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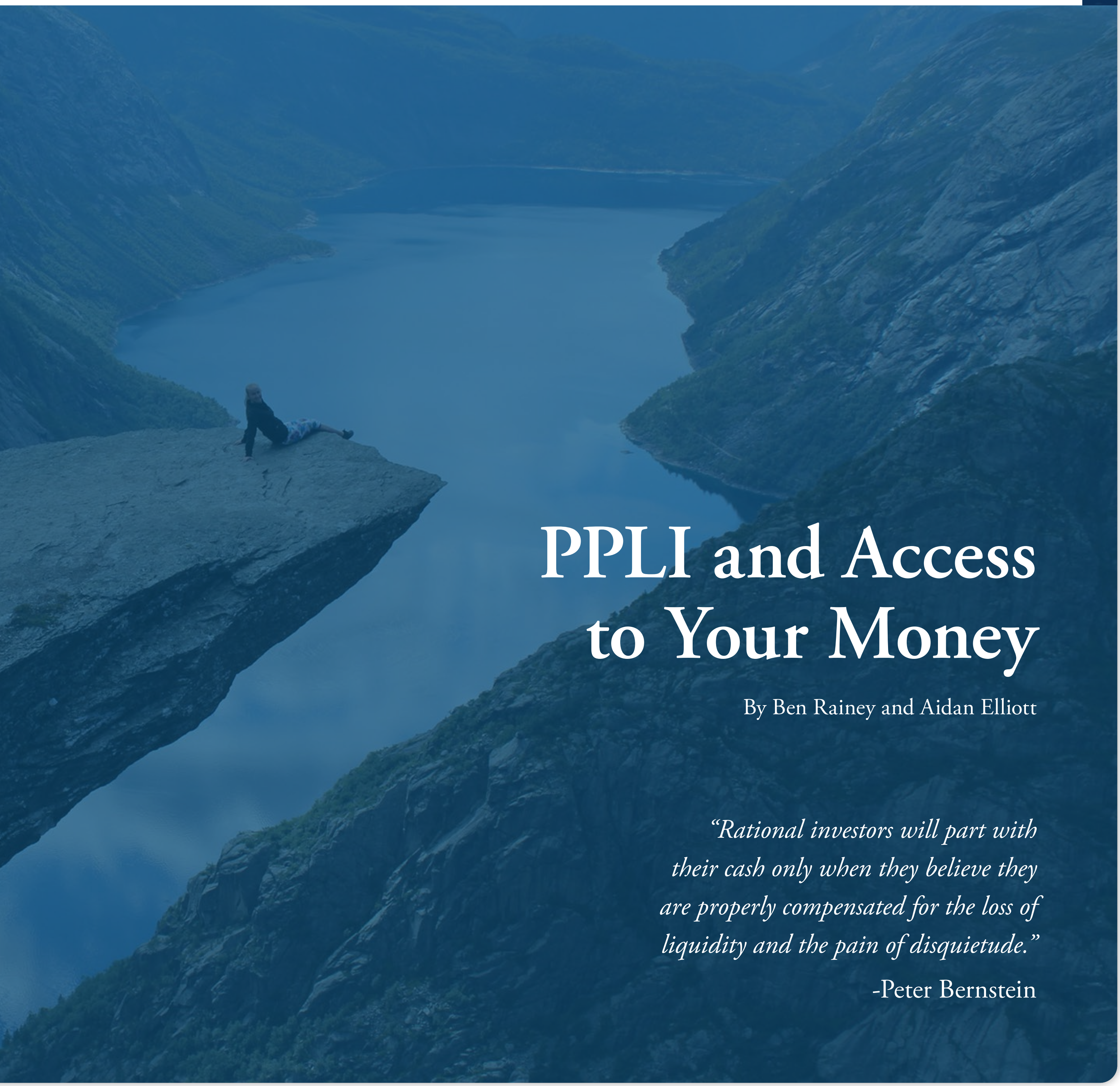


PPLI and Access to Your Money

By Ben Rainey and Aidan Elliott

"Rational investors will part with their cash only when they believe they are properly compensated for the loss of liquidity and the pain of disquietude."

