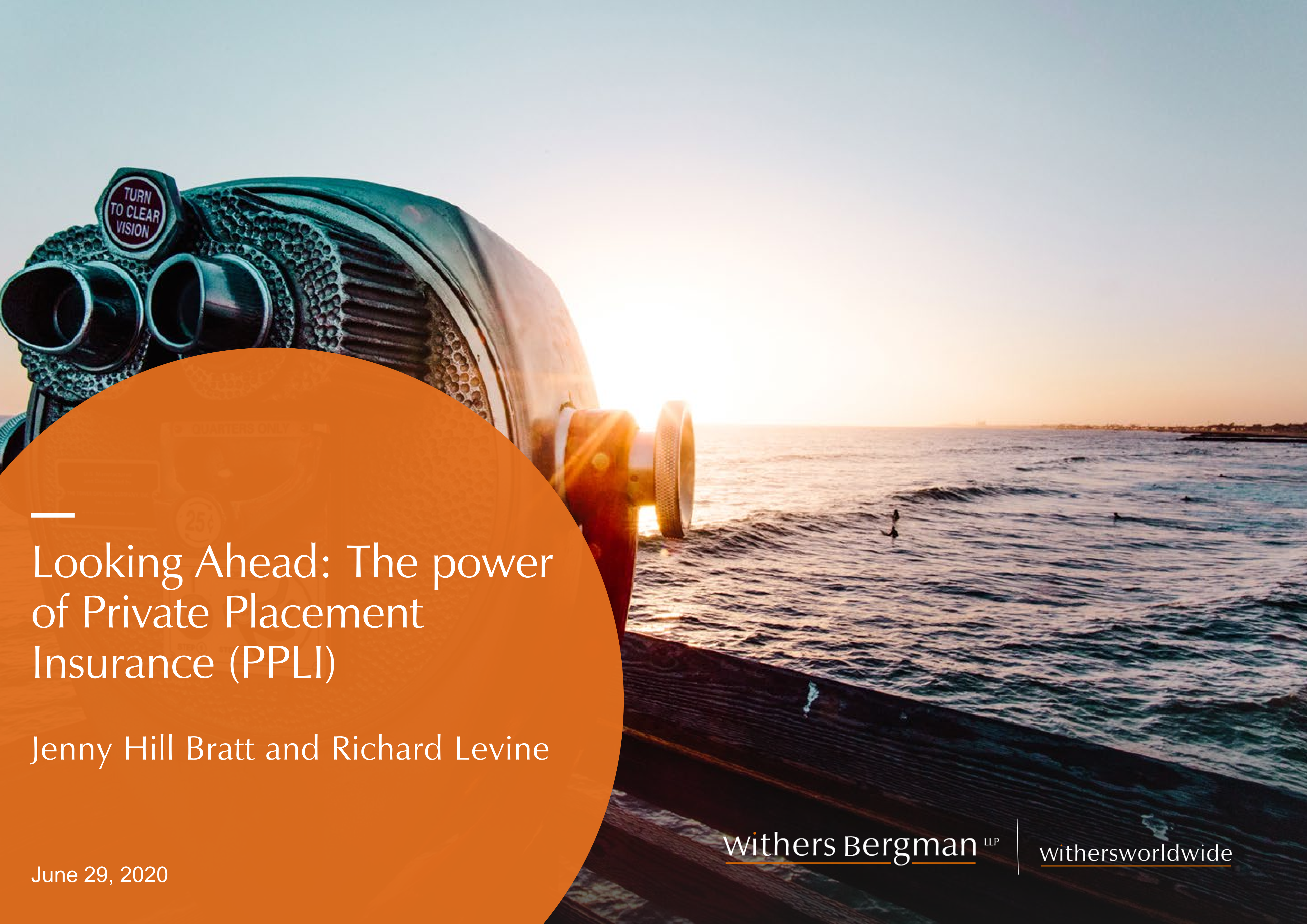


Looking Ahead: The power of Private Placement Insurance (PPLI)

Jenny Hill Bratt and Richard Levine

June 29, 2020

Withers Bergman LLP | withersworldwide

Agenda

The power of Private Placement Life Insurance (PPLI)

- The current environment
- PPLI: What can it do?
- PPLI vs. Taxable Portfolio
- Drawbacks
- Not your father’s life insurance policy
- So what does it cost?

