MassMutual
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SUCCESS STRATEGIES
Advanced Sales

Estate Equalization, Revisited

A “fair” approach for transferring the family business

PASSING ON ASSETS THAT INCLUDE A BUSINESS

For a successful business owner whose business represents a large portion of the estate, wealth transfer planning becomes challenging. In the process of trying to equalize an inheritance among children when some of them are working in the business and others are not, it is challenging to have sufficient liquidity at death to split up the inheritance fairly. Life insurance offers the liquidity.

The next question is, how much? What’s ‘equal’? What’s ‘fair’? Generally, there are 2 approaches to consider:

1. **Transfer an “equal” dollar amount to each child based on the value of the business.**
   This approach focuses on transferring an “equal” amount so that children not working in the business feel their share is equal in dollar value to those working in the business.
   See Chart A, Equal Approach.

2. **Transfer a “fair” amount to each child based on the value of the total estate.**
   This approach simply takes the full value of the estate and divides by the number of children in the family. The business transfers fully to those children working in the business without concern over the actual dollar value of the transfer.
   See Chart A, Fair Approach.

Life Insurance

WHERE LIFE INSURANCE FITS IN

Life insurance offers the liquidity necessary to equalize the inheritance under either approach. However, the "fair" approach is often the option of choice when considering the amount of life insurance. It requires a lower death benefit amount, making the client's decision to execute on the insurance much easier. Otherwise, the planning may get stalled when the insurance required is simply too large. Consider the comparison in **Chart A** below:

$7,000,000	+	$2,000,000	=	**$9,000,000**
Business Value		Other Assets		**TOTAL ESTATE**

3 CHILDREN, 1 WORKS IN THE BUSINESS

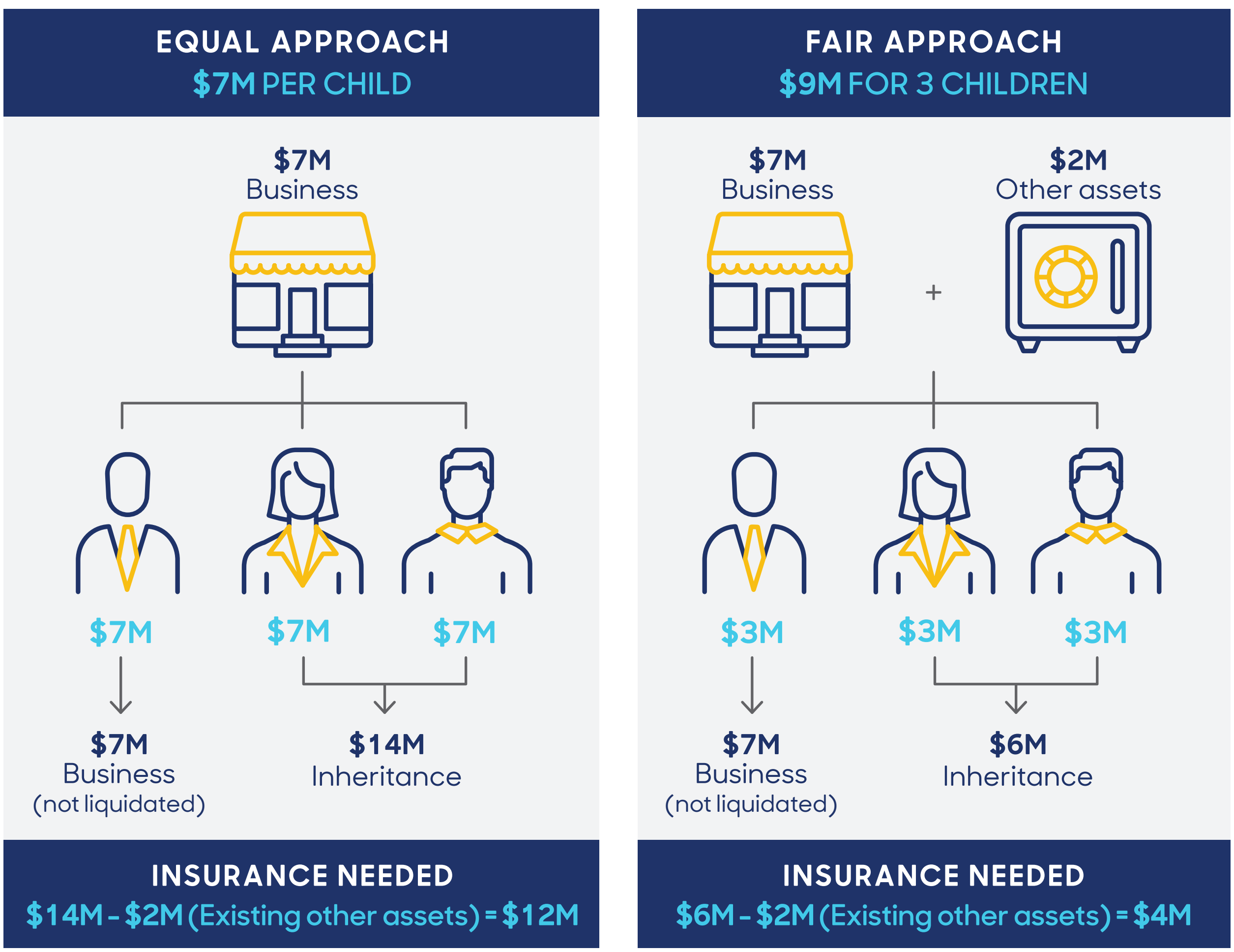

Chart A

Estate Equalization

BENEFITS OF USING LIFE INSURANCE UNDER A “FAIR” APPROACH TO EQUALIZING AN INHERITANCE

Non-active kids receive death proceeds free of income tax, instead of minority interests in a business in which they have no operational background or emotional attachment.

Active child gets to assume control of the business, perhaps realizing a lifetime goal, without interference from siblings who may not contribute anything to the success of the business.

Parents enjoy peace of mind knowing that the disposition of their estate will be “fair” and that their legacy is a positive reflection of their life.

Heirs receive bequests without conflict, and without the costs and delay of asset liquidation. As a result, they are more likely to view the legacy transfer as “fair.”

It becomes challenging for parents to equalize an inheritance when the dollar value of the business is the aim of planning. By utilizing a “fair” approach, parents are less likely to abandon planning since the amount of life insurance to replace is more practical and feasible.

Contact Advanced Sales at **1-800-601-9983 Option #2**
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