SECURITY MUTUAL LIFE
The Company That Cares.®

Planning is a Dynamic, Not a Once-and-Done, Process

Why Do We Create Financial Plans?

The point of a plan is to anticipate the unexpected so that if the event occurs, you're not taken by surprise, and whatever goals and objectives you had for your hard-earned wealth can still be achieved. That's true regardless of your wealth level. But the best laid plans can often be ruined because of inattentiveness, apathy, political whims and legal surprises. The remedy is to regularly review and reexamine the original plan, revise it or plan anew. The planning process is a dynamic process, not a static, once-and-done process. Let's look at some examples.

Personal Planning: The lack of a plan, or a static plan, may cause unintended consequences. The case of *The Proctor and Gamble U.S. Business Services Company v Estate of Jeffrey Rolison ("the Rolison case")* describes an extreme example. Jeffrey Rolison joined Proctor and Gamble's (P&G's) 401(k) plan in 1987 while he was dating Margaret Sjostedt, now Margaret Losinger ("Losinger"). He named Losinger as the beneficiary of the 401(k) on a paper form. They broke up two years later. In 2002, Rolison began a relationship with Mary Lou Murray living in a common law marriage relationship. Murray was Rolison's beneficiary of his life and health insurance benefits until they separated in 2014, after which Murray was removed as the beneficiary. But Rolison never updated the 401(k) plan designation, even though he was reminded several times during his tenure with P&G, particularly after P&G went to an online system for designating beneficiaries. Rolison died on December 14, 2015, and his account balance had grown to over $754,000. After years of litigation, and the account growing to over $1 million, on April 29, 2024, the account balance was directed to be turned over to Losinger, making her an unintended millionaire![i] Yet, a simple review of the beneficiary designation was all it took to avoid this mistake.

Estate Planning: For years, few Americans have had to worry about federal estate taxes. The federal estate tax exemption amount for 2024 is $13.61 million per person. The Tax Cuts and Jobs Act of 2017 ("TCJA") doubled the exemption amount at that time of $5 million to $10 million, adjusted annually for inflation per person. Married couples can pass double that amount without transfer taxes. Generally, therefore, only ultra-wealthy people needed to worry about estate taxes. To put those numbers into perspective, according to the IRS, only 0.08% of people who died in 2019, when the exemption amount was "only" $11.4 million, were subject to federal estate taxes.[ii] However, the doubled exemption amount will expire at the end of 2025, causing the exemption to revert back to $5 million plus inflation adjustments in 2026. After the 2024 elections, if the Presidency and both houses of Congress become controlled by Democrats, then it is quite possible for the exemption to be reduced even further.

While wealthy individuals may not be subject to federal estate taxes currently, they might be in the near future. Also, don't forget about the various states that still have a state estate tax and/or inheritance tax with exemption amounts that are typically significantly lower than the federal amount, and could be as low as $1 million. A greater number of individuals fall into this wealth category.

So, what should we do? The solution, of course, is to plan for what we know now and adjust if we need to later. Life insurance strategies could be some of the simplest and most flexible ways to address estate taxes, including individual and survivorship life insurance, naming trusts as contingent owners, or using trusts to "standby" to accept gifts of insurance or to purchase insurance.

Business Planning: On June 6, 2024, the U.S. Supreme Court decided a case, *Connelly v. United States*, that will affect many business owners that have life insurance funded buy-sell agreements. The Court reversed generally accepted principles long held by the insurance and legal communities. The Court addressed the narrow question of whether a corporation's fair market value is impacted by life insurance proceeds received by the corporation and committed to funding the redemption of a decedent owner's shares, for estate tax purposes. The Court unanimously held that the corporation's redemption obligation is not a liability that reduces the estate tax value of the decedent's shares.[iii] The Court also specifically referenced cross purchase buy-sell arrangements that could have avoided this result.

As a result of this case, business owners should immediately contact their attorney and insurance agent to determine the impact of this decision on their own business continuation plans. Buy-sell agreements may need to be revised and amended, particularly if the agreements call for the business to buy back the ownership interest of a deceased owner and the business purchases life insurance on the owner to do that. Entity purchase and stock redemption arrangements may need to be converted into cross purchase arrangements where co-owners buy each other out, or more sophisticated techniques may be used, leaving the business entity out of the transaction. All of this needs to be coordinated with the business owner's estate plan.

The conclusion is that no matter what was planned for, the plan must be regularly reviewed and updated to meet changing family, financial, economic, political and legal environments. Planning is a dynamic process that doesn't end.

[i] The Procter & Gamble U.S. Bus. Servs. Co. v. Estate of Rolison, Civil Action 3:17-CV-00762 (M.D. Pa. Apr. 29, 2024)
[ii] Internal Revenue Service. "SOI Tax Stats – Historical Table 17." Irs.gov https://www.irs.gov/statistics/soi-tax-stats-historical-table-17 (accessed 8/4/2024)
[iii] Connelly v. United States, 144 S.Ct. 1406 (2024).

For More Information Contact:

SECURITY MUTUAL LIFE
INSURANCE COMPANY OF NEW YORK
SECURITY MUTUAL BUILDING • 100 COURT ST.
P.O. BOX 1625 • BINGHAMTON, NY 13902-1625
607-723-3551 • www.smlny.com

The Company That Cares.®

LinkedIn YouTube X