PPLI a Way to Preserve Wealth

from **InsuranceNewsNet Magazine** • **October 2022**
by **InsuranceNewsNet**

"Private placement life insurance: A way to preserve wealth"

PPLI is a tool for wealthy families to achieve tax-free investment growth and protection.

By Michael Malloy

Like the caterpillar turns into a butterfly, the recharacterizing of assets inside a private placement life insurance policy becomes transformational as well. Once assets are placed inside the PPLI asset structure, these assets take on the six principles of expanded worldwide planning: privacy, asset protection, succession planning, tax shield, compliance simplification and trust substitute.

A recent Bloomberg article states, "Athletes, celebrities, and family offices are embracing private placement life insurance, or PPLI, as a way to preserve wealth for their heirs. It's a strategy that's perfectly legal and has existed for decades."

So why is it not more commonly used? Advisors tend to use the tools that they are familiar with. PPLI is not taught in law schools, so attorneys and other tax advisors must find it in the midst of their practices. PPLI is also not well known by most insurance agents. To truly appreciate what PPLI can accomplish for wealthy clients, you first must forget everything you currently know about life insurance. Yes, PPLI is life insurance, but it is radically different in both cost and benefits.

Within a PPLI structure

All cash value growth grows tax-deferred and is paid out as a tax-free death benefit. No income taxes or capital gains tax is due. Clients have the ability to access the cash value through tax-free loans, while their assets are protected and private. PPLI also offers limited reporting, the ability to avoid estate taxes and no surrender charges.

An outstanding singular feature that catapults PPLI above any other life insurance policy is that all asset classes can be placed in a policy, including:

» Real estate/physical assets. » Hedge funds/alternative asset classes. » Private equity. » Intellectual property. » Art. » Yachts and private jets. » Alternative currency denominations.

For many multinational clients, expanded worldwide planning using PPLI is a streamlined asset structure for wealthy clients throughout the world. It is a welldesigned asset structure that is implemented successfully to achieve the aims of privacy, asset protection and tax reduction.

It is a type of financial architecture that uses laws, concepts and ideas and blends them with the family dynamic and country-specific challenges of each individual client.

Cost benefits

Depending on the assets inside the policy, the total fees for a PPLI are 1%-2% of the asset value within the policy. The cost of insurance charges is institutionally priced at the wholesale reinsurance company rates.

The death benefit is insured with these same reinsurance companies — companies such as Swiss Re and Munich Re with trillions of dollars in assets. To be eligible for a PPLI policy, one must generally be what the Securities and Exchange Commission terms a qualified purchaser, having not less than $5 million of investments. Most companies' minimum premiums are also $5 million.

Privacy

Expanded worldwide planning (EWP) gives privacy and compliance with tax laws. It also enhances protection from data breach and strengthens family security. EWP allows for a tax-compliant system that still respects basic rights of privacy. EWP addresses the concerns of law firms and international planners about some aspects of the common reporting standard related to their clients' privacy. EWP assists with families' privacy and welfare by protecting their financial records and keeping them in compliance with tax regulations.

