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USING PRIVATE PLACEMENT LIFE INSURANCE TO HOLD PRIVATE EQUITY AND ALTERNATIVES

Private Placement Life Insurance (PPLI)

Eligibility
Individuals who are:
- Accredited Investors -Investors with a net worth exceeding $1m, excluding primary residence
- Qualified Purchasers – Investors with investment portfolio (including businesses) exceeding $5m
- Investors in Private Equity, Private Debt, and Real Estate
- Investors looking to reduce taxes on investments and/or create tax-free income

Overview
PPLI is a form of variable life insurance policy tailored to the unique needs of the Accredited Investors and/or Qualified Purchasers. They allow policyholders to invest for the long-term on an income tax-eliminated basis.

The policies allow for the policyholders' wealth advisor to invest the premiums into custom opportunities, instead of of pre-approved funds or managers.

Tax Elimination
PPLI is ideal for assets that will produce large returns or high income. The insurance policy is the investor in the asset, thus eliminating the tax on capital gains. Income generated by the assets is not recorded as ordinary income by the investor. When the investor dies, proceeds are passed to the beneficiaries exempt from inheritance taxes.

Tax Free Cash Flow
The investor/policyholder can take out a tax-free loan against the cash balance of the policy. The distribution is a loan against the death benefit of the policy. The loan is repaid from the death benefit of the policy after the investor passes and before the beneficiaries are paid.

Passing of Assets In-Kind
Policies are originated in South Dakota to take advantage of a state law allowing Life Insurance assets to be passed to beneficiaries in-kind. This is a significant opportunity for holding assets such as private equity, real estate, and hedge funds. These assets typically have long hold periods and limited secondary markets. In addition, an option to layer PPLI policies is created between the investor and beneficiaries, allowing assets to be held for decades, generate of tax-free income.

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Eligible Holdings
Almost any investment can be held within the life insurance policy:

- Stocks, Bonds, & ETFs
- Private Equity
- Mutual Funds
- Real Estate
- Hedge Funds
- Oil & Gas
- Private Credit
- Opportunistic Assets

Converting Existing Life Insurance Policies
Clients with existing life insurance policies can be used to fund the PPLI policy. Converting a policy does not trigger a capital gains tax on the conversion.

Limitations

Investor Control

- The investor/policyholder cannot be actively involved in the management of the underlying investment, have discretion over the investments, vote the securities, or exercise rights pertaining to the security. These actions must be performed by the investment manager.
- The investor/policyholder must maintain adequate distance from the investment decisions avoid being considered the true owner of the underlying assets. Similarly, the Investment Advisor must avoid acting solely as the intermediary between the investment and the investor/policy holder.
- Investor/Policyholder Control Guidelines are robust, based on thirty (30) years of Private Letter Rulings issued by the IRS clarifying what a policyholder can and cannot do pertaining to investment decisions.

Diversity
All life insurance policies must have at least 5 underlying investments. New policies have 12 months before the diversity test must be met:

- No one investment may constitutes more than 55% of the value of the total account.
- No two investments may constitute more than 70% of the value of the total account.
- No three investments may constitute more than 80% of the value of the total account.
- No four investments may constitute more than 90% of the value of the total account.

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Funding

- The minimum policy size is $5m. The policy works better if paid over time. A common approach is $1m per year for 5 years.
    - There is an option, called the Private Placement Variable Annuity (PPVA) for Accredited Investors that has a smaller investment minimum than the $5m required by the PPLI.The minimum size of the PPVA structure is $500k.
- The policy must to be funded from insurance premiums. Assets cannot be contributed in-kind.
- Funding must come from an individual only, not a Limited Partnership or any other type of corporate structure.
- Existing Life Insurance policies can be utilized.
- The investor/policyholder must pay a state tax on premium payments. South Dakota has one of the lowest state premium taxes in the country. The first $100,000 of premium is taxed at 2.5% annually. Any premiums over $100,000 are taxed at 0.08%.

No Access to Capital Loss

Since the investments are held within an insurance policy, capital losses cannot be transferred back to the investor/policyholder.

Notes on the Process

Cost and Transparency

- PPLI has lower, institutional pricing than retail life insurance.
- PPLI policies do not have a surrender charge, unlike retail life insurance products.
- PPLI is priced and bundled like an investment. Fees and costs are clearly listed.
- Insurance Company: Investors Preferred Life Insurance Company – Cost of Insurance roughly equivalent 1% per year.
- Administrator:Spearhead Administrative Services – 0.10% per year
- Sub Advisor:Wiser Advisor Group – Tiered household asset-based fee. Starting at 0.90%

Creditor Protection

- The assets held within the insurance policy are governed by state law but typically are expempt from creditor claims of the policyholder.
- The funds for the policy are held separately from the Life Insurance company's general account, so the assets are exempt from claims by the insurer's creditors.

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Investments

- The Policy does not produce K1s
- Around 20% of the assets will be invested in traditional Stocks, Bonds, ETFs, and Mutual Funds to satisfy the Diversity requirement and ensure continuity of the insurance policy.

Implementation of Insurance

- The policy can cover a single individual or multiple family members.
- There is no surrender charge on the policy.
- Existing policies can be utilized.
- The insurance carrier will require a standard medical underwriting process.
- An estimated 6-8 weeks is required to implement.

Estate Planning

- Integrating the PPLI structure into existing estate planning vehicles enhances the effectiveness typically without major revisions to existing trusts and plans.
- Business and family offices use the PPLI tool to provide executive benefit programs, fund buy-sell agreements, or provide asset protection.
- The policy may be held in an irrevocable life insurance trust. Placing the policy in the trust removes it from the value of the estate when calculating inheritance tax.

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Feature	Traditional Private Equity Investment	Private Placement Life Insurance (PPLI)
Tax Deferral	None	Yes - Investment earnings grow tax deferred and are payable to beneficiaries' income tax, Estate and Generation Skipping tax-free upon death
K1s	Yes	No
Access to Liquidity	Yes	Client can access tax-free loans from contract. If surrendered, profits taxed as ordinary income
Medical Underwriting	N/A	Require Insured medical exam and Underwriting
Creditor Protection	None	Assets considered protected from creditors of policyholder (subject to jurisdiction) and from creditors of insurance carrier
Additional Cost	N/A	Typical cost of insurance 1.0% Cost of administration 1.0% No Surrender Charge
Time to Implement	< 1 Month	Typically, 6-8 weeks

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