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INSURANCE BEYOND THE NUMBERS

High-Net-Worth (Individual) Private Placement Life Insurance

Market Report

3rd Edition (2026)

LION STREET®

Life Insurance Strategies Group

Experienced & Independent Advice

INTRODUCTION

The use of private placement variable universal life insurance ("PPLI") to provide tax-efficient death benefit protection and cash value accumulation potential using unique underlying investment options within an institutionally priced policy has grown since its initial application in the 1990s.

Today, adoption of PPLI as a planning tool has continued to accelerated because of legislative changes taking effect in 2021 that modified the formula used to test for the statutory definition of life insurance, which has enhanced policy performance potential in certain design applications, the persistence of favorable tax laws applicable to trusts and estates, and an evolving landscape of policy investment options.

This third edition (2026) of Lion Street's PPLI Market Report is intended to assist advisors and prospective policy owners in understanding the current PPLI opportunities and applications as it pertains to them and their clients. Specifically, it reinforces our second edition (2024) regarding the life insurance companies, investment vehicles, popular strategies and "dos and don'ts" in the U.S. (domestic) PPLI market and expands on it with additional insight on new developments and trends from the market's continued evolution. See the table of contents on the next page for references to new sections added or those that have been updated since our second edition.

The life insurance carriers who participated or are referenced in this market study are the following:

- Pruco Life Insurance Company ("Prudential")
- Investors Preferred Life Insurance Company of South Dakota ("Investors Preferred")
- Axcelus Financial (formerly Lombard International US & Bermuda ("Axcelus Financial")
- Crown Global Life Insurance Company of America ("Crown Global")
- Lincoln National Life Insurance Company ("Lincoln")*

The third-party administrators (TPAs) who participated in this market study are the following:

- SALI Fund Services
- Spearhead Administrative Services, LLC

Although not exhaustive, these carriers and TPAs are representative of the PPLI industry's current and emerging product and distribution framework. Corresponding statistics and data referenced in this report are based on information provided by representatives of these organizations.

* Lincoln is a new entrant into the high-net-worth individual PPLI landscape with the launch of a new product in 2026. Their parameters are referenced below but participation in this study was not solicited by us.

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New in Third Edition Updated from Second Edition

WHO IS PPLI FOR?

While PPLI is a great life insurance strategy for many high-net-worth (HNW) individuals, it isn't the right strategy for all. PPLI is generally most appropriate for HNW individuals who:

1) **Are an Accredited Investor or Qualified Purchaser[1];**
2) **Are adequately insurable and have a need for death benefit protection;**
3) **Desire to provide liquidity for their beneficiaries to meet various estate planning needs;**
4) **Want to accumulate accessible cash value and/or grow the death benefit tax efficiently;**
5) **Prefer a bespoke investment strategy for crediting interest to the cash value; and**
6) **Have $5 million in cash, ideally $10 million or more, to allocate as premiums over four years or less.**

1 Private placement products offered by U.S. carriers to U.S. persons are subject to SEC regulations. Each purchaser generally must be a "qualified purchaser" under § 2(a)(51) of the Investment Company Act of 1940, 15 USC § 80a-2(a)(51), and/or an "accredited investor" under § 501(a) of Regulation D of the 1933 Act, 17 CFR § 230.501(a). A "qualified purchaser" is an individual or a family-owned business that owns $5 million or more in investments. An "accredited investor" is anyone who meets one of the below criteria: Individuals who have an income greater than $200,000 in each of the past two years or whose joint income with a spouse is greater than $300,000 for those years, and a reasonable expectation of the same income level in the current year.

WHY PPLI IS PURCHASED

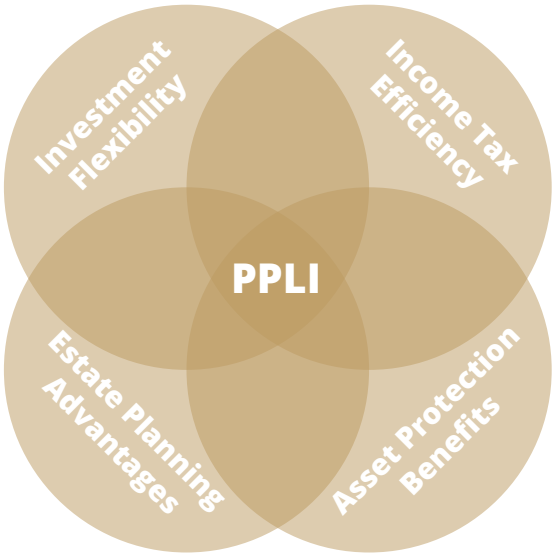
Qualified individuals purchase PPLI for a broad range of financial, estate and asset protection planning purposes. Structured properly, it can be acquired for, and sit at the intersection of, these four common planning goals:

Investment Flexibility: PPLI policies often allow for a wider range of investment options than traditional insurance products. Policyholders can invest in a diverse array of traditional and alternative asset classes that are typically not available in standard variable insurance policies. This flexibility allows HNW individuals to align the investments driving the performance of the cash value and supporting the death benefit protection component of the policy with their broader financial strategies.

Income Tax Efficiency: Structured properly, just as with traditional life insurance, the investment gains within a PPLI policy's cash value build-up are generally not included in the policy owner's gross income. The cash value can also be accessible income tax free through withdrawals up to adjusted cost basis and/or policy loans if the policy is managed properly.[2] Upon the death of the insured, the death benefit, including the portion attributable to any underlying cash value, is generally paid to beneficiaries income tax free. This makes PPLI an attractive strategy for those who want a tax-efficient tool to help meet various estate planning and wealth transfer protection needs with the potential to accumulate cash value tax efficiently.

Estate Planning Advantages: Also, just as with traditional life insurance, because the death benefit is generally received income tax free even if owned in an irrevocable trust outside of the insured's taxable estate, upon the insured's death the cost basis in the policy is effectively stepped up from the premiums paid reduced by withdrawals (but not below zero) to the death benefit proceeds received. It is essentially the only asset that can get both estate tax-free and income tax-free treatment upon realization at the insured's death. When owned inside a properly structured irrevocable trust, a PPLI policy's inherent growth potential combined with the timing and tax efficiency of the death benefit payment can help provide valuable liquidity to address various liabilities or possible economic losses aligned precisely with the time at which such needs arise – at the insured's death. Such liabilities or losses can include funding estate taxes, replacing wealth given to charity, or mitigating capital gains taxes otherwise arising from post-death disposition of other appreciated trust assets that are not eligible for a stepped-up basis adjustment, thus protecting and preserving wealth for one's beneficiaries.[3]

Asset Protection Benefits: In many jurisdictions, life insurance products, including PPLI, can be afforded a level of protection from creditors. This can offer an additional layer of security for the policyholder's assets.[4] Additionally, because the underlying assets comprising the policy's cash value are held in the insurer's separate account, they are afforded a layer of protection against carrier insolvency.[5]



2 IRC §§ 72(e), 7702A. Generally, for cash value disbursements to be and remain income tax free, the policy must remain in force until the insured's death with any policy loans being repaid from the death benefit and it cannot ever become a Modified Endowment Contract (MEC).

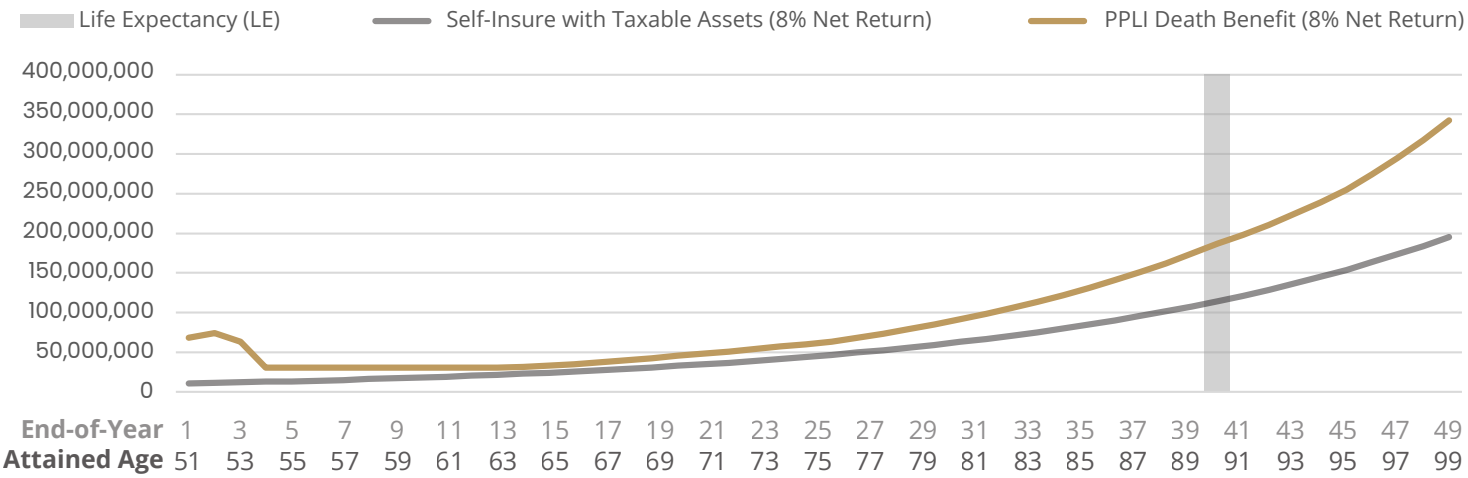
3 For traditional capital assets to be eligible for a stepped-up basis adjustment upon an individual's death, such assets must generally be includible in the individual's gross estate and subject to estate tax. IRC § 1014, Treas. Reg. § 1.1014-1, Rev. Rul. 2023-2.

4 This information cannot be used to give legal advice. Individuals should consult with an attorney regarding state laws and applicability to their situations.

5 The separate account protection element is limited to the policy's cash value, not the death benefit which is generally based on the claims-paying ability and financial strength of the issuing carrier.

Hypothetical Example: Below is an illustration of various components of the above vin diagram comparing the use of PPLI versus self-insuring with taxable assets funded by the same amounts and yielding the same underlying investment return net of investment expenses, both in an irrevocable trust and assuming an "active equity" underlying portfolio management strategy. The projected difference illustrates the PPLI policy's efficiency for creating liquidity to help meet estate planning needs arising at or after the insured's death.

Net Liquidity Available at Insured's Death



Self-Insure with Taxable Assets Results:

- Net liquidity at LE: **$104,512,699**
- Net Internal Rate of Return: **6.12%**

Assumptions:

- $5 million annual investment for two years
- 7% growth + 1% dividend (8% total return) net of investment expenses
- 30% annual portfolio turnover (active equity)
- 23.8% capital gain investment income tax rate
- 40.8% ordinary investment income tax rate
- 85% of realized gains are long term
- 25.5% composite capital gain tax rate
- Assets are assumed to be liquidated at death: Accumulated yearly values assume deferral of any unrealized capital gain tax; net liquidity values are the accumulated values minus any unrealized capital gain tax in any given year

PPLI Death Benefit Results:

- Net liquidity at LE: **$174,170,216 (+$69.7MM)**
- Net Internal Rate of Return: **7.50% (+138 bps)**

Assumptions:

- $5 million annual premium for two years
- Female insured, issue age 50
- Preferred nonsmoker risk class
- 8% return net of investment expenses
- Current (non-guaranteed) cost of insurance charges
- 0.25% agent asset-based commission rate for all years
- 0.50% agent premium-based commission rate
- Alaska (AK) issue state
- Designed for maximal non-MEC performance
- Highly-rated carrier prominent in the PPLI market

Click **here** to download the pdf of Lion Street's "Trust Asset Location Analyzer" which was used to generate the values illustrated in the chart above.

TAX ATTRIBUTES OF A PPLI POLICY

Life insurance is availed of various tax benefits that encourage Americans to own and use it to provide financial security. Structured properly, PPLI policies are treated the same and its tax attributes are codified:

- Annual income on the policy (excess of the cash surrender value increase plus the cost of life insurance protection over the premiums paid for the taxable year) is not taxable to the owner if the policy meets the definition of life insurance.[6]
- Cash value can be distributed to, and without recognition of taxable income by, the policy owner if done in the form of withdrawals up to cost basis and/or policy loans, the policy is held in force to the insured's death and never becomes classified as a Modified Endowment Contract (MEC).[7]
- If the policy lapses or is surrendered during the insured's lifetime, any gains realized at that point (excess of net surrender proceeds received and outstanding policy indebtedness over adjusted cost basis) would be recognized as ordinary income and the tax would be increased by 10% of the taxable amount if the policy is a MEC and the owner is under age 59 1/2.[8]
- Death benefit proceeds received by reason of the insured's death are not includible in the recipient's gross income if the policy has not been previously transferred for valuable consideration to an impermissible transferee or in a transaction that was treated as a reportable policy sale.[9]
- The cost basis in the policy is effectively stepped up from the total premiums paid reduced by withdrawals (not below zero) to the death benefit proceeds that are received as cash income tax free by the beneficiary after the insured's death, which includes any portion attributable to the underlying cash value.
- If the policy is owned by an entity that is outside of the taxable estate of the insured, such as an irrevocable trust, the death benefit is generally not includible in his or her estate for estate tax purposes and, thus, is received by the beneficiary free of estate tax as well.[10]
- The combination of the two previous points are unique to life insurance – it may be the only asset that is eligible for income tax-free and estate tax-free treatment upon a realization event at the insured's death, making it an effective estate and liquidity planning vehicle.
- In situations where a carrier accepts in-kind premium in the form of property interest or securities, the transfer of such assets constitutes a sale of those assets, and any embedded gain is taxable. Therefore, in rare circumstances where in-kind premium is accepted, the assets either have low, or no basis, or have loss in value. In-kind premium may also represent a higher risk that the Prohibition Against Investor Control has been breached (See Diversification Requirement and Prohibition Against Investor Control).

