The Economic Advantages of a Private Placement Investment Strategy



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Reducing the Impact of Income Taxes for High Net Worth Clients

The impact of income taxes is significant and will drastically reduce wealth accumulation as well as the amount of wealth that can be transferred to subsequent generations of family members or charitable endeavors.

Private Placement Insurance can be an ideal strategy for wealthy families who want to maximize the total return of their investments by deferring and potentially eliminating the drag of income taxes.

Reducing or eliminating income taxes becomes increasingly compelling as gains are reinvested and compounded over time. The Private Placement structure provides a "shield" for a client's investments while also acting as a hedge against future tax increases.

There are two types of Private Placement Strategies—Private Placement Life Insurance (PPLI) and Private Placement Variable Annuities (PPVA).

Traditional Taxable Portfolio	**Pay all Income Taxes Associated with Realized Gains**
Private Placement Life Insurance (PPLI)	**Potentially Eliminate Income Taxes and Receive an Equivalent to Step-Up in Basis at Death**
Private Placement Variable Annuity (PPVA)	**Defer Income Taxes During Life - Often Used in Charitable Planning**

Private Placement Insurance allows our clients to protect their legacy by potentially reducing the burden of income taxes - so more wealth can be transferred to subsequent generations and for philanthropy.

The Characteristics of PPLI and PPVA Compared to a Traditional Taxable Portfolio

Private Placement Life Insurance (PPLI)

PPLI is typically used in conjunction with an irrevocable trust for multi-generational planning. PPLI allows investors to defer, and potentially eliminate, income taxes. If owned by an irrevocable trust, the PPLI benefit will also be estate tax-free.

The trustee can allow funds to accumulate without a taxable event or the trustee can elect to make non-taxable distributions to trust beneficiaries. Ultimately, the trust receives an income tax-free death benefit which effectively results in a step-up in basis for PPLI assets.

Private Placement Variable Annuity (PPVA)

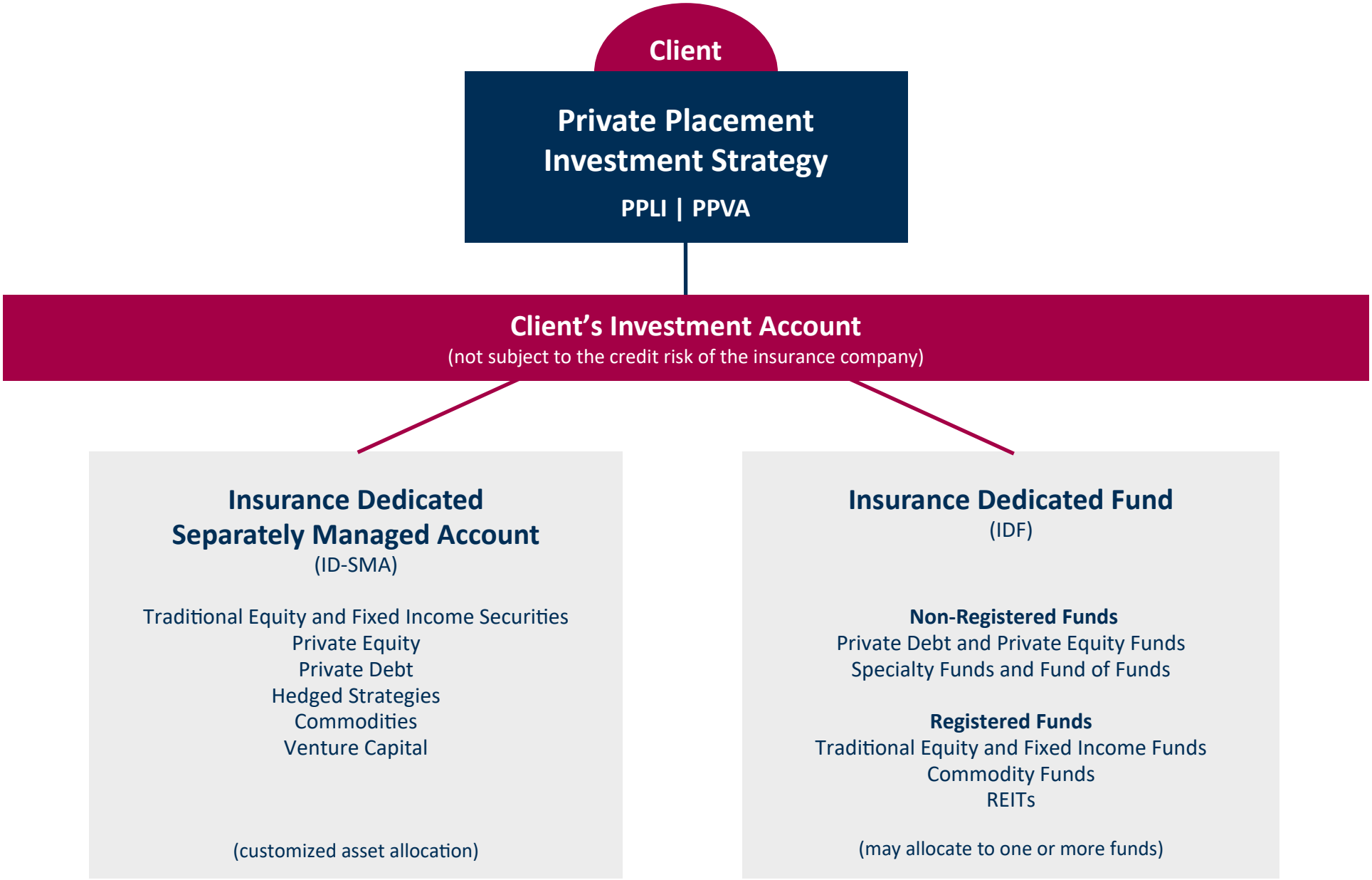
PPVA investments grow income tax deferred.
PPVAs are often used by wealthy families and individuals who are charitably inclined.

