



www.360ProfessionalAlliance.com | Winter 2009

How will you help your
clients better plan?



PROFESSIONAL
ALLIANCE

www.360ProfessionalAlliance.com

In the **Circle**

Planning Strategies & Concepts

INSIDE THIS ISSUE

Famous Families Who Failed to Plan

An interesting look into planning
failures by the rich and famous

“Last Will & Testament” of a Closely Held Business Owner Who Didn’t Plan Properly

The sad tale of John Smith

Famous Families Who Failed to Plan

There have been numerous surveys and studies done on the number of people in this country who have not done any estate planning and in many situations, don't even have a will. While the survey results vary, the one consistency is that the number is well over 50% of adults. With respect to family owned businesses, the failure to plan for its succession is equally disappointing. Hence, statistics show that only 30% survive into the next generation; 12% make it to the third generation; and only 3% make it to the fourth generation and beyond.

The following is a sampling of things that have gone wrong for famous people, their families, and their businesses, because of the failure to plan or the failure to update and maintain a plan. It also offers an interesting look at how to potentially help clients plan and avoid some of the same traps that many celebrities and icons have fallen into.

- **Heath Ledger:** He had a simple will filed in his native Australia that was drafted in April, 2003. He subsequently had a daughter, Matilda Rose, in 2005 with the actress Michelle Williams. Unfortunately, the will was never updated. Obviously, there were no provisions made for Matilda Rose or for Michelle.
- **Philip and Helen Wrigley:** Philip and Helen died in 1977 within three months of each other. They are best known for two things: the Chicago Cubs baseball team, and owners of the Wrigley Company, maker of the famous Wrigley chewing gum. After years of negotiating with the IRS and several states' taxing authorities, the Wrigley family settled on valuation issues and the amount of estate taxes owed, over \$40 million. After selling off the family portfolio of stocks, in the

end, the family had to sell the Chicago Cubs. All of the proceeds from that sale went to the government to pay off estate taxes. Philip and Helen did not have life insurance to provide the liquidity needed to pay the taxes on their illiquid estate.

- **Joseph "Joe" Robbie:** Joe Robbie was raised in a modest family that survived the Great Depression. Joe went on to serve his country in the U.S. Navy and then became a successful trial lawyer in South Dakota. Later on, his entrepreneurial spirit kicked in and he became a co-founder of the Miami Dolphins. Joe died in 1990. His wife passed away soon thereafter, and due to a lack of planning, the estate tax bill was an estimated \$47 million. Although the Robbie estate was estimated to be a little less than \$100 million, there was insufficient liquidity to pay the estate taxes. They did not have the life insurance to provide the liquidity needed to pay the taxes on the illiquid estate. As a result, the Miami Dolphins team was required to be sold for a fraction of its value.

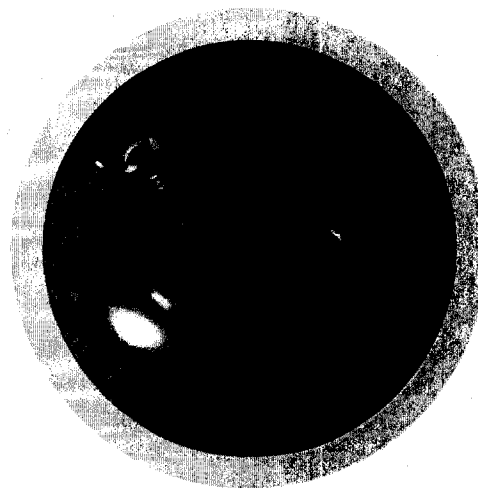
The list of rich and famous includes the names of many well known celebrities who either didn't plan their estates or insufficiently planned their estates, or failed to regularly update their plans to reflect adjustments due to life events. Celebrities such as Elvis Presley, Marilyn Monroe and Rock Hudson experienced significant estate shrinkages, as high as 55% to 73% after their deaths. Even the "robberbarons" of the industrial age were shortsighted in planning. J.P. Morgan: 69% estate shrinkage; John D. Rockefeller, Sr.: 64% estate shrinkage; and CPA and Ernst & Young founder Alwin C. Ernst: 56% estate shrinkage.

[continued on page 3]

[continued from page 2]

In stark contrast to all of the celebrity failures to plan, there is the success story of Jacqueline Kennedy Onassis. She had a very comprehensive estate plan that was updated regularly. Less than 3% of her estate which exceeded over \$200 million was lost to estate taxes.

If clients properly plan for the succession of their business and/or for the estate taxes that may be due when they pass away, they can leave a lasting financial legacy and ensure that their heirs receive what they worked so hard to accomplish. ☛



“Last Will & Testament” of a Closely Held Business Owner Who Didn’t Plan Properly

What follows is not a real will. It merely suggests what could happen if a business owner client does not have a properly structured and funded succession plan for his or her company. All names referenced are fictitious and any similarity to any real party or business is merely coincidental.

I, John Smith, presently residing in the State of New York, and part owner of Acme Widget Company, being of sound mind and memory, do hereby declare the following:

I hereby leave my interest in my company to my family to be divided among them as they see fit even though my spouse or children have no experience in operating and running a widget company. I have the utmost confidence that after my death, everyone will get along with each other, and that Jack Jones, my partner who owns a portion of the company, will have no problems working with my spouse or children.

I hereby leave the responsibility of operating the company to my surviving partner, Jack, whom I am sure, will not mind working twice as hard and sharing all of the profits of the business with the family.

In the event my family wants to sell my company to Jack, I hereby leave it up to them to work it out with Jack as to the price and terms of the sale.

In the event such a sale takes place and the sales price is paid out over a period of time, I have the utmost confidence that Jack or his estate shall pay my family the terms of the sales contract even if Jack dies or becomes disabled.

[continued on page 4]

[continued from page 3]

In the event my family wants to sell my share of the business to an outside party, I hereby direct that they negotiate any terms they want without consulting Jack, and request, but do not demand, that Jack get along with any other new owner of the company.

If I have a buy-out agreement with my company or Jack that has not been recently updated, I direct that my family sell my interest in the company at whatever price the old agreement says, even though it won't reflect current fair market value.

In the event Jack or the company has no life insurance on my life, I really don't care if Jack or the business becomes insolvent and cannot afford to pay my family the buy-out price.

I hereby direct the IRS to ascertain the value of my interest for estate tax purposes. I am sure the IRS, as a division of the government, will consider the needs of my family when determining any estate tax attributed to my business holdings.

I direct that all lines of credit that my business has at the time of my death be paid off at my death because I think the interests of my lenders are more important than those of my family and my business partner.

If I leave my business interest to my family and federal estate tax is due, I know my family will work twice as hard to pay the taxes due to the IRS and any state taxing authority.

If all or part of my business interest passes to my minor children upon my death, I direct my children's guardian or trustee to sell the business as quickly as possible, regardless of price, because I do not want to burden my children's guardian or trustee with the fiduciary responsibility of running a widget company.

IN WITNESS WHEREOF, I, John Smith, do hereby affirm this to be my wishes with respect to the business I spent my lifetime building.

John Smith.



Orly Germano

Business Development Manager
Guardian Life Insurance Company of America
7 Hanover Square, 26th Flr
New York, New York 10004
P: 908-229-2445
orly_germano@glic.com

Financial Representative of The Guardian Life Insurance Company of America (Guardian), New York, NY. 360 Professional Alliance is a service mark of Guardian. 2008-7734