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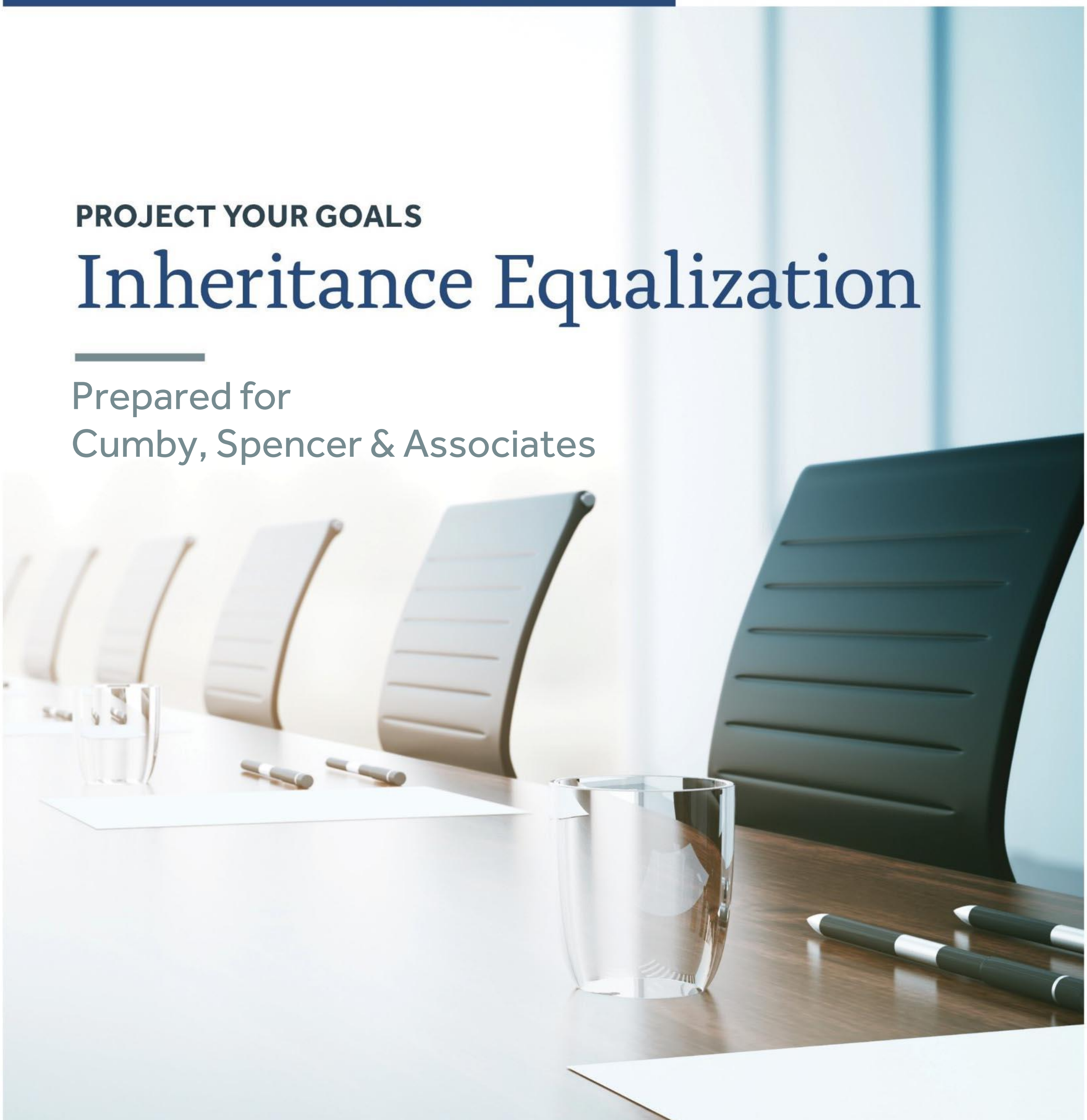
PROJECT YOUR GOALS

Inheritance Equalization

Prepared for
Cumby, Spencer & Associates



Inheritance Equalization

For business owners, equal treatment of heirs can be a challenge when a large amount of an estate is tied up in illiquid assets. When some children work in the family business and others do not, inheritance balancing may require even more careful planning. Usually a parent/business-owner wishes to treat each child fairly, regardless of whether they are involved in the family business. However, fairly does not always necessarily mean equally.

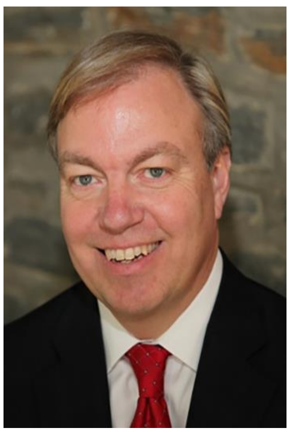
The Problem

It rarely makes sense to simply split the business ownership equally between children who work for the business (active) and those who don't (non-active). A non-active child may feel that the business should make non-compensation distributions to all stockholders. After all, the business interest was part of his or her inheritance. If there are no distributions, that inheritance has little value. However, an active child will probably be more interested in pouring profits back into the business. Since the profits are generated by the active child's risk assumption and hard work, he/she may feel justified in opposing such distributions. The substantial compensation the active child may receive for services rendered often heightens this friction. The active child may also feel resentment that, if the business were sold, a large part of the proceeds would go to a sibling who made no contribution to its value. Family relationships are frequently marred by this kind of tension.

The Solution

For these reasons, it almost always makes sense to transfer the business to active children, and to balance the inheritance for non-active children with other assets from the estate. To the extent other assets are insufficient, tax-free life insurance proceeds can be used to fill the gap. Income and estate tax-free life insurance proceeds would flow into a protective trust. The trust would provide the spouse with support for his or her lifetime. Afterwards, the non-active children would receive the balance. The trust would make a distribution of the business interest to the active children. Alternatively, the business could remain in trust (with the active children as beneficiaries and trustees), protecting it from estate taxes, creditors, and potential ex-spouses.

If non-active children wish to enter the business at some point in the future, to keep their options open, a buy-sell agreement can be established. The agreement could give the child the right to buy into the business during a specific window of time, such as through a certain age. It would set the price and terms, as well as any qualifications. The purchase price could be funded with insurance on the owner's life. A trust could hold the coverage, so that proceeds would be channeled as circumstances dictated. For example, if a non-active child chose not to enter the business, the trust assets could be diverted in accordance with instructions specified in the instrument. With such an agreement, all parties would have maximum opportunity to determine their future relationship with the business. A non-active sibling would not be swayed to enter the business on the principal that "something is better than nothing," since the trust assets could be structured to benefit him or her either way. The ability of each to freely choose or reject participation would minimize the likelihood of disharmony, and choices would not be restricted by lack of funds.



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Bruce Cumby is the President of Cumby, Spencer & Associates Financial Group. For more than 35 years, he has developed a niche for working with pre- and post-retirement Baby Boomer and business owner clients. Bruce specializes in designing comprehensive, holistic solutions for his client's retirement planning, estate planning, wealth management, and business succession needs, as well as executive and employee compensation and benefits. He focuses on clarifying his clients' goals while creating a road map for their success. He attended St. Joseph's University and earned a Master of Science in Financial Services from the American College.

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