PRIVATE PLACEMENT LIFE INSURANCE

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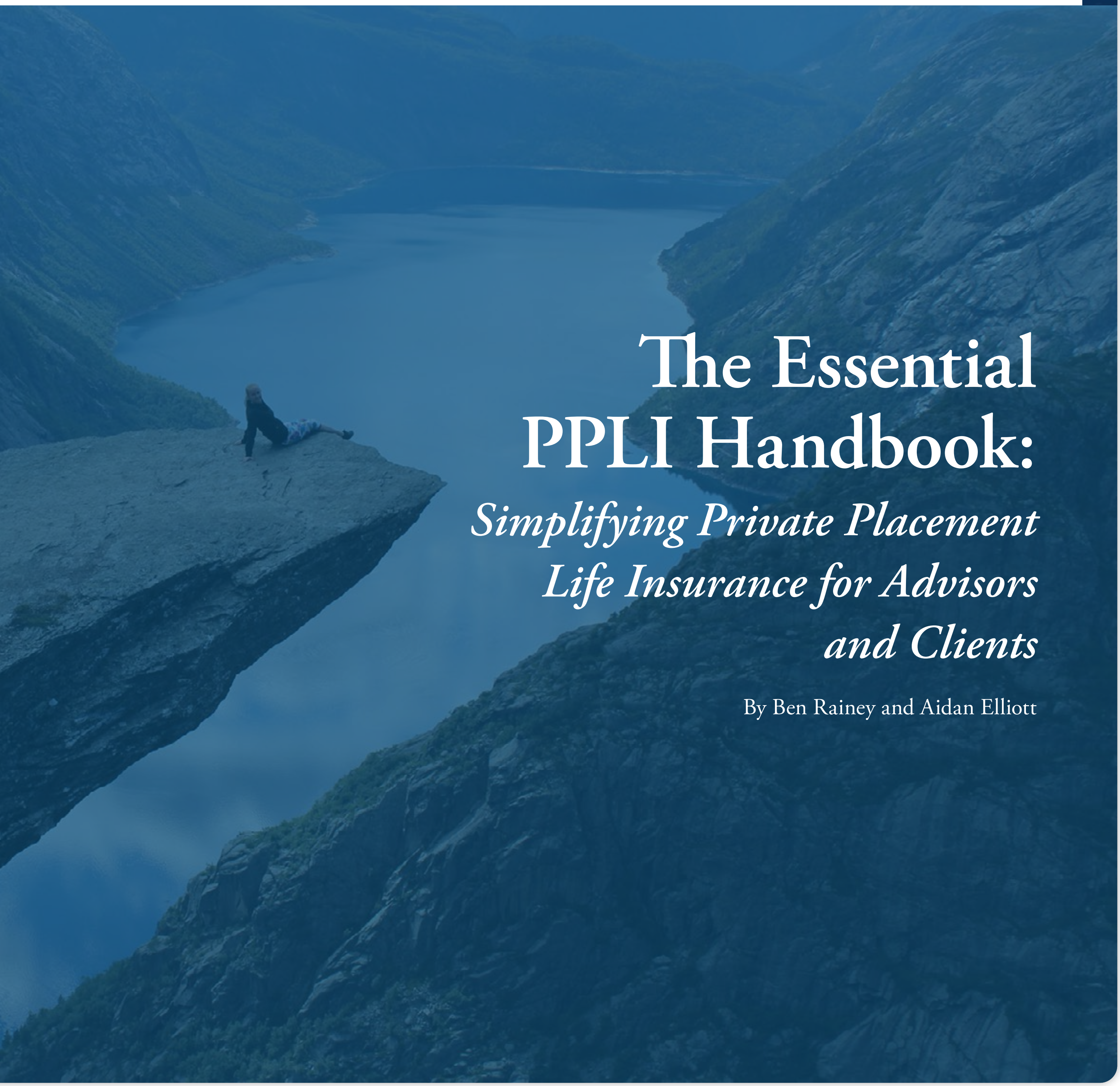
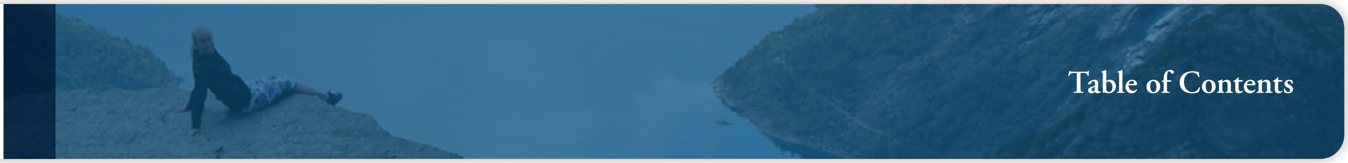