Tax-deferred
cash value build-up

Tax-free access
to cash value if designed and managed correctly

Income tax free
death benefit proceeds

Estate tax free
death benefit proceeds if properly owned in trust

6 IRC § 7702.

7 IRC §§ 72, 7702A. Taxation of distributions from MECs are beyond the scope of this report. Please consult a tax advisor.

8 IRC § 72

9 IRC § 101, Treas. Reg. § 1.101-1. Taxation of transfers for valuable consideration and reportable policy sales are beyond the scope of this report. Please consult a tax advisor.

10 The insured can hold no incidents of ownership within the three-year period leading up to his or her death in a policy for which he or she is the insured. IRC §§ 2042, 2035 and Treas. Reg. § 20.2042-1.

POLICY SEPARATE ACCOUNT HELPS MITIGATE CARRIER INSOLVENCY RISK

While strong financial strength ratings are generally important when purchasing general account life insurance policies, they may be less so when it comes to PPLI carriers. Financial strength ratings are important for determining the claims-paying ability of the issuing company; the carrier's ability to pay the death benefit to the beneficiary upon the insured's death or, for those policies whose supporting assets are held in the carrier's general account and subject to the general claims of the company's creditors, to provide cash value to the owner upon surrender. Financial strength ratings are relevant too for PPLI policies as it pertains to the death benefit in excess of the cash value because this liability is a general obligation of the issuing company.

However, the structure of PPLI helps mitigate the risk of a financial loss by a policy's owner due to a carrier's insolvency as it pertains to the cash value because the assets constituting the policy's cash value are held legally separate or segregated from the general account and obligations of the carrier. Further, these policy assets may be held in custody away from the carrier at a custodian chosen by either the policy owner or the policy's investment manager. The carrier may only access the separate or segregated account to withdraw the cost of insurance and any fees agreed to in the policy contract.[11] Popular custodians include Pershing, Charles Schwab, National Financial Services, and BNY Mellon.

Functionally, the carrier is instructed by the policy owner or investment manager to open a custodian account at either the custodian where the client's cash is held or another. This newly opened custodian account is legally separate or segregated from the carrier's general accounts. The policy's owner or investment manager orders a transfer of funds to the newly opened custodian account from the existing one owned by the client. There may be an interim step where the custodian transfers the funds to the life insurance company's separate or segregated premium hold account and, one or two days later, the insurer transfers the funds to the newly created policy custodian account. This process is done as evidence that premium, in the form of the funds, was received by the insurer.

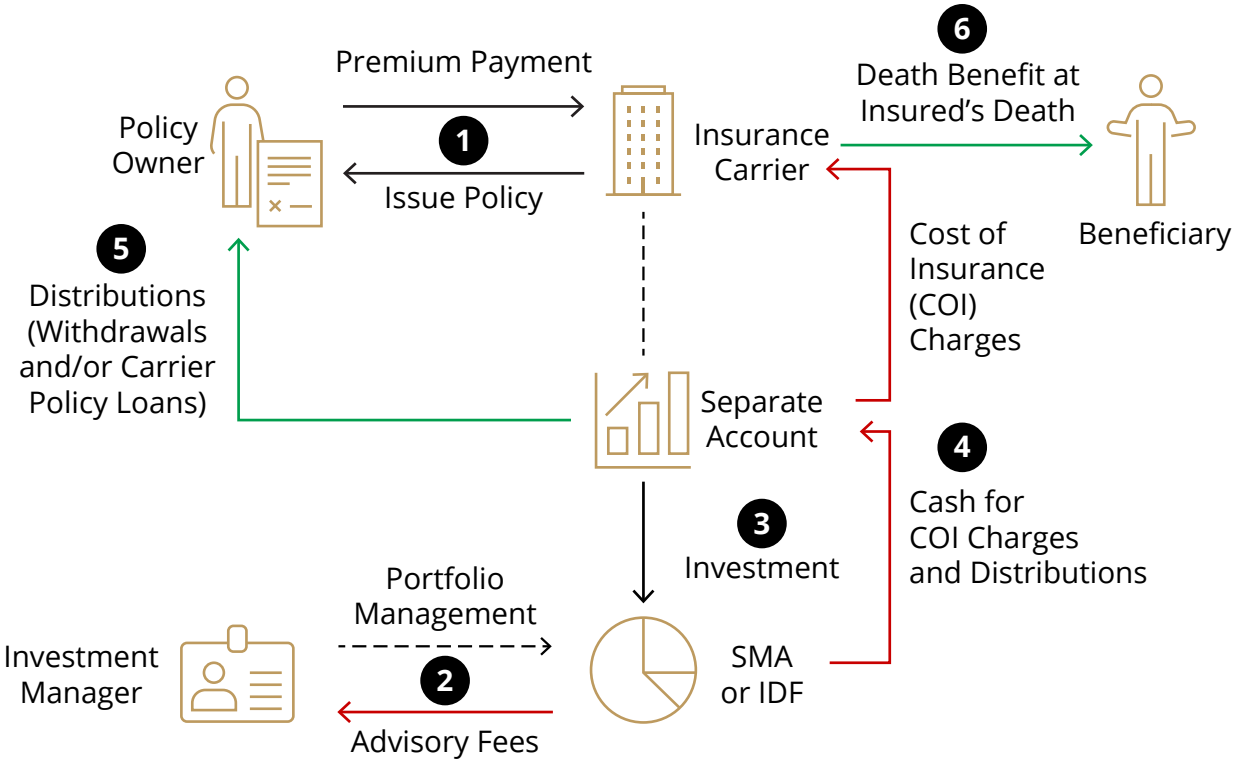
Simultaneously, the carrier issues a PPLI policy whose underlying cash value is linked to the value of the separate or segregated account. Either the policy's owner instructs the carrier to invest the custodian account funds into one or more insurance dedicated funds or the policy's investment manager instructs the carrier to invest funds into a separately managed account.

> ***The structure of PPLI mitigates the risk of a financial loss by a policy's owner due to a carrier's insolvency as it pertains to the cash value because the assets constituting the policy's cash value are held legally separate or segregated from the general account and obligations of the carrier.***

11 IRC §817(c). A "separate account" is a separate set of financial statements held by a life insurance company, maintained to report assets and liabilities for particular products that are separated from the carrier's general account. Detailed statutory financial statement data and disclosures regarding the products and assets captured in a separate account can be found in SSAP No. 56—Separate Accounts.

PPLI POLICY STRUCTURE

Figure 1. (For illustrative purposes only)



Typical Mechanics of a PPLI Policy

1) A policy is issued to the owner from the insurance carrier after underwriting approval of the insured and acceptance by the owner, who then remits premiums to the carrier. Premium payments are in the form of cash only. Interests of property or securities in kind are generally not permitted (see Tax Attributes of a PPLI Policy above).

2) Owner selects an SMA or IDF in which the cash value will be invested and managed by a desired Investment Manager. The cash value is held in a separate account, segregated from the carrier's general account assets, dedicated exclusively to the owner's PPLI policy (see Policy Separate Account Helps Mitigate Carrier Insolvency Risk above).

3) The separate account invests the existing cash value and new premium amounts into the SMA or IDF.

4) Cash is disbursed from the SMA or IDF to the separate account as needed where it may be held in a money market fund for payment of upcoming cost of insurance (COI) charges, disbursed to the policy owner if a withdrawal is elected or invested in a fixed account to be held as collateral if a policy loan has been advanced by the carrier to the policy owner.[12]

5) Owner has the choice to receive distributions from the separate account cash value in the form of withdrawals and policy loans (see Tax Attributes of a PPLI Policy above).

6) Upon the insured's death, the carrier will pay the death benefit proceeds, reduced by any prior withdrawals and outstanding policy loans, to the beneficiary designated by the owner (see Tax Attributes of a PPLI Policy above).

12 PPLI carriers typically hold enough value upfront in the money market fund within the separate account to support the deductions for the anticipated policy charges over 12-month periods thereby necessitating a distribution from the SMA or IDF to cover policy charges only once per policy year. If a policy loan is made to the owner, a distribution from the SMA or IDF may be required to transfer enough value to the fixed account within the separate account to secure the loan. This could entail selling underlying policy assets which may pose a challenge if assets are 'gated' and unable to be sold in part or in full for a specific period of time.

Institutional Pricing and Transparency

The cash value of a PPLI policy is increased by premiums paid and investment gains realized in the underlying investment assets of the IDF or SMA, and decreased by the charges deducted. The investment structures are discussed further below.

There are five main types of charges in a typical PPLI policy:

- **Placement Fee –** Expense to compensate the agent for the work involved in underwriting and placing the policy, typically 1% or less of the premium and subtracted therefrom before contribution to the separate account.
- **Premium Tax –** State-by-state expense incurred by the carrier on premiums received, which is passed through to the policy in the form of a load subtracted from the premium before contribution to the separate account, the percentage of which is based on the applicable issue state (like a sales tax).
- **Deferred Acquisition Cost (DAC) Charge –** The amount of an insurer's acquisition costs incurred as premium is written but earned and expensed over the term of the policy. Depending upon a carrier's accounting methodology, DAC is assessed on each premium at a rate between 0.70% and 1%.
- **Cost of Insurance Charges –** Deduction from the cash value on a monthly basis to provide consideration to the carrier in exchange for the death benefit component of the policy and based on per-thousand factor multiplied by the "net amount at risk," which is the portion of the death benefit that exceeds the cash value.
- **Asset-Based Charges –** Monthly or daily charge to compensate the agent for ongoing policy administration, third party administrator for administration of the IDF or SMA, and the carrier as a source of profit margin, typically deducted from, and equal to a scheduled "basis point" percentage of, the cash value.

PERMISSIBLE PPLI POLICY INVESTMENT STRUCTURES

PPLI policies offer investment options either in the form of insurance dedicated funds ("IDFs") or a separately managed account ("SMA"). Registered investment advisors ("RIAs") and fund managers engage fund administrators, such as industry leaders SALI Fund Services and Spearhead Administrative Services, LLC, to form IDFs and SMAs in order to attract PPLI policy investment.

Historically, until the last decade, IDFs were almost exclusively utilized as PPLI policy investments. SMAs have emerged in popularity as RIAs and family offices have come to recognize the tax and estate planning benefits of PPLI and seek to deploy customized portfolio strategies within policies.

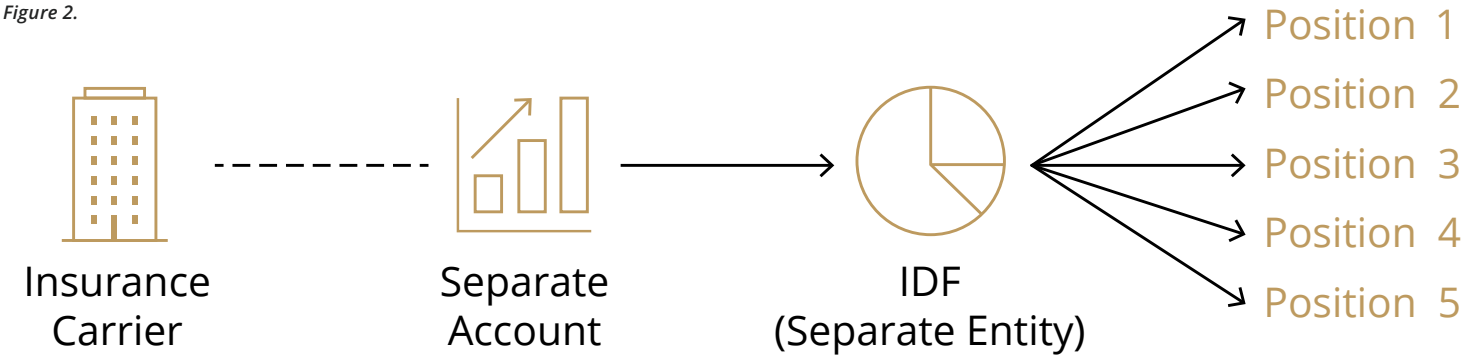
Insurance Dedicated Funds (IDFs)

IDFs are private investment funds open to subscription to insurance carriers only, for further allocation to PPVA and PPLI policy accounts. IDFs are stand-alone funds and must be separate legal entities from the life insurance carrier and its general account investments. A manager may offer an IDF for investment by the PPLI policy of a single client or a select group of clients or make the IDF open for investment to a broader universe of PPLI policies.

Structurally, IDFs have a number of important characteristics:

- An IDF is a private fund formed as an LLC that is only open to subscriptions from life insurance companies on behalf of their issued private placement policies.
- The number and asset value of an IDF's investment positions must meet the Diversification Test for variable contracts.
- Fund managers are permitted to create an IDF-equivalent of a taxable strategy they offer separately, as long as the investment decisions of the IDF are made by the advisor of such IDF in their sole and absolute discretion.
- In general, the carrier or independent investment advisor engaged by the carrier will select IDFs for subscription on behalf of the policy.
- Some carriers allow policy owners to influence the allocation of their policy's investment funds among a pre-determined set, or platform, of carrier-approved IDFs.
- Other carriers require IDFs to be selected by an independent investment adviser.
- In all cases, policyowners may not direct or control the investment activity of an IDF held in their policy, directly or indirectly (see "Investor Control Doctrine" below).