-Peter Bernstein

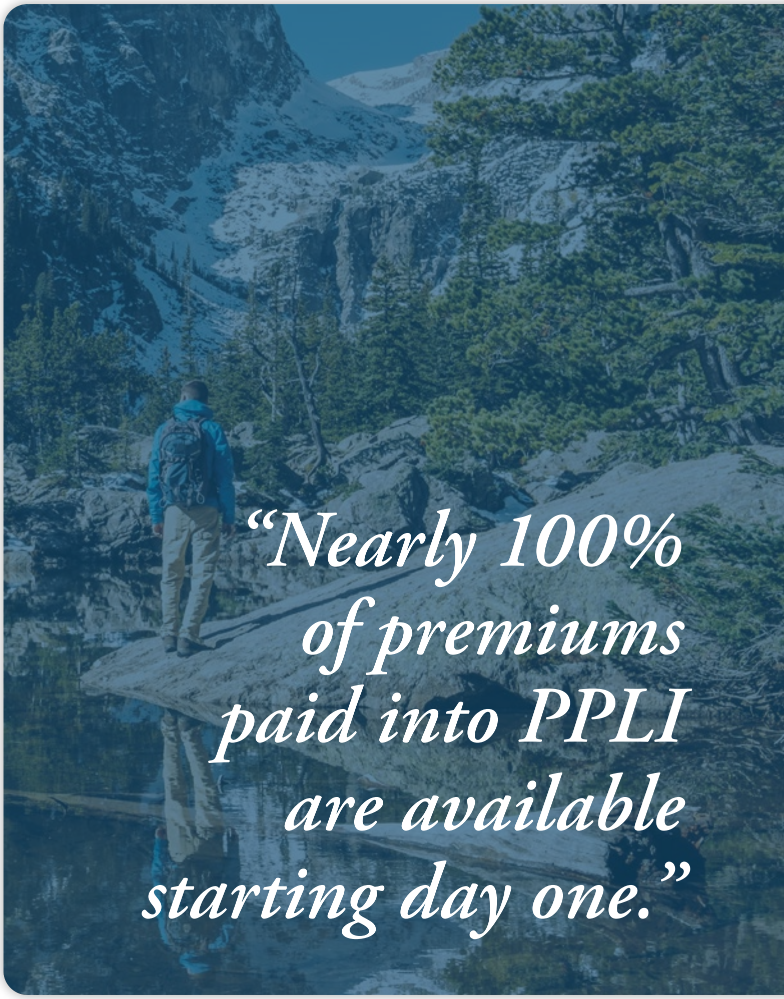
With most retail life insurance products, it is recommended to wait several years before distributing any funds. This is largely due to the up-front commissions, fees and other expenses that are levied on traditional life insurance. In contrast to these retail insurance products, PPLI does not have large up-front fees and expenses. Also, because there are no insurance broker commissions with PPLI, there are no surrender charges. As a result, nearly 100% of premiums paid into PPLI are available starting day one and access to funds is simple and straightforward.

We often reference how Fidelity Investments revolutionized the money market mutual fund game back in the late 1970s. Fidelity was the first to allow account holders to write checks against their money market funds and allow for next day liquidity. Prior to this innovation, it took several days and sometimes weeks for funds to become available to account holders. This liquidity innovation resulted in a flood of new funds into Fidelity and served as a significant springboard for much of their growth at the time.

The PPLI account operates in a similar way. If clients truly understood that they had access to their funds in the account at any time, and that the cost to access the funds was nearly zero, we believe they would put a lot more of their liquid assets into the account.

Keeping Things Simple

The simplest way to think about accessing money from a PPLI account is to think of it as a two-way Roth IRA with no age or income limitations. The money inside the account grows tax-deferred and the policyowner can take the money out at any time. Clients can access the funds in their PPLI accounts just like they would in any other account. The investment advisor simply sells the necessary positions to generate cash in the portfolio and then this cash is made available to the policyowner via a policy withdrawal or loan.



Policy Withdrawals

Withdrawals from PPLI are tax-free up to the basis of the policy. Account holders can get back their premiums, minus fees, without any tax consequence.

Policy Loans

Account holders can borrow against the cash value of the PPLI policy with no underwriting or credit check. The loan is secured by the policy's cash value. The loan does not have to be paid back, though the policyowner may want to replenish funds borrowed from the policy to maximize the long-term tax-free growth that the assets in the account are afforded.

Because the loans are secured by payments already made to the insurer, interest rates are very low. Borrowers should be aware that interest does accrue and borrowing will reduce any death benefits paid out unless the loan is paid back to the policy.

The cost of the loan is fixed and contractually guaranteed and varies depending on the insurance company. Typical loan costs are in the 0.05% to 1% range annually. Depending on the insurance company, a policyowner can access between 85% - 90% of policy account values, including all gains, completely tax free at any time.

The PPLI Difference

Going back to our case study in chapter two – "The Tax Problem", our client desired access to money from his PPLI account 10 years after initially funding it with $20,000,000.

