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The Jacksons: An Estate Planning Case

Introduction:

On a lazy Sunday afternoon in January 2023, Jakira approaches her husband of twenty-four years, Jarrod, about planning for their future. They were in good shape financially; however, they were both in their mid-50s and they had not talked about retirement or about who would care for their teenage twins if something happened to them. Jakira also wondered who would or could run her third baby, her business, J²R² if she was gone. Jarrod is her partner in the business, but he has no interest in running the day-to-day operations of the business. She wants to pass the business on to her children someday, as a part of her legacy.

Jakira started the conversation by reminding Jarrod that in 2016, Prince died without a will and there was a big fight over his \$200 million estate between his siblings and the executors of his estate (Eghrari, 2018). She thought all this could have been avoided if he had a will. Jakira continued, “Aretha Franklin died in 2018 also without a will, with an estimated estate of \$80 million and she had four sons (Zauzare, 2018). Jakira remarked, “I’m not sure how old her sons were but who would take care of them if they were underage and who would get her \$80 million estate?”

Jakira told Jarrod that she was concerned about their children and who would care for them if something happened to either her or him. She wanted her best friend Tamira and her husband Lance to take care of them, not her family or her in-laws. Jakira also wants to pass on as much money as possible to their twins and take care of her mother. Jakira and Jarrod decided that they would find someone to help them tomorrow.

Background:

Jarrod and Jakira Jackson are a power couple who both graduated from Atlanta A & T University’s (AAT) MBA program in 1993. Jarrod Jackson is from Detroit Michigan and is the eldest of seven children raised by his mother and grandmother. Jarrod, being the oldest, had to grow up fast and has worked, since the age of 14, to help contribute to his family. Jarrod was fortunate enough to start sweeping floors at the Dairy Royal up the street which was owned by Mr. Wiseman. Mr. Wiseman retired from the Detroit school system after 30 years as a principal and saw something special in Jarrod. He decided to groom Jarrod for a leadership position in his business. Under the watchful eye of Mr. Wiseman, Jarrod rose fast through the ranks first as a floor sweeper, a cashier, a shift supervisor and ultimately as an assistant manager at the age of 18. Ultimately, Jarrod went to college at Wayne State University and decided to major in engineering.

Jakira Jackson, formally Jakira Meeks, was raised on the east side of Indianapolis, Indiana. Jakira is the youngest of three children and was raised by

her mother, grandmother, and great grandmother. Jakira was an exceptional athlete throughout her elementary and high school years and likewise excelled in her schoolwork. Jakira's grandmother believed in education and therefore made sure that Jakira and her siblings received an outstanding education through catholic elementary and high schools. Jakira was a member of her high school's National Honors Society and earned a BA degree in finance from Indiana University in 1987.

In the fall of 1991, Jarrod and Jakira entered Atlanta A & T University's MBA program and quickly became fast friends and study partners. They both excelled in the program and graduated Beta Gamma Sigma, with MBAs in finance. Jakira and Jarrod credits AAT for their booming careers in business and contributes regularly to the B-School.

Shortly after graduation, Jarrod got a job in corporate finance with Hershey's INC in Pennsylvania and Jakira got a job with Morgan Stanley in Manhattan NY. Jarrod eventually relocated to NY, and they were married three years after graduating from AAT.

Current Situation:

Jarrod and Jakira Jackson are now both 55 years old, they have been married for 24 years and have two children, twin sons Julian and Justin age 15. The family has lived in Long Island, NY for the past ten years. Jakira's mother Esther (age 75) has recently moved in with the family to help raise her two grandchildren. Esther is an integral part of this family and has financially relied on her daughter and son-in-law for years.

Jarrod Jackson is currently the Director of Watershed Management for the state of New Jersey and has been in his current position for 15 years. Jarrod is in a unique position because he lives in New York, NY but works for the state of New Jersey. Jarrod currently earns \$187,000 per year and has never been great at managing his money (See exhibit #2). He relies on his wife, Jakira, to manage the household's finances. Off and on Jarrod has contributed to his 401k but he often seems to need the money for his latest invention (See exhibit #1). He has saved some and is the part owner of a beach house in Newport News, VA left to him and his brother Ronald by their late grandmother.