The Essential PPLI Handbook:

Simplifying Private Placement Life Insurance for Advisors and Clients

By Ben Rainey and Aidan Elliott



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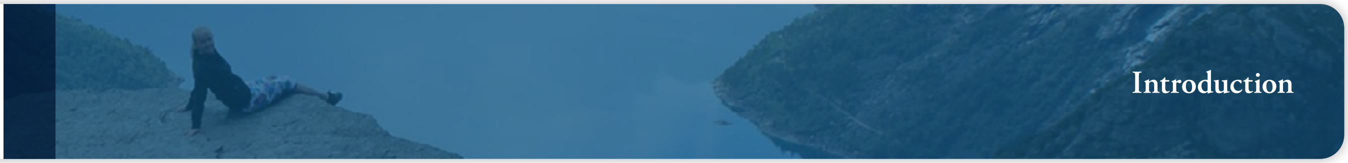

Over my 20 plus year career in life insurance, I had often heard of Private Placement Life Insurance (PPLI) but had never taken the time to understand it.

Like many insurance advisors, and other professionals, I thought it was overly complicated and unnecessarily confusing. And yes, while the product was cheaper than traditional life insurance, the investments with which I was familiar were limited and often underperformed.

Nothing about PPLI seemed compelling.

All that changed during the early days of COVID in 2020. With extra time on my hands, and at the urging of my good friend and business partner at the time, Aidan Elliott, I dove headfirst into understanding this mysterious product.

What I discovered astounded me.

Everything wealth managers, CPAs, and attorneys dislike about traditional life insurance – the confusion, lack of transparency, poorly aligned incentives – gone. The previous limits on investment choices and underperforming funds – also gone. Plus, PPLI is now 50% less expensive than when I first heard of it a decade or so ago!

The beauty of PPLI is that it is elegantly simple.

With PPLI there are no proverbial bells and whistles or complicated tax loopholes. It simply marries institutionally priced life insurance with professional asset management.

Due to advisors' and clients' prior experiences, PPLI can still be seen as a complex and confusing strategy. It need not be so. It is my hope that this handbook helps demystify this often overlooked and yet exceedingly powerful planning tool.

PPLI truly is a game changer and I'm grateful you're taking the time to better understand it.

