


## A Q&A WITH JAY JUDAS, PRIVATE PLACEMENT LIFE INSURANCE (PPLI) CONSULTANT

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Jay Judas of Life Insurance Strategies Group and Jordon Katz of JR KATZ sat down to discuss the changing landscape of Private Placement Insurance

### Summary Below—Full Interview on Page 2

#### PPLI MARKET EVOLUTION AND TRENDS

**In Brief:** The PPLI market has matured from a niche product centered on insurance-dedicated funds into a sophisticated, advisor-driven platform powered by customized SMAs and improved tax efficiency under the 2021 life insurance rule changes.

#### INVESTOR CONTROL BOUNDARIES

**In Brief:** Strict adherence to investor control rules is critical—PPLI already offers extraordinary benefits, and testing those limits risks undermining the very tax characteristics that make it so effective.

#### KEY CLIENT DECISION POINTS

**In Brief:** Clients should evaluate premium commitment, long-term objectives, and the importance of personalized investment management—balancing cost efficiency with the unique flexibility PPLI provides over traditional products.

#### TAX AND REGULATORY LANDSCAPE

**In Brief:** After initial scrutiny, legislative momentum against PPLI has faded, with lawmakers recognizing its legitimate role in wealth planning and the impracticality of separating it from retail life insurance.

#### BROADER PLANNING APPLICATIONS

**In Brief:** PPLI has become a cornerstone for multi-generational wealth transfer and portfolio diversification, transitioning taxable investments into long-term, tax-advantaged growth vehicles that align with family legacy goals.

#### ROLE OF ADVISORS

**In Brief:** The rise of SMAs has brought RIAs and family offices back into the fold, fostering deeper collaboration among insurance, investment, legal, and tax professionals to create fully integrated PPLI solutions.

#### IDFs vs. SMAs

**In Brief:** While large-scale IDFs still have merit, SMAs dominate due to their lower fees, customization, and agility—driving rapid adoption and redefining how PPLI portfolios are managed.

#### CARRIER LANDSCAPE AND SELECTION

**In Brief:** A more competitive carrier landscape now offers greater flexibility and optionality, allowing clients to match their goals with platforms that best align investment access, market capacity, and pricing.

Jordon Katz interviewed Jay Judas on the changing landscape of Private Placement Insurance (PPI). Jordon and Jay each have over 20 years in the PPI marketplace working with family offices, advisors and the UHNW. In 2000, Jordon helped construct one of the first IDFs for a proprietary PPLI solution and continues to help investment advisors implement SMA programs.

## PPLI MARKET EVOLUTION AND TRENDS

### What are the most notable trends in the PPI industry, and how has the market changed over time?

Jordon, thank you for having me participate in this discussion. It is a treat to get to speak with you about a subject I'm passionate about. Today, the PPLI industry benefits from "Great Management" and "Great Math", where, 10 years ago, the industry experienced "Okay Management" and "Okay Math". By this, I am referencing the first 25 to 30 years of PPLI adoption, where policyholders focused on investing almost entirely into insurance dedicated funds (IDFs) and before the 2021 change to the formula supporting the definition of life insurance in the Internal Revenue Code.

IDFs offer advantages in terms of administration and the ability to concentrate premium on a single strategy; for example, putting the entire premium into private credit. However, a simplistic way to look at an IDF is that the policyholders who invest into the IDF own that fund and are responsible for most, or all, of the operational expenses that are passed through.

If there is not enough premium in the IDF, then those expenses, like administration, travel, entertainment, custodian fees, and legal fees, can eat away at returns. When you combine this with the hefty fees that typically come with alternative investments making up IDFs ... the cost of PPLI being less than the tax savings grows less impressive.

Around 2015, the idea of a policyholder being able to invest in an investment account managed by an independent advisor began to take hold. Although the use of separately managed accounts (SMAs) had long been permitted for variable life insurance products,..... You can imagine how welcoming it is for a policyholder to be able to choose the investment manager for their policy – someone who may know them well and can make investment decisions best suited to the policyholder's goals. This is where we now see "Great Management" in PPLI.