Figure 2.



Separately Managed Accounts (SMAs)

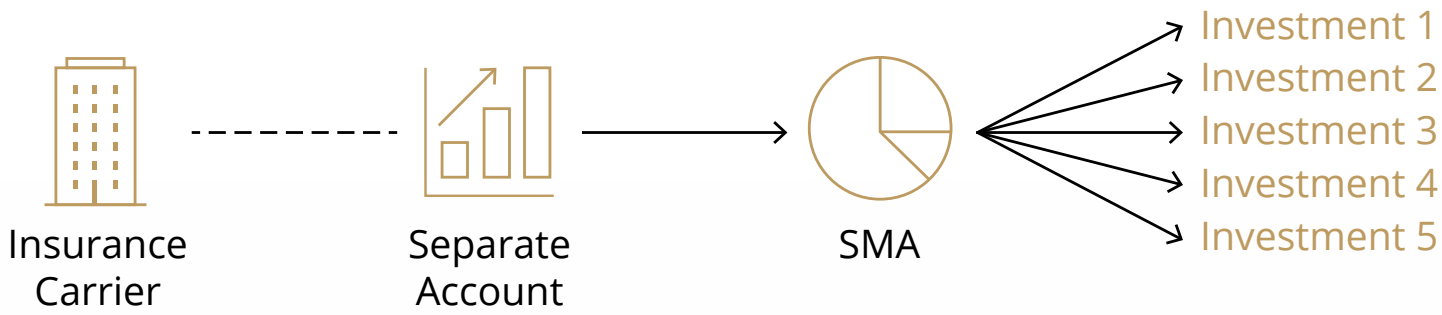
An SMA allows an independent investment advisor to access the broadest possible range of investments for the policy account, including marketable securities, structured notes, ETFs, hedge funds, private equity and other alternative investment strategies. Structurally, a SMA in a PPLI transaction is no different than a SMA an investor would purchase within their investment portfolio.

However, when used in PPLI, the underlying beneficial owner (UBO) of an SMA is the life insurance carrier and not the individual investor. The carrier holds an SMA in a corresponding PPLI policy's separate or segregated account where the policy's cash value is linked to the value of the SMA. Another difference in an SMA used in a PPLI policy may be the selection of the individual investments.

It may be important to note that if the policy owner is a client of the investment manager separate from the PPLI policy with other traditional investable assets, administrative care should be exercised to ensure there is a substantial difference between the investment strategy of the SMA in the policy and that of the client's other account(s).

- ***SMAs are subject to the same diversification requirements and prohibition on investor control as IDFs.***

Figure 3.



Typical Setup and Administrative Costs

IDF Cost

The cost to establish an IDF varies depending on whether a fund utilizes internal or external legal support in developing the legal structure, and whether it bolts onto a vendor's platform versus going direct to the carrier for approval and availability. Organizational costs to establish an IDF can range from $50,000 to several hundred thousand dollars, depending on internal resources available and vendor utilization to minimize this cost.

➤ ***On-going administration fees for access to the vendor's platform are based on an IDF's assets under management ("AUM") and are commonly this range:***

AUM:[13]

- **< $49,999,999 is 0.10% per year;**
- **$50 million to $149,999,999 is 0.08% per year;**
- **> $150 million is 0.06% per year;**
- ***Subject to a minimum fee of $2,500 per month.***

IDF costs do not include sub-advisor fees nor agent compensation. These additional fees are also deducted from a PPLI policy's cash value.

SMA Cost

Establishing an SMA for a carrier's PPLI platform generally involves minimal upfront cost because investment managers typically engage a third-party administrator to set up and seek carrier approval of the program and appointment of the manager as a sub-advisor. TPA compensation is typically then embedded as an asset-based administration fee.

➤ ***On-going administration fees are based on an SMA's AUM and are commonly in this range:***

AUM:[14]

- **< $49,999,999 is 0.10% per year;**
- **$50 million to $149,999,999 is 0.08% per year;**
- **> $150 million is 0.06% per year.**

Depending upon the administrator, pricing may or may not be "program-based" – based on a sub-advisor's total assets across all policies. SMA costs do not include investment management or sub-advisor fees nor agent compensation. These fees are also deducted from a PPLI policy's cash value.

13 IDF cost data provided by Spearhead Administrative Services, LLC on 11/28/2023.

14 SMA cost data provided by Spearhead Administrative Services, LLC on 11/28/2023.

Onboarding of Underlying PPLI Policy Investments

While a benefit of PPLI is the ability for a client to choose an investment manager, investment structure, and a custodian and to apply their investment methodology, a carrier must first approve each of these.

Structurally, as the underlying beneficial owner of investments whose value is linked to the cash value of the corresponding PPLI policy, each carrier has guidelines and due diligence procedures for establishing relationships with counterparties.

For IDFs and SMAs, a carrier must first approve the investment manager and then, broadly, the investments. Functionally, a carrier's investment committee will apply its internal diligence checklist, including if a manager meets minimum requirements for assets under management (AUM).

Once the manager is accepted, the approval process differs depending upon whether an IDF or SMA is being onboarded. For an IDF, the carrier will analyze the IDF's offering documents and agree to the IDF's investment parameters, making sure the IDF holds enough liquidity to pay approximately 12 months of policy charges for all the clients invested into the IDF.

For an SMA, the investment manager will submit an investment policy statement (IPS) to the carrier. The IPS lays out the general investment parameters that the carrier will permit the investment manager to carry out.

For example, the IPS will likely state several thresholds for specific investment classes and investment periods in a portfolio: "Up to 60% in alternative investments with a lock-in period of no more than 7 years" or "Up to 90% in private credit with a lock-in period of no more than 5 years", etc. The IPS will also state the percentage of a portfolio that must remain relatively liquid to pay for 12 to 18 months of policy charges.

Increasingly, carriers are shifting some of the diligence and approval process for IDFs and SMAs to third-party administrators, including SALI Fund Services and Spearhead Administrative Services, LLC. In this role, a carrier adopts SALI or Spearhead as the investment manager for a policy with the client's choice of approved investment manager serving as a sub-advisor to SALI or Spearhead.

Due to the extensive experience these administrators have within the investment management space; by inserting them into the onboarding process, carriers have sped up the onboarding process.

DIVERSIFICATION REQUIREMENT AND PROHIBITION AGAINST INVESTOR CONTROL

Investment Diversification Requirement

PPLI must adhere to the regulations regarding both the minimum number of investments held in each policy's separate or segregated account as well as maximum asset values for such investments.[15] Specifically, the diversification requires that no more than 55% of the value of the total assets of the account is represented by any one investment, with increasing thresholds for additional investments: no more than 70% of the value for two investments; no more than 80% of the value for three investments; and, no more than 90% of the value for four investments.[16]

Where a 'look through' for diversification exists for IDF so that a PPLI policy can own a single IDF which, internally, holds sufficient positions to meet the diversification test, a SMA does not and must satisfy the diversification test by holding at least five different individual investments which meet the asset value thresholds.

There are specific rules regarding real estate investments which permit a longer "ramp-up" period in which to meet diversification and also provide for a "wind-down" period when diversification is no longer required. This allows an IDF or SMA to better match the lifecycle of a real estate investment where cash is spent more slowly on the building phase and then cash becomes a larger portion of the portfolio as real estate is sold.

Once a policy initially satisfies the diversification requirement, it does not fail the diversification test if individual investments gain or lose value without the actions of the policyholder or investment manager making investment purchases, sales, or trades. Once this occurs, the policy must again meet the diversification thresholds within 30 days following the end of that calendar quarter.

> ***Breach of the diversification requirement results in the PPLI policy not being considered life insurance under IRC § 7702(a).[17] The income on the policy then is treated as ordinary income received by or accrued to the policy owner in accordance with IRC § 7702(g). Once a policy fails diversification testing, it cannot be cured.***

Prohibition Against Investor Control – The "Investor Control Doctrine"

The assets in the segregated investment account underlying a PPLI policy must be considered as owned by the carrier and not the policyowner. To achieve this result, the policyowner cannot have any direct or indirect control over the investment decisions regarding the separate or segregated investment account assets. All such underlying investment decisions must be made in the sole and absolute discretion of an independent investment manager who is not related or subordinate to the policyowner.

Furthermore, there can be no direct or indirect arrangement, plan, contract, or agreement between policy owner and insurance carrier nor between the policy owner and investment manager regarding the availability of a particular underlying investment option, the investment strategy of any underlying investment option, or the assets to be held by a particular investment option. A policyowner cannot even communicate with the investment manager, directly or indirectly, regarding any underlying investment decisions.

This is often referred to as the "investor control doctrine" and its evolution is derived from a number of revenue rulings dating back to the 1970s and culminating in the U.S. Tax Court case, *Webber v. Commissioner*.[18] In Webber, the Tax Court highlighted three principles in determining whether a policyholder rather than the carrier is the owner of investment assets: (1) who has the power to select investment assets by directing the purchase, sale, and exchange of particular securities; (2) who has the power to vote the securities or exercise rights pertaining to the securities; and, (3) who has the power to extract money from the account by a withdrawal or by other means.

15 Treasury Regulation §1.817-5 Diversification requirements for variable annuity, endowment, and life insurance contracts.

16 Treasury Regulation §1.817-5(b)(1)

17 Treasury Regulation §1.817-5(a)(1)

18 The Investor Control Doctrine for variable investment accounts was established with a series of revenue rulings dating back to 1977 - Rev. Rul. 77§85, 1977§1 C.B. 12, Rev. Rul. 80§274, 1980§2 C.B. 27, Rev. Rul. 81§ 225, 1981§2 C.B. 13, Rev. Rul. 82§54, 1982§1 C.B. Investor Control Doctrine safe harbors for both variable annuity and variable life investment accounts are articulated in Rev. Rul. 2003§91, 2003§2 C.B. 237. The Tax Court clarified in *Webber v. Commissioner T.C.*, 144 T.C. 324, 144 T.C. No. 17 (2015).

For example, a policyowner may allocate cash values to a specific IDF or SMA but the policy's owner, insured and beneficiaries may not play a role in the selection of the IDF's positions nor the SMA's individual investments. Similarly, a policyowner may request a particular investment manager be approved and made available by the carrier, but the decision to select and retain the manager must be in the sole and absolute discretion of the carrier. Moreover, it may be advisable that the policyowner avoid holding any legal, equitable, direct or indirect ownership interest in any of the assets of an IDF or SMA, which is a common circumstance referenced in the fact patterns of relevant private letter and revenue rulings.

In same year as, and prior to, the *Webber* decision, the IRS issued a private letter ruling (PLR) addressing if the prohibition against investor control was violated in a situation where the taxpayer invested in a taxable fund offered by an investment firm that also offered an IDF in which the taxpayer invested separately through his PPLI policy. It may be a good illustration of where investor control lines may be drawn in certain situations.[19]

Highlights from the PLR fact pattern included:

1) **Each fund was managed by a different independent manager at that firm and, although similar investment positions were held by each, they were substantially different;**
2) **The taxpayer had influence over the structure and objectives of the taxable fund but not the IDF;**
3) **All investment decisions of the IDF were made in the sole and absolute discretion of its manager uninfluenced by the taxpayer;**
4) **The taxpayer would not have any legal, equitable, direct or indirect ownership interest in any of the IDF assets.**

The IRS ruled that the taxpayer was not deemed to be in control of the IDF assets owned by the life insurance company for federal income tax purposes.[20]

> ***A breach of this investor control doctrine will result in the separate account assets being treated as owned by the policy owner for tax purposes, requiring the policy owner to include in gross income all interest, dividends and other income earned by the separate account assets and, thus, defeating a key advantage of the policy. Historically, if a PPLI policy were to be audited by the IRS, the audit involving compliance with the prohibition against investor control generally occurred following the death of the insured. Today, with increased funding for the IRS and a focus on high-net-worth individuals, it is expected PPLI audit-risk will increase and more frequently occur while the policy is in effect.***

19 PPLR201502003

20 Please review the PLR for the entire set of facts, representations, law and analysis supporting the IRS' conclusion. A PLR is a written statement issued to the requesting taxpayer that interprets and applies tax laws to the taxpayer's represented set of facts and may not be relied upon as precedent by other taxpayers or by IRS personnel.

SUPPLEMENTARY RESOURCES ON INVESTOR CONTROL AUTHORITIES AND GUIDANCE

Conclusions of Investor Control Authorities and Guidance

The below authorities and guidance conclude that a policyholder is treated as the owner of separate account assets when the policyholder exercises direct or indirect control over investment decisions or when the underlying assets are publicly available outside the insurance structure, and that the insurance company is treated as the owner when investment discretion resides with the insurer or its independent adviser and the assets are available only through variable contracts.[21, 22, 23, 24, 25, 26, 27]

Scope and Accessibility of Conclusions

Brief conclusion summaries are provided for each revenue ruling and judicial decision and for the private letter rulings (PLRs) where conclusion details are accessible, while several referenced PLRs are summarized using the general conclusions indicated in the accessible materials cited and referenced in this section.