The current environment

The power of Private Placement Life Insurance (PPLI)

- Top federal tax rate on ordinary income of individuals remains high at 37%
- State and local taxes no longer fully deductible, and rates exceed 10% even on gains
- Investment expenses (2% management fee on investment funds) no longer deductible
- Income tax reduction has never been more vital

PPLI: What can it do?

The power of Private Placement Life Insurance (PPLI)

- Income tax planning
  - No federal or state income tax on income or gains inside the policy – tax free redeployment
  - Appreciation can be borrowed during lifetime with no income tax
  - Death benefit is exempt from income tax
  - Allows investing in foreign funds without penalty
  - Reduces reporting ("No-K-1s!")

Case study

The power of Private Placement Life Insurance (PPLI)

- Ellen Lord
  - 58 year-old investor
  - Looking to reposition $2MM of investable assets
  - Minimize taxes on investments
  - Achieve tax-free transfer to children
  - Protect assets from potential creditors

PPLI vs. Taxable portfolio

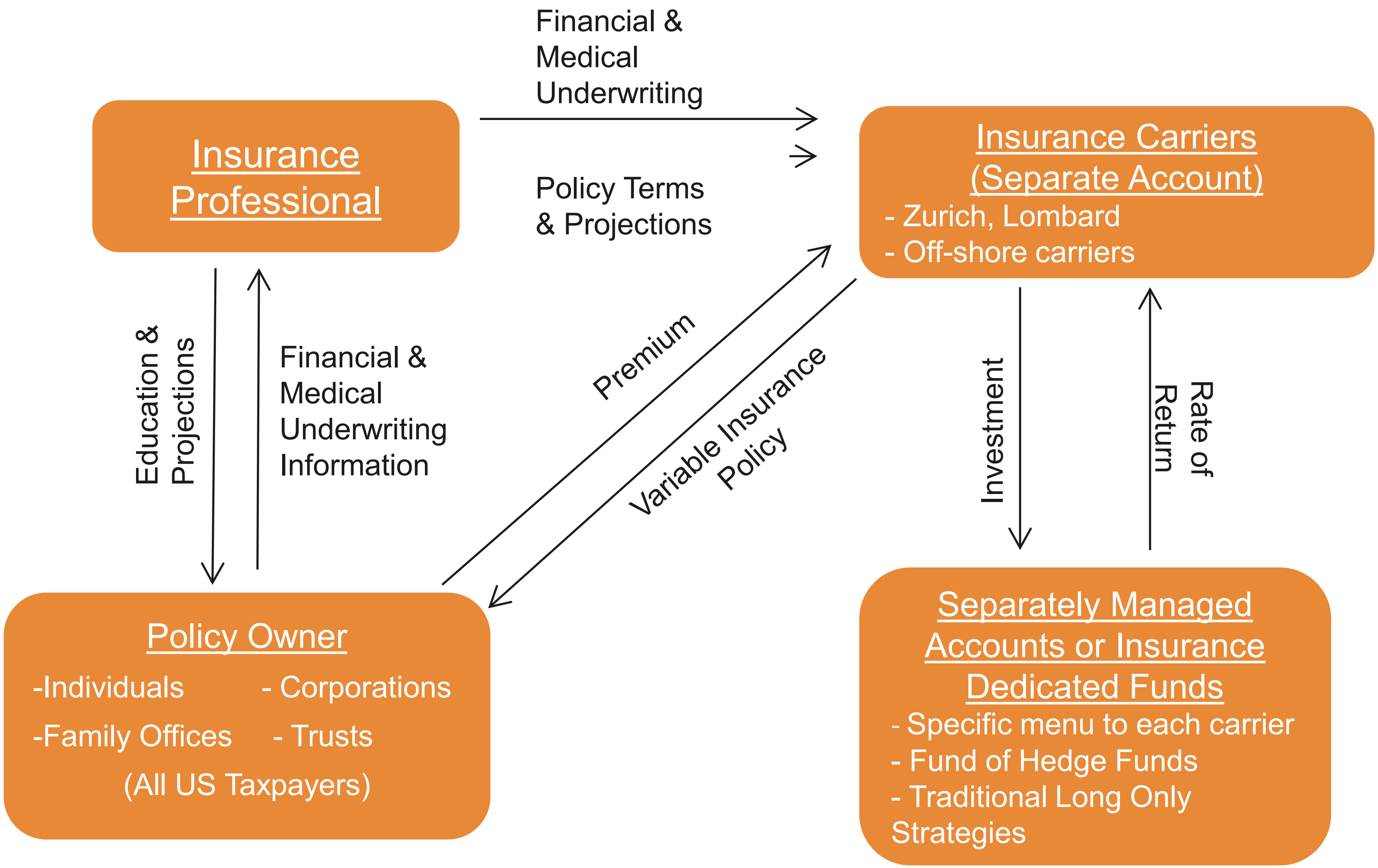
The power of Private Placement Life Insurance (PPLI)

