Estate equalization for family-owned businesses

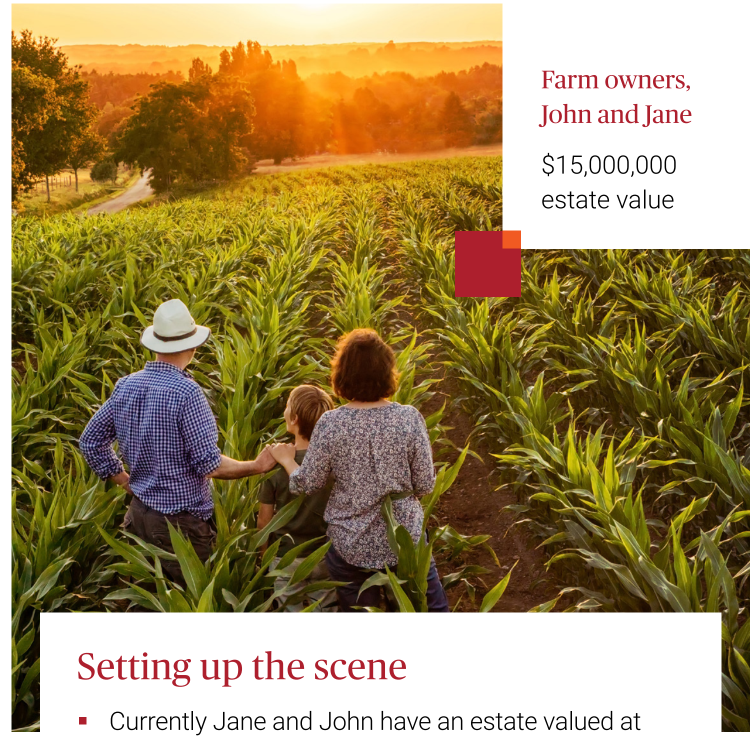
Using life insurance to offset nonactive family members.

For many family-owned businesses, a majority of their wealth is comprised of business assets, related real estate and other potentially nonliquid assets. These families also tend to have some family members who are active in the business and some who are nonactive. This dynamic can make transition planning challenging when it comes to equal distribution.

If faced with this situation, the first step is to determine what equal looks like. Remember, what's fair isn't always equal and what's equal isn't always fair. Consider and discuss how active family members may have sweat equity in the business. They may also be the underlying value of the operations. Ultimately, the wealth active family members inherit may require them to work and leverage their inheritance for the remainder of their working lives.

Planning options

Next up is to determine a fair distribution. Based on current estate value and composition of business vs. nonbusiness assets, we can look at what additional level of assets would be needed for fair treatment to all heirs. The additional funding need can be covered by the purchase of life insurance. The wishes of estate equalization would be placed into an estate or transition plan. Upon the death of the business owner, the business would then be passed along to the active heirs while the nonbusiness assets — including life insurance proceeds — can be passed along to the nonactive heirs.



Farm owners, John and Jane

$15,000,000 estate value

Setting up the scene

- Currently Jane and John have an estate valued at $15,000,000 and have three adult children.
- The estate assets and distributions are broken down into the following:
  - $13,500,000 business assets (90%) to active son.
  - $1,500,000 are nonbusiness assets (10%) to all sons equally.
- Jane and John want to give a more equal distribution. of their wealth, but realize their one active child should control the business.

Active son
$14,000,000

Nonactive sons
$500,000

Insurance products issued by:
The Lincoln National Life Insurance Company

Planning with life insurance

- John and Jane purchase life insurance with a death benefit of $6,000,000.
- This death benefit will be directed to the nonactive children in the business.
- The nonactive children will also receive the nonbusiness-related assets of the estate at John and Jane's passing as well.
  - While this still results in an unequal distribution of the estate, John and Jane felt the amount was fair for their heirs and allows their family business legacy to continue successfully with their active child.

Farm owners, John and Jane

$21,000,000 estate value (life insurance included)

Active son
$13,500,000

Nonactive sons
$3,750,000

For more information on transition planning strategies using life, contact your Lincoln representative.

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