Asset protection

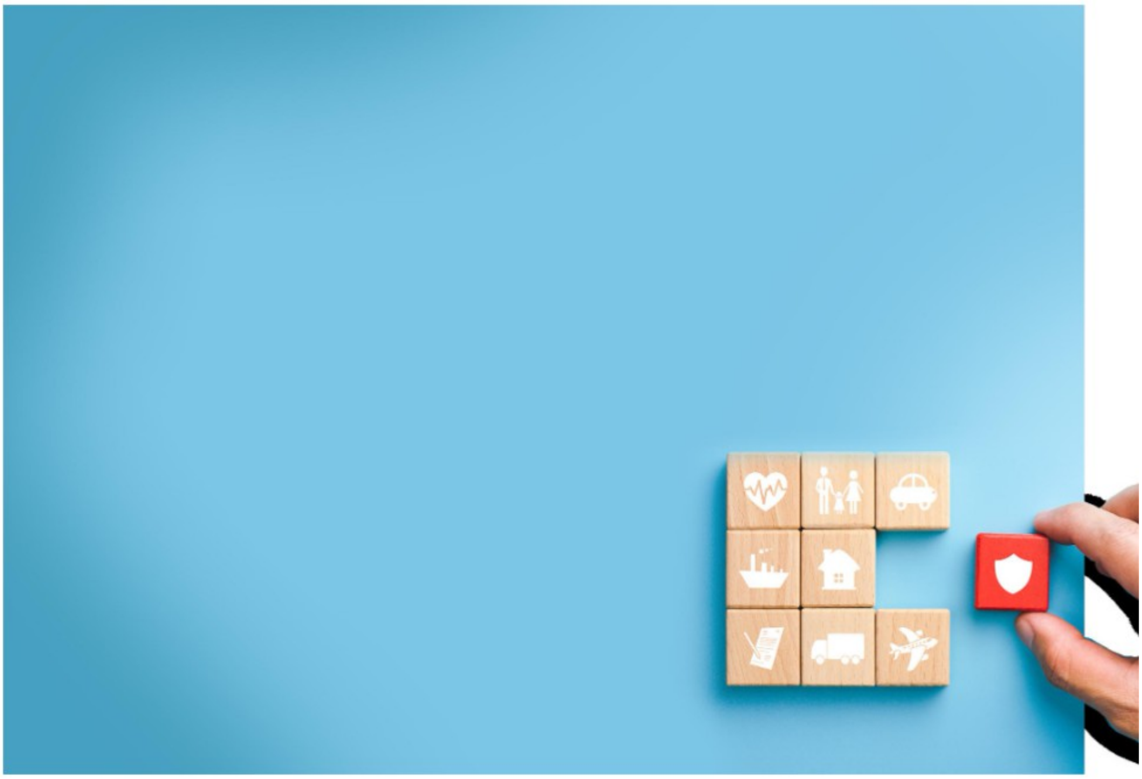
EWP protects assets with segregated account legislation by using the benefits

How private placement life insurance works

Privately placed life insurance is generally structured as a variable universal life insurance policy, meaning:

• Premiums are flexible. Policyholders can pay as much or as little premium as they like, whenever they like. • The cost of insurance is deducted from the cash value in the policy subaccounts each month or each year. • To keep the policy in force, the owner must pay enough premium to maintain enough cash value to cover the cost of insurance. • If the cash value reaches zero, the policy will lapse.

The typical PPLI candidate or family has:



• A high net worth • The ability to fund $1 million or more in annual premiums for at least several years — $3 million to $5 million is typical • A desire for hedge fund or alternative investment exposure • Highly tax-inefficient investments • High state and local income taxes in addition to federal. (Advisors should be alert to the effect of any state premium taxes on the strategy.) • A desire to shelter assets from creditors

Source: Maxime Croll, ValuePenguin

of life insurance. This structure uses asset protection laws in the jurisdiction of residence to shield these assets from creditors' claims. A trust with its own asset protection provisions still can receive additional protection with the policy.

Succession planning

EWP includes transfers of assets without forced heirship rules directly to beneficiaries using a controlled and orderly plan. This element of EWP provides a wealth holder a method to enact an estate plan according to their wishes without complying with forced heirship rules in the home country. This plan must be coordinated with all the aspects of a properly structured PPLI policy together with other elements of a wealth owner's financial and legal planning.

Tax shield

EWP adds tax deferral, income, estate tax benefits and dynasty tax planning opportunities. Assets held in a life insurance contract are considered tax-deferred in most jurisdictions throughout the world. Likewise, PPLI policies that are properly constructed shield the assets from all taxes. In most cases, upon the death of the insured, benefits are paid as a tax-free death benefit.

Compliance simplifier

EWP adds ease of reporting to tax authorities and administration of assets as well as including commercial substance to structures. In addition, the insurance company is considered the beneficial owner of the assets. This approach greatly simplifies reporting obligations to tax authorities because assets in the policy are held in segregated accounts and can be spread over multiple jurisdictions worldwide.

Trust substitute

EWP creates a viable structure under specific insurance regulations for civil law jurisdictions. It also creates a new role for commercial trust companies. In most civil law jurisdictions, trusts are poorly acknowledged and trust law is not well developed. As a result, companies with foreign trusts in these civil law jurisdictions face obstacles.

A PPLI asset structure is arguably the most efficient structure available today for wealthy families who want a conservative and efficient structure to integrate tax-free investment growth, wealth transfer and asset protection.

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