As a state employee, Jarrod has access to great benefits but has not always taken advantage of those benefits. Of course, his family is covered by the states' healthcare, dental and disability insurance. The state's Group Life insurance is available to all state employees at 1 ½ times their salary at no cost to the employee and Jarrod takes advantage of that option. However, Jarrod could add additional life insurance, at a discounted cost, of up to 6 times his salary. Jarrod has not taken advantage of that benefit because he really does not know how much life insurance his family needs. He is hoping that an advisor could tell them how much the family needs.

Jakira Jackson started as an investment analyst for Morgan Stanley in Manhattan, NY for a couple of years before being promoted to the Senior Vice President of Investment Banking of the Northeastern Region. After a stressful 10 years, Jakira decided to start a real estate company within the lucrative New York market with Jarrod's support. After buying and selling a house or two, Jakira decided that she really enjoyed this and decided to do it full-time. Therefore, she started Jakira Jackson Real Estate & Renovation LLC, or J² R² LLC. In 2021, Jakira earned \$125,000 from her company (See Exhibit #2). Exhibits 1 and 2 provide the Jackson's combined household balance sheet and income statement for 2021.

J² R² LLC:

J² R² LLC is a real estate company that buys, renovates and sells residential real estate as well as small strip malls and apartment buildings. This company is not interested in renting out real estates or being a landlord. Its focus is to buy and sell units quickly. On average, the company generates \$1 to \$4 million in revenue per year and a 5% to 10% net profit margin per year. The company is appraised annually, and their most recent appraisal values the company at \$35.7 million. Jarrod and Jakira are equal partners in this company although Jakira handles the day-to-day operations of the company.

J² R² LLC currently has three full-time employees, which includes Jakira, a general contractor who takes care of renovations and a marketing/sourcing director who searches for new properties. The company has managed to make payroll, from month to month, but struggles to offer other benefits such as health care insurance, retirement accounts, disability insurance, etc. The company utilizes a lot of contractors to complete most of the functions of the company. So, Jarrod's employment benefits are valuable for their family.

Jackson Goals:

Prior to meeting with an advisor, the Jacksons decided to sit down and come up with goals for their family. They felt that it was important to be on the same page before the meeting. They've always talked about important stuff like whether the twins should get a private education or attend public schools. Jarrod always thought that New York had a sound educational system and that the twins would be just fine in the New York City public school system. Besides, he went to public schools in Detroit and turned out just fine.

Jakira argued that a private education would be the best for the twins. Besides, she was the product of a catholic education, and she thought it made all the difference in her life. Jakira won that argument and the twins have gone to charter schools all their lives. Jarrod and Jakira had agreed that they would like to pay for four years of college for the twins, but they would hope that the twins could get scholarships.

Jarrold most certainly would like to take care of his family in the event of his death, especially since he contributes the most income to the household and everyone relies on his employee benefits. Of course, Jakira will handle his estate if he dies or if he becomes incapacitated and cannot speak for himself. In turn, Jarrold will handle Jakira's estate if she dies or if she becomes incapacitated and cannot speak for herself. If they both die simultaneously, they would trust Jarrold's brother Ronald to handle the family's financial affairs.

As previously stated, they also decided that Jakira's best friends and the twins' God parents, Tamira and Lance would take care of the twins if something happened to them both. They also want to take care of Jakira's mother, Esther, since she is so important to the family. Esther is like a third parent to the twins, but she is getting up in age and Jarrold and Jakira want to provide for her. Jarrold and Jakira regularly attend St. Rita's Catholic Church and would like to leave the church about \$15,000 for its outreach programs. They both would also like to keep their financial affairs private and within their family.

