

Estate taxes can have a substantial impact when planning for multi-generational liquidity. By utilizing Private Placement Life Insurance (PPLI) as part of a wealth transfer strategy, you can achieve tax-advantaged growth, allowing accumulated policy values to pass to heirs tax-free.

PPLI can maximize wealth transfer, helping to ensure long-term financial goals for future generations.

BACKGROUND

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, Separately Managed Account (SMA) 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 the SMA.

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 modeling 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.

Comparison	Taxable Portfolio	PPLI
Tax Deferred Growth		✓
Income Tax-Free Death Benefit		✓
Non-Taxable Disbursements ⁽¹⁾		✓
Potentially Estate Tax-Free	✓	✓
No K-1s		✓
Asset Reallocation without tax		✓
Asset Protection by State Statute		✓

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(1) Assumes withdrawals to basis, switching to non-taxable policy loans. Withdrawals in excess of basis are taxed as gain. Interest accrues on policy loans and outstanding loans reduce any death benefit payments. Securities and investment advisory services offered through Integrity Alliance, LLC, Member SIPC. Integrity Wealth is a marketing name for Integrity Alliance, LLC. Integrity Wealth is not affiliated with JR KATZ and does not provide tax or legal advice or services. Representatives may transact business, which includes offering products and services and/or responding to inquiries, only in state(s) in which they are properly registered and/or licensed. ID1134