Avoid "the Wrigley Risk": Lead the Estate Liquidity League with Life Insurance

By

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When William Wrigley announced the $20.5 million sale of the Chicago Cubs to the Tribune Company on June 16, 1981, most baseball fans were not surprised. After all, the Cubs had lost $1.8 million in 1980 and faced a deficit of approximately $3 million in 1981. The Cubs' management had recently cut $1.3 million from its payroll by trading some high-priced players.

Then there was the first baseball strike, which could only further cripple the Cubs financially. Moreover, the Cubs' last pennant was in 1945. Their last place record of 15 wins and 37 defeats at the time of their sale hardly made them pennant contenders for 1981. So, when the Wrigley family severed its 66-year old relationship with the Cubs, most fans assumed the "third strike" for the Wrigleys was the result of another bad season and more financial losses.

Big Inning for the IRS

Financial losses did cause the Wrigley's to sell the Cubs, but these were not operating losses. Death and estate taxes were the culprits. They demanded such a large financial outlay that the Wrigley family was forced to sell the team to meet these financial obligations. Estate and inheritance taxes totaled $40 million.

In 1977, Philip K. and Helen A. Wrigley had died within three months of each other. But it was not until December 1980 that the value of the Wrigley estate and its tax obligations were settled with the federal government and the states of Illinois, California and Wisconsin. The estate, however, lacked enough cash or liquid assets to pay these taxes. The Wrigley survivors were forced to find $40 million to pay the estate tax bill.

Although the time of death may not be anticipated, estate settlement costs can be. These liabilities can be offset by an appropriate amount of life insurance. This need presents an enormous opportunity for banks in insurance.

Initially, William Wrigley attempted to cover the estate tax bills by selling off blue-chip stocks, like $10.9 million in Texaco and $2.1 million in Boeing. But this fell far short of the needed $40 million. The Wrigleys were then forced to discount Wrigley Company stock 35 percent in an effort to obtain cash to pay off the estate's "debt" to the federal and state governments. Still, the debt remained. The Wrigleys then negotiated the sale of the Chicago Cubs. The $20.5 million they acquired from that sale went directly out of their estate and into the coffers of the government. In the end, the Wrigley family was worth $40 million less than they were the year Philip and Helen died.

Alice Bright, an attorney with the law firm that administered the Wrigley estate, remarked that Wrigley ownership of the Cubs had been "a great family tradition, and it's rather sad that taxes can break it up." But, she added, "there was nothing the Wrigley family could have done to avoid the estate tax problems and still retain control of both the Wrigley Company and the Cubs stock."

Ms. Bright couldn't have been more right in her first statement or more wrong in her second. Estate planning and life insurance could have saved the Wrigley heirs from the devastating financial and emotional losses they were forced to face.

In the On-Deck Circle

Ms. Bright's comments underscore why the Wrigley example is far too typical. Most estate owners never intend to lasso their heirs with burdensome debt. They intend, at death, to pass their wealth onto their heirs. Since they created their wealth by their own efforts and paid taxes on it while it accumulated, they presume they had a "natural right" to will it intact to whomever they want.

Unfortunately, in this country, no such right exists. Estate transfer is viewed as a privilege, and federal and state governments require that fees must be paid for them to grant this privilege of transfer. These fees include the payment of all outstanding debts, probate costs, attorney's and executor's fees, state inheritance taxes and, for larger estates, a substantial federal estate tax whose top marginal bracket is as high as 50 percent.

Strengthening the Bullpen

Life insurance provides liquid cash the moment it is needed—at the death of the estate owner. No other financial vehicle matures at the very moment it is most needed. Although the time of death may not be anticipated, estate settlement costs can be. These liabilities can be offset by an appropriate amount of life insurance.

An analysis of Philip and Helen Wrigley's estate while they lived and an accounting of the estimated estate taxes due would have shown the financial obligations to be encountered upon their deaths. The right kind and the right amount of life insurance to provide the liquid funds necessary to pay the estate taxes would have saved the Wrigley estate $40 million.