Revenue Rulings

- Rev. Rul. 77-85: A policyholder who retains the power to direct the custodian to sell, purchase, or exchange assets and who bears the benefits and risks of value changes is treated as the owner of the separate account assets for federal income tax purposes.
- Rev. Rul. 80-274: A policyholder whose annuity contract is funded by certificates of deposit and who can select and control those certificates is treated as the owner of the assets for federal income tax purposes.
- Rev. Rul. 81-225: Where mutual fund shares underlying a variable annuity are available to the general public, the contract holder is treated as the owner; where shares are available only through the annuity contract, the insurance company is treated as the owner.
- Rev. Rul. 82-54: A policyholder's ability to choose among broad investment strategies (stocks, bonds, money market instruments) does not constitute sufficient control to be treated as the owner of mutual fund shares that are not available to the general public.
- Rev. Rul. 82-55: Purchasers of annuity contracts invested in a closed mutual fund (no longer publicly available) are not treated as owners of the mutual fund shares.
- Rev. Rul. 2003-91: A contract owner who does not have direct or indirect control over the separate account or any sub-account asset is not considered the owner of the assets funding the contracts for federal income tax purposes.
- Rev. Rul. 2003-92: If partnership interests funding a variable contract are available for purchase by the general public, the contract holder is treated as the owner; if interests are available only through the purchase of a variable contract, the insurance company is treated as the owner.
- Rev. Rul. 2007-7: A contract holder is not treated as the owner of an interest in a regulated investment company merely because interests are also available to investors described in Treas. Reg. §1.817-5(f)(3), as those investors are not members of the general public for investor control purposes.

21 Griffin, Springfield, Keene, and Peak, 528 T.M., *Income Tax Definition of Life Insurance and Annuity Contract*s. Bloomberg Tax. Section V. Variable Contracts, D. Investor Control.

22 PLRs 202041005, 200701016, 200938018, 201540004, 201502003, 200952009, 202041002

23 IRS Chief Counsel Advice (CCA) Memorandum, CCA 200840043

24 Rev. Rul. 2003-92, 2003-33 I.R.B. 350

25 IRS, 2003-33 I.R.B. (Aug. 18, 2003)

26 Rev. Rul. 2007-7, 2007-7 I.R.B. 468

27 Burstein, 201 T.M., *Taxation of Domestic Insurance Companies. Bloomberg Tax*. Section VII. Separate Accounts, A. In General

Private Letter Rulings

- PLR 201502003: The insurance company, not the taxpayer, is treated as the owner of the insurance-dedicated fund assets for federal income tax purposes because the taxpayer did not possess significant control over the assets.
- PLR 201540004: Contract holders are not treated as owners of the portfolio's assets (including investments in regulated investment companies and ETFs) where they lack control over portfolio investments and the adviser makes all decisions.
- PLR 200701016: The insurance company, rather than the contract owner, is treated as the owner of assets funding the accounts because the contract owner does not control investments, the investments are not available to the general public, and are available only through the annuity contract.
- PLR 200938018: An upper-tier fund's investment in publicly available mutual funds does not cause contract owners to be treated as owners of the upper-tier fund's shares where the contract owners cannot direct investments and access to the fund is only through the variable contract.
- PLR 200952009: A fund's investment in public funds does not cause variable contract holders to be treated as owners of the fund's shares where holders lack control and the fund is not an indirect means to invest in public funds outside the insurance structure.
- PLR 202041002: The taxpayer (insurer) is treated as the owner of separate account assets where investment in the account is available solely through purchase of a pension contract and contract owners may not select or direct particular investments.
- PLR 202041005: The insurer is treated as the owner of the separate account assets funding pension contracts where contract holders cannot direct investments and assets are not publicly available except through the contract.
- PLRs 201417007, 201235001, 201240018, 201519001, 201651012, 201651002, 201436005: Referenced among PLRs applying investor control principles; the materials indicate these rulings generally conclude insurer ownership where managers have broad discretion and assets are not publicly available, and investor control where holders exercise sufficient control or assets are publicly available.[28]
- PLRs 8820044, 8808047, 8343051, 8427085, 8427091, 8335124: Referenced among historical PLRs applying investor control principles; the materials indicate these rulings generally conclude insurer ownership where managers have broad discretion and assets are not publicly available, and investor control where holders exercise sufficient control or assets are publicly available.[29]

Judicial Decisions

- *Christoffersen v. United States*, 749 F.2d 513 (8th Cir. 1984): The court held that taxpayers were beneficial owners of the sub-account assets because they selected mutual funds, could change funds at any time, bore the investment risk, and could withdraw their investment upon seven days' notice, resulting in current taxation of account income.
- *Webber v. Commissioner*, 144 T.C. 324 (2015): The court held that the taxpayer, rather than the insurer, was the owner of the separate account assets supporting PPLI contracts because the taxpayer retained actual control over investments (including directing investments, voting shares, extracting cash, and deriving other benefits), and confirmed that section 817(h) did not displace the investor control doctrine, which merits Skidmore deference.

Key Takeaways

These authorities collectively conclude that tax ownership follows actual control and public availability: policyholder control or access to publicly available assets results in current taxation to the policyholder, while independent investment discretion by the insurer or its adviser and exclusive availability through variable contracts support insurer ownership and preserve the contract's tax-deferral.

Commentary provided in this Supplementary Resources section includes AI-generated content from *Bloomberg Tax AI Assistant*, Bloomberg L.P., January 2026. https://go.bloombergtax.com/. It has been reviewed and edited by Lion Street. AI-generated content may include inaccuracies. Please verify key details independently.

28 See Griffin, Springfield, Keene, and Peak, *supra* note 21. PLR 201502003.

29 See Griffin, Springfield, Keene, and Peak, *supra* note 21. PLR 201502003.

CARRIER PARAMETERS AND STATISTICS

Below is a summary of general parameters and statistics as of December 31, 2025 for the carriers who participated or are referenced in this report.

Carrier	Financial Strength Ratings	Face Amount Capacity			PPLI Assets Under Admin. (AUA)	Admitted States for Issue	SMAs and IDFs
		Internal Retention	Auto-Bind Reinsurance	Facultative Reinsurance			
Prudential	AM Best: A+ (Superior) Fitch Ratings: AA- (Very Strong) S&P Global Ratings: AA- (Very Strong) Moody's: Aa3 (High Quality)	$10 million per life	Up to $95 million[30]	Up to $140 million+	In excess of $8.5 billion	All except FL and NY	Accepts SMAs and IDFs
Investors Preferred	AM Best: A-	$25,000 per life	No auto-bind capacity	Up to $140 million	$2.5 billion	Issues PPLI policies in AK, AZ, CT, FL, ID, MY, NE, SD, TN, and TX	Accepts SMAs and IDFs
Axcelus	AM Best: A-	$1 million per life	No auto-bind capacity	Up to $120 million	$18 billion	All states except MT and NY	Accepts SMAs and IDFs
Crown Global	AM Best: A-	$50,000 per life	No auto-bind capacity	Up to $150 million	$7.5 billion	Issues PPLI policies in DE, SD and TX	Accepts SMAs and IDFs
Lincoln	AM Best: A (Excellent) Fitch Ratings: A+ (Strong) S&P Global: A+ (Strong) Moody's: A2 (Excellent)	Up to $20 million per life	Up to $60 million	Up to $109 million	Not known (participation not solicited for this edition)	Issues PPLI policies in all states except CA and NY (FL is pending approval as of the date of this publication)	Accepts SMAs and IDFs

30 $95 million is Prudential's AutoPlus Reinsurance Program limit. This limit applies in "most scenarios" but is a facultative obligatory program subject to eligibility requirements and reinsurance capacity. For cases that are ineligible, Prudential's standard $75 million auto-bind limit applies.

PREMIUM TAXES FOR MOST POPULAR STATES FOR PPLI POLICY ISSUANCE

Figure 4.

Below are the premium tax rates for the more popular states for issuing PPLI policies.[31]

The premium tax is assessed by the state of issue to the carrier which, for a PPLI policy, passes that expense through to the policy owner in the form of a premium load.

The majority of PPLI is issued in the states of Delaware, South Dakota, and Alaska. These states are considered favorable trust jurisdictions for policy ownership and offer a low life insurance premium tax which is important for the performance of an institutionally priced product such as PPLI which passes through this tax cost to the policy in the form of a premium load.

Other states may be chosen for policy issuance or ownership based upon a variety of client needs, including asset protection, established trusts and other personal planning considerations, policy investment requirements and convenience.

Where the desired state of issue is one other than the current state of residence or trust situs, the policy can typically still be issued in the desired state. To do so, a trust sited in that state, or a Limited Liability Company (LLC) domiciled there and formed by an out-of-state trust or individual, can be established to serve as the policy owner — creating sufficient nexus for solicitation and issuance purposes.

31 Each state shown may impose a retaliatory tax rate on the first $100,000 of premium based on the carrier's domiciliary state rate.

32 AK Stat § 21.09.210 (2025)

33 18 DE Code § 702 (2025)

34 SD Codified L § 10-44-2 (2025)

35 WY Stat § 26-4-103 (2025)

PPLI POLICY INVESTMENT TRENDS

Investment strategy selection within PPLI policies continues to evolve in response to both market structure changes and investor tax dynamics. Across the PPLI marketplace, policyholders are increasingly utilizing Insurance Dedicated Funds (IDFs) and Separately Managed Accounts (SMAs) to gain targeted exposure to asset classes that are both tax-inefficient and return-seeking in taxable environments. The defining trend is not innovation in structural mechanics, but rather the migration of sophisticated private-market allocations into insurance-based structures that enhance long-term compounding, financial security protection and protection.

According to Lion Street Owner Firm Granite Harbor Advisors, an organization with experience in financial planning, investment management and advanced life insurance strategies whose principals include Brian Sak, Nicholas Brown, and Derek Taylor, the dominant use case for PPLI today is helping clients meet financial security needs of their families through the death benefit protection element of the policy combined with the intentional placement of high-growth, tax-inefficient strategies inside the PPLI chassis as part of an integrated asset location strategy within clients' total portfolios. Their experience reflects a consistent preference for private credit, private real estate, and private equity strategies - asset classes where ordinary income, short-term gains, and complex tax reporting materially erode after-tax results if held in taxable locations.

Private credit allocations remain one of the fastest-growing categories within PPLI IDFs and SMAs. Higher base rates, floating-rate structures, and contractual income streams have made private credit particularly attractive for sophisticated investors. However, these same attributes generate recurring ordinary income that is inefficient when held directly. When housed inside PPLI, the tax drag associated with interest income is effectively neutralized, allowing policyholders to focus on manager selection, underwriting discipline, and downside protection rather than annual tax leakage.

Private real estate strategies represent another significant area of growth. Granite Harbor notes that PPLI investors are increasingly accessing private real estate through institutionally managed vehicles that emphasize long-term appreciation, income stability, and inflation protection. While depreciation and leverage can mitigate some taxable exposure outside PPLI, real estate investments often generate complex reporting and residual tax inefficiencies. Within a PPLI framework, these concerns are reduced, enabling real estate strategies to function as long-duration growth and income components rather than tax-management exercises.

Private equity remains the most strategically significant trend shaping PPLI investment allocations. Granite Harbor's principals observe that PPLI is particularly well positioned to capitalize on the structural shift toward longer private equity holding periods. Portfolio companies are staying private for extended durations, often deferring liquidity events until they have scaled into large-cap enterprises or strategic acquisition targets. This elongation of the value-creation cycle materially enhances the advantage of tax-preferential compounding available within PPLI.

As holding periods extend, interim taxable events, such as recapitalizations, distributions, or secondary transactions, can impair after-tax outcomes in traditional ownership arrangements. PPLI mitigates these frictions by allowing capital to compound uninterrupted, carrying the death benefit protection and aligning the cash value growth potential with the economic reality of modern private equity investing. Granite Harbor views this alignment as one of the most underappreciated strengths of PPLI in the current market environment.

Supporting these practitioner observations, industry research underscores the growing convergence between private markets and insurance-based solutions. An April 2025 analysis by Neuberger Berman Private Wealth highlights that the investment component of PPLI is increasingly used to access private equity, private credit, and real assets precisely because taxes can otherwise distort long-term returns. The analysis emphasizes that IDFs and SMAs within PPLI allow for institutional-quality management while preserving the tax-advantaged compounding essential to private-market strategies, which may help more efficiently carry and support the death benefit component of the policy and yield powerful long-term growth potential.

Taken together, these trends suggest that PPLI investment strategy selection in 2026 is less about diversification across asset classes and more about intentional concentration in return drivers that benefit disproportionately from tax efficiency under a comprehensive asset location planning approach. As private markets continue to grow in scale, complexity, and duration, PPLI is increasingly viewed not merely as an insurance solution, but as a long-term capital allocation platform designed to maximize after-tax outcomes for ultra-high-net-worth families.