The policy owner retains access to the PPVA funds during their lifetime and designates a charity or foundation as revocable beneficiary. At death, the total value of the PPVA, including gains, pass to the non-taxable entity and the policy owner receives an estate tax deduction for the full amount.

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

(1) See Appendix for disclosure.

The Structure of a Private Placement Strategy

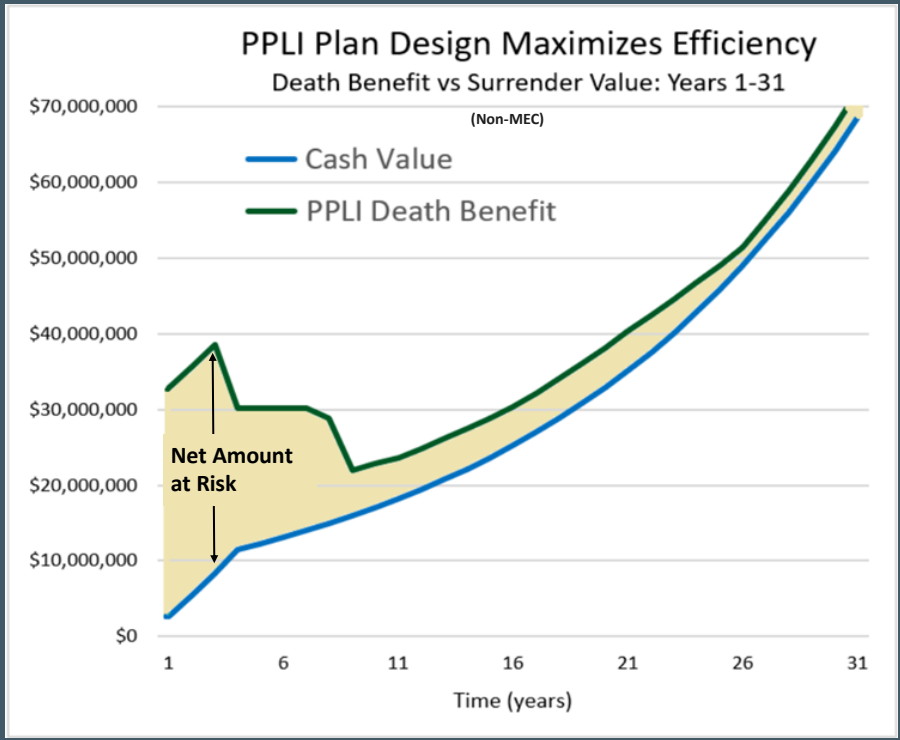


For illustrative purposes only.

Key Policy Factors

Plan Design

A properly structured PPLI investment vehicle is typically designed with the minimum death benefit allowed by the IRS (for non-MEC). In order to minimize the investment drag from ongoing cost of insurance charges, the death benefit will be reduced when the funding ceases. These proactive design decisions lower the net amount at risk for the insurance company and maximize the net return of the underlying investments.



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 rules under the Internal Revenue Code and the investment control doctrine.