Ben Rainey

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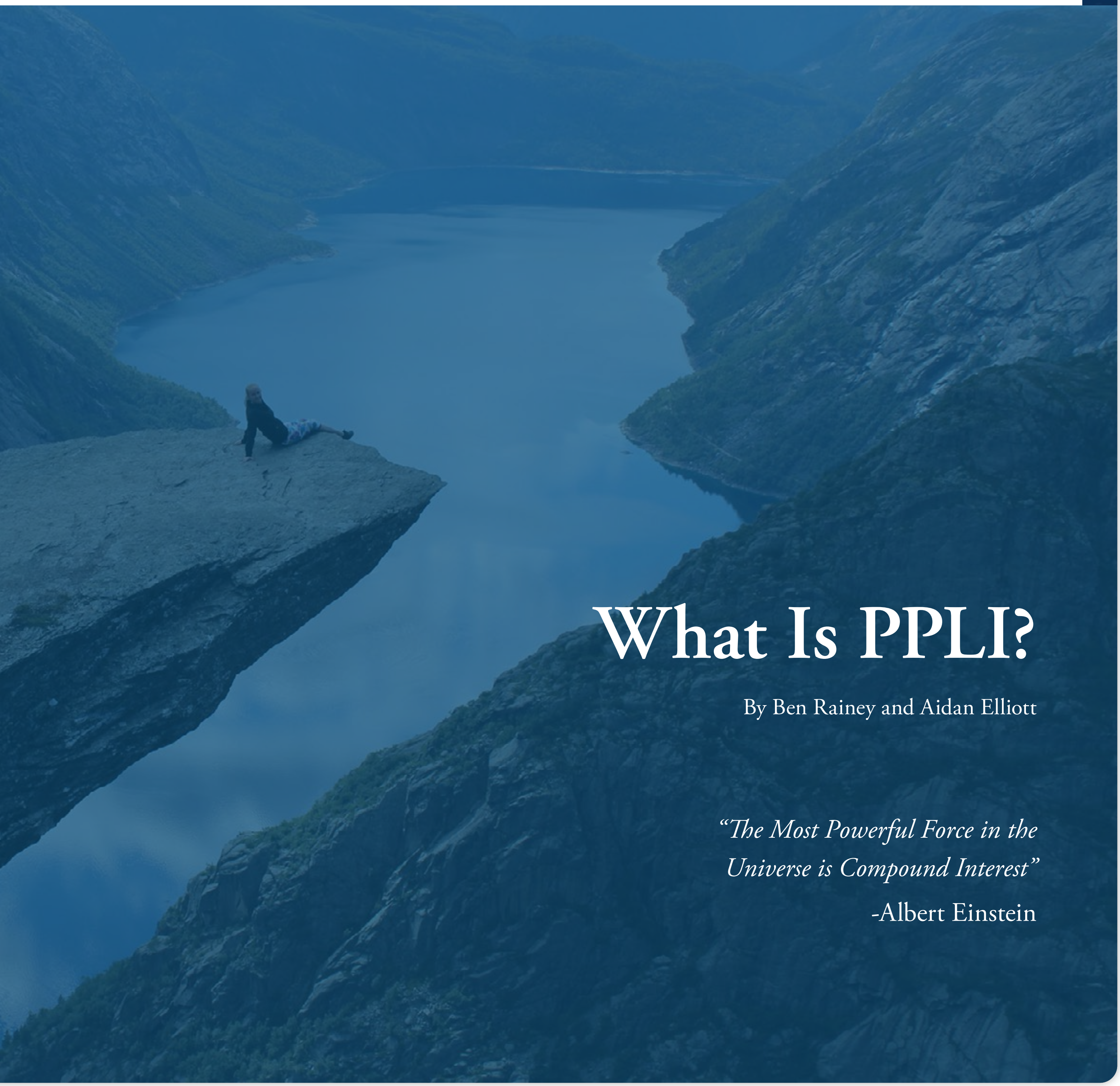
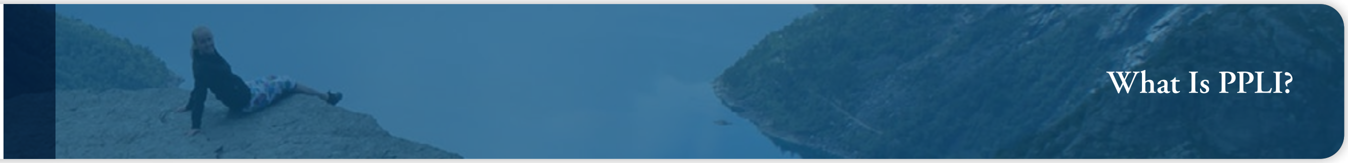


What Is PPLI?

By Ben Rainey and Aidan Elliott

"The Most Powerful Force in the Universe is Compound Interest"

-Albert Einstein



Private Placement Life Insurance (PPLI) is an institutionally priced variable life insurance product that ultra-affluent individuals use to mitigate income taxes on a portion of their investment portfolio. It is designed so that the investment account of the policy is managed by the policyowner's professional investment advisor.

