

Estate Planning - "We Love You All Equally"

Every family is different. The recent Holiday Season shows this well with different traditions, rituals and practices that families have carried through the years. Even further, each generation gets to add something to the mix.

Right before Christmas, I was talking with a client who laid out for me all the goings on within his family this year. The conclusion of the story was that 2015 was literally the last year his children would all be home together, and that from now on the entire Holiday Season from Thanksgiving to New Year would have to be changed. His daughter would become host for one holiday, his son for another, and they live on different ends of the country. It was strange for him to picture a family time not at "home", he was debating how often he'd really be able to make it out to the West Coast for that child or how often they'd make it back.

The whole conversation got me thinking about fairness in families. When someone makes an Estate Plan, Transition Plan for their business or just purchases Life Insurance how much thought is given to how the family will react after one passes.

Andrew & Andrea Smith are 65 have been married for 40 years, and they have 4 children, Drew, Dawn, Dina and Daniel. Andrew runs a very successful boutique Government Relations Firm and Andrea has worked in special education in the local schools for 25 years. Drew and Dina have gone to work at Dad's firm, are full partners and are poised to assume complete management control in the next 5 years. Drew and Dina's families live down the street from Andrea and Andrew. Daniel moved from DC to Chicago with his fiancé recently; he is a teacher like his mother. Dawn moved to California with her partner after college over 15 years ago and is a successful horse breeder. She and her partner have adopted two special needs children from China in the last 5 years.

Andrea is retiring this year so the Smiths sat down to review their Estate Plan they wrote up when they were 50, they saw that if they weren't careful there could be some problems with the children. The conversation revolved around splitting up assets, a vacation home and what to do about the business.

It was obvious that Dina and Drew were taking over the business, and that most likely the two of them would have joint ownership of a vacation home in Bethany Beach because they were local and it was often used for entertaining for the business. Andrea was concerned that Dawn and Daniel were being left in the cold a bit. Dawn was rarely able to come back to the DC area with her family since her adoptions, and Daniel's fiancé is very close to her family and for all intent and purposes calls the shots on holidays now. Andrea and Andrew estimate that the business and the home accounted for about \$7.5M of their total \$12.5M estate. Considering this even if they were to give all the rest to Dawn and Daniel it would not be a fair breakdown of wealth.

I'm leaving story there because this situation is all too common for families as they plan for the future. We live in a much more mobile society, and very often families are spread across the country or siblings have very different needs as adults then did when they were kids. It brings the question for parents, "How can I be fair here?"

One idea is use Life Insurance as an Estate Equalization tool. In this case study a simple solution could be for Andrew and Andrea to take out Second to Die Life Insurance Policy on themselves for amount they felt would even the gap between Dawn and Daniel and Dina and Drew and name Dawn and Daniel beneficiary. Then while Dina and Drew get the business and the use of the beach house, Dawn and Daniel are provided with a cash equivalent to what they are missing out on not being in the business or able to use the beach house.

As was noted in the beginning, every family is different, and those differences need to be accounted for in every plan.

