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 during the life of the client as well as the amount of wealth that can be transferred to subsequent generations of family members or charitable endeavors.

Private Placement Insurance is an ideal strategy for high net worth 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 "tax wrapper" 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)	**Eliminate income taxes and receive an equivalent step up in basis at death**
Private Placement Variable Annuity (PPVA)	**Defer income taxes during life - often used in charitable planning**

Private Placement is a means to create a more efficient investment vehicle by deferring or eliminating income taxes. This strategy allows our clients to protect their legacy by 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, all income taxes.

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

Private Placement Variable Annuity (PPVA)

PPVA Investments grow income tax deferred.
PPVAs are often used by high net worth families and individuals who are charitably inclined.

The charity or foundation is the revocable beneficiary of the contract and the policy owner has full access to the PPVA funds during their lifetime. 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.

PPLI and PPVA allow clients to invest in a variety of asset classes and compound their wealth more efficiently compared to investing in those same assets in a traditional taxable environment.

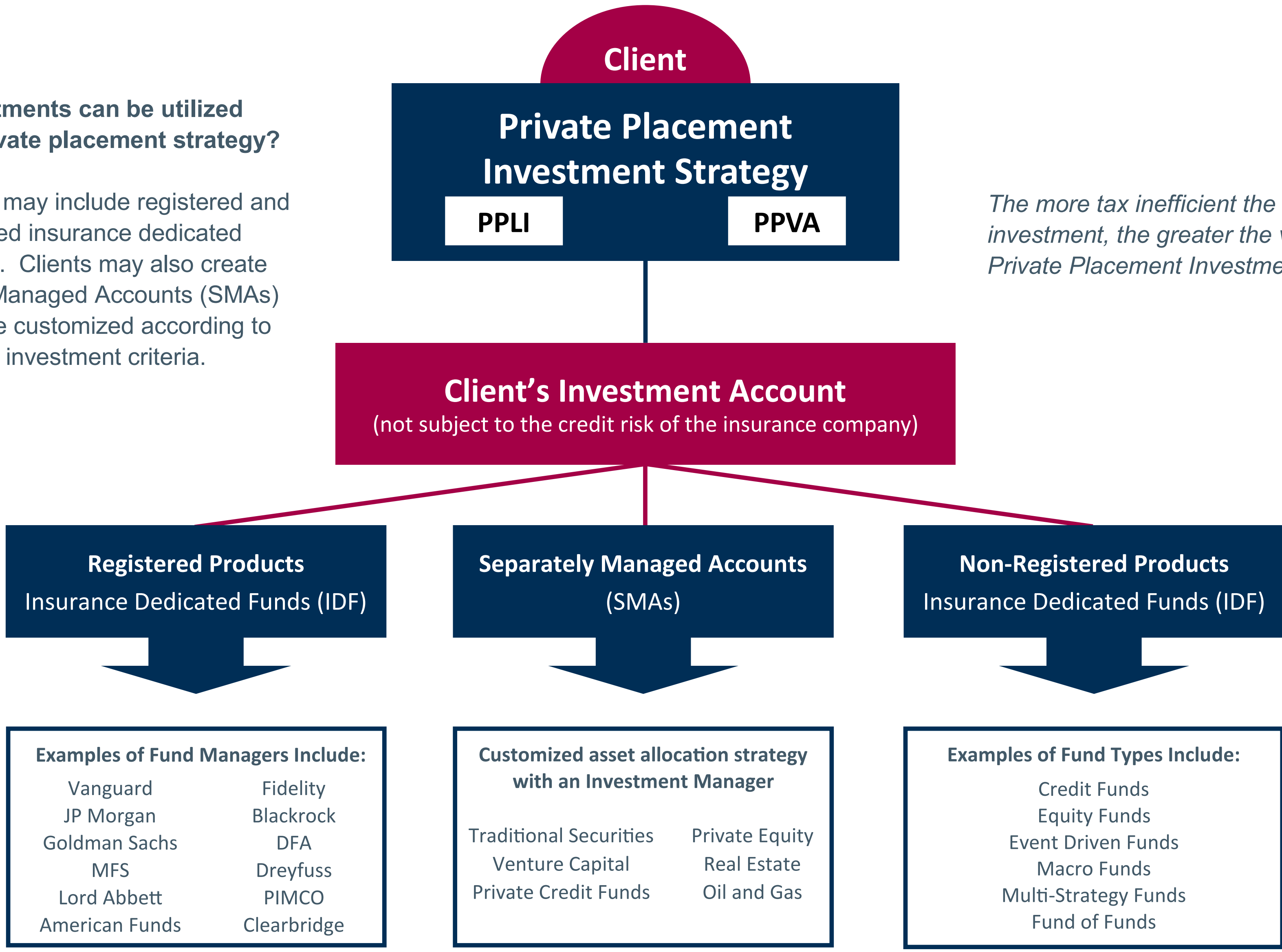
Comparison	Taxable Portfolio	PPLI	PPVA
Tax Deferred Growth		✓	✓
Income Tax-Free Death Benefit		✓	
Non-Taxable Disbursements		✓	
Potentially Estate Tax-Free	✓	✓	
No K-1s		✓	✓
Asset Reallocation without tax		✓	✓
Asset Protection by State Statute		✓	✓

The Structure of a Private Placement Strategy

What investments can be utilized within a private placement strategy?