Asset Class	Typical Tax Profile Outside PPLI	Structural Characteristics	Why Well-Suited for PPLI	Common Use Within PPLI (IDF / SMA)
Private Credit	Primarily ordinary income taxed annually; limited deferral opportunities	Contractual cash flows, floating rates, shorter to intermediate durations, periodic distributions	PPLI neutralizes ordinary income taxation, allowing yield to compound tax-deferred or tax-free; removes annual tax drag that materially reduces net returns	Frequently implemented via IDFs for diversified credit strategies; SMAs for bespoke lender or strategy exposure
Private Real Estate	Mix of ordinary income, capital gains, depreciation benefits, and complex reporting	Income-producing assets with long-term appreciation, leverage, and episodic liquidity	PPLI eliminates ongoing tax friction and reporting complexity; allows investors to focus on total return rather than tax optimization mechanics	Commonly held through IDFs; SMAs used for concentrated or thematic real estate strategies
Private Equity	Capital gains often taxed upon realization; interim distributions and recap events may trigger taxable income	Long-duration hold periods, irregular liquidity, high growth orientation	PPLI aligns with extended holding periods by allowing uninterrupted compounding; mitigates tax impact of interim events and exit timing	Increasingly structured via IDFs; SMAs used for single-manager or concentrated exposure
Venture Capital & Growth Equity	Highly tax-inefficient due to concentrated gains and timing uncertainty	Binary outcomes, long horizons, limited interim cash flows	PPLI enhances after-tax asymmetry by sheltering outsized gains while maintaining portfolio flexibility	Typically accessed through IDFs due to diversification and governance needs
Hedge Funds (Tax-Inefficient Strategies)	Frequent short-term gains, ordinary income, high turnover	Active trading strategies, leverage, derivatives	PPLI improves net returns by eliminating short-term capital gains and ordinary income taxation	More commonly implemented via SMAs where customization is required
Multi-Asset & Opportunistic Strategies	Mixed tax treatment; often unpredictable tax outcomes	Flexible mandates spanning public and private markets	PPLI removes tax unpredictability and enhances compounding across shifting allocations	Used in both IDF and SMA formats depending on complexity

POPULAR PPLI STRATEGIES

The Use of SMAs

Adoption of SMAs continues to increase in popularity. SMAs allow an independent investment advisor to customize a portfolio on a discretionary basis by accessing a broad range of investments for the policy's cash value, including marketable securities, structured notes, ETFs, hedge funds, LP interest in LLCs, private equity and other alternative investment strategies.

Registered Investment Advisors (RIAs) continue to be a primary catalyst driving an increased adoption of SMAs as a PPLI policy's underlying investment option through offering a bespoke managed-money solution to their clients that provides life insurance protection and the potential to grow cash value on a tax-advantaged basis. Doing so not only helps meet a wider variety of client needs but also can help increase their assets under management. SMAs have also been gaining popularity with policy owners as the underlying PPLI investment option primarily due to the greater investment flexibility they can offer as compared to IDFs and the option of selecting a specific, carrier-approved investment advisor as the underlying manager.

Traditionally, IDFs made up the bulk of PPLI policy investments as early industry sales were driven by hedge fund investors and those seeking other alternative investments who sought an insurance version of focused investment strategy an existing popular fund.

HNW Family Policy Aggregation

Family office investment teams and RIAs are incorporating the use of multiple PPLI policies for generational wealth accumulation and estate planning. Similar to how an executive benefit program spreads premium funding over all the plan participants, considering age, gender and insurability, HNW families are utilizing PPLI policies to allocate wealth earmarked for generational wealth transfer.

For example, a large family with many members spread across multiple generations and considerable cash available to allocate to a PPLI strategy will "spreadsheet" how to best deploy the capital among policies on the lives of various individuals. Younger, healthy insured family members will generally have lower insurance costs but may face death benefit capacity restrictions. Conversely, older insured family members may be able to pay more premium into a policy but encounter higher insurance costs. Policies are designed to be held until the death of the insured so that the underlying investments can help drive cash value accumulation and the death benefit can be paid income tax-free. The more family members involved, the more probable the timing of payouts and the creation of liquidity may be to help meet the estate planning needs of future generations.

Funding Premiums through Intergenerational Split-Dollar

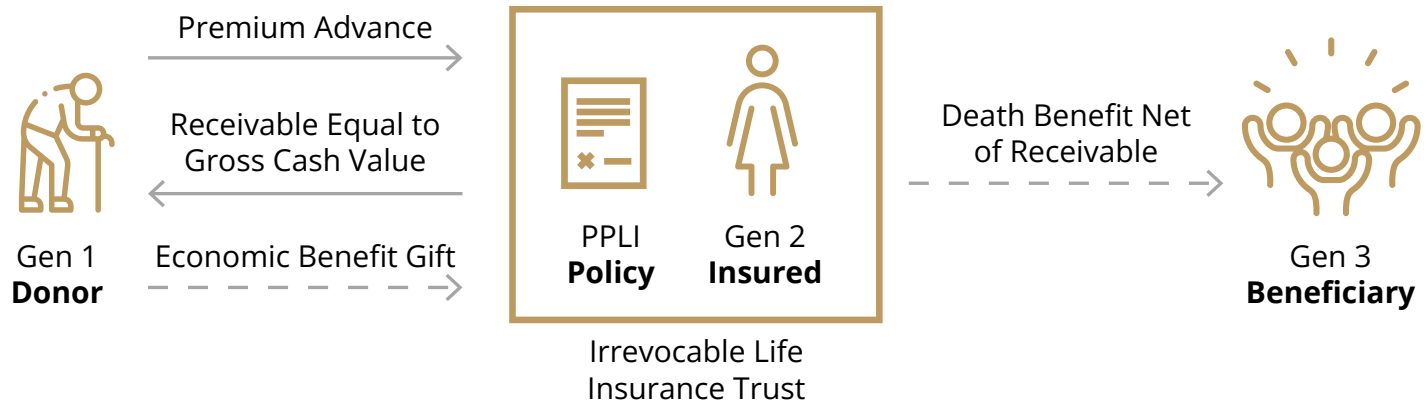
Although the lifetime estate and gift tax exclusion has increased to approximately $15 million per donor under the One Big Beautiful Bill Act (2025), estate planning strategies continue to address concerns of estate and trust illiquidity — particularly for the benefit of one's children and grandchildren. As noted above, HNW families are increasingly using PPLI to insure junior generation family members to help meet downstream estate planning needs. Where the senior generation desires to help fund these policies and the entity or trust that owns the policies is not the same person providing the premium, gift tax considerations can arise. An intergenerational split-dollar arrangement can help address this by facilitating large premium funding with minimal gift tax consequences. Below is a high-level overview, though the many considerations, nuances, and formalities involved in implementing and administering any split-dollar arrangement are beyond the scope of this report.[36]

36 Taxpayers should seek tax and legal guidance from an experienced tax and legal professional regarding a split-dollar arrangement as it may pertain to their individual situations. Please refer to Treas. Reg. §§ 1.61-22 and 1.7872-15 regarding the split dollar arrangements referenced herein and regulations applicable thereto.

Economic Benefit Regime Split Dollar

Here, the parent (donor) creates an irrevocable life insurance trust (ILIT), which purchases a PPLI policy on a child and/or grandchild. The donor advances premiums payments to the insurance carrier on behalf of the ILIT, pursuant to an agreement whereby the estate of the donor will be repaid at the time of the insured's death an amount at least equal to the gross cash value of the policy. The ILIT is typically responsible for the portion of the premium equal to the cost of the life insurance protection benefits provided to the ILIT – also known as the "economic benefit" – which is generally very small for younger insured and/or in the early years of the arrangement. These costs escalate as the insured ages. If not paid as consideration to the donor, then this amount is typically reported as a gift by the donor to the ILIT.

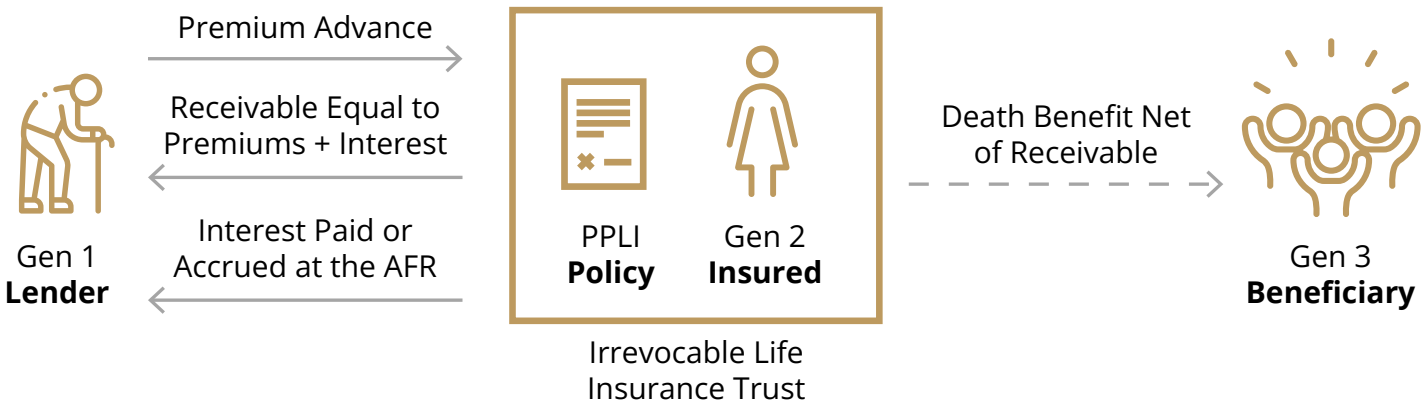
Figure 5.



Loan Regime Split Dollar

This form is an alternative to economic benefit regime. Here, the parent (lender) similarly creates an ILIT to own the PPLI policies but advances the premium payments in the form of non-recourse loans thereto, generally bearing interest at an appropriate interest rate. Such interest rate is typically the long-term applicable federal rate (AFR) in effect the month the loan is made, which is charged to the ILIT and either paid or accrued as due.[37] The parent could make separate gifts to the ILIT so that the ILIT has the money to help pay the required interest on the loan balance, to the extent not accrued.

Figure 6.



37 Split dollar loans are tested for sufficient interest based on the type of loan. If a split dollar loan is a below-market loan, then, except as otherwise provided in the regulations, the loan is governed by IRC § 7872. The timing, amount and characterization of the imputed transfers between the lender and the borrower of a below-market split dollar loan depend on the relationship between the parties and whether the loan is a demand or term loan. For a split dollar loan to be non-recourse (secured only by the policy and not requiring any other trust assets or seed gifts), both parties must sign a written representation and file it with their tax returns that attests that a reasonable person would expect the repayment to be made in full. See Treas. Reg. § 1.7872-15.

Switch Dollar

The lower the long-term AFR, the more attractive it is to utilize the loan regime. Given the existing relatively high rates, those considering intergenerational should evaluate the illustrated total loan interest cost versus the illustrated economic benefit. It is possible to design the arrangement as a so-called "switch-dollar" arrangement where it begins under an economic benefit regime and switches to loan regime at a future point.

To do so, the economic benefit arrangement is terminated, which results in a "deemed transfer" of the policy from the parent to the ILIT for gift tax purposes under the regulations. A replacement agreement is established where the parent is entitled to be repaid an amount equal to the policy's fair market value at that time. Such amount constitutes a loan from the parent to the ILIT and is secured by a collateral assignment of the policy.

This switch-dollar design can help minimize gift tax consequences early on and provide flexibility to defer loan treatment to a time when AFRs have come down, but the potential growth of the policy's fair market value must also be considered regarding the future loan balance upon switch relative to what it would be with loan regime from inception (premiums paid plus interest). It is also possible to design and administer a loan regime arrangement with the option for the loan to be retired and reissued at a future time if AFRs come down.

What Happens After the Parent's Death

It is likely that the insured – typically a child or grandchild – will outlive the parent so it is unlikely that the receivable will be repaid prior to the parent's death. Accordingly, **valuation** of the split-dollar receivable for estate tax purposes is essential. It is possible, though not necessary, for there to be a valuation adjustment on the parent's estate tax return depending on the facts and circumstances and laws then in effect.[38]

To defend a reported fair market value that is less than face value, there should be ample evidence supporting a substantial non-tax purpose for the arrangement (e.g., clear estate or business planning insurance need for the insured), including an intent to carry it to maturity, and it must be structured and administered properly at all times.[39] Tax avoidance for the parent via valuation "discounting" cannot be seen as the intent, as doing so increases the risk the transaction may fail and result in adverse tax consequences.

Additional planning implications that should be addressed to ensure the outcome meets the family's needs and tax risks or consequences are minimized may include, but are not limited to, **to whom** the receivable is transferred at the parent's death, likelihood of **IRS scrutiny** on valuation, subsequent **income tax effects** regarding the receivable, and subsequent **administration** of the split-dollar arrangement.[40]

38 For example, see Treas. Reg. § 20.2031-4 and Proposed Treas. Reg. § 20.7872-1 regarding valuation of notes.

39 The Internal Revenue Service (IRS) has aggressively scrutinized intergenerational split dollar arrangements in which the taxpayer's estate reported a valuation adjustment on the receivable. There have been two Tax Court victories for the IRS upholding estate tax deficiencies, interest and penalties. See Estate of *Morrissette v. Commissioner*, 121 T.C.M. (CCH) 1447, T.C. Memo 2021-60, and Estate of *Cahill v. Commissioner,* 115 T.C.M. (CCH) 1463, T.C. Memo 2018-84. There has been one Tax Court victory for a taxpayer's estate where a separately stipulated value for the receivable was upheld. See *Estate of Levine v. Commissioner*, 158 T.C. No. 2, 2022 BL 65826, 2022 Us Tax CT Lexis 12 (Feb. 28, 2022).

40 Regarding income tax effects, any "discounted" value for estate tax purposes at the donor's death will result in the inheritor of the receivable acquiring it with a basis less than the stated redemption price. Thus, the Market Discount Bond rules may operate to tax the market discount as ordinary income upon subsequent disposition or maturity of the note. Any loan interest accrued after the donor's death may be taxable annually as Original Issue Discount (OID) income. Thus, it may be advisable for interest due to be paid and not accrued. See IRC §§ 1271-1275, 1276-1278, and regulations thereunder. Administrative requirements and considerations of split-dollar arrangements are beyond the scope of this report. Please consult a tax and legal professional.

