay estate expenses and creditors allows the executor the necessary time to deal with more difficult assets like real estate. Life insurance is a simple solution to the liquidity problem, and can accomplish many other planning goals as well. Finally, a wealthy individual should take great care in selecting an executor who has the necessary knowledge and expertise to deal with the complexity of the estate.