We get "Great Math" from the change in the statutory definition of life insurance that the Consolidated Appropriations Act of 2021 provided. The change had the effect of allowing cash value accumulation-oriented policies to

put more than twice as much money into a policy for the same amount of required death benefit, thereby reducing policy costs. This supercharged the ability for a PPLI policy to build up cash value, so the math is far more favorable.

## KEY CLIENT DECISION POINTS

### What are the key decision points that a client needs to consider when evaluating and implementing PPI?

The first decision point is one I am asked the most, "What is the minimum amount I should commit to a PPLI policy?" I then answer using the phrase from the old ABC television series *Once Upon A Time* and respond, "Magic has a price and, for PPLI, that price is at least \$5 million in total premium paid into a policy as quickly as possible."

Carriers will accept less, including a couple that will accept 6-figure premiums. In my experience, though, \$5 million in total premium is a sum where all of the parties involved are generally happy. The policyholder has a much higher probability of achieving the results they want, and all of the service providers can charge a fee that is fair and appropriate and does not stand out as a burden.

A second decision point is the time horizon for the transaction. Typically, the PPLI policy is going to be in place for the rest of the insured's life. First, the policy needs time to overcome the premium-based insurance product costs in the first few years. Then, the accumulation phase takes hold and that can continue as long as the policy is in effect. Obviously, taking distributions from the policy can have an impact on accumulation; however, in 22 years, I have witnessed less than 10 PPLI policies ever accessed for money. Policyholders sometimes plan to take non-taxed disbursements, but in reality, they hold the policy for the life of the insured and maximize the eventual income tax-free death benefit.

The third decision point is whether or not having the selection of the investment manager and being able to have a customized investment strategy is important to the policyholder. I say this because this bespoke investment piece is what sets PPLI apart from the current generation of retail variable universal life (VUL) contracts.

**BROADER PLANNING APPLICATIONS**

**Beyond income tax mitigation, what other planning strategies are clients using PPLI for today?**

For the bulk of my clients, PPLI is used for multi-generational wealth transfer. A common client profile for my firm finds Generation 1 in their 60s or 70s buying PPLI policies on a number of family members in the next generation.

Those policies will likely be in place for upwards of 60 to 70 years and provide a significant amount of liquidity, not only for Generation 3, but quite possibly Generations 4 and 5.

If a family has wealth it intends to transfer, having it sitting in a taxable account makes no sense. As cash becomes available, the funds should be reinvested within one or more PPLI policies.

The other use of PPLI is for portfolio diversification. It is well known in the high-net-worth investment community that life insurance is an asset class that provides a decent and relatively stable tax-free return without much risk. As a result, retail life insurance is often positioned in a portfolio next to bonds and municipals and as a way to balance against high-risk investments. While PPLI does not offer performance guarantees, it certainly can make tax-inefficient investments like hedge funds and other alternative investments much more attractive since the life insurance structure removes tax erosion.

