ADVANCED PLANNING

ESTATE EQUALIZATION: DIVIDE YOUR ASSETS, NOT YOUR FAMILY

Life insurance can be a valuable tool in helping you create an estate plan that's fair and equitable for all of your loved ones.

At its core, estate planning is all about determining who will receive your assets and when they'll receive them. Achieving an equitable distribution of assets is a goal that's sometimes challenging, like if there's a family business or a vacation home. The last thing you want to do is to split your assets in a way that ends up splitting your family.

Let's look at a few scenarios of how it can be used:

Scenario 1: Simple Family Business Planning

Meet Gwen, a single 60-year-old who is the sole owner of a small but successful local dance studio. Gwen has two daughters, Jen and Stacy. Jen works in the business with her mom, whereas Stacy chose another career path and is an accountant. Gwen knows Jen wants to run the business someday, but she doesn't know how she can leave the business to Jen in a way that's fair to Stacy. Most of Gwen's assets are tied up in the business, so if she were to leave the business to Jen, that would leave very little inheritance for Stacy.

Proposed solution: Gwen discusses the situation with her financial professional, who recommends that she purchase a life insurance policy and make Stacy the sole beneficiary of this policy. Thanks to the leverage offered by life insurance and her good health, Gwen can buy a policy that offers a death benefit amount similar to the value[1] of her dance studio.

Thanks to this policy, when Gwen dies, Stacy gets the policy and Jen gets the business, allowing both of her girls to receive assets of similar value.

1079252-00001-00 Ed. 04/2024

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Scenario 2: More Complex Family Business Planning

Henry is an owner of a local grocery store chain. He's grateful that the business has been so successful that he's been able to be the sole provider for his wife, Maggie, and their three children, Sam, Caroline, and Andy, for all their lives. Now that he's getting older, Henry wants to make sure he and his business can still provide for his family even after he's gone. These are the objectives he wants to accomplish:

- Ensure Maggie has enough to support her standard of living for the remainder of her life without Henry. She hasn't been and doesn't wish to be involved in the business.
- Preserve the business as his legacy and pass it down to Sam, who works alongside him in the business. He hopes Sam can enjoy the same success he has and can continue the business tradition.
- Leave an equal inheritance to Caroline and Andy to allow them to continue pursuing their dreams outside of the business.

Proposed solution: Henry has been working for years with a team of advisors, which includes his financial professional and attorney. The next time he sits down with his financial professional to review his current plan, he brings up all of these concerns to see what they might be

able to put into place that will care for all the important people in his life. His financial professional suggests two ideas that in combination can help address all his needs:

- First, to solve for the business needs, his financial professional suggests that Henry and Sam enter into a one-way buy-sell agreement that Sam will fund with a life insurance policy on his dad. Sam will be the owner, will pay premiums on the policy, and will be the sole beneficiary.

  When Henry dies, Sam will receive the death benefit, which he'll then use to purchase full ownership of the business from his father's estate. The buy-sell agreement ensures that Sam can succeed his father in the business, while the life insurance policy ensures that he'll have the necessary funds to purchase the business when the time comes.

  Caring for the business in this manner also cares for Caroline and Andy, as when Sam buys the business from Henry's estate, this provides the estate with an influx of cash. The cash from the sale can then be used by Henry's estate to provide an equal inheritance to Caroline and Andy.

- The one last person on Henry's list to care for is Maggie. To make sure Maggie can maintain her standard of living when he's gone and Sam owns the business, Henry's financial professional recommends that Henry purchase his own life insurance policy and make Maggie the beneficiary. When Henry dies, the death benefit can offset any taxes owed at the time and provide additional income for Maggie to live on for the rest of her days.

Scenario 3: For More Than Just Businesses

Kristen and Eric have three boys, William, Jonah, and Tyler. Some of their most treasured memories made as a family have been at the vacation home the couple own on Cape Cod in Massachusetts. Now that the boys are grown and have families of their own, Kristen and Eric get to host their grandchildren for special summer vacations. This house is so much more to all of them than just a property, and Kristen and Eric are worried about how they can pass it down to the next generation in a way that's fair and that will allow the boys to keep the property in the family.

Proposed solution: During Kristen and Eric's annual review with their financial professional, the topic of the future of the house on Cape Cod comes up. Their financial professional recommends that the couple sit down with the three boys to discuss not just the house, but their broader estate plan, including who will serve as their Health Care Proxy or Durable Power of Attorney, if needed. Part of successful planning includes communicating wishes and intentions to the next generation. Kirsten and Eric schedule an appointment to follow up with their financial professional after they've talked to their kids.

When Kristen and Eric return to their financial professional's office a few weeks later, they're ready to make decisions about the future of their assets, including the vacation home. When they discussed the topic with their boys, the couple discovered that the decision was easier than anticipated. While each son may have wanted the house, it became clear that the best owner for the next generation was Tyler. William's wife Rachel recently inherited a house in Vermont, and they were worried about their ability to upkeep what could then be two additional properties. Living out on the West Coast, Jonah can't get back to Cape Cod as much as he'd like anymore, and he'd be caring for the house from the other side of the country. They all agreed Tyler and his family

should inherit the house with the hope that each brother and their family can still enjoy it.

Now that ownership of the Cape Cod house is settled and knowing it's important to Kristen and Eric that each son receive an inheritance of similar value, their financial professional suggests that the couple purchase a survivorship life insurance policy on their two lives and make William and Jonah the beneficiaries of the policy. The financial professional creates a customized life insurance proposal for Kristen and Eric that helps them achieve their goal of leaving an equal legacy to each son.

The Power of Life Insurance

The power of life insurance is in its versatility, as it offers a way to address the unique circumstances presented in each situation.

Who's Your Rock?

If one of your goals is to pass wealth to the next generation or generations as fairly and equally as possible, meet with your financial professional to discuss your situation and learn about the strategies that may help.

[1]Consult your tax or legal advisor as to the valuation of a business.

All of the above scenarios assume that the clients discussed have a need for life insurance protection as part of their overall financial plan.

Prudential does not provide tax or legal advice, please consult an independent tax advisor regarding your personal tax situation.

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1079252-00001-00 Ed. 04/2024

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