Proper planning might have reduced the estate liability from $40 million to a lower amount. With properly structured ownership, life insurance used in conjunction with testamentary A/B marital trusts, irrevocable living trusts, or perhaps a corporate redemption plan could have done the trick. Even life insurance on the senior Wrigleys, personally owned by their children, would have provided the heirs with the liquid cash necessary to purchase illiquid assets from the estate.

Consequently, life insurance would have preserved some broker's trading account of more than $13 million. And the Wrigley's might still own the Cubs and have extended that family tradition to 80 years.

Unbelievably, in 9 out of 10 cases in especially large estates, estate settlement costs are not funded by life insurance.

Before an estate can be distributed to the heirs of the deceased, fees must be paid. Cash must be found first to pay these liabilities. As a rule, however, cash on hand averages only about 10 percent of total estate assets.

This need presents an enormous opportunity for banks in insurance.

Bank clients who are owners of closely held corporations or, perhaps, large farming operations may be at what I call the "Wrigley risk." Compare the value of their business enterprises to the total value of their estates. How much actual liquidity do they have? Is there a shortfall? When death strikes, cash must be paid. Without proper planning, forced liquidation or sale of estate assets to meet these liabilities is a distasteful and usually financially disastrous necessity. Witness the Wrigley example.

But just in case you think the estate liquidity problem is limited to nonfinancial business owners, consider these wealthy bankers who suffered similar kinds of estate shrinkage at their deaths.

Sometimes No Relievers for Bankers, Either

Charles Templeton Crocker, founder of the former Crocker National Bank, left a gross estate at his death of almost $5 million. The day before he died, he owed less than $50,000. The day after he died, his total estate settlement costs were $2.4 million. Cash on hand in the estate approximated $200,000. Assets had to be liquidated and sold at a loss, resulting in a shrinkage of Crocker's estate by over 48%. Less than $2.6 million remained for his heirs.

The estate of Albert Wiggin, who retired as chairman of Chase National Bank, was valued at $20.5 million when he died. Less than 2.5 percent of the estate was cash. Almost $15 million was required to pay settlement costs, leaving a net estate of $5.6 million—resulting in shrinkage of three-fourths of Wiggin's wealth.

Nearly 40 percent of the estate of Frederick Smith, president and founder of First Security Trust Company in Salt Lake, went to estate settlement costs. A former president of Bank of California, W. W. Giddings, Sr., lost 42 percent of his estate, most of it to federal taxes. Heirs of Lloyd Bimson, a president of Arizona Bank (acquired by Security Pacific, later acquired by Bank of America), saw more than a fourth of his estate's value go up in smoke.

Life Insurance Pinch-hitting for Liquidity

Wrigley attorney Alice Bright hoped the Wrigley estate settlement "might help someone else." It can, and it should. Banks have clients who have accumulated wealth just like the Wrigleys and, like the Wrigleys, have done little to conserve their estates in the event of their deaths. Bankers and bank insurance agents need to tell their clients the shocking story of the Wrigley estate and explain how common-sense estate planning can preserve and protect the destruction of a lifetime of effort and generations of hard work.

Furthermore, banks need to show their customers how life insurance can preserve their estates from tax erosion and forced liquidation. Life insurance for estate liquidity gives your clients' estates sufficient cash to pay off these liabilities so the assets (and their values) they want to pass on to heirs can be transferred intact. Life insurance is generally the best way to accomplish this goal, because it is purchased at a discount, yet matures at the very moment it is needed—when the client passes on and Uncle Sam steps in.

Banks need to develop the resources to utilize the life insurance products that will help them solve problems like estate liquidity for their clients. If your bank doesn't own a life insurance franchise, or, if it is still sitting on the bench watching others, it ought to get in the life insurance game. Don't let estate taxes knock your clients out of the box and drive their assets from your bank to the IRS.

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