Like all life insurance policies, assets inside PPLI enjoy tax-deferred growth. With proper design and servicing, the policyowner can also enjoy tax-free access to those assets at any time. Additionally, PPLI pays out a tax-free death benefit when the insured passes away.

It sounds like a wonderful tool. Yet, since its creation in the late 1970s, PPLI has been the "Bigfoot" of the insurance and asset management industries. Many advisors and their clients have heard about it and know it exists, but very few have seen a PPLI policy implemented. In recent years however, it has become increasingly utilized by advisors to the ultra-affluent for three primary reasons.

The first is that PPLI is one of the last tax-deferred structures that can be used in planning with minimal contribution limitations. As tax rates have continued to increase, this tax-deferral has become more and more attractive. The second reason is that PPLI can integrate into all existing long-term wealth transfer planning, making it straightforward and seamless to implement.

Perhaps the biggest reason that PPLI is more commonplace today is because of the separately managed account (SMA). The SMA allows an investment professional to manage the money inside of a PPLI policy just as they would in a regular taxable taxable account.

How the SMA Changed Everything

Since its inception, PPLI has been understood as an effective place in which to own tax-inefficient investments – namely hedge funds and credit strategies. These funds were pre-packaged and sold on a menu basis and are commonly known as insurance dedicated funds (IDFs). While many of these funds are excellent and have name brand managers, for example Bain, Golub, Millennium, etc., the strategy is not in line with how money is managed today. Most ultra-affluent clients do not like being forced to choose from a predetermined list of investment choices. They chose their investment advisor because of their investment platform and offerings, not an insurance

carrier's. Additionally, most investment advisors today create custom portfolios for their clients and don't have time to research a whole new set of IDF offerings.

Enter the SMA. Now investment advisors can open an account with their current custodian and manage the money inside the PPLI policy with nearly unlimited investment options. Anything from private equity, hedge funds and venture capital to real estate, index funds and corporate bonds can be owned within the SMA.

In our minds, this is the holy grail for both the client and the investment professional. Now the PPLI policyowner can have the custom investment management they desire along with all the tax benefits of life insurance.

How is PPLI Different From Retail Life Insurance?

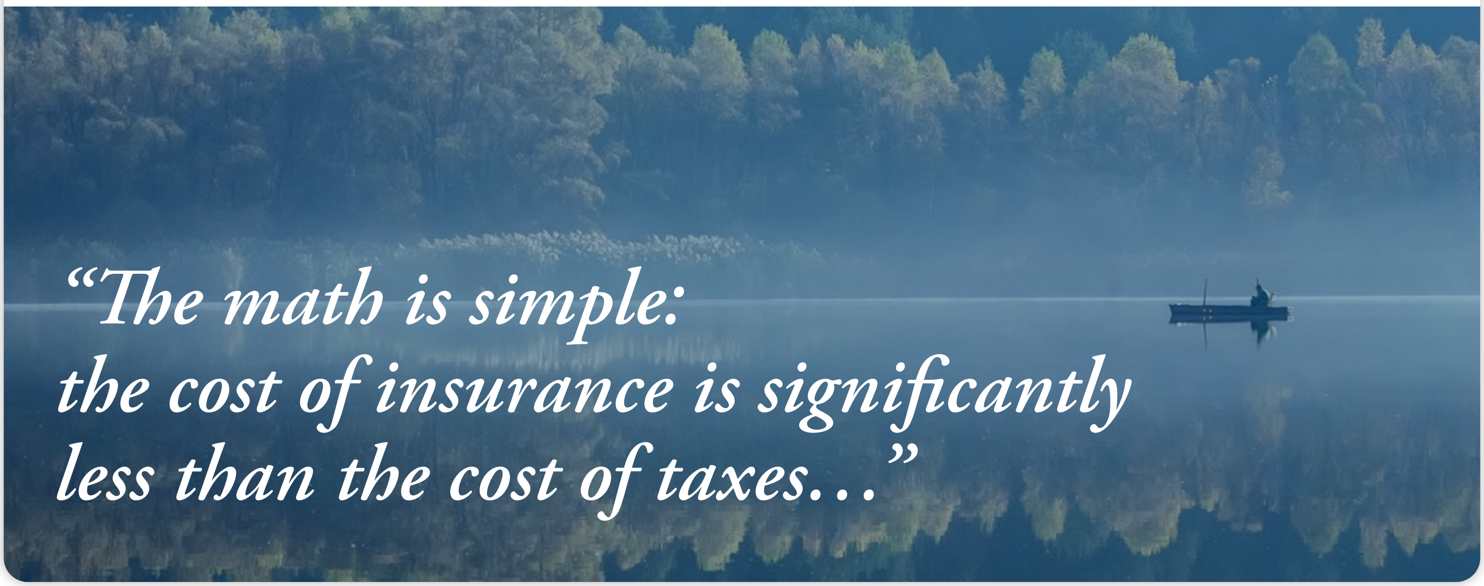
In the eyes of the IRS and the tax-code, PPLI is simply a variable universal life (VUL) policy. As such, PPLI complies with all the relevant tax code sections that apply to all life insurance – most notably section 7702 which establishes and defines the specifics of a life insurance contract.

