PPLI & PPVA – Frequently Asked Questions

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What is Private Placement Life Insurance ("PPLI") and Private Placement Variable Annuity ("PPVA")?

PPLI and PPVA are comprehensive wealth management tools offered by domestic and foreign insurance companies that allow clients to invest on a tax-advantaged basis in certain investments through variable insurance products. When properly structured, they allow ultra-high net worth investors, as well as some institutional investors, to defer and/or eliminate taxes on the growth of investments held within the policy, as well as shield those assets from unwanted predators.

Of note, these structures can allow clients to invest in tax-inefficient asset classes and compound their wealth much more effectively over the long term than they can by investing on a traditional "taxable" basis. When structured properly within an overall estate plan, PPLI also allows individuals to transfer wealth to future generations in a tax-effective (income tax, estate tax and GST tax-free) manner.

These products tend to carry much lower overall upfront and ongoing costs structures when compared to retail or traditional insurance products, and also allow for the policyholder to access a much wider range of potential investments through the contract (including hedge funds, private equity, private credit, real estate, and other real assets).

How does it work?

In exchange for one or more premium payments from the client, an insurance carrier issues a PPLI (life insurance version) or PPVA (variable annuity version) insurance contract. The policy's terms and amount of death benefit (if a PPLI contract) are negotiated upfront with the insurance company.

The assets used to fund the policy by the client are placed by the carrier into a separate investment account linked to the contract, also known as the policy's "cash value." In the case of PPLI, the contract also provides a corridor death benefit in excess of the policy's cash value.

The cash value investment account assets are considered segregated from the general assets and liabilities of the insurance carrier. This cash value is then used to fund one or more investment options selected by investment advisor of the policyholder.

What are the tax attributes of PPLI and PPVA?

Invested cash value accounts grow tax-deferred within the PPLI or PPVA. Furthermore, depending on the policy design, PPLI policyholders have the ability to access liquidity from the contract by borrowing tax-free from the policy's cash values during the insured's lifetime (so long as the policy is structured as a "Non-MEC" contract).

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If the PPLI or PPVA is surrendered prior to the policyholder's death, profits built up inside of the contract are taxed as ordinary income, while basis is returned tax-free. In addition, if a PPVA policyholder surrenders the contract before the insured reaches age 59 ½, a 10% penalty will be applied.

Upon the insured's death, the contract's cash value and any additional death benefit (if a PPLI contract) are paid to the policy's beneficiaries income tax-free (and potentially estate, gift, and generation skipping tax–free if owned properly).

In addition to the above-mentioned benefits for high-net-worth investors, PPLI and PPVA (or rather – institutional versions of these products) can act as an Unrelated Business Taxable Income ("UBTI") blocker for tax exempt investors, as well as a blocker for Effectively Connected Income ("ECI"), Foreign Investment Real Property Act of 1980 ("FIRPTA"), and Branch Profits Tax ("BPT") purposes for certain offshore individuals and institutions.

What investment strategies are typically held within a PPLI or PPVA policy?

Due to the tax-deferral benefits afforded through PPLI and PPVA, many investors elect to hold tax-inefficient strategies (i.e. mutual fund, hedge fund, fund of funds, private equity, private credit, real estate, oil and gas, and direct investments; or similarly, strategies that generate substantial capital gains, dividends, or current income) within the PPLI or PPVA chassis. By rule, PPLI and PPVA premiums can only be invested by the carrier via a) Separate Managed Accounts or via b) Insurance Dedicated Funds ("IDFs"). At present, there are approximately 180 different publicly available IDFs offered by various asset managers that have been approved on one or more of the major PPLI and PPVA insurance carrier platforms. An estimated 2-3 new IDFs are brought to market every month, mainly by way of existing hedge fund managers and RIA platforms. Some of the biggest managers in the IDFs space include Golub Capital, Millennium Management, and Ares Capital.

Who is an appropriate candidate to consider PPLI?

PPLI is only offered to accredited investors or qualified purchasers as defined by Federal securities laws. In order to fully utilize the income, estate, and asset protection planning features unique to PPLI, we recommend that clients considering funding a policy have a minimum net worth of $20,000,000 or more in investable assets.

How much should a client invest in a PPLI policy?

