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LIFE INSURANCE

# Using an Irrevocable Trust in Succession Planning



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**MLINY0806089983 AG DOLU081208**

# The Challenge



- Transfer Business to Child
- Provide Liquidity to Surviving Spouse
- Treat Other Children Fairly

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# The Challenge – Transfer Business to a Child



- Ensure child gets control and economic value of business only when ready
- If parent dies, who will decide and how?
- Until child gains ultimate control, ensure child is employed
- Remove surviving spouse and other children from equation

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# The Challenge - Provide Liquidity to Surviving Spouse



- Ensure spouse has enough liquid assets to generate sufficient income
- Provide liquidity if need to invade principal
- Provide liquidity for continuing estate planning

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# The Solution: Irrevocable Trust Planning



- Survivorship insurance for equalization for other children
- Can give management control to successor without economic control
  - Divorce
  - Creditor issues
- Can let trustee (and spouse) determine when successor is ready to have management and economic control of business

\*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 transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds.

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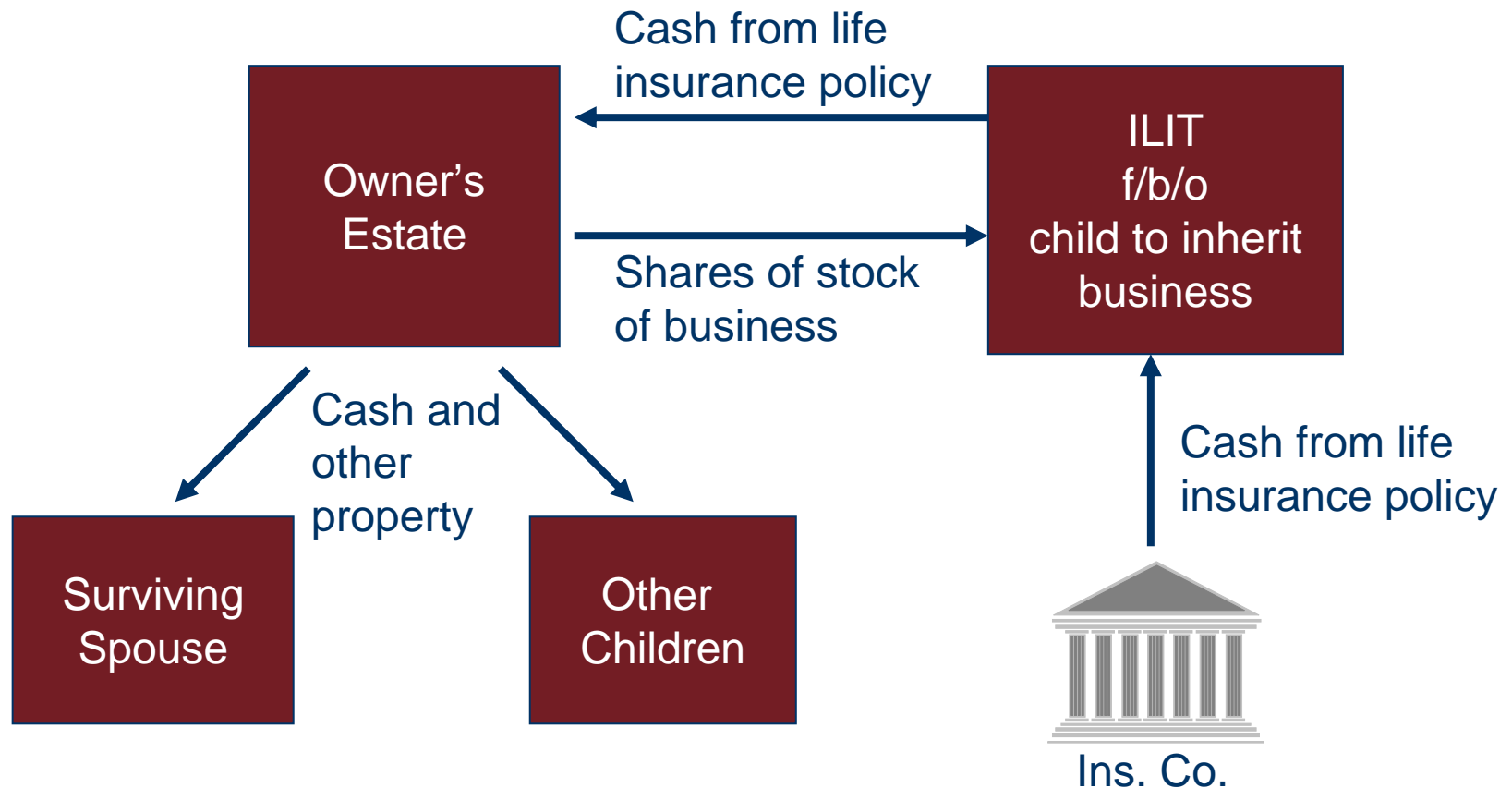
# The Solution: Irrevocable Trust Planning



- ILIT with life insurance to purchase business from estate on parent's death (single life policy)
- Provides spouse with liquidity
- No loss of control until death

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# The Solution: Irrevocable Trust Planning



The data shown is taken from a hypothetical calculation. It assumes a hypothetical rate of return and may not be used to project or predict investment results.