**IDFs vs. SMAs**

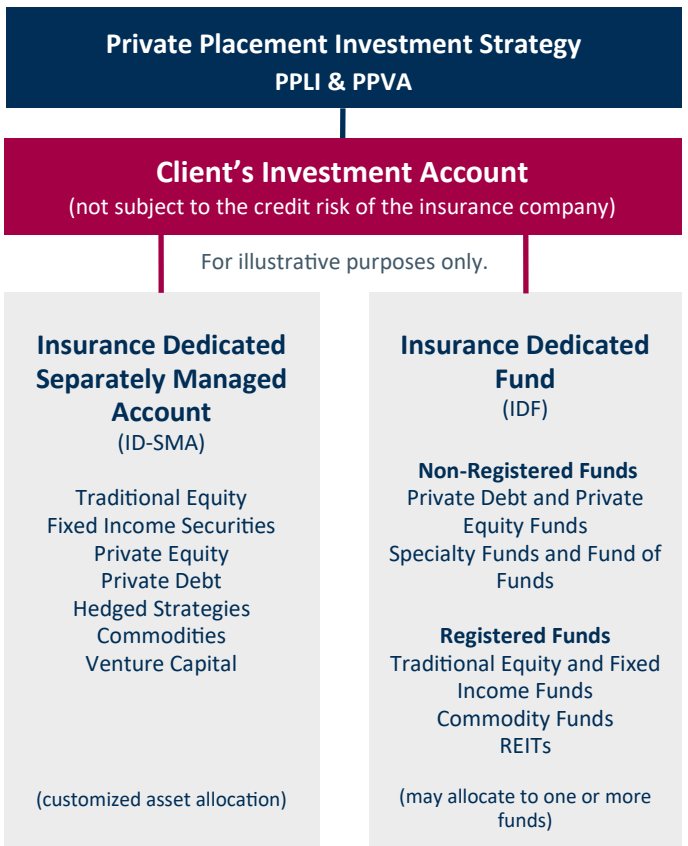
**With the growth of SMAs, are you still seeing clients utilizing IDFs? What are the current pros and cons of each structure, and what direction do you think clients will go in the future?**

I have a habit of trying to quantify choices, and I have been doing that with IDFs and SMAs for years. When considering an IDF, I like to see at least a \$100 million initial commitment from policyholders at the creation of the IDF. That is a sum that would provide instant scale to spread out the pass-through expenses I mentioned earlier. If an IDF has scale, acceptable terms when it comes to fees and expenses and the desired investment strategy, it should be considered.

I also encourage family offices and RIAs who have a large number of clients prepared to buy PPLI to build their own proprietary IDF, as it presents less of an administrative burden than managing a standalone SMA for every policy.

For most other policyholders, an SMA probably makes the most sense. Having an independent manager who can modify investment strategies as the investment environment changes can be extraordinarily valuable. In addition, the fee load for SMAs is almost always considerably lower than for IDFs and without the surprise of pass-through expenses.

Overall, for the foreseeable future, we will continue to witness hockey stick growth for SMA adoption and a continued climb in the use of IDFs.



## INVESTOR CONTROL BOUNDARIES

**What changes have you seen in terms of investor control? Do you see clients pushing the boundaries of it, and if so, how do you advise your clients?**

If you have seen me speak at conferences, you know that on two occasions my fitness watch recorded a spike in heart rate as I discussed how some foreign insurers and their U.S. policyholders are testing the boundaries of investor control.

One of the long-standing rules regarding variable life insurance contracts, including PPLI, is that there cannot be any participation by the policyholder, insured, or related parties in the selection of specific investments underlying the policy.

Most will point to the three guidelines published in the 2015 *Webber* U.S. Tax Court decision regarding an egregious violation of investor control. What people forget is that the industry already had some guidance in the form of a private letter ruling in 1983 that states there cannot be a pre-arranged plan regarding investments.

Why is this a big deal? With PPLI, you can do whatever you want, subject to a carrier and other providers permitting it, and you will be just fine unless you are audited...and then there are consequences.

If I am an IRS auditor and I notice someone has a PPLI policy, I would simply subpoena email communications between the policyholder or insured and the investment manager and look for evidence of a pre-arranged plan. The emails might reveal a conversation about issuing options on my business to put into a policy or about making specific direct investments into a local real estate project.

Depending upon the amount of money involved, the IRS can look back up to six years, and if an investor control violation is deemed to have occurred, all of the tax benefits of life insurance could be lost.

I advise my clients that traditional PPLI is a pretty good deal. To become aggressive with your PPLI strategy is like putting sugar on Frosted Flakes. PPLI can be very effective, and pushing the boundaries on investor control can lead to tax and legal issues.