Exhibit #1

Statement of Financial Position				
Jarrold and Jakira Jackson				
Balance Sheet as of 12/31/2021				
ASSETS		LIABILITIES & NET WORTH		
<u>Cash / Cash Equivalents</u>		<u>Short Term Liability</u>		
JT	Cash	25,000	Credit Card	2,340
JT	Money Market	<u>12,000</u>	Line of Credit	<u>3,500</u>
	Total Cash	37,000	Total ST Lib	5,840
<u>Investments</u>		<u>LT Liability</u>		
W	Schwab Brokerage	35,600	Mortgage-Prim residence	495,000
H	401k	357,000	Mortgage-3 rd St. Rental prop	59,000
W	Lamb Street Rental Prop	154,000	Black Tesla	65,000
W	3 rd St. Rental Property	193,000	Lexus SUV	<u>32,000</u>
JT	J ² R ² LLC	<u>35,750,000</u>	Total LT Liabilities	651,000
	Total Investment	36,489,600		
<u>Personal Use Assets</u>				
JT	Primary Residence	575,000	<i>Net Worth</i>	36,687,760
	Delray Beach House	107,500		
H	Black Tesla	78,500		
W	Lexus SUV	<u>57,000</u>		
	Total Personal Use	818,000		
<i>Total Assets</i>		<i>37,344,600</i>	<i>Total Liability & Net Worth</i> <i>37,344,600</i>	

Note:

- 1.) JT = Joint tenancy with right of survivorship
- 2.) H= Husband sole owner
- 3.) W=Wife sole owner
- 4.) Jakira's Schwab account (Jarrod is the beneficiary).
- 5.) Jarrod's 401k account (Jakira is the beneficiary).
- 6.) J²R² LLC - Owned tenancy in common
- 7.) Jarrod's life insurance policy (Jakira is the beneficiary).
- 8.) Delray Beach House – Owned tenancy in common (Jarrod & Ronald)

Exhibit #2:

Statement of Income and Expenses, 2021 Jarrod and Jakira Jackson		
<i>Cash Inflows</i>		TOTALS
Jarrod's Salary	187,000	
Jakira's Salary	<u>125,000</u>	
Total Cash Inflows		312,000
<u>Expenses</u>		
<i>Savings and Taxes</i>		
401k Savings	8,610	
Income Taxes	78,000	
Prop Taxes-Primary Residence	<u>15,000</u>	
Total Savings & Taxes		101,610
<i>Debt Payments</i>		
Mortgage (Prim Res)	35,375	
Tesla payments	14,016	
Lexus payments	8,900	
Credit Cards/LOC payments	<u>1,500</u>	
Total Debt Payments		59,791
<i>Insurance</i>		
Home Insurance	16,500	
Automobile Insurance	14,425	
Other Insurance	<u>8,525</u>	
Total Insurance		39,450
<u>Living Expenses</u>		
Flex Charter School	26,000	
Utilities	8,525	
Home Security	5,750	
Food & Gas	10,535	
Donations	5,500	
Cloths	10,500	
Entertainment	15,000	
Misc, Travel	<u>28,500</u>	
Total Living Expenses		<u>110,310</u>
Total Expenses		<u>311,161</u>
Surplus / Shortage		839

Exhibit #3: EXTERNAL INFORMATION

Funeral expenses	15,000
Administrative Expenses	9,500
Jackson's Ave Return of Investments	10%
2021 Inflation Rate	4.7% ^a
Jackson's Ave Tax Rate	25%
2021 Estate Tax Exemption	11,700,000 ^b
2021 Estate Tax Credit	4,625,800 ^b
Jarrold's personal consumption	20%

Note:

a. Macrotrends.net (2021)

b. Internal Revenue Service Website www.irs.gov (2021)

SUGGESTED CASE QUESTIONS

Devise an estate plan that accomplishes the Jackson family's goals. Use the following questions to guide you in this plan.

- 1.) What estate planning documents, if any, does the family need? (Dalton and Langdon, 2024).
- 2.) Does the family have enough life insurance if Jarrod Jackson dies first leaving Jakira to care for her family?
- 3.) What estate planning tools could be utilized to accomplish the family's goals, to manage the distribution of their assets, to minimize cost and to minimize taxes if either Jarrod or Jakira dies?
- 4.) What would be Jarrod's total gross estate and total probate estate if he dies before Jakira? Also, what would be the total marital deduction or the total value of the assets that would pass to Jakira if Jarrod died before Jakira?
- 5.) What would be the Jackson's household estate tax liability assuming that Jarrod dies first, and Jakira dies second? Assume that Jakira's estate would be valued at \$35 million when she dies.
- 6.) What would be the Jackson's household estate tax savings if they implemented your recommendations in question #3? Again, assume that Jarrod dies first, and Jakira dies second.

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