CASE STUDIES FROM LION STREET OWNERS

Case Study by Jordon Katz, Principal, JR|KATZ, Northbrook, IL

Intergenerational Wealth Transfer Funding

Planning Purpose: Provide Multi-Generational Liquidity for Estate Taxes with Income Tax Minimization

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Scenario

Principals of a multi-generation family office have done considerable wealth transfer planning. The current four sibling "patriarchs" who range in age from 69 to 78 are the third generation of a family which had grown a successful business begun in the early 1900s and sold off in two pieces in 2004 and 2007. The family, which is rather close-knit, created a multi-family office which today has investment assets exceeding $750 million.

There are four multi-generational trusts representing the four family lines of the G3s. The trusts were established by the deceased family members of G2 and are managed by the family trust company in cooperation with the family office.

The primary concern is that eventually, upon the death of the G5s , who range in age from 5 to 17, there will be significant estate tax liability resulting from maturation of the trusts. The question was how best to invest a portion of the existing portfolio over a 60+-year time horizon to create a pool of liquidity for funding future estate tax liabilities.

Strategy

The family office principals elected to utilize Private Placement Life Insurance (PPLI) as a long-term tax-favored accumulation vehicle providing an open-architecture structure. This would allow latitude for investing in a wide spectrum of asset classes including public and private markets, such as real estate, private equity, private credit, hedge funds, commodities, and equities. The family selected an independent investment advisor to manage a SMA (separately managed account) for each policy as the underlying investment vehicle.

Financial modeling was conducted to determine the amount of the family's capital to allocate to the long-term wealth transfer portfolio. Because PPLI provides tax-deferred accumulation, the family can allocate less than it would need to if in a taxable environment. The family allocated $75 million to be funded over 3 policy years and, because the policies were backdated 11 months, the complete funding will be accomplished over 13 months.

G4s, who range in age from 35 to 45, were selected as insureds to magnify the desired tax-favored long-term accumulation. Out of thirteen potential insureds, seven were underwritten and five were selected. The total amount of initial death benefit was $353 million.

Result

At an 8% rate of return net of investment fees, a hypothetical assumption selected by the client and their investment advisor, the projected total death benefit for the five policies in 50 years is $2.7 billion. This result produces a 7.58% tax-free annualized rate-of-return upon death. Over the life of the policies, the insurance product costs are projected to be 42 bps, which is 5.2% of the 8% assumed net investment return. The PPLI is therefore 94.8% efficient.

CASE STUDIES FROM LION STREET OWNERS

Case Study by Samuel Jacobs, JD, LLM, Senior Vice President, Arthur J. Gallagher, New York City and Philadelphia

Estate Planning for Generation Two (G2)

Planning Purpose: Estate Planning and Tax-Efficient Access to Alternative Investments

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Scenario

Husband and Wife, both 61, engaged in estate planning and each established and funded an irrevocable grantor trust to benefit the other using their federate estate and gift tax exemption. In addition, Husband benefits from an irrevocable non-grantor trust established by his father, now deceased. To meet estate tax liabilities, make wealth transfer more efficient and to support the surviving spouse, each trust purchased life insurance.

Strategy

PPLI was chosen as the type of life insurance for each trust to purchase. Husband is an alternative investment buyer and sought to take advantage of the ability for his independent investment advisor to invest into highly tax-inefficient asset classes within separately managed policy accounts. All three trusts established an Alaska LLC to own the PPLI policies so that the policies could be back-dated 11 months, allowing the second premium to be paid a month after issuance.

The irrevocable non-grantor trust established by Husband's deceased father purchased, via the LLC, two PPLI policies – one on the life of Husband and one on the life of Wife. The irrevocable trust established by Husband to benefit Wife purchased, via the LLC, a PPLI policy on the life of Husband. Conversely, the irrevocable trust established by Wife to benefit Husband purchased a PPLI policy on the life of Wife. All four PPLI policies were non-MEC and were funded with four premium payments of $2.5 million each, for a total premium commitment of $30 million. A year after the final premiums are paid, the death benefit will be reduced to maximize the cash value growth.

Result

At the first death of either Husband or Wife, two of the PPLI policies would pay an income tax-free death benefit that would support the surviving spouse, create liquidity to pay a future estate tax liability due at the death for the second spouse, and foster wealth transfer to G3. The PPLI policies permitted the trustees of the three irrevocable trusts to invest into highly tax-inefficient and high-growth alternative investments in a tax-preferred environment.

At a 7% rate of return net of investment charges, the total death benefit paid at the projected death of both Husband and Wife at age 91 is approximately $215 million. At the time of each death, death benefit from the corresponding PPLI policies will be paid to the LLCs and distributed to the LLC-owning trust for the benefit of the trust's beneficiary(ies).

CASE STUDIES FROM LION STREET OWNERS

Case Study by Charles "Chuck" Jordan, Managing Partner, Edcora Financial, Miami, FL

Meeting Legacy Needs, Mitigating Adverse Taxation

Planning Purpose: Tax-Efficient Accumulation and Wealth Transfer Planning

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Scenario

Four family members, ages 33, 34, 36 and 36, are the beneficiaries of four non-grantor irrevocable trusts (originally irrevocable grantor trusts), respectively. The trusts were established as a part of their parents' estate planning and consist of marketable securities, alternative investments and cash equivalents Some of the existing investments, including private credit, were highly tax inefficient and the trustees wished to optimize the location of these assets as well as invest a significant portion of their cash equivalents. The trustees determined that a 40/40/20 mix between equities, investment-grade fixed income and private credit was appropriate. While existing coverage on the beneficiaries was already in place, additional insurance was deemed beneficial for future estate tax payment. The additional life insurance benefit combined with the inherent income tax advantages PPLI could afford this new investment portfolio addressed two issues that were important to the trustees.

Strategy

Each trust purchased a PPLI policy on the life of the corresponding family member for $10 million in premium paid over three premium payments, allowing the policies to be issued as non-MECs. Each trust established an LLC in Alaska to directly own each policy, allowing the policies to be backdated 11 months so that three premiums could be paid over 13 months and one business day in order for the premiums to be invested as quickly as possible. The policies could also take advantage of Alaska's low state premium tax. Via IDFs and separately managed accounts, the $40 million in total premium was invested across equities, investment-grade fixed income and private credit.

Result

At a 6.97% rate of return net of investment charges(deemed reasonable by the family's investment manager) , the total death benefit paid at the projected death of the four insureds would be approximately $1.3 billion. At the death of a beneficiary, their insurance benefit will be paid to the LLC owned by their respective trust and then distributed to such trust to add icing to the cake and without attributing any cost to the life insurance benefit it is estimated that the INCOME tax savings to the trusts during the lifetime of the insureds will average 150 basis points each year. Put another way, the aggregate pure income tax savings and associated investment growth at life expectancy, assuming no one has died, would be in excess of $650 Million.

USE OF POLICY BACKDATING TO ACCELERATE FUNDING AND PERFORMANCE POTENTIAL

Backdating a PPLI policy is a technical but well-established administrative strategy that can materially affect long-term policy economics when used appropriately. At its core, backdating allows a policy's issue date to be set prior to the effective date that coverage begins, subject to strict regulatory and contractual limits. While the concept is simple, the rules governing how far a policy may be backdated and whether it can be backdated at all are shaped by a combination of federal and state insurance law, carrier guidelines, and reinsurance treaty constraints.

How Backdating Works

Life insurance premiums are based on an insured's "insurance age," which is typically calculated using an "age nearest birthday" methodology. Once an applicant passes the halfway point to their next birthday, the insurer may round their insurance age up by one year. Backdating a policy even by a few months can shift the insurance age back to the prior year, permanently lowering cost of insurance (COI) charges for the life of the policy. In PPLI structures, where policies are often funded heavily and held for decades, even a single age reduction can have a meaningful impact on long-term performance.

Beyond age pricing, backdating can also be used to optimize funding mechanics under the Internal Revenue Code's seven-pay test. By moving the policy's effective date into a prior policy year, a policyholder may be able to make two substantial premium payments in close succession - one attributable to the backdated "year one" and another for "year two" - thereby accelerating funding without triggering Modified Endowment Contract (MEC) status. This can be particularly useful in PPLI planning, where front-loaded premium contributions are often desirable to maximize investment growth. In effect, backdating may also allow tax-advantaged cash values to begin compounding earlier.

For example, a policy with an issue date backdated by six months from the effective date will result in the second premium coming due six months after the first. A policy backdated by 11 months will result in the second premium coming due one month after the first. Thus, subtracting the number of backdated months from 12 results in the number of months until the policy anniversary and second premium due date.

Who Determines the Length of Backdating

The permissible length of backdating is not determined by a single authority. Instead, it is governed by the most restrictive rule among three sources.

First, some state insurance regulations establish the outer legal boundary. In the United States, most of these states with established statutes or regulations, such as prohibit life insurance policies from being backdated more than six months prior to the application date. This limitation exists to prevent abuse while allowing policyholders limited flexibility to secure a younger insurance age.

In general, if a state specifically has a law or regulation limiting backdating to six months, then that law or regulation governs. In the absence of such law, it would be left up to carrier discretion/procedures - perhaps also in consideration of any anti-discrimination issues, too - to allow backdating by an amount of time within 12 months to comply with the rules for determining attained age under IRC § 7702 and Treasury Regulation § 1.7702-2. Though many carriers may still limit backdating in these states to six months for administrative consistency, they could choose to allow a longer period, within 12 months in certain states as discussed further below.

Second, insurers maintain their own internal underwriting and administrative guidelines which could be more restrictive than federal or state law. Thus, a carrier may impose a shorter limit or decline to permit backdating altogether despite what is otherwise allowed under state law.

Third, reinsurance treaties play a critical role. Most life insurers cede a portion of policy risk to reinsurers, and those agreements typically specify the maximum backdating period the reinsurer will support. If a reinsurance treaty allows backdating only up to six months, the carrier cannot exceed that limit, even if state law would otherwise permit it.

In practice, the controlling rule is the strictest of the three: federal and state law, carrier procedure, or reinsurance agreement.

All the PPLI carriers included in this report permit backdating of their policies. Of the four states with the best premium tax rates for PPLI, Alaska and Wyoming generally have the most flexible state laws for allowing backdating 11 months.[41] Delaware law also allows backdating 11 months, but the policy (or entity that owns the policy) must be owned by a trust sited in Delaware to receive the more-favorable PPLI premium tax rate.[42] South Dakota limits backdating to a maximum of six months.[43]

Costs and Trade-Offs

Backdating is not free. All premiums or underlying charges attributable to the backdated period must be paid or subtracted from the premium in a lump sum on the effective date. Additionally, the policyholder is effectively paying for coverage during a period that has already elapsed, meaning there was no actual death benefit protection during those months. Furthermore, if the goal of backdating is to accelerate funding for deployment of premium in the underlying investment component of the policy, one must also consider the risk of a market downturn within the first six-to-12 months from the effective date of the policy where the policy owner may have been better off dollar cost averaging over that time instead.

For these reasons, backdating is best viewed as a strategic planning tool and not a default election. When used thoughtfully within regulatory and contractual boundaries, it can enhance the efficiency of a PPLI policy. When used carelessly, it can add unnecessary cost with little benefit.

As with all advanced insurance strategies, advisors should confirm applicable laws, carrier practices, and reinsurance constraints, and may consult resources such as the issuing carrier itself or the National Association of Insurance Commissioners to identify state-specific guidance.

41 26 WY Code § 26-16-120(a)(i). Alaska state law is silent on backdating; thus, policies issued in Alaska can be backdated up to 11 months in compliance with federal law unless otherwise limited by carrier procedure or reinsurance agreement.

42 18 DE Code § 2927(a)(1), 18 DE Code § 702(c)(3)

43 SD Codified L § 58-15-44

Hypothetical Example of the Potential Future Performance Benefit of Backdating

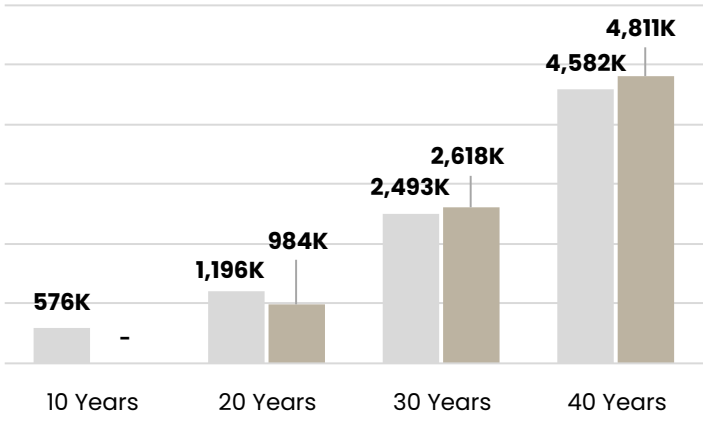
The following example is for illustrative purposes only and assumes a female insured, age 50, preferred nonsmoker, allocating $10 million of total premium over two policy years. *Hypothetical return is net of investment management fees but gross of policy charges. Actual results will vary.*

		Current Date PPLI Policy (AK) 8% Net ROR, Current Charges 0.5% Premium-Based Commission 0.25% Asset-Based Commission			11-Mo. Backdate PPLI Policy (AK) 8% Net ROR, Current Charges* 0.5% Premium-Based Commission 0.25% Asset-Based Commission		
1	2	3	4	5	6	7	8
Time Period Reference for Cash Flows	**End of Year Reference for Values**	**(Premium) +Income Cash Flow**	**Net Cash Surrender Value**	**Net Death Benefit**	**(Premium) +Income Cash Flow**	**Net Cash Surrender Value**	**Net Death Benefit**
0	1	(5,000,000)	5,241,017	68,345,181	(10,000,000)	10,451,357	73,555,521
1	2	(5,000,000)	10,873,152	73,977,316	-	11,171,607	63,104,164
2	3	-	11,625,917	63,104,164	-	11,985,938	30,549,239
3	4	-	12,475,407	30,549,239	-	12,859,547	30,549,239
4	5	-	13,387,000	30,549,239	-	13,795,615	30,549,239
9	10	-	19,046,262	30,549,239	-	19,622,029	30,549,239
19	20	-	39,087,240	45,341,199	-	40,282,867	46,325,297
29	30	-	81,029,975	85,081,473	-	83,523,150	87,699,307
39	40	-	165,876,396	174,170,216	-	170,458,747	178,981,685

*Rate of return in policy year one (one month period of time) is assumed to 0% for comparison purposes

How much more value does the backdated policy illustrate? See below:

Backdated Policy Difference		
Effective Years	**Net Cash Surrender Value (7 minus 4)**	**Net Death Benefit (8 minus 5)**
10	575,767	-
20	1,195,627	984,099
30	2,493,175	2,617,834
40	4,582,351	4,811,469



FINANCING OR COLLATERALIZATION OF PPLI POLICIES

Prohibited and Permissible Practices

PPLI policies occupy a unique regulatory position because their investment components are treated as unregistered securities offered through separate accounts that rely on exclusions from registration under the Investment Company Act of 1940. As a result, the ability of broker dealers and registered representatives to participate in any form of premium financing or policy collateralization is materially constrained by Section 11(d)(1) of the Securities Exchange Act of 1934 and the rules and interpretations issued thereunder.

