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News in Brief: Market Update

Private Placement Life Insurance, not your parents life insurance...

Special points of interest:

- **Protecting returns for market appreciation**
- **Tax efficiency: bottom line impact on investment return**

As the investment power of high-net-worth individuals continues to grow, legal and financial advisors are frequently asked about tax-advantaged structures for passive investments. A life insurance policy that is U.S.-tax compliant, especially one offered by an established carrier, presents a conservative and cost-effective investment opportunity. Certain carriers with well-established operations both inside and outside of the U.S. offer "private placement" (or, more appropriately, customized") policies that are fully compliant with U.S. tax rules and are, therefore, fully entitled to the preferential tax treatment that life insurance enjoys. **With proper policy design, an investor can place wealth in a tax-free investment environment at a low cost,** achieve protection against future creditor risk and local economic risk, gain financial privacy, and enjoy superior flexibility with regard to the policy's underlying investments.

Private-placement insurance policies are tailored to fit the needs of affluent investors, and as their

name indicates, are not available to the public at large. They are, essentially, variable insurance policies. Clients have some degree of choice over the assets they hold – at least when setting up these policies – and how well those investments perform determines the size of the death benefit. Private-placement life insurance is therefore a hybrid: half insurance policy, half asset-management tool. It is a valuable financial planning strategy for those of us who have enough liquidity to meet day-to-day expenses, and who want to invest a portion of our capital for long-term appreciation. For example, Anne Melissa Dowling, a senior vice president at MassMutual Financial Group in Springfield, Mass., recommends private placements for people who have recently had liquidity events, either inheritances or windfalls from selling a business or investment.

The policies can change investments in midstream, if we are disappointed with their performance. "If a fund isn't performing, we can pull the money away

from that firm and find another fund that meets the criteria we promised to the policyholders," notes MassMutual's Dowling. PPVUL is a relatively new product in the life insurance field. It has only been readily available for the past 15 years or so, and even today there are only a handful of insurers that offer the product. Rarer still are the insurance agents and financial advisors that have made the jump from traditional life insurance to these new products. PPVUL products tend to be dramatically different from traditional products—even traditional variable universal life insurance. This difference is primarily a result of the degree of sophistication required of the purchasers of PPVUL. In order to be eligible to purchase PPVUL, a purchaser must be financially sophisticated enough to meet the qualification requirements for any type of product that is exempted from the registration and regulatory requirements of the federal securities laws. Thus, the product appeals to the more affluent among us. Interestingly enough, the primary impetus for sales

Private Placement cont...

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of the PPVUL product comes, not from life insurance agents or even financial planners, but from investment advisors-- primarily hedge fund managers who seek a more tax-efficient method to provide investment gain to their investors. ***Recent years have seen a growth in the use of the product by those we think of as "trusted advisors" to affluent investors.*** Attorneys and accountants are becoming more and more aware of the product and a number have joined with insurance agents to make PPVUL available to their estate planning and tax clients.

Clearpoint provides wealth strategies for individual clients and corporate compensation and benefits consulting.

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