**Legal Considerations for IDFs and SMAs**

*In order for the PPLI/PPVA to qualify for deferral of income taxes, the legal format of the policy must meet the formation structure specified by the IRS. In addition, the policy owner must also satisfy the diversification and investor control rules under the Internal Revenue Code.*

**Diversification**

*On an investment-by-investment basis (Stock, Bonds, ETFs, Mutual Funds, Private Funds, Hedge Funds, Real Estate, Real Assets, etc.) the IDF/SMA must have at least 5 underlying investments:*

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

**Investor Control (SMA)**

*While the policy owner selects the investment manager that manages the segregated investment account assets, all day-to-day investment decisions are made by the investment manager.*

*The policy owner determines the asset allocation and may select the asset classes to be invested in, or asset classes not to be invested in. The policy owner does not communicate with the investment manager or direct the selection of the specific account assets.*

TAX AND REGULATORY LANDSCAPE

**Since the Wyden proposed PPI legislation has stalled, is there anything new happening on the tax law side?**

At this time, there is nothing significant happening when it comes to an attack on PPLI and its benefits. Unfortunately, four years ago, PPLI was pulled into Senator Wyden’s crusade against billionaires. After investigating, Wyden discovered there had been relatively little market penetration for PPLI, and the numbers were not what he envisioned.

Next, the Senator and his committee’s staff realized it was nearly impossible to separate out PPLI from retail life insurance policies since it is the same tax laws that provide the consumer tax benefits. Wyden was a one-man band because no other legislator could see a benefit in attacking the entire life insurance industry – which one would have to do to target PPLI. That investigation fizzled and died quietly.

ROLE OF ADVISORS AND PROFESSIONAL COLLABORATION

**What role do you see RIAs, attorneys, CPAs, and the insurance advisor playing in the implementation and ongoing management/oversight of a PPI structure?**

Back in the day, PPLI insurance carriers focused the investment managers toward constructing IDFs in order to generate investment alternatives. Rarely did any of those IDFs obtain more than a couple of policyholder investors.

As a result, the investment community felt pretty burned by the experience, and many kept their distance. The popularity of SMAs changed all of that and provided a way for RIAs to work with individual clients on developing customized strategies.

An SMA underlying a PPLI policy permits an RIA to continue to charge its fee, but on assets that are no longer being reduced by taxes. Additionally, PPLI assets are “sticky”, which is appealing to the investment advisor.

As you would imagine, given the wealth transfer and estate planning connected to PPLI, there is plenty of work for attorneys and accountants. Nowadays, it is rare that I come across a client’s attorney or accountant who is skeptical of PPLI. They now call and say, “Hey, can you do a PPLI class for my partners, as I think we need to spend more time in this area?”

When it comes to the life insurance professional, they are responsible for structuring and implementation as well as quarterly service and administration. This is necessary as the carriers, no matter how specialized they are in PPLI and PPVA, are not interested nor have the administrative resources to review quarterly carrier statements, verify that policy charges and expenses are accurately assessed, and confirm the investment and life insurance reporting has been accurately combined.

To this end, the client and the insurance professional are aligned, as the majority of their compensation is a function of long-term asset accumulation.

By the way, my company will only work with life insurance professionals who have a documented succession plan in place. This is because policies written on insureds in their 20s and 30s will be around for a long time, and my clients need some comfort that there will be continued service.

Private Placement Implementation	Insurance Advisor	Investment Advisor	Legal / Tax Advisor	Insurance Carrier
Plan goals and strategy	✓	✓	✓	
Policy ownership and structure	✓	✓	✓	
Underwriting and risk management	✓			✓
Financial documentation	✓	✓	✓	
Finalize design and carrier selection	✓	✓		✓
Policy implementation, delivery, and funding	✓			✓
Policy / investment management and oversight	✓	✓		

## CARRIER LANDSCAPE AND SELECTION

**Given the PPI market is specialized and therefore requires a specialized carrier, how has the PPI carrier landscape evolved in terms of entrants, platforms, or capability shifts?**

“Optionality” is the first thought that comes to mind when considering carriers in this space. For many years, there were only a few carriers committed to the market. Setting aside what the lack of competition means in terms of pricing and flexibility, 20 years ago, a client buying PPLI might not have been able to obtain everything they needed from the existing carriers. Today, we have eight or nine carriers, and clients considering PPLI might discover that their goals can be provided by more than one carrier.