Diversification

The IDF or ID-SMA must have at least 5 underlying investments:

- No one investment constitutes more than 55% of gross asset value
- No two investments constitute more than 70% of gross asset value
- No three investments constitute more than 80% of gross asset value
- No four investments constitute more than 90% of gross asset value

Investor Control

- Policyowner selects the investment manager that manages the segregated investment account assets.
- Policyowner determines asset allocation and acceptable asset classes among the available IDFs or ID-SMAs.
- Day-to-day investment decisions are made by the investment manager who directs the selection of IDF or ID-SMA assets.

Private Placement Life Insurance (PPLI)

Potentially Eliminate Income and Estate Taxes

Key Benefits of PPLI

- Investment options can be customized and returns accumulate on a tax-deferred basis
- Assets may be reallocated without tax
- Funds can be accessed without a taxable event (1)
- Insurance proceeds (death benefit), including any accumulated investment gains, are income tax-free
- All costs are fully transparent
- Assets are not subject to life insurance company credit risk

Frequently Asked Questions

Who is the appropriate client for PPLI?

Experience suggests a practical threshold of $20M of liquid assets in order to fully utilize the income tax, estate tax, and asset protection attributes unique to PPLI.

What are the investments?

The policy owner can allocate (and reallocate) premium dollars into a variety of registered and non-registered Insurance Dedicated Funds (IDF). Policy owners can also create Insurance Dedicated Separately Managed Accounts (ID-SMA) that can be customized subject to certain restrictions under the "investor control doctrine," according to the policy owner's investment criteria.

How is PPLI designed? (see graph on page 4)

PPLI is an investment strategy using life insurance. Typically, PPLI policies are designed with the minimum amount of death benefit allowed for non-MEC policies by IRS guidelines. This structure reduces insurance fees and maximizes investment growth.

Do insurance fees impact the strategy?

The calculation is simple—are the insurance fees less than the taxes that would otherwise be payable for the same underlying investments?

(1) See Appendix for disclosure.

PPLI Case Study

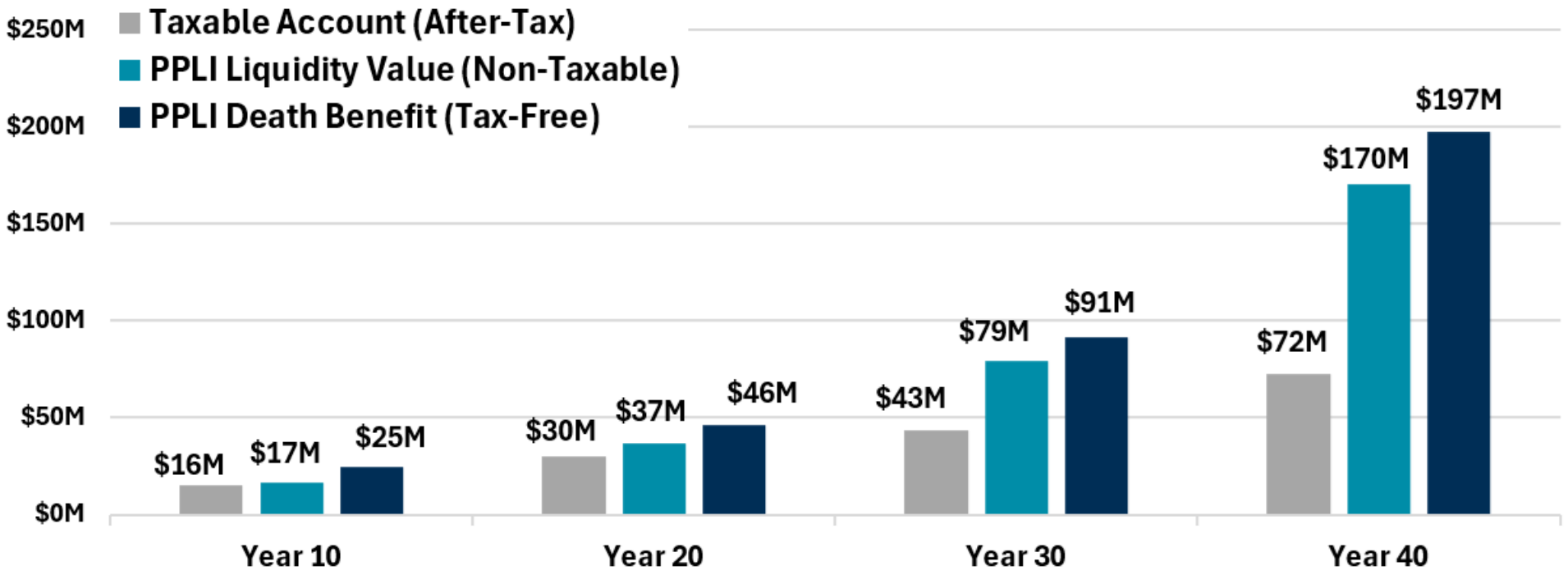
CLIENT: Male, Age 50, Preferred Risk Class

GOAL: Transfer maximum wealth to heirs

ASSUMPTIONS:
- $2.5M/year funding for 4 years
- Net rate of return: 8.5%
- Tax rate (all realized gains STCG): 38%

The Result … Over a 40 year period, PPLI generates $170M non-taxable liquidity, or a $197M tax-free death benefit, which is substantially greater than the same investment made in a taxable account.

