



# PRIVATE PLACEMENT LIFE INSURANCE (PPLI)

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 **EAGLE ROCK**  
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## **Private Placement Life Insurance (PPLI):**

An Advanced Wealth Management and Estate Planning Strategy

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## Introduction to Private Placement Life Insurance

### What Is Private Placement Life Insurance?

Private placement life insurance (PPLI) is a specialized form of variable life insurance designed primarily for high-net-worth individuals and families. Issued through private offerings, these contracts let you allocate assets to a broad spectrum of investment choices—including alternatives typically unavailable in retail insurance products. PPLI combines a meaningful death benefit with opportunities for efficient, tax-advantaged asset growth and protection.

### Primary Benefits and How It Can Serve Your Goals:

You can use PPLI to achieve sophisticated objectives such as minimizing income taxes, protecting assets from creditors, and facilitating multigenerational wealth transfer. It gives you access to customized portfolios—ranging from hedge funds, private equity, and private credit to other specialized strategies—while benefiting from the longstanding tax preferences of life insurance contracts. Growth inside the policy occurs on a tax-deferred basis, and the death benefit passes to your beneficiaries free of income tax, making it a compelling component of comprehensive estate and legacy plans.

### Tax Advantages Under U.S. Income Tax Rules:

Several core provisions in the Internal Revenue Code create significant benefits for you:

- **Tax-Deferred Accumulation:** Earnings from interest, dividends, and capital gains within a qualifying policy are not subject to current taxation. This enables enhanced compounding over time (Internal Revenue Code § 7702; § 72).
- **Income-Tax-Free Death Benefit:** Proceeds paid to your beneficiaries are generally excluded from gross income under IRC § 101(a), supporting efficient wealth transfer.

- **Tax-Efficient Access to Cash Value:** You can access funds through withdrawals (up to your basis) or loans without triggering ordinary income tax, provided the contract remains in force and does not become a modified endowment contract.
- **Estate Tax Planning Opportunities:** When properly owned by an irrevocable life insurance trust (ILIT) in which you retain no incidents of ownership, the death benefit is typically excluded from your taxable estate.

These features make PPLI a powerful vehicle for long-term capital appreciation and transfer tailored to your family's needs.

### **Insurance Dedicated Funds (IDFs):**

Insurance dedicated funds (IDFs) are pooled investment vehicles created specifically for variable insurance products. Professional firms manage them to satisfy regulatory and tax requirements. IDFs expand your accessible strategies in PPLI, including alternatives that might otherwise create unfavorable tax consequences outside an insurance wrapper. They help maintain compliance while offering diversification and professional oversight.

### **Separately Managed Accounts (SMAs):**

For greater personalization, separately managed accounts (SMAs) offer an alternative to pooled funds. In an SMA structure, a qualified investment manager oversees an individual account tailored to your objectives, risk parameters, and preferences. This delivers enhanced transparency, direct manager interaction, and alignment with your family-specific goals—all within the policy's segregated account framework.

## **Diversification Standards Under IRC § 817(h) and the Investor Control Doctrine**

### **Diversification Requirements:**

To preserve tax advantages, variable contracts must meet asset diversification tests under IRC § 817(h) and Treasury Regulation § 1.817-5. These generally include:

- No more than 55% of account value in any single investment.
- No more than 70% in any two investments.
- No more than 80% in any three investments.
- No more than 90% in any four investments.

At least five distinct issuers are typically required. Failure to satisfy these can cause the contract to lose its favorable tax treatment.

### **Investor Control Doctrine:**

The investor control doctrine prevents you from exercising excessive direct influence over underlying investments. If you retain substantial decision-making authority, the IRS may treat you as the owner of the assets for tax purposes, eliminating deferral benefits (Rev. Rul. 77-85; *Webber v. Commissioner*, 144 T.C. No. 17 (2015)). Professional management through independent advisors and SMAs, maintained at arm's length, helps safeguard compliance.

### **Effectively Managing Assets Inside Your Policy:**

Professional investment managers can add meaningful value by overseeing assets held inside your PPLI policy. This supports tax-efficient portfolio management aligned with your goals. Such arrangements complement the insurance placement process handled by licensed specialists.

## Designing the Death Benefit and Face Amount Risk Management by Carriers:

Insurers manage mortality exposure through internal retention limits and reinsurance treaties. These allow support for large face amounts while distributing risk appropriately.

### *Minimum Death Benefit Approach:*

Many PPLI contracts use the lowest death benefit necessary to qualify under IRC § 7702. This reduces insurance charges, directing more of your premiums toward investment growth while still providing a tax-free death benefit to your heirs. The result is a highly efficient vehicle optimized for capital accumulation.

## Recent Updates to IRC § 7702 and Their Effects:

Modifications to the interest rate assumptions in § 7702 have increased the maximum premium levels you can contribute without creating a modified endowment contract. These adjustments, responsive to economic conditions, enhance the utility of cash-value life insurance strategies like PPLI by allowing larger tax-advantaged contributions and stronger long-term performance potential.