Section 11(d)(1) generally prohibits a broker dealer (BD) or registered representative (RR) that participates in the distribution of a new issue security from extending credit, maintaining credit, or arranging for the extension or maintenance of credit on that security for a customer. The statutory prohibition applies not only to direct lending by the broker dealer, but also to conduct that constitutes arranging credit, which the Securities and Exchange Commission (SEC) has interpreted broadly for more than sixty years. In the seminal Sutro Bros. decision, the SEC explained that arranging occurs when a broker dealer performs some act without which the credit would not be supplied, even if the broker dealer is not the lender and receives no direct compensation in connection with the loan.[44]

For purposes of Section 11(d)(1), variable insurance separate accounts are treated as continuously distributed securities. Each premium payment allocated to a variable account is treated as a new issue purchase. Whether a broker dealer may permissibly arrange or facilitate credit therefore turns on whether an applicable regulatory exemption exists.[45]

Registered (retail) VUL policies whose separate accounts are registered as open-end investment companies or unit investment trusts are eligible for the exemption set forth in Rule 11d1-2. That rule permits a broker dealer that sold a registered investment company security to arrange credit on that security once the customer has owned the security for more than thirty days. The rule reflects the SEC's long standing position that registered variable contract separate accounts should be treated similarly to mutual funds for credit purposes once the initial restricted period has elapsed.[46] However, each new premium payment or each reallocation from a fixed account to a variable account starts a new thirty day period for the applicable portion of the policy value.

PPLI does not qualify for this exemption. The separate accounts underlying these policies are unregistered investment companies that rely on Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act. Because Rule 11d1-2 by its terms applies only to registered open end investment companies and unit investment trusts, no thirty-day cure period may exist for PPLI policies. It is therefore possible a broker dealer or registered representative that participates in the sale of a PPLI policy may be prohibited from extending, maintaining, or arranging credit to finance premiums or pledge the policy as collateral at any time.[47]

The SEC and FINRA apply a facts and circumstances analysis to determine whether a broker dealer has indirectly arranged credit in violation of Section 11(d)(1). Conduct that has been cited by regulators as indicative of impermissible arranging activity includes providing a lender list that is not neutral or is limited to preferred or affiliated lenders, introducing the client to specific lenders or bankers, assisting with loan documentation or negotiations, and receiving referral fees or other economic or soft dollar benefits from the lender. The absence of direct compensation does not preclude a finding that credit was arranged if the broker dealer's involvement was a necessary element of such credit.[48]

Market practice among large broker dealers reflects the breadth of this standard. Firms that allow clients to pursue premium financing or policy-based borrowing in non PPLI contexts typically impose structural controls designed to avoid arranging activity. These controls often include delegating all financing discussions to the client's independent legal or tax advisers, restricting communications to general and passive disclosures, requiring that any lender lists be broad and non-curated, and prohibiting involvement with affiliated lenders. While these practices may mitigate regulatory risk, they do not constitute a formal safe harbor, and compliance determinations remain fact specific.

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44 *Sutro Bros. and Co.*, 41 SEC 443, 457 to 459 (1963).

45 The characterization of a variable insurance separate account as continuously distributed may not turn on the frequency or duration of premium payments. Even if a PPLI policy is substantially funded over a limited period and no additional premiums are paid or new allocations to a variable account subsequently occur for an extended time, the separate account remains legally available to accept additional contributions under the terms of the policy. Therefore, absent an applicable regulatory exemption, the distributing broker dealer may never be deemed to exit the distribution for Section 11(d)(1) purposes regardless of the passage of time after the last premium payment or allocation to a variable account.

46 Exchange Act Rule 11d1-2, 17 CFR § 240.11d1-2; see also SEC interpretations regarding registered variable contract separate accounts treated as open end investment companies for Section 11(d)(1) purposes and Speech by SEC Staff: Remarks before the ALI-ABA Variable Insurance Products Conference (November 5, 2004)

47 Securities Exchange Act of 1934 § 11(d)(1); Investment Company Act of 1940 §§ 3(c)(1) and 3(c)(7); 17 CFR §§ 240.11d1-1 and 240.11d1-2.

48 Sutro Bros., *supra* note 44.

General Distinctions Between PPLI and Registered VUL Policies

Feature	Registered VUL	Private Placement VUL (PPLI)
Separate Account Status	Registered (Unit Investment Trust or Open-End Investment Company)	Unregistered
Nature of Separate Account Interest	Treated like a mutual fund for credit purposes	Treated as a private placement new issue under continuous distribution
Initial Financing Eligibility with Involvement by Participating BD/RR	Prohibited	Prohibited
Collateral Eligibility with Involvement by Participating BD/RR	Eligible after a 30-day cure period	Remains prohibited – no cure exists for unregistered funds[49]
Impact of New Premium or Allocation to Variable Account	Triggers a new 30-day clock for that specific portion of the funds	Remains prohibited – no cure exists for unregistered funds[50]

Key Takeaways

While premium financing and policy collateralization may be achievable in carefully structured circumstances outside the involvement of the distributing broker dealer or registered representative, PPLI policies present a materially higher regulatory sensitivity. Compliance analysis generally focuses not only on the source of financing, but on every interaction that could be characterized as facilitating or procuring credit in connection with an unregistered variable insurance security. As a result, many broker dealers prohibit their registered representatives from arranging for financing in connection with the sale of a variable universal life policy and impose particularly restrictive controls in the PPLI context.

If a policyowner independently seeks financing without involvement from the broker dealer or registered representative participating in the distribution of the policy, any third-party lender extending credit that is used to pay VUL or PPLI premiums, secured by the policy, or both, must separately evaluate compliance with Regulation U issued by the Federal Reserve. Depending on the facts and structure of the transaction, including whether the credit constitutes purpose credit and whether the policy or its separate account interests constitute margin stock, Regulation U may impose limitations on loan proceeds, collateral value, or required documentation.[51]

By contrast, policy loans made by the issuing insurance company pursuant to the terms of a PPLI contract are distinct from third party financing arrangements and do not implicate Section 11(d)(1). Such loans arise from contractual insurance benefits governed by state law, are not extended or arranged by a broker dealer and are not secured by or maintained on a distributed separate account security, as loaned policy values are transferred from the separate account to the insurer's general account.

The commentary provided in this Financing or Collateralization of PPLI Policies section includes AI-generated content from Microsoft Copilot, Microsoft Corporation, April 2026. It has been reviewed and edited by Lion Street. AI-generated content may include inaccuracies. Please verify key details independently.

49 *Supra* note 45.

50 *Supra* note 45.

51 See Regulation U, 12 CFR Part 221, including §§ 221.2 and 221.3. Where credit constitutes purpose credit and is secured directly or indirectly by margin stock, including interests in investment company separate accounts, lenders must comply with applicable loan value limitations and documentation requirements, as interpreted by the Board of Governors of the Federal Reserve System.

RECENT LEGISLATIVE ACTION, OR LACK THEREOF

Senator Ron Wyden (D-OR) introduced the *Protecting Proper Life Insurance from Abuse Act* as draft legislation in December 2024, at the very end of the 118th Congress. Because it was released just before adjournment on January 3, 2025, the bill expired without a committee vote or floor consideration.

Although Wyden was Chair of the Senate Finance Committee at the time, the proposal remained a draft-level measure that never advanced beyond its initial introduction. There is little evidence of meaningful support within his caucus, or among the broader public, for this specific PPLI-focused bill.

The initial release of the legislation followed an 18-month investigation into PPLI, conducted as a "Democratic staff investigation" rather than a bipartisan or full-committee inquiry. While the Biden-Harris Treasury Department expressed general interest in limiting what it called "PPLI loopholes" in the FY 2025 Green Book, Wyden's bill has largely been a personal or staff-driven initiative rather than a consensus policy push.

Wyden later reintroduced the same draft legislation in April 2026. Because the version released in December 2024 was a "discussion draft" released for public comment, it did not have an official list of co-sponsors. The April 2026 iteration was introduced as part of a series of individual "Tax Week" revenue-raising proposals and was referred to the Senate Finance Committee for review. It too had no formal co-sponsors. To date, it has been a single-sponsor bill and primarily a solo effort by Senator Wyden.

Wyden has previously attempted to advance related concepts, such as the *Modernization of Derivative Tax Act*, which would have indirectly curtailed PPLI tax advantages. That measure also failed to gain traction or become a caucus-backed priority. With the Senate now under Republican control and Wyden serving as Ranking Member rather than Chair, the prospects for advancing new PPLI reforms have diminished further.

While his PPLI efforts fit within a broader Democratic theme of tightening tax rules for high-net-worth individuals, the likelihood of this legislation advancing appears low given the current makeup of political control, lack of demonstrated co-sponsorship, committee action, or widespread support. Analysts view the re-introduction primarily as an "important stake in the ground" to signal future policy priorities rather than a bill destined for immediate enactment. Still, outcomes in Congress are inherently uncertain, and the bill's fate remains unclear as of this report's publication.

OTHER FREQUENTLY ASKED QUESTIONS

When may a PPLI policy be more ideal than a retail policy?

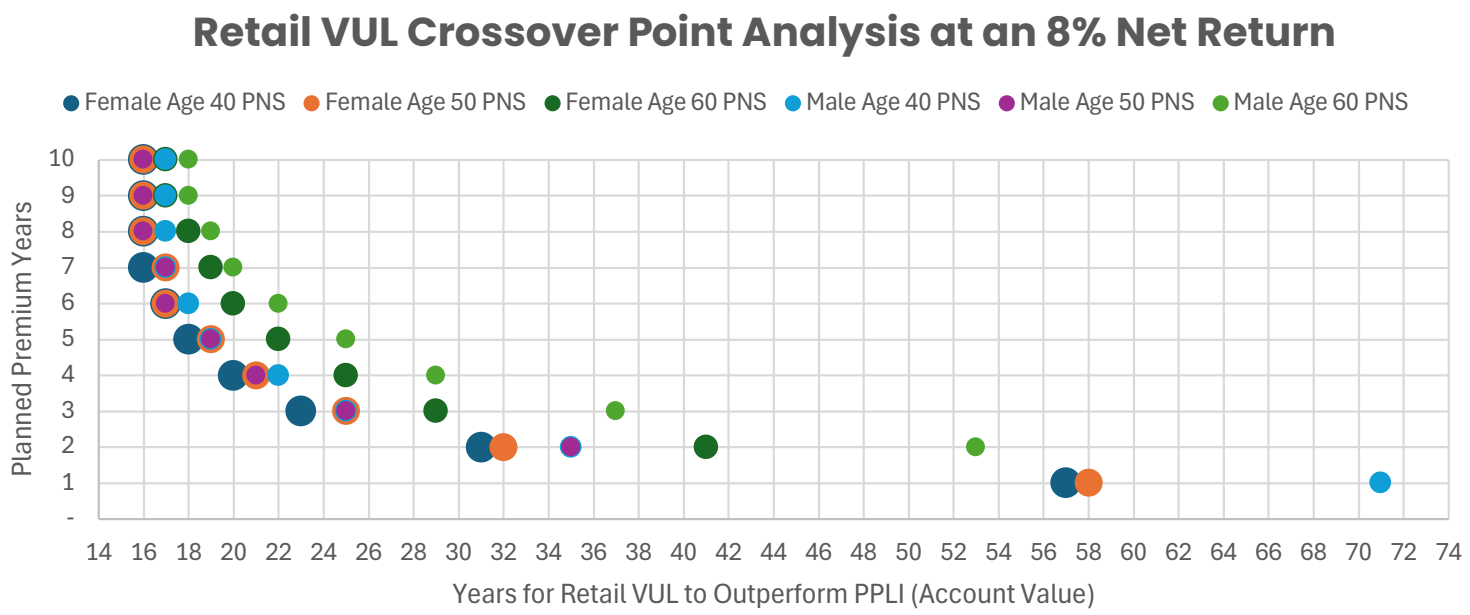
If maximizing death benefit protection with as little premium outlay as possible is the goal, then a traditional retail policy may be more efficient due to: 1) the broader selection of policy types available designed specifically to meet this need; 2) with pricing designed to minimize long-term premium outlay; and 3) the availability of additional features that address certain policy owner concerns, such as a secondary no-lapse guarantee or accelerated death benefit rider for long-term care.

