

Estate Equalization



Equalizing inheritance between heirs using life insurance

PRESENTED BY:

Jim Smith

PREPARED FOR:

Bill & Sue Jones

April 29, 2026

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Examining the options for estate equalization

The Situation

You have worked hard to accumulate your wealth, but are concerned about passing your wealth fairly to your children. You may have some assets that will be difficult to divide equally without liquidating them, such as real estate or a business. It can be particularly difficult to determine how to equally transfer business interests when some of your children may have been active in the business and others have not. How can you treat all of your heirs fairly while preserving the assets you have worked so hard to build?

The Benefits of Life Insurance

Life insurance can help provide the liquidity to make sure all your heirs receive a fair inheritance. Additionally, life insurance death proceeds are received by your family free of income taxes.¹ This means that your family may receive more money and a better return on the premium than if you had invested those dollars in a taxable asset. Furthermore, life insurance policy cash values grow tax-deferred and can be accessed in a tax-favored manner. Also, the tax-favored nature of life insurance means you can take tax-free withdrawals up to the total premiums you paid into the policy. Then, if you take distributions from the policy in the form of policy loans above this amount, the loans generally will not be taxable.² Finally, if your policy is owned by a properly drafted trust that exists outside of your taxable estate, the proceeds should not be subject to estate tax when the policy owned by the trust.³

Important Considerations

Insurance Eligibility - Life insurance eligibility will be based on financial and medical underwriting. You may not financially qualify for all of the life insurance death benefit needed to fully equalize your estate.

Additional Costs - Life insurance policies have charges associated with them such as the cost of insurance and potential surrender charges. Please consult with your tax financial professional for more information.

The Solution

The following page can help you consider allocating each of your assets by calculating the value of each asset in the future using an individually selected growth rate.

Page 2: Lists the current value and projected growth rate for each of your assets, and a percentage allocation for each of your heirs.

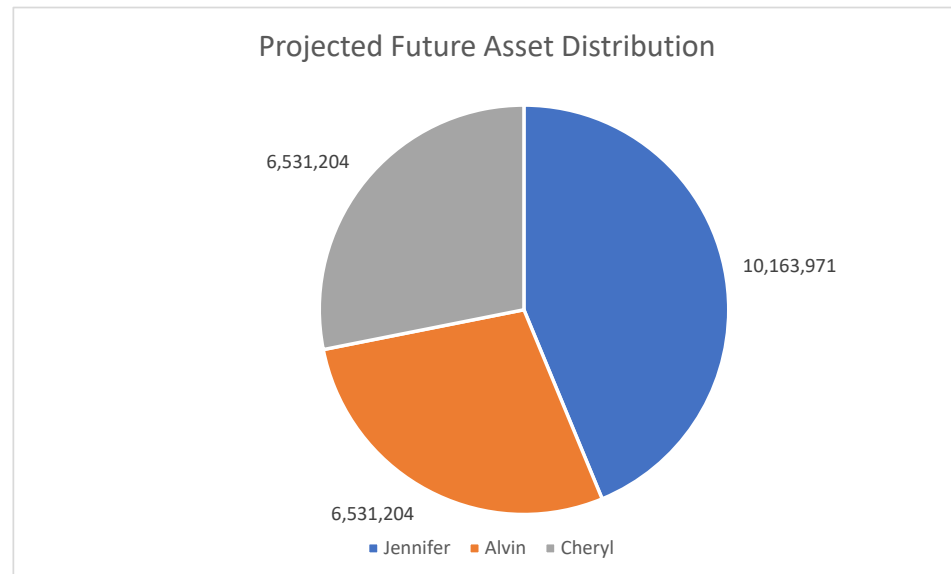
Page 3: Lists the calculated future value of each asset and the dollar value of the allocation to each heir for the year selected. Using this information, a calculation is shown for the amount of life insurance death benefit needed to equalize your estate allocation to your heirs by:

- 1) an equal amount approach, and
- 2) an equal share approach.

The graph below represents a summary at a selected future year, but please refer to the accompanying pages for more details and refer to the Glossary for a definition of the key terms used in this proposal.

Your total current asset value is \$14,345,000.

Your projected total asset value in year 25 is \$23,351,378 to be distributed as follows:



1. Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are a few exceptions such as when a life insurance policy has been transferred for valuable consideration.

2. Loans and withdrawals will reduce the death benefit and the cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Withdrawals in excess of the cost basis (premiums paid) will be subject to tax and certain withdrawals within the first 15 years may be subject to recapture tax. Additionally, policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59 1/2.

3. 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.

Current assets, Growth rates & Heirs' percentages

The current value and projected growth rate for each of your assets* along with the percentage of each asset allocated for each of your heirs.