Given the relative complexity in structuring a new PPLI policy, as well as the pricing efficiencies that result from added scale, investors in PPLI should plan to fund a contract with $3-5M or more in premium payments. In certain instances, clients have funded these contracts with smaller amounts, however these situations are less common.

For most clients a good rule of thumb is that that the PPLI or PPVA should represent up to 20-30% of their overall investable assets.

What are the asset protection attributes of PPLI?

PPLI and PPVA is considered asset-protected in 26 states, which means that cash surrender values are not accessible by potential creditors. Further, the use of certain onshore and offshore trusts and ownership structures to own the PPLI or PPVA can provide for additional asset protection benefits. Last, unlike most traditional insurance products, PPLI and PPVA policy cash values are carried in segregated accounts and are not subject to the credit risk of the insurance carrier.

What fees are associated with PPLI?

There are three primary levels of fees associated with PPLI products: 1) a one-time frontend premium load, 2) "Mortality and Expense" (M&E) charges, and 3) the Cost of Insurance ("COI") charges. The one-time premium load typically represents both a jurisdictional premium tax as well as a one-time "placement fee" charged by the agent who structures the contract. These fees are typically deducted from the policy after the client makes their premium payment(s) to the insurance company.

Further, M&E charges represent an annual asset-based administration fee deducted from the policy by the insurance company (defined as a percentage of the policy's cash value) and is paid to both the insurance carrier as well as the insurance agent who structures the contract (often referred to as the "policy trail").

Finally, like the M&E fee, the insurance company will also deduct annual COI charges from the contract. COI charges will only apply to PPLI contracts (not PPVA). COI charges represent the cost of the policy's overall Net Amount at Risk, or death benefit corridor. This is paid to the carrier (or as is often the case, to the reinsurance companies that help to underwrite the policy's death benefit). The amount of the COI charged by the carrier will depend upon such factors as the insured's age, relative health, and the amount of Net Amount at Risk the PPLI carries.

How is PPLI and PPVA acquired?

In order to purchase a PPLI or PPVA policy, the prospective insured will typically be required to 1) submit a signed application to the carrier along with necessary Know Your Client information (which could include color copy of passport, driver's license, home utility bill, reference letters from financial institutions, etc.), as well as 2) undergo full medical (in the case of PPLI) and financial underwriting.

As part of the PPLI medical underwriting process, the insured may be required to provide copies of prior medical records, submit to a physical exam and/or blood test, as well as complete a brief phone interview.

In addition, a properly licensed insurance agent is typically needed to sign the application (the agent will also help to coordinate the above-mentioned application and underwriting processes between the insured as well as the selected insurance carrier).

Who are the primary insurance carriers that offer PPLI?

There are a number of onshore as well as offshore carriers that write PPLI policies. In the

US, Zurich North America, Lombard International Assurance, Prudential, John Hancock, Pacific Life, Crown Global, and Investors Preferred Life are several of the most active carriers. Within the offshore marketplace, better-known carriers include Crown Global, Argus, Advantage Life, Ibex, and Lombard International Assurance.

Depending on a client's investment thesis, careful consideration should be given to what carrier and jurisdiction the client selects to structure the policy. Different carriers display different levels of flexibility with regard to the types of assets and investment strategies that can be acquired through the PPLI or PPVA contract. In particular, certain carriers and jurisdictions will lend themselves better to clients who prefer that policy cash values are invested in certain illiquid, longer duration, and other private assets.

What are some common investment structures through which PPLI can be applied?

Many of PPLI's tax attributes can be properly leveraged through a variety of ownership structures. Selecting the proper ownership entity of the PPLI policy will depend upon a variety of tax and estate planning considerations unique to each client. A few examples of ownership entities that can help clients to leverage the benefits of PPLI include (but are not limited to) an Insurance Trust, Dynastic Trust, Charitable Lead Annuity Trust ("CLAT"), Family Limited Partnership ("FLP"), Limited Liability Company ("LLC") Family Limited Liability Corporation ("FLLC"), or Charitable Remainder Trust ("CRT"). Further, owning PPLI and PPVA inside of certain trust structures can often help a client to "tax sanitize" or minimize the friction that tax costs can produce against a given asset or portfolio's overall return. PPLI and PPVA can also help to alleviate the ongoing tax liability that settlors often face after contributing appreciating assets to grantor trusts.