What makes PPLI unique and attractive to ultra-affluent investors compared to VUL is the types of investments that they can now own inside the policy, and how the policy is priced. Life insurance agents and brokers that sell PPLI do not receive a heaped commission as with traditional products, but rather receive small fee-based compensation. The policies are completely transparent in terms of fees and costs. The owner can see exactly what the product will cost each year, and to which party these costs flow. As a rule of thumb, the cost of a properly designed PPLI contract will run between 0.30% and 1.00% over the life of the insured.

The Math

It is a truism that "it's not how much money you make, but how much you keep that matters" and PPLI enables our clients to keep more of what they make. The math is simple: the cost of insurance is significantly less than the cost of taxes, and over time the cost savings compound to the policyowner's benefit. The longer a client has that math compounding in their favor, the more favorable the outcome.

For an average 50-year-old male, our analysis shows that given the exact same investment returns, a PPLI account may result in twice as much account value over a 40-year period as compared to a typical taxable account.



Summary

PPLI is not for everyone, but for qualified ultra-affluent clients looking for income-tax relief, we think it is a powerful solution. Our belief is that Albert Einstein was only partially correct. With apologies to Mr. Einstein, we would respectfully assert that the most powerful force in the universe is compound interest without taxation!

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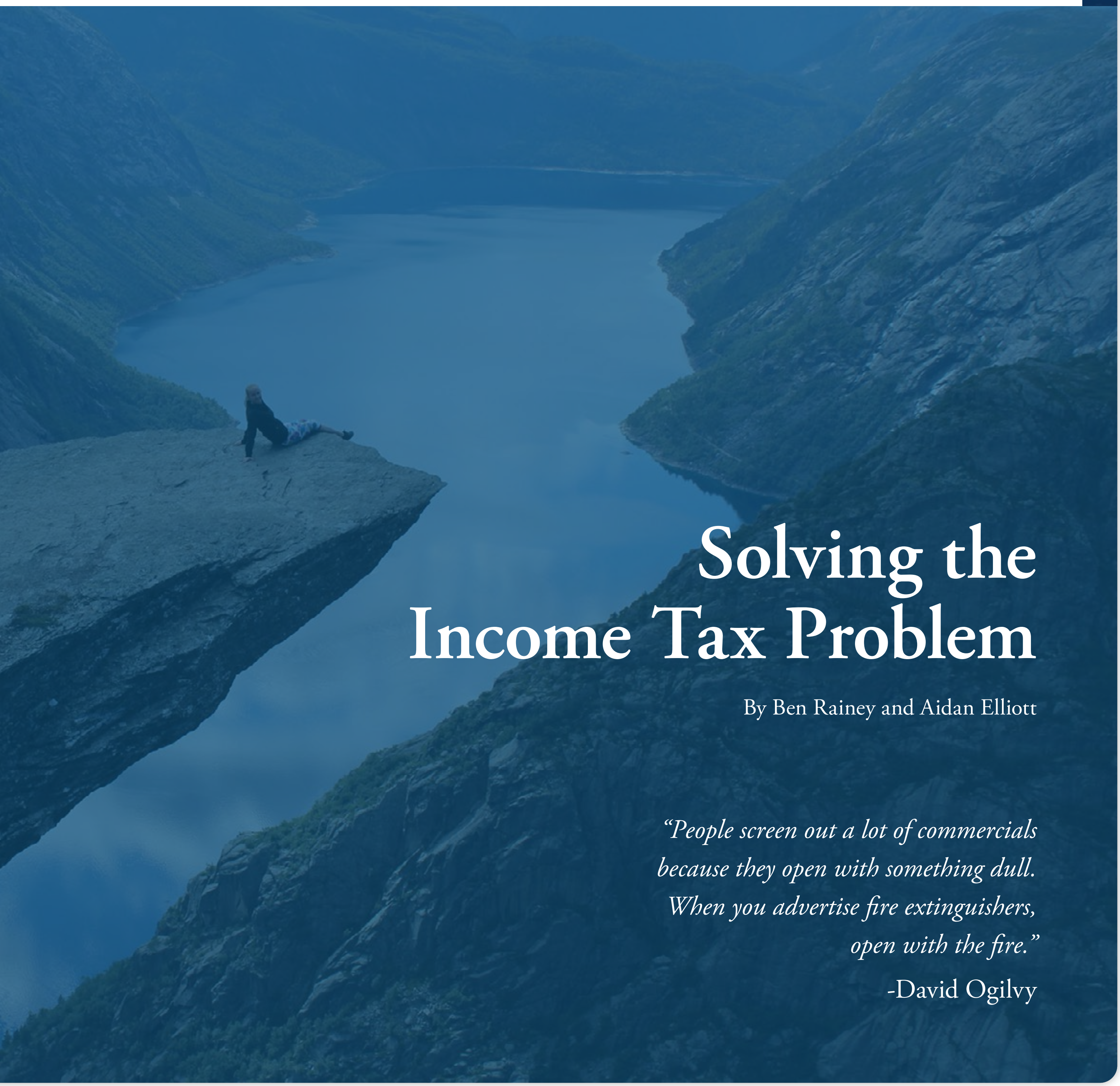


Solving the Income Tax Problem

By Ben Rainey and Aidan Elliott

“People screen out a lot of commercials because they open with something dull. When you advertise fire extinguishers, open with the fire.”

-David Ogilvy

Life insurance is often a dull subject at the best of times, yet it offers many exciting tax benefits via the U.S. Internal Revenue Code. These benefits include tax-deferred growth, the potential for tax-free access of the underlying cash value during a client's life and a tax-free payment of the death benefit.

PPLI is afforded all the same tax benefits as traditional life insurance and is designed for investment performance, not maximum death benefit. Therefore, with prudent planning, PPLI can be used to mitigate some of the taxes assessed on a client's investment portfolio annually.

The advantage of PPLI is the function of a simple equation: is the cost of the insurance less than the cost of the taxes on the investment portfolio? In evaluating suitability, it is imperative to calculate the annual tax projections of a current investment portfolio and compare against the cost of insurance annually.

The Problem – a Third of Investment Return Lost to Taxes Annually

Consider a 50-year-old Arizona resident with no life insurance in place. His current investment portfolio is outlined in the table below and he desires tax-relief on $20 million of his liquid investment portfolio that is held in a family trust. His investment risk tolerance is high and the projected rate of return on his portfolio based on long term capital market return assumptions is assumed to be 7.93%.