PPLI					Taxable Portfolio
Year	Age	Initial Investment	End-of-Year Cash Value	Death Benefit	Taxable (54.1% Tax)
1	59	2,000,000	2,094,184	8,709,761	2,064,260
2	60		2,217,423	8,833,000	2,130,585
3	61		2,345,905	8,961,482	2,199,040
4	62		2,479,753	9,095,330	2,269,696
5	63		2,619,251	9,234,828	2,342,621
10	**68**		**3,509,821**	**4,749,222**	**2,743,936**
20	**78**		**6,260,573**	**7,499,974**	**3,764,593**
30	**88**		**10,921,499**	**12,160,900**	**5,164,901**
40	**98**		**18,788,685**	**20,028,086**	**7,086,080**
42	**100**		**20,833,119**	**22,072,520**	**7,548,747**

- $2M invested in a Taxable Portfolio. Assume a 7% net return
- PPLI generates $.765M more than taxable investment at age 68 and $2.5M more than the taxable investment at age 78

PPLI vs. Taxable portfolio

The power of Private Placement Life Insurance (PPLI)



Drawbacks

The power of Private Placement Life Insurance (PPLI)

- Cannot manage the money yourself
- Must either appoint an independent investment manager or invest in insurance dedicated funds
- Account must be diversified
  - At least 5 assets in specified proportions
  - Can “game the system” using debt to provide additional assets while net return is based on the primary investment that makes up ~ 50% of the portfolio

Not your father's life insurance policy

The power of Private Placement Life Insurance (PPLI)

- This is about reducing income tax, not insuring against mortality or creating a pool of liquidity
- Agent commissions tend to be 10 basis points per year or less, not 100% of first year premium
- Most insurance brokers are not equipped or incentivized to transact in this marketplace
- Consequently it hasn't been widely promoted or understood
- You can hire any RIA to manage your account

So what does it cost?

