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Using private placement life insurance in efficient estate planning

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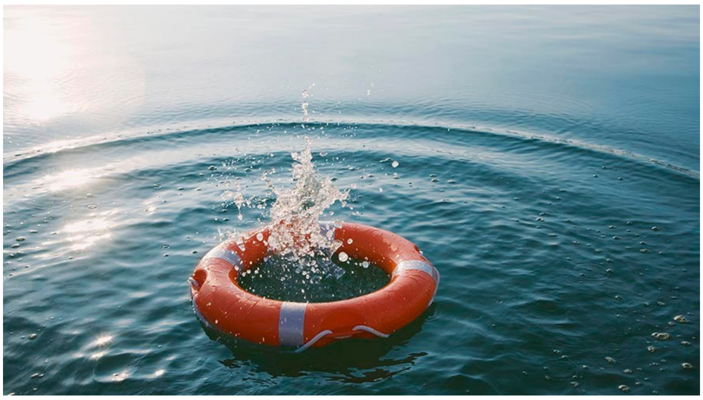

Following the 2018 US Tax Reform Act, the use of private placement life insurance (PPLI) is becoming increasingly prevalent in the US but its benefits remain relatively less known outside of the US. In its most basic form, PPLI is a type of permanent cover life insurance offering a broad range of investment options into which the insurance company invests premium payments via segregated accounts on a tax free basis. As with other more traditional types of permanent life cover, any increase in the value of underlying policy investments would not be subject to income or gains tax but unlike traditional policies there is far more latitude as to the types of permissible investments including the ability to involve qualified independent investment advisers.

During the insured's lifetime the performance of the policy would be measured by reference to the underlying investments and, on passing, the policy beneficiaries would receive the value of the investment accounts and a further amount of insurance cover. Increases in value of the underlying investments along with the life cover death benefit would be paid to the US beneficiaries free of any income or gains tax.

For illustration purposes, let's compare a $10,000,000 investment portfolio held directly by a US individual with the same amount of premium payment to an appropriately structured PPLI policy which is gifted to US family members. Assuming a 7% annual investment return and an effective blended income and gains tax rate of 30%, after 25 years the directly held portfolio would be worth approximately $33,000,000 whereas the portfolio within the PPLI policy would be worth approximately $48,000,000 (no income or gains taxes apply but there would be annual fees charged by the insurance company). Further, the $33,000,000 in the directly held portfolio generally would be subject to 40% estate tax on the policy owner's death, leaving just under $20,000,000 for heirs. Compare that to the PPLI policy which would provide a death benefit of $48,000,000 free of estate tax due to the initial gift planning.

In reality, the foregoing $10,000,000 premium payment would be split into two parts. One part would fund the life insurance on an insured and the other would be invested in a segregated asset account of the insurance company. The necessary amount of that life cover would be determined on an actuarial basis as mandated by the US tax code. Qualified insurance agents can provide fact specific illustrations based on actual age and health assumptions. Importantly, this further death benefit provided by the life cover also would be paid out tax free on the insured's passing.

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