Current Portfolio - Tax Treatment

Assumptions	State	AZ	Federal	State	NIIT	City
	OI/STCG Tax Rate*	43.30%	37.00%	2.50%	3.80%	0.00%
	LTCG Tax Rate	26.30%	20.00%	2.50%	3.80%	0.00%

Portfolio Allocation	Investment Allocation	Investment Balance	Investment Assumption	Assumed Tax Treatment	Assumed Turnover	Assumed Tax Rate*
Ares Fund	25.00%	$5,000,000	**8.00%**	Blended Rate (100% OI; 0% LTCG)	0.00%	43.30%
Golub Fund	17.50%	$3,500,000	**9.00%**	Blended Rate (100% OI; 0% LTCG)	0.00%	43.30%
StarFire Fund	15.00%	$3,000,000	**6.00%**	Blended Rate (30% OI; 70% LTCG)	10.00%	14.83%
Private Equity Fund	30.00%	$6,000,000	**9.00%**	Blended Rate (80% OI; 20% LTCG)	15.00%	35.43%
Equities	12.50%	$2,500,000	**6.00%**	Blended Rate (20% OI; 80% LTCG)	5.00%	9.71%
Total/Weighted Average	100.00%	$20,000,000	7.93%			32.29%

**Assumes the tax treatment of each fund, factors in the marginal ordinary and long-tern capital gain tax rates and frequency of when they are incurred/realized*

If the client were to maintain his existing investment allocation in a taxable account, he will lose roughly 32.47% of his investment return annually to taxes. This translates to a 2.56% net loss to his investment return every year.

After undergoing medical underwriting, the client has secured a preferred underwriting classification and will pay 0.62% (all program fees included) annually in life insurance costs to secure and maintain a PPLI policy over his lifetime.

Benefit

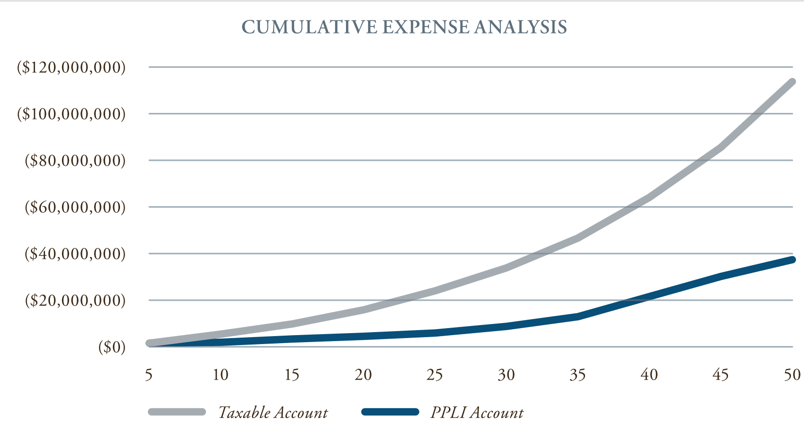
In this example, the impact of PPLI is measured by swapping 2.56% in tax costs on his investment portfolio for 0.57% in insurance costs.

The below table illustrates the tax friction of keeping the $20 million invested in the client's taxable account compared to the costs of the PPLI product over the next 40 years. Over this 40-year holding period he will save just under $64 million in taxes compared to paying just over $19 million in insurance costs for a total cost savings of over $44 million that compounds to his benefit each and every year.