If the goal is to overfund the policy to maximize accumulation potential and the policy owner is an ideal candidate wanting bespoke investments not available in a retail policy, then PPLI might be more suitable. However, an accumulation-oriented retail VUL policy may perform better long term assuming the same investment return so in situations where bespoke investments are not a priority, both should be evaluated.

The key reason an accumulation-oriented retail VUL may eventually outperform is the larger upfront cost of the heaped commission charges apply for a limited time (typically 10 years). Whereas the smaller upfront asset-based commission charges with PPLI may apply all years and grow as the cash value grows.

Below is a scatter graph mapping out the illustrated years it takes for the retail VUL account value to outperform that of the PPLI (horizontal axis) based on the planned premium years (vertical axis), an optimal non-MEC design with the same premium amounts and a linear 8% net investment return.

Figure 7.



In general, the longer the planned premium years with an optimized accumulation-oriented design, the earlier the crossover point for the retail VUL (i.e., up and to the left) at the same net investment return because the initial non-MEC face amount and upfront coverage charges become less as a percentage of total premium.

Considerations: Comparison is of retail VUL and PPLI policies issued by the same carrier. The analysis is based on gross cash value to illustrate the long-term performance impact of a minimized death benefit (all years) design. Assumptions include preferred nonsmoker risk class, $5 million of total premium spread out over the planned premium years shown, a minimum non-MEC face amount design, Option A (Level) death benefit, CVAT life insurance test, reduction to corridor at year 8, and current (non-guaranteed) policy charges. The PPLI policy issue state is AK, asset-based commission rate is 0.25% and premium-based commission rate is 0.50%. The 8% net illustrated rate is after investment expenses but before all other policy charges, including M&E charges. Crossover analysis results will vary based on input parameters for PPLI commission rates, insured details and policy design/assumptions. Hypothetical and for illustrative purposes only.

Can appreciated assets held by the policy owner or insured be transferred to the carrier in kind as PPLI premium payments or be placed into a PPLI policy as the underlying investments?

No. Even if a PPLI carrier would accept appreciated assets as premium payments, the general principles of Federal tax law would treat such a disposition of appreciated assets in satisfaction of the premium obligation as though the assets were first sold for cash which was then applied to the policy as premium. Gain would therefore be recognized for income tax purposes equal to the excess of the amount realized (premium amount satisfied) over the taxpayer's adjusted cost basis.[52] Such a transaction could also violate the Investor Control Doctrine described above. For the same reasons, existing appreciated assets cannot be "wrapped" inside a PPLI policy.

Can privately held business interests of the policy owner or insured be placed into a PPLI policy or otherwise selected as an underlying investment?

No. Such investment within a PPLI policy would breach the investor control doctrine described above regardless of the form in which such arrangement is promoted. If it is suggested that a policy owner or insured sell or otherwise transfer a privately held business interest to the PPLI carrier, in exchange for an installment obligation or otherwise, the income tax issues described under the preceding question could apply in addition to investor control. Investor control issues could also apply to strategies where a call option is issued to the SMA or IDF of a policy providing it the right to acquire stock in such privately held business interests. Although individual taxpayers should seek independent tax and legal counsel, it generally may be advisable to avoid such aggressive arrangements.

Who can be a broker or agent for a PPLI policy?

To be a broker or agent for a PPLI policy, one must be able to sell variable products which requires a having state life and health insurance license and being a FINRA registered representative with a Series 6 or 7.

Can a PPLI policy be owned and funded in similar ways as a traditional retail policy?

Yes. PPLI, for such practical application purposes, is the same as a traditional retail policy. It can be owned by individuals, corporate or partnership entities, or trusts. If owned by an irrevocable trust, it can be funded through gifts, split dollar arrangements and/or proceeds of commonly used estate freeze techniques.

52 IRC §§ 61(a)(3), 1001; Treas. Reg. §§ 1.1001-1 and 1.1001-2.

PPLI CARRIER LEADERSHIP PERSPECTIVES

The Leaders

Douglas Peterson, Divisional Vice President-Specialty Markets, Prudential Financial

Alan Jahde, Chairman, Investors Preferred Life

Jim Totten, Executive Vice President - Head of U.S. Distribution, Axcelus Financial

Perry A. Lerner, Chairman & CEO, Crown Global Insurance Group

Where will the growth come from for the PPLI industry?

Douglas Peterson: In 2025, we saw strong momentum across all distribution channels offering Private Placement, and we expect that trend to continue into 2026. Growth will also be fueled by new distribution partners entering the market, as awareness of Private Placement expands among insurance professionals, banks, wirehouses, and RIAs. This increasing familiarity and demand across diverse channels position us well for sustained growth.

Alan Jahde: Over the past year market performance and eagerness for diversification and access to private and alternative assets have each played a role in driving growth and continued innovation in the private placement market. IPL's open architecture has the flexibility to adapt to these (and future!) new investment strategies, while aligning with the unique estate planning and life insurance needs of affluent clients. New distribution opportunities from life insurance intermediaries and wealth management platforms have expanded the access to our tailor-made products. The adoption of these products across multiple distribution platforms continues to see increased utilization among the high-net-worth and ultra-high-net-worth clients they engage with daily, and we continue to see growth across varied distribution channels.

Jim Totten: Growth in the PPLI industry is being driven by several key components. Traditional insurance carriers continue to enter the private placement space, increasing awareness among advisors and clients. Continued education efforts are also accelerating the adoption, particularly as RIAs become more familiar with PPLI and begin integrating these structures into their offerings. Client demand for alternative investment strategies remain a major growth driver, with PPLI offering a more efficient structure for assets subject to significant tax drag. The ongoing expansion of available IDF options is further accelerating this trend. In addition, many advisors and clients are recognizing that legacy retail annuity contracts may no longer be meeting performance expectations, leading to increased interest in private placement variable annuities as a way to improve structural efficiency via 1035 exchanges. New product development and solutions tailored to emerging planning needs are expected to contribute to future growth.

Perry A. Lerner: The leading stimulator for growth in the PPLI market continues to be the amount of knowledge someone considering a PPLI policy can obtain. By improving the amount and quality of education to consumers, PPLI will continue to be a credible alternative to a family office where a single policy can serve as a vehicle to bring together one or more managers and a broad and diverse array of investments. Since the 2021 statutory change to the definition of life insurance that helped to make PPLI more attractive, the domestic PPLI marketplace has seen an uptick in adoption. However, there remains very little penetration so there are plenty of clients to serve. As interest continues to grow from affluent individuals as well as institutions, as a carrier, we need to continue to offer an elevated level of flexibility so that our clients can design and implement the solutions they need. The increase in the use of separately managed accounts as the underlying investment vehicle provides some of this flexibility. The historical approach of trying to service HNW clients with cookie-cutter investment options chosen from an existing platform is not giving the client what they want or need.

What are your company's strengths regarding the PPLI marketplace?

Peterson: Prudential's strengths span brand, capacity, underwriting, product breadth, and longevity. In 2025, we celebrated our 150th anniversary – a testament to our stability and enduring presence in the market. Backed by strong financial ratings, Prudential stands as one of the most financially secure insurers, unmatched in the Private Placement space. Our market-leading death benefit capacity of $150 million per insured, combined with our underwriting expertise, enables us to handle the complexities of large cases – making it easier for financial professionals to partner with us. Additionally, Prudential offers a comprehensive suite of solutions, including Private Placement Life Insurance and Private Placement Variable Annuities, along with access to both IDFs and SMAs. This flexibility ensures clients can tailor strategies to meet their unique insurance and investment objectives.

Jahde: Investors Preferred Life's strength lies in our commitment to innovation – we never stop looking for the next opportunity to serve our clients, providing unparalleled service, and ensuring that our clients' needs guide our actions as a Company. We operate with intentionality, acknowledging the importance of swift and nimble decision-making – this is baked in, with a tight-knit leadership that cares. We embrace challenges, approaching them with a "yes" mindset and finding solutions where others may not look. This philosophy allows us to deliver bespoke and institutionally priced solutions tailored for wealth planning, with unparallelled speed and precision. We stand ready to provide solutions for as long as our clients require, underscoring our enduring commitment to their financial well-being.

Totten: Our primary strength is our singular focus. With over thirty years of experience dedicated exclusively to the private placement life and annuity space, we have built deep institutional expertise across our legal, actuarial, investment, operational, and compliance functions. We maintain a staff of more than 95 professionals across the United States and Bermuda, including a field support team that works directly with our partners throughout the entire policy-issuance process. Our resources are global, with subject-matter experts who understand jurisdiction-specific regulatory requirements and country-specific planning needs, allowing us to support both U.S. and non-U.S. clients. We take a collaborative, solution-driven approach to structuring policies to enhance tax efficiency, support charitable and legacy planning objectives, and help create structural alpha. Our investment platform includes more than 300 investment options spanning traditional and alternative asset classes, supported by operational scale and an organizational structure that allows us to be innovative and nimble in our decision-making process. We are consistently investing in our technology to advance operational capabilities and improve our client-services. We pride ourselves on our white-glove service model focused on accuracy, responsiveness, and comprehensive support across the policy lifecycle.

Lerner: Crown Global is unwavering when it comes to maintaining and leveraging four strengths to support our clients. First, private placement is all we do, and we have focused our experience and strength on serving this market for over 25 years. Second, we have always been and remain completely open architecture. We continue to welcome a broad range of managers and strategies to our platform so our clients can customize an investment strategy that best serves them. Third, as I asserted in the first edition of this report, our team brings the most experience of any insurer in the market in developing high premium cases. This speaks volumes about our flexibility in understanding the issues facing our clients and how to solve these problems using PPLI. Finally, we lack bureaucracy. We are extremely efficient in our ability to onboard managers and investments. This supports our goal of being able to add the client's choice of manager and that manager's strategies.

CONCLUSION

Since the publication of our second edition in 2024, the domestic PPLI market has continued to mature in ways that matter to advisors and their clients. The shift toward SMAs as the predominant investment structure, the expanding role of RIAs and family offices as distribution catalysts, and the deepening integration of private credit, private equity and other alternative asset classes into policy portfolios have collectively moved PPLI from a niche insurance product to an institutional-caliber capital allocation vehicle. The 2021 changes to the IRC § 7702 definition of life insurance continue to enhance policy performance potential and, notwithstanding Senator Wyden's reintroduction of proposed PPLI-focused legislation in April 2026, the regulatory and legislative environment remains stable.

For qualified purchasers with the appropriate time horizon and liquidity profile, PPLI offers a combination of death benefit protection, tax-efficient compounding, investment flexibility and estate planning utility that no other single vehicle can replicate. As the strategies, case studies and carrier perspectives in this report demonstrate, the question for most HNW families is no longer whether PPLI belongs in the planning conversation, but how best to structure it.

PRIVATE PLACEMENT LIFE INSURANCE

Eligible policyowners must be able to bear the economic risk of investment in a policy; have adequate net worth, means, and contingencies to sustain a complete loss of investment; and have no need for liquidity in this investment. Policyowners should be aware of the additional risks involved with investing in exempt funds. Private Placement Life Insurance (PPLI) is an exempt fund and as such is not registered under the securities laws and are not subject to the same regulatory requirements as registered funds. Among other activities, exempt funds may engage in potentially riskier investment practices, charge higher fees, and impose liquidity restrictions on policyowners' assets. Liquidity restrictions vary among exempt funds and can impose significant delays in accessing policy values and benefits. Policy values are not shielded from fluctuation during such delays. Investors should be aware that hedge funds often engage in leverage, short-selling, arbitrage, hedging, derivatives, and other speculative investment practices that may increase investment loss. Hedge funds can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information.

Guarantees are based on the claims-paying ability and/or financial solvency of the issuing insurance company and do not apply to the underlying investment options. Life insurance policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. Your financial professional can provide you with copies of the applicable product private offering memorandum, exempt portfolio private offering memorandum, underlying investment option prospectus, and, if available, underlying investment option summary prospectus, which contain this information as well as other important information. You should consider the investment objectives, risks, and charges and expenses carefully before investing in the policy, and/or underlying exempt portfolios and investment options.

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Variable life insurance is sold by prospectus. Please consider the investment objectives, risks, charges, expenses, and your need for death-benefit coverage carefully before investing. The prospectus, which contains this and other information about the variable life policy and the underlying investment options, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

The investment return and principal value of the variable life policy are not guaranteed. Variable life sub-accounts fluctuate with changes in market conditions. The principal may be worth more or less than the original amount invested when the policy is surrendered.

Split-Dollar Life Insurance is not an insurance policy; it is a method of paying for life insurance coverage. A split-dollar plan is an arrangement between two parties that involves "splitting" the premium payments, cash values, ownership of the policy, and death benefits. These arrangements are subject to Split Dollar Final Regulations that apply for purposes of federal income, employment and gift taxes. Regulations provide that the tax treatment of split-dollar life insurance arrangements will be determined under one of two sets of rules, depending on who owns the policy.

Diversification does not guarantee a profit or protect against a loss.

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ABOUT LIFE INSURANCE STRATEGIES GROUP

Life Insurance Strategies Group

Experienced & Independent Advice

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