The even better news is that I estimate three or four “brand name” carriers will enter the PPLI market over the next five years. Frankly, the market will need that capacity to keep up with the increase in demand. Ideally, I want to see every PPLI carrier provide IDF and SMA capabilities.

**What are the key considerations in choosing one carrier vs another for PPI?**

Now that prospective policyholders have a choice when it comes to carriers, the best way to select a carrier is to match client objectives with carrier capabilities. If the client wants access to both U.S. and non-U.S. investments, investment managers and custodians, we can eliminate domestic carriers. Then, the amount of life insurance capacity required for the premium commitment could narrow the carrier options further. Next, a carrier’s ability to approve a chosen investment manager or a manager’s investment policy statement, as well as the carrier’s flexibility to meet fee demands, might end up pointing the client to a single carrier.

What is interesting about PPLI carriers is that, for the most part, it does not matter if the carrier is highly rated. As PPLI is a form of Variable Universal Life insurance, the policy cash value is segregated from the carrier's general account, therefore not subject to the carrier's creditors. Only the death benefit in excess of the cash value is considered exposed to general creditors. However, this exposure is mitigated as PPLI carriers are predominantly supported by the highest-rated reinsurance companies.

While I understand that consumers will gravitate toward brand names, when it comes to a PPLI carrier, clients are often surprised to discover that the carriers with the most PPLI assets under administration are not the ones with recognizable names.

J R | K A T Z <sup>SM</sup>

INSURANCE BEYOND THE NUMBERS

## ABOUT THE PARTICIPANTS



**Jay Judas**  
CEO, Life Insurance Strategies Group

Jay provides strategy, validation and structure to a wide range of individual and corporate life insurance clients. He founded Life Insurance Strategies Group to offer unbiased and pragmatic advice to enhance and simplify the distribution, sale and purchase of life insurance.

Jay is a former senior executive with carriers Crown Global Insurance Group and BF&M Insurance Group. He served as the Country Manager for Life Insurance Distribution for Sun Life’s Bermuda Branch and for Old Mutual (Bermuda) Ltd. He holds a JD from Rutgers University School of Law, a M.Sc. in Leadership from Northeastern University and a BA in Communications from the University of Northern Iowa. Jay is a long-time member of Finseca, the leading voice in financial security.

**About Life Insurance Strategies Group:** The high-net-worth life insurance space is complex, nuanced, and, let’s be honest, often opaque. At Life Insurance Strategies Group, we help cut through that complexity. We are a strategic consulting and marketing firm focused exclusively on the high-net-worth and ultra-high-net-worth life insurance market. We do not sell products or receive commissions. Instead, we serve as trusted guides to those navigating life insurance at the most sophisticated levels. We’ve sat on all sides of the table. With experience in law, product development, distribution, and marketing, we understand how this industry works, and where it breaks down.



**Jordon Katz,**  
CEO, JR KATZ

For almost 50 years, Jordon has worked with clients regarding the complex issues of building, maintaining and transferring wealth. Working with entrepreneurs and UHNW families, he facilitates the structuring, implementation and servicing of insurance anchored solutions for income tax mitigation, wealth transfer and business succession planning.

His strategic philosophy evolved from his academic background in finance and risk management from the University of Illinois, designation as a Chartered Life Underwriter from the American College, and numerous continuing professional education programs as both participant and lecturer. Membership on the Board of Directors of a public company provided Jordon a valuable experience in the transformation of an entrepreneurial environment into a publicly owned enterprise.

**About JR KATZ:** JR KATZ serves as an advisor in areas of wealth transfer, wealth preservation, succession planning, and income tax mitigation. We deliver value and “edge” through our expertise, client advocacy, and influence within the marketplace.

**50 Years** Since 1976 we have been a premier advisory firm working with high net worth individuals, family offices, and businesses

**\$5+ Billion** JR KATZ manages more than \$5B in life insurance portfolios