- *The $197M death benefit is an 8.04% tax-free annualized return, which is 94.5% efficient relative to the assumed 8.5% net investment return.*
- *The $170M liquidity value is a 7.63% non-taxable annualized return, which is 89.8% efficient relative to the assumed 8.5% net investment return, and does not include the additional residual tax-free death benefit.*



Hypothetical example for illustrative purposes only. See complete illustrations for details. Withdrawals and changes in assumptions will change the results of this comparison. Actual results will vary and there can be no assurance that investors will receive the results shown above. See Appendix for disclosure.

Private Placement Variable Annuities (PPVA)

Maximize Charitable Giving

Key Benefits of PPVA

- Growth is tax deferred
- The policy owner has full access to the funds during their lifetime. However, distributions are subject to ordinary income tax and, if made prior to age 59 1/2, also subject to an early withdrawal tax of 10%
- No insurance component and investment size essentially unlimited
- A charitable beneficiary will receive the entire account value free of income tax
- The policy owner will receive an estate tax deduction for the full value of the PPVA if the beneficiary is a charitable entity
- No surrender charges

Frequently Asked Questions

How is PPVA funded?

PPVA can be funded with a single premium or a series of premiums.

Who is the appropriate client for PPVA?

Practically, the threshold investment is $1M for clients wishing to defer taxes on their investments and establish charitable legacies in a tax-efficient manner.

Can the beneficiary be changed?

The policy owner has the right to change the beneficiary at any time.

What are the investments?

The policy owner can allocate (and reallocate) premium dollars into a variety of registered and non-registered Insurance Dedicated Funds (IDF). Policy owners can also create Insurance Dedicated Separately Managed Accounts (ID-SMA) that can be customized subject to certain restrictions under the "investor control doctrine," according to the policy owner's investment criteria.

What are the underwriting requirements?

Annuities require no medical or financial underwriting.

PPVA Case Study

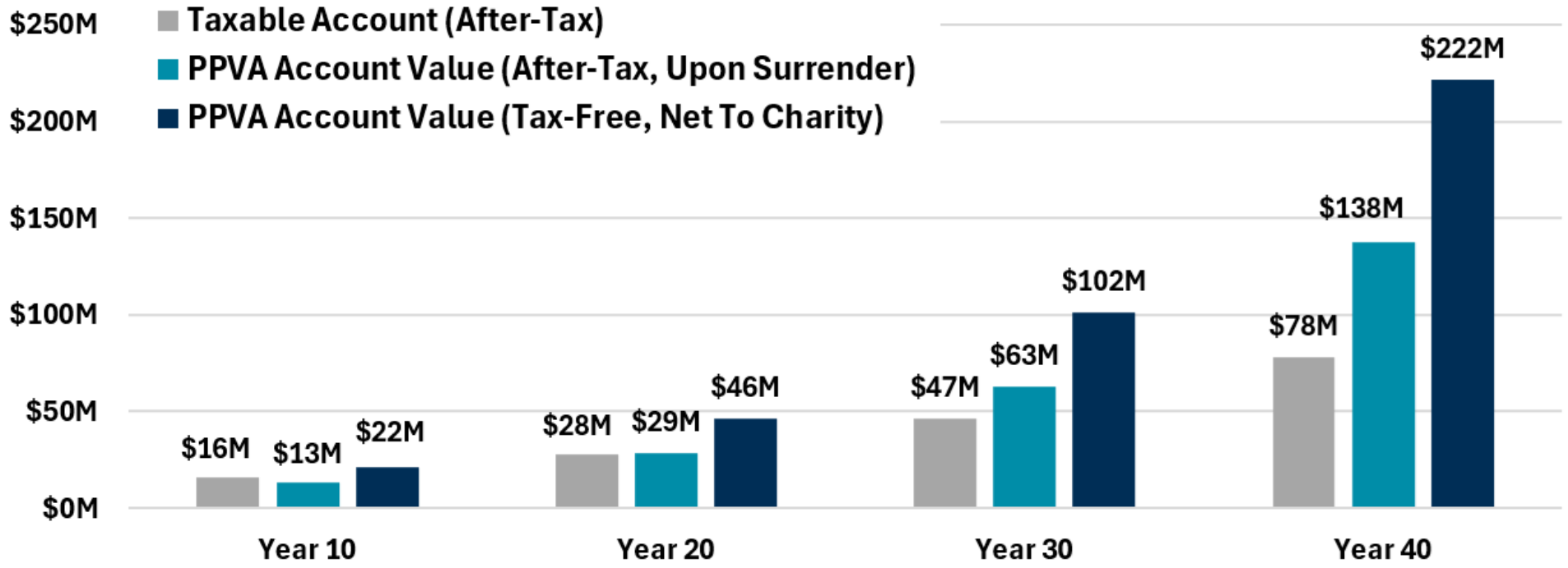
CLIENT: Male, Age 50, Preferred Risk Class