Cost of Taxes vs. Cost of PPLI Structure

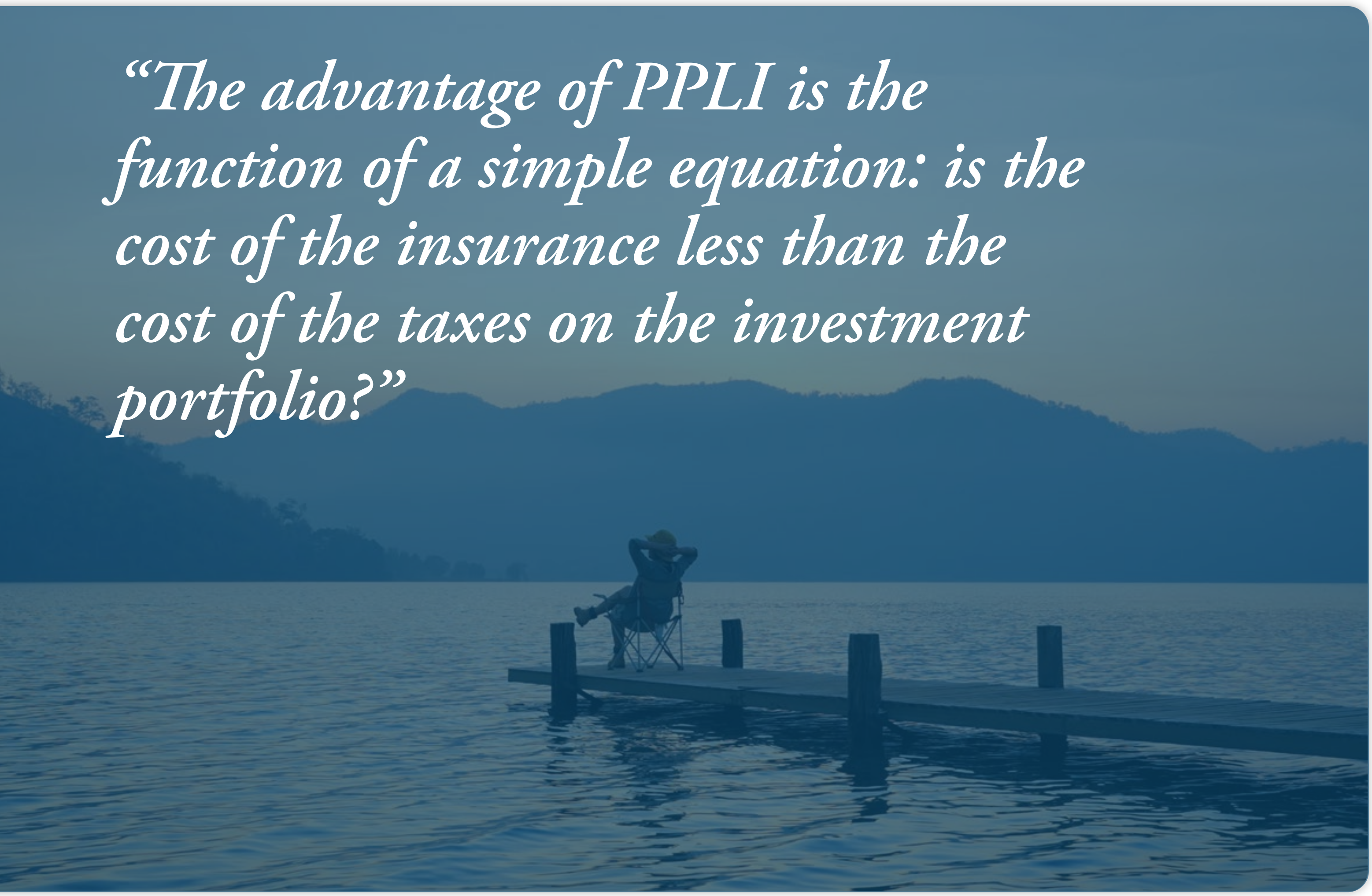
Year	Taxable Account Cumulative Cost	PPLI Account Cumulative Cost	PPLI Account Cumulative Cost Savings
5	($2,228,463)	($1,126,792)	$1,101,672
10	($5,742,613)	($1,951,563)	$3,791,050
15	($10,306,424)	($2,986,952)	$7,319,472
20	($16,233,425)	($4,553,051)	$11,680,374
25	($23,930,795)	($6,163,507)	$17,767,288
30	($33,927,334)	($8,290,813)	$25,636,521
35	($46,909,796)	($11,963,158)	$34,946,638
40	($63,770,061)	($19,286,168)	$44,483,893
45	($85,666,41)	($29,268,104)	$56,398,309
50	($114,103,106)	($34,763,188)	$79,339,918

- *Brokerage expenses consist of all income and capital gains taxes incurred*
- *PPLI expenses consist of premium tax charge, structuring fees, M&E charge and COI*
- *Investment management fees are assumed to be the same for both the brokerage and the PPLI assets*



Summary

Not many firms take the time to understand the taxable account tax problem, nor communicate it clearly and concisely to their clients. By starting with the tax problem and then highlighting the value that PPLI adds, we believe our clients and their advisors are better positioned to confidently implement this powerful tool.



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