Asset #	Asset Name	Asset Value Today	Asset Growth Rate	Heirs' Percentages			Total Percentage Allocated
				Jennifer	Alvin	Cheryl	
1	Business	\$5,000,000	3.00%	100.00%	0.00%	0.00%	100.00%
2	Rental Property 1	\$2,000,000	2.00%	0.00%	50.00%	50.00%	100.00%
3	Rental Property 2	\$1,000,000	1.00%	0.00%	50.00%	50.00%	100.00%
4	Lake Property	\$3,000,000	1.00%	0.00%	50.00%	50.00%	100.00%
5	Personal Residence	\$1,100,000	2.00%	0.00%	50.00%	50.00%	100.00%
6	Jewelry	\$120,000	3.00%	0.00%	50.00%	50.00%	100.00%
7	Vehicles and RV	\$375,000	0.00%	0.00%	33.33%	33.33%	66.67%
8	Investments	\$700,000	3.00%	0.00%	50.00%	50.00%	100.00%
9	Checking Account	\$50,000	2.00%	0.00%	50.00%	50.00%	100.00%
10	Life Insurance	\$1,000,000	0.00%	0.00%	50.00%	50.00%	100.00%

Total:	\$14,345,000
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*The non-insurance figures shown, the data is taken from a hypothetical calculation. It assumes a hypothetical rate of return and may not be used to project actual results.

Asset allocation after growth rates applied

The calculated future value* of each asset and the dollar value of the allocation to each heir for the year selected. Using this information, a calculation is shown for the amount of life insurance death benefit needed to equalize your estate allocation to your heirs by both an equal amount approach, and an equal share approach.

Asset #	Asset Name	Asset Value Year 25	Heirs' Amounts			Total Amount Allocated
			Jennifer	Alvin	Cheryl	
1	Business	10,163,971	10,163,971	0	0	10,163,971
2	Rental Property 1	3,216,874	0	1,608,437	1,608,437	3,216,874
3	Rental Property 2	1,269,735	0	634,867	634,867	1,269,735
4	Lake Property	3,809,204	0	1,904,602	1,904,602	3,809,204
5	Personal Residence	1,769,281	0	884,640	884,640	1,769,281
6	Jewelry	243,935	0	121,968	121,968	243,935
7	Vehicles and RV	375,000	0	125,000	125,000	250,000
8	Investments	1,422,956	0	711,478	711,478	1,422,956
9	Checking Account	80,422	0	40,211	40,211	80,422
10	Life Insurance	1,000,000	0	500,000	500,000	1,000,000
Totals:		23,351,378	10,163,971	6,531,204	6,531,204	23,226,378

For Equal Amount:

Each person needs to have: **10,163,971** > Which is the largest total of the 3 heirs.

Total Insurance Needed: **7,265,534** 0 3,632,767 3,632,767

For Equal Share:

Each person needs at least: **7,783,793** > Calculation: \$23,351,378 divided by 3.

Total Insurance Needed: **2,505,178** 0 1,252,589 1,252,589

*The non-insurance figures shown, the data is taken from a hypothetical calculation. It assumes a hypothetical rate of return and may not be used to project actual results.

Glossary

The following terms and phrases may be helpful to you as you consider this presentation:

Column Definitions

Asset # - The asset number at the time of input.

Asset Name - The asset name provided at the time of input.

Asset Value Today - The current fair market value of the asset today.

Asset Growth Rate - The projected annual growth rate of the asset over time. 5.00% is the maximum.

Percentages - Heir 1, etc. - The percentage of each asset that will be allocated to each heir at the owner's death.

Asset Value Year X - The projected fair market value of each asset in the future year selected using the growth rates assigned to each asset.

Amounts - Heir 1, etc. - The amount of each asset allocated to each heir in the future year selected using the percentage allocated to each heir.

Total Percentage Allocated - The sum of the heirs' percentage allocations to check that the total is 100%.

Total Amount Allocated - The sum of the heirs' allocated amounts to check that the total is equal to the total asset amount.

Life Insurance Need Calculations

Equal Amount - The goal is for each heir to receive an equal amount of assets in the future year selected using the growth rates assigned to each asset.

Each person needs to have - The total amount of assets that each heir needs to receive so that it is equal. This amount is the largest received by any one heir.

Total Insurance Needed - The total amount of life insurance death benefit needed on the life of the owner so that each heir receives an equal amount.

Equal Share - The goal is for each heir to receive an equal share (percentage) of assets in the future year selected using the percentage allocated to each heir.

Each person needs at least - The total amount of assets that each heir needs to receive so that it is an equal share. This is the total assets divided by the number of heirs.

Total Insurance Needed - The total amount of life insurance death benefit needed on the life of the owner so that each heir receives an equal share.

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Estate Equalization is a planning tool designed to assist you in exploring potential estate planning options through the use of life insurance. However, this presentation is not intended as your estate/gifting plan nor is it a specific recommendation for your estate/gifting plan. This presentation is for demonstrative purposes only. This analysis does not constitute a recommendation of a particular option over any other planning alternative. Other alternatives may be more appropriate or suitable for your particular situation and should be discussed with your legal, tax, and accounting advisors prior to your making any gifting or purchase decisions.

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