GOAL: **Maximize charitable contribution**

ASSUMPTIONS:
- $10M funding in year 1
- Net rate of return: 8.5%
- Tax rate (all realized gains STCG): 38%
- Account value non-taxable at death when charitable beneficiary

The Result … Over a 40 year period, PPVA generates $138M after-tax account surrender value or a $222M tax-free net to charitable beneficiary, which is substantially greater than the same investment made in a taxable account.

- *The $222M tax-free net to charitable beneficiary is 8.06% annualized return, which is 94.8% efficient relative to the assumed 8.5% net investment return.*
- *The $138M after-tax surrender value is a 6.78% annualized return, which is 79.7% efficient relative to the assumed 8.5% net investment return.*



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ABOUT JR | KATZ

JR KATZ provides insurance anchored solutions to specific client planning objectives. Our solutions are constructed through a meticulous process designed to deliver true alpha to our clients.

In order to build and optimize a client's life insurance portfolio, it is essential to understand both short-term and long-term objectives. This process necessitates collaboration with our clients and their key advisors.

We help our clients understand the unique financial characteristics of life insurance and how this distinct asset class enhances other investment and estate planning strategies.

Our process is defined by transparency, confidentiality, objectivity and creativity. Through our lens of independence, we are able to evaluate and benchmark solutions, products and providers.

Because of our singular focus on life insurance, we have access and influence with the insurance companies. This allows us to produce exceptional results for our clients.

After the solution is implemented, our management process is designed to deliver the expected outcome by continually monitoring product performance and changing client circumstances.

YOUR LEGACY | OUR COMMITMENT

JR KATZ serves as a key advisor in the areas of wealth transfer, wealth preservation, succession planning, income-tax mitigation, and risk management. We deliver value and "edge" through our experience, client advocacy and influence within the insurance marketplace.

Our Mission

To help our clients preserve, grow and transfer wealth by constructing an optimized portfolio of insurance anchored solutions

Client commitment, thought leadership and world class partnerships have distinguished JR KATZ since 1976

50+ Years

$7 Billion

JR KATZ manages more than $7B in life insurance portfolios
(as of Dec 2025)

Appendix / Disclosures

Private Placement Variable Life Insurance and Private Placement Variable Annuities are long-term investments and may not be suitable for all investors. The policy's value will fluctuate based upon the performance of the underlying funds. It is possible to lose principal.

This illustration is considered a supplemental illustration and is not valid without a complete basic illustration. Values shown are based on the assumed investment return; actual values will be determined by actual performance and volatility. Guaranteed elements are shown in the basic illustration, along with important information regarding the difference between guaranteed and nonguaranteed elements of the policy.

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This material contains certain performance and statistical information, which has been obtained from sources believed to be reliable, but its accuracy or completeness cannot be guaranteed. The information provided here is designed solely to illustrate the tax impact of certain hypothetical private placement strategies. There will be no public offering of interests in the program. No offer to sell (or solicitation of an offer to buy) will be made in any jurisdiction in which such offer of solicitation would be unlawful. Interests will be offered only to investors who are "Accredited Investors," as defined in Regulation D under the Securities Act of 1933, as amended, and "Qualified Purchasers," as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended. No offer or solicitation of an offer to purchase interests in the program can be or will be made except pursuant to an offering memorandum prepared specifically for that purpose.

It is possible to lose money by investing in securities. 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) and Private Placement Variable Annuities (PPVAs) are exempt funds and as such are 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. While hedge funds may appear similar to mutual funds, they are not necessarily subject to the same regulatory requirements as mutual funds.

Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets. Past performance is no guarantee of future results. Actual results will vary. Guarantees are based on the claims-paying ability 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. A financial professional can provide you with costs, complete details, and a private offering memorandum.

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. 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.

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Endnotes

(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.

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