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# The Solution: Irrevocable Trust Planning Case Study



## The Smith Family

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# The Facts



- Frank Smith, 60 year-old successful business owner
- Married to second wife, Joan, age 60
- John, age 32, son from first marriage
- Paul, age 23, and Mary, age 21, children from current marriage

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# The Facts



- John gets along well with Frank, but is only civil to Joan
- John blames Joan for breaking up his parents' marriage
- Frank's first marriage was a failure
- But he has always gotten along with his first wife
- Frank and Joan are happily married

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# The Facts



- Frank's father died suddenly when Frank was right out of college
- Frank worked hard to build the business
- Frank wants John to be his successor

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# The Facts



- However, Frank is not sure when, if ever, he will give control to John during Frank's lifetime
- Frank thinks John is fully capable, but questions his maturity
- Paul and Mary do not want to be in the business; they have different interests

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# The Facts



- Frank loves all his children equally
- He wants to provide for Joan
- He wants to treat Paul and Mary equally
- In the event of his death, however, he wants only John to be involved in the business
- He wants to avoid family squabbles

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# The Facts



- Gross estate is \$5,000,000
  - The business is worth \$2,500,000
  - The house is worth \$350,000
  - Commercial real estate worth \$1,500,000
  - Cash and securities worth \$650,000
- Frank expects the business and other assets to double in value by the time of his death

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# The Solution



- \$5,000,000 single life policy (premium \$112,134)
- \$5,000,000 survivorship policy (premium \$51,005)
- Crummey gifts, gift-splitting and “unified credit” gifts
- Consider FLP gifts with Defective ILIT

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## On Frank's Death

- Sale of company stock to ILIT
- \$5,000,000 cash in the estate
- Joan has home and \$9,300,000 of income producing assets in marital trust and credit shelter trust
- Company stock in ILIT f/b/o John

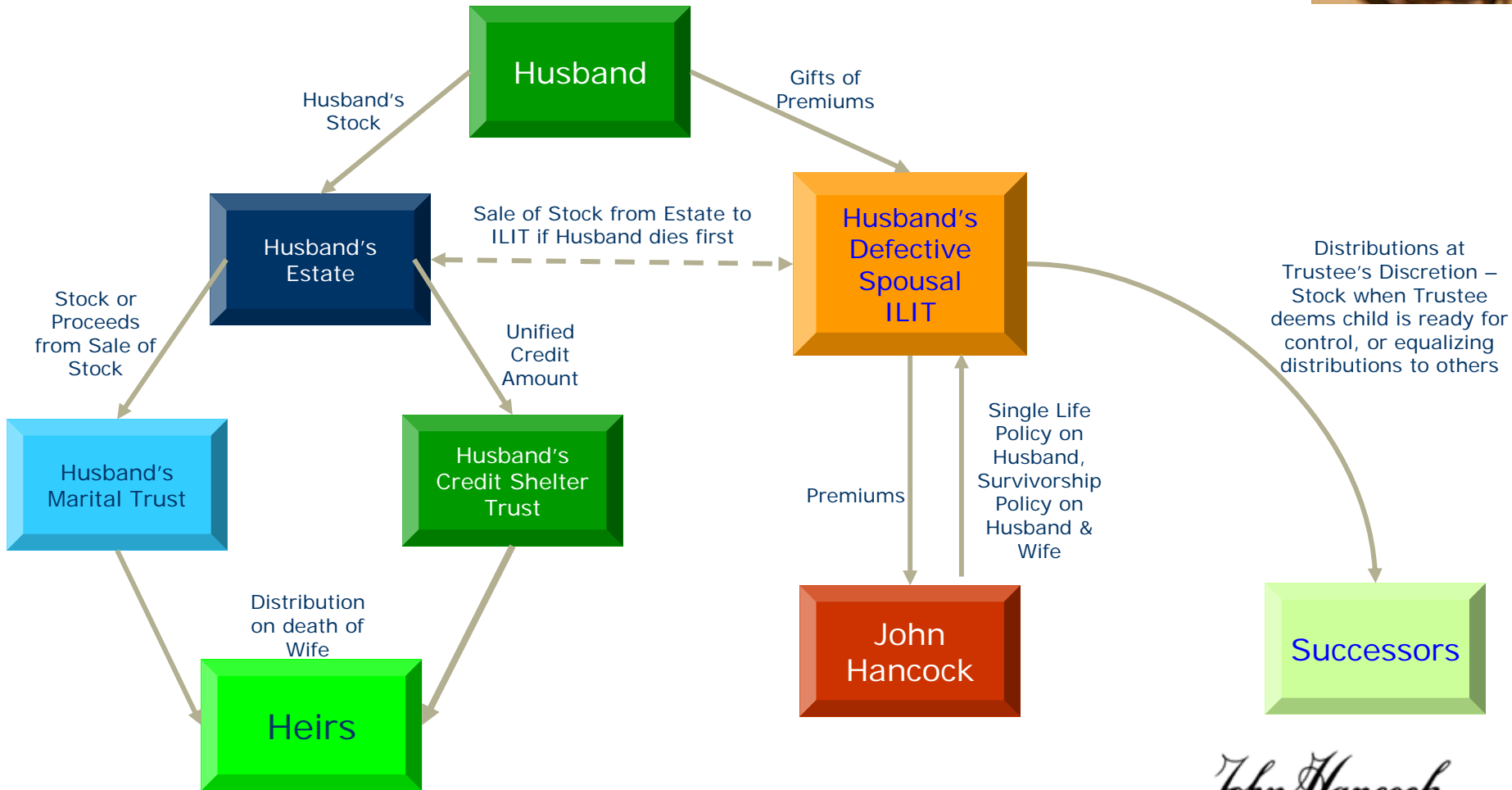
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## On Joan's Death

- \$5,000,000 death benefit to ILIT
- Estate taxes \$5,000,000 (assume 50% for simplicity)
- Paul and Mary get \$5,000,000 each, but had to wait until mother's death

# Here's What It Looks Like



# Disclosures



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