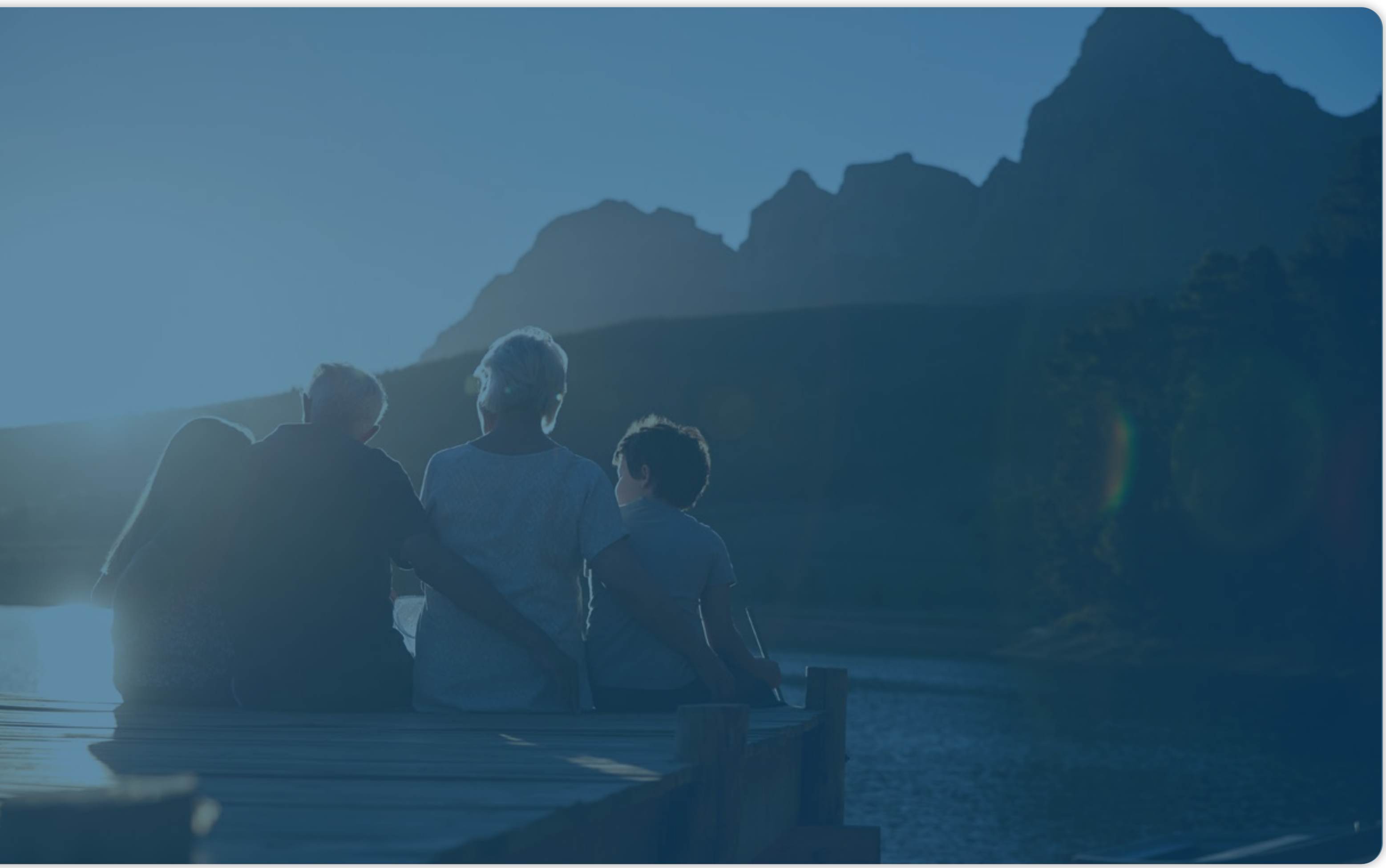
Example - $20,000,000 Investment				
Account	Projected Balance	Liquidity Need	Cost of Liquidity*	Balance After Withdraw
Taxable	$32,043,407	$4,000,000	($362,729)	$27,680,679
PPLI	$36,788,883	$4,000,000	($2,000)	$32,786,883

**5BPS per Prudential contract used for PPLI*

The chart above shows how the original $20,000,000 would have performed in a taxable account versus the PPLI account. What this demonstrates is that his $20,000,000 taxable account would lag the PPLI account in year 10 by over $5,000,000. In addition, the cost of accessing the funds for this liquidity need was significantly more than accessing cash from his PPLI policy. The cost of liquidity from his taxable account is the tax he would incur from selling positions to generate the cash needed. The cost to access $4,000,000 of funds from his PPLI account is the loan cost of 5bps – or $2,000 per year as long as the loan is outstanding.

Summary

Keeping Peter Bernstein's quote top of mind, we agree that rational investors will only part with their hard-earned dollars if they are adequately compensated for any loss of liquidity. Thanks to its favorable characteristics, there are few liquidity restrictions associated with a PPLI account. In fact, it can serve as a potentially tax-free bucket from which to source funds for any type of liquidity need.



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