## Distinctive Features of Private Placement Policy Design:

Compared with retail life insurance products, PPLI contracts typically feature:

- Substantially higher premium capacity and cash values.
- Broad, customizable investment menus that accommodate alternatives.
- A streamlined death benefit sized primarily to satisfy tax definitions rather than oversized protection.

These elements prioritize investment efficiency while preserving essential insurance characteristics.

## Strategies for Managing Premium Taxes Across Jurisdictions:

State and local premium taxes vary considerably. Strategic selection of the issuing jurisdiction can reduce this expense. Jurisdictions historically offering favorable rates include Alaska, Delaware, Illinois, South Carolina, South Dakota, Utah, and Wyoming. Evaluate current rates and the overall regulatory environment when structuring your policy.

## Ownership Structures to Minimize Estate and Gift Taxes:

Thoughtful ownership is essential for transfer-tax efficiency. Common approaches include:

- **Irrevocable Life Insurance Trust (ILIT):** Removes the policy and death benefit from your taxable estate when properly established and funded.
- **Family Limited Partnership (FLP) or Limited Liability Company (LLC):** Provides centralized governance, potential valuation discounts, and asset protection benefits when the entity owns the policy.

These vehicles, combined with annual exclusion gifts or lifetime exemption allocations, support tax-efficient wealth transfer to your family.

## Comparing Onshore vs Compliant Offshore

### *Onshore U.S. Policies:*

Issued by domestic carriers and fully subject to U.S. regulation, these deliver standard tax benefits and familiarity for U.S. taxpayers.

### *§ 953(d) Compliant Offshore Policies:*

Offshore carriers that elect domestic treatment under IRC § 953(d) are taxed similarly to U.S. insurers. They may offer expanded investment flexibility, enhanced confidentiality, and asset protection while maintaining U.S. tax compliance.

## Key Risks You Should Understand:

While powerful, PPLI involves important considerations:

- **Market and Investment Performance Risk:** Returns are not guaranteed; poor results or rising insurance costs can affect cash values and benefits.
- **Tax Law and Regulatory Changes:** Future legislative or IRS actions could alter current advantages.
- **Carrier Financial Strength:** You rely on the issuing insurer's long-term solvency and claims-paying ability.
- **Liquidity and Access Constraints:** Funds are not as immediately available as in taxable accounts.
- **Operational and Administrative Complexity:** Ongoing compliance with diversification, reporting, and policy maintenance requires expert oversight.

## Considerations Regarding the Political and Regulatory Environment:

PPLI occasionally draws attention in policy debates concerning tax equity and high-net-worth planning. Public discourse and potential legislative proposals highlight the importance of staying informed and structuring arrangements conservatively. Monitor developments and emphasize compliance and legitimate insurance purposes.

## Conclusion:

Private placement life insurance offers you and your family a sophisticated, highly effective strategy that seamlessly integrates tax-deferred asset growth, income-tax-free death benefits, fully customizable investment management, and powerful estate planning advantages. When thoughtfully designed and diligently maintained in full compliance with all applicable regulatory and tax requirements, PPLI can serve as a cornerstone of advanced, multigenerational wealth management.

Professional collaboration among insurance specialists, investment managers, tax counsel, and estate planners remains essential to successful implementation and sustained stewardship.

At **Eagle Rock, a Greenberg & Rapp Company**, we bring deep experience and comprehensive capabilities to every aspect of this strategy. Our team serves as both the licensed insurance specialist and the qualified investment manager, enabling us to structure, facilitate, and actively manage the underlying investments entirely in-house. This integrated approach ensures alignment, efficiency, and strict adherence to diversification rules, investor control guidelines, and all relevant tax provisions.

We collaborate closely and continuously with your personal tax counsel and trust and estate attorneys to tailor the policy design, ownership structure, and ongoing administration to your specific financial objectives, family dynamics, and long-term legacy goals. This coordinated partnership allows us to deliver a cohesive, high-touch solution that maximizes the benefits of PPLI while addressing the complexities inherent in sophisticated wealth planning.

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*Prior to consideration, investors should carefully review the issuing insurance company's Private Placement Memorandum (PPM) and all accompanying materials, including the investment risks described therein. These products may not be suitable for all investors.*

*(5) Private Placement Variable Annuity pre-death distributions in the form of partial withdrawals are considered a distribution from the policy and therefore could potentially cause a taxable event. The amount to be distributed from the contract will be on a "gain first" basis. Any built-up gain in the contract will be distributed first, and then basis will be distributed to the extent that the distribution amount exceeds the gain. Depending upon the policyholder's tax status, the amount of gain that is distributed could be taxable at the policyholder's income tax rate.*

*(6) Private Placement Life Insurance pre-death distributions in the form of partial withdrawals and policy loans are available from a non-MEC life insurance policy. Policy loans typically do not create taxable income. Policy loans, whether or not repaid, may have a permanent effect on a policy's cash surrender value and death benefit. Partial withdrawals from a non-MEC are typically treated as non-taxable return of basis first and taxable gain second. However, please note that IRC 7702(f)(7)(B) specifies certain situations that may reverse this treatment for partial withdrawals made during the first 15 policy years.*