The power of Private Placement Life Insurance (PPLI)

- All in fees over 5-7 years should average around 100-125 basis points per year
  - Includes carrier administration fee, cost of insurance, agent’s commission and amortization of up front costs
- This compares quite favorably to tax cost of investments with high return and high tax burden
  - 53% federal and CA tax on 2.5% return is ~ 132 bps
  - If you are not earning 2.5%, fire your broker!
- If earning 3% or more, PPLI is a huge win!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STEP 1
STEP 2

Questions

Looking Ahead

The power of Private Placement Life Insurance (PPLI)

Monday, July 6

Key benefits of Grantor Retained Annuity Trusts (GRATs)

with Elizabeth Bawden and James Brockway

Monday, July 13

The long-term benefits of Charitable Lead Annuity Trusts (CLATs)

with Steven Chidester, Karen Yates, and Lawton Leung

Monday, July 20

Reducing tax burdens with Intentionally Defective Grantor Trusts (IDGTs)

with James Dougherty and Rebecca O'Toole

9 AM PT / 12 PM ET

Registration links for each series presentation will be available in the Resource Center.

Jenny Hill Bratt

Partner | San Diego, Rancho Santa Fe

Her practice is focused on US and international estate and income tax planning, trusts and estates administration, family and closely-held business planning and charitable planning and exempt organizations.

She advises US individuals who own foreign assets on the manner in which such assets should be structured as well as their US tax compliance obligations. She routinely employs transfer tax mitigation techniques such as intentionally defective grantor trusts, grantor retained annuity trusts, irrevocable life insurance trusts, and family limited partnerships, among others.

Jenny regularly advises clients with the creation and administration of closely-held family businesses, from choice of entity issues, to the design and implementation of limited partnerships and limited liability companies, structuring tax-efficient wealth transfers and addressing income tax solutions arising from investments and operating businesses.

She also advises clients in planning and implementing charitable gifts including structuring such gifts through charitable remainder trusts and charitable lead trusts. She can also assist clients with the formation of private foundations and private operating foundations and advise such clients on issues that arise in the administration of such entities.

Jenny is certified as a specialist in estate planning, trust, and probate law by the State Bar of California Board of Legal Specialization. She serves on the Executive Committee of the Trusts and Estates Section of the California Lawyers Association, and was involved in the passing of the California Uniform Trust Decanting Act effective January 1, 2019. She is a fellow in the American College of Trust and Estate Counsel (ACTEC).

Focus Areas:

- Trustees, executors and fiduciaries
- High-net-worth individuals
- Family businesses
- Private companies
- Philanthropy
- Charities and non profit

Richard S. Levine

Special Counsel | New York, New Haven

He is familiar with the taxation of partnerships, LLCs, corporations and trusts from both an income and an estate tax perspective, along with knowing how to incorporate them into international structures, he is one of our renaissance lawyers who ties together many aspects of our tax practice for individuals and wealthy families. Richard recently helped a real estate developer transfer minority interests in closely-held entities to trusts to minimize both state income tax and federal estate taxes; a hedge fund manager form a private trust company to administer both personal and charitable assets; a wealthy entrepreneur to create an insurance dedicated fund as part of US pre-immigration planning; and an investment professional to expatriate while minimizing his exit tax. When he is not using private placement insurance and annuity structures to confound the IRS, he is busy confounding opponents decades his junior by blowing up their tanks in late night games of Battlefield on his son's Xbox. He is one of the few lawyers in our firm who has read every page of the US FATCA regulations (both the Chapter 3 and 4 portions), as well as the OECD CRS Standards, Commentary and Implementation Handbook, and stands ready to explain all the new international transparency and automatic exchange of information regimes without putting the audience to sleep. A tax lawyer who speaks plain English (well American), Richard would be happy to discuss arcane points of international compensation planning and the use of bilateral tax treaties to minimize US tax on investment income, but he would rather delve into which type of bitters to add to his next recipe for raspberry jam.

Richard is our resident tax guru. No, really, he has had the e-mail address taxguru@aol.com since 1992. But please use his Withers e-mail for work related communication since the spam filter on the other address is quite savage these days and we wouldn't want urgent information to be overlooked.

Focus Areas:

- Trustees, executors and fiduciaries
- Leaders and senior executives
- Talent and creatives
- Israel
- Sport
- Charities and non profit
- Family businesses
- Insurance companies
- Philanthropy

Thank you!

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