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PPLI Roadmap for Advisors

How to navigate through the four key areas to PPLI success.

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Private placement life insurance (PPLI) can be complex, and implementing a portfolio can be a cross-disciplinary process of combining life insurance product expertise with income tax and estate tax planning, which can be just as daunting as it sounds. A well-structured program, however, can deliver excellent financial results with simplicity and efficiency. One of the critical roles of effective brokers is to work with the client and professional advisors who manage the project plan in a white glove manner.

When we first meet with families on a potential PPLI project, we often find misunderstandings of the structure based on past experiences with retail life insurance products, or on previous interactions with past generations of PPLI products that had higher pricing and less robust investment options. Families might have such questions as:

- How does PPLI fit into our investment analyses?"
- "What about our wealth transfer and tax planning analyses?"
- "Who needs to take life insurance medical exams?"

As a result, it can take time for some families to wrap their heads around the dynamic, institutionally-priced nature of the current-generation PPLI products. Many are also initially skeptical because of the "too good to be true" nature of PPLI.

This article provides a roadmap for family offices and advisors who are unclear or confused about what happens within a PPLI project.

The Four Key Areas of Focus

Any PPLI project has four important components:

1. Diligencing and choosing the insurance broker
2. Selecting the family member or members to be insured
3. Determining how the underlying values will be allocated, and sizing the investment commitment into the structure
4. Deciding what entity will own the PPLI coverage

Let's break these down one by one.

1. Diligencing and choosing the insurance broker

Once a family decides that PPLI could make sense, the next step is to engage an insurance brokerage firm to manage the process. Sophisticated families tend to be very experienced in due diligence and need little advice here, but key criteria to consider include:

- Independence: Does the firm have access to all the major insurance carriers in this space, including but not limited to, Prudential, Pacific Life, Lombard, Zurich, Crown Global, and John Hancock?
- Experience and expertise: What is the firm's background in structuring PPLI products to optimize the economics and flexibility?
- The ability to secure the lowest cost of insurance pricing through a managed auction process coupled with the ability to syndicate capacity among primary insurance companies as well as reinsurers (the ability to syndicate large amounts of insurance capacity is often a key factor in products moving the needle for large families)
- If the brokerage firm offers a "white glove" approach to the implementation services

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- What administrative services and reporting the broker provides after implementation (specifically, the ability to provide aggregated reporting across multiple insurance companies)
- How many PPLI policies are currently under administration and what the total assets under administration are (to verify the broker has ample experience and scale in the space)
- References of clients with similar circumstances to the family considering PPLI

2. Selecting the family member or members to be insured

This is a more nuanced discussion and can sometimes stall PPLI projects. To begin with, an eligible insured is anyone in the family who has insurable interest, which most carriers will consider nearly any trust grantor or beneficiary. Most commonly, we see the insured being a healthy individual age 35 to 65. Because of the PPLI rules that govern the amount of insurance required, the economics of insuring some between age 35 and 65 is basically the same. The biggest difference is that the older the individual, the greater the amount of investment that can be made for every dollar of insurance acquired. So, for larger transactions in general, having some individuals on the older side of the range is helpful. There is only a finite amount of insurance capacity available on any one individual's life, and that amount needs to be justified by net worth and income.

The insured individual does not need to be in perfect health, but someone with a relatively clean bill of health will optimize the pricing and make the underwriting process go as smoothly as possible. Open medical questions (such as a doctor requesting additional tests in six months) often postpone bids, so trying to find someone with a relatively standard medical file is best. Depending on the size and scale of the program, a family may need to insure multiple family members. In some families we look to insure multiple generations—perhaps a 60-something parent and a 30-something child.

Finding a family member (or two) willing to take an insurance physical is a critical step to moving the project forward. From there, the insurance broker can gather medical records, obtain quotes from the market through a managed pricing auction, syndicate capacity, and come back to the family with the deposit capacity and pricing available in the market.

3. Determining how the underlying values will be allocated, and sizing the investment commitment into the structure

At this point in the process, the family and its advisors need to begin considering how much to allocate in the first policy year (e.g. $5 million or $10 million) as well as a range of cumulative deposit capacity they would like to enable over the next two to 10 years. With this information, the broker can finalize a portfolio recommendation.

Often intertwined in this decision is how the family investment advisors want the first year premium being invested. They should also have a general sense of the type of asset classes to which they would like to allocate through their PPLI portfolio over time.

The path of least resistance, and most common, is to choose off the robust and ever-growing roster of compliant co-mingled funds already available (now 200-non registered and 400 registered funds). Some larger families will look to seed new managers entering the market with co-mingled vehicles, or they will hire an investment advisor to run a fully compliant, bespoke investment strategy with complete discretion. These approaches are not mutually exclusive, and some families will deploy a strategy that combines all of these elements. Regardless of the investment approach, the underlying investment vehicles must meet the regulatory requirements laid out for insurance investments.

At decision-time, families tend to begin the program with a size that is impactful, but not so paralyzing they can't move forward—and this amount varies widely.

4. Deciding what entity will own the PPLI coverage

Most large families have a number of trusts, partnerships, and other entities created through various estate planning cycles over a period of many years. Once pricing has been finalized, with a sense of sizing and potential allocations, the family will generally engage outside counsel to collaborate on the optimal ownership entity. Ideally, this is an existing entity, but often advisors use sub-entities (usually in states with more favorable rules for insurance, such as South Dakota or Delaware). Families tend to own PPLI in off-balance sheet trusts. A typical engagement we might see would have PPLI owned on a 50-something year-old family member inside of Generation Skipping Trust. Any entity formation can happen at the same time as the final steps of the process. One nuance to keep in mind is that because of the unregistered nature of PPLI, the ownership entity must pass Qualified Purchaser and Accredited Investor rules.

In conjunction with these four steps, an effective broker is quarterbacking the timing and implementation of the PPLI structure. This includes working with the professional advisors to finalize the ownership entity; preparing all the necessary paperwork for the recommended portfolio, coordinating the funding and timing of the first-year premium; and completing the necessary allocation forms. It all adds up to a smooth process for ultra-high-net-worth families.

Recognize that no two families are exactly alike. No place do we see this more than in the process of family

governance and decision making. Some families have an investment committee, some use outside consultants, other principals are very hands on themselves. Regardless, the moving pieces of a PPLI project stay rather constant and moving the project forward can be made easier if everyone works as a team.

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