Investments may include registered and non-registered insurance dedicated funds (IDFs). Clients may also create Separately Managed Accounts (SMAs) which can be customized according to each client's investment criteria.

The more tax inefficient the underlying investment, the greater the value of the Private Placement Investment Strategy.



Private Placement Life Insurance (PPLI) - Investing in a Tax-Free Environment

What are the 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
- 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

Who is the appropriate client for PPLI?

In order to fully utilize the income tax, estate tax, and asset protection attributes unique to PPLI, we recommend that clients considering PPLI have a minimum of $20M of liquid assets.

What are the investments?

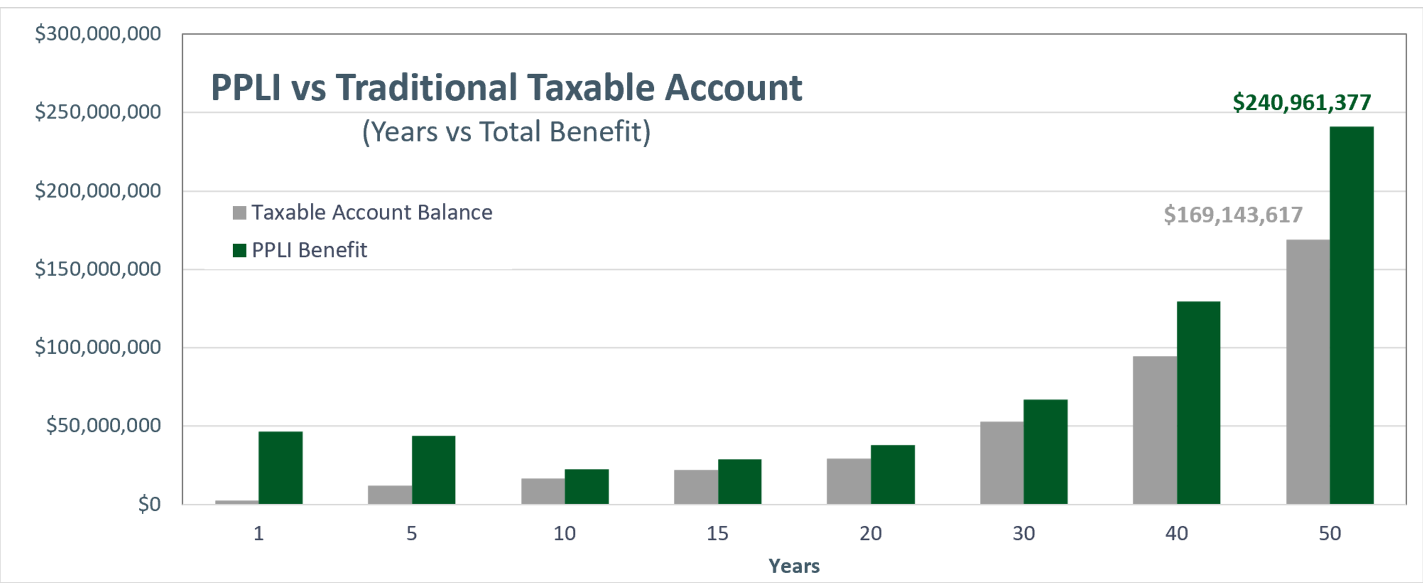
The policy owner can allocate (and reallocate) premium dollars into a variety of registered and non-registered vehicles known as Insurance Dedicated Funds. Policy owners can also create separately managed accounts that can be customized by the policy owner's investment criteria.

How is PPLI designed?

PPLI is an investment strategy. Typically, PPLI policies are designed with the minimum amount of death benefit allowed 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?



PPLI has an additional $71M of value in year 50

- 50 year old male
- Funding of $2.5M per annum for 4 years
- Effective tax rate (20%)
- Net rate of return (7.5%)

See following page for complete details

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PPLI Case Study

CLIENT: Male, Age 50, Preferred Risk Class

GOAL: Transfer maximum wealth to heirs

ASSUMPTIONS:
- $2.5M/year funding for 4 years
- Varying effective tax rates
- Varying net rates of return
- Performance @ age 100

	Example 1	Example 2	Example 3	Example 4
Effective Tax Rate (%)	20%	20%	35%	35%
Net Rate of Return (%)	7.5%	9.0%	7.5%	9.0%
Traditional Taxable Account Net To Heirs @ age 100	$ 169,143,617	$ 292,252,524	$ 100,740,827	$ 157,900,594
Private Placement (PPLI) Net To Heirs @ age 100	$ 240,961,377	$ 474,818,446	$ 240,961,377	$ 474,818,446
Private Placement (PPLI) Advantage ($)	$ 71,817,760	$ 182,565,922	$ 140,220,550	$ 316,917,852
Advantage (%)	42%	62%	139%	201%

Detailed Review of Results for Example 1: 20% Effective Tax Rate and 7.5% Net Rate of Return

			Standard Taxable Account				PPLI Policy			PPLI Advantage
Year	Age End of Year	Annual Funding	Balance Beginning of Year	Annual Gain	Tax on Gain	Balance End of Year	Cash Value End of Year	PPLI Death Benefit End of Year	Tax-Free Death Benefit IRR	Benefit Differential
1	51	$2,500,000	$ 2,500,000	$ 187,500	$ (37,500)	$ 2,650,000	$ 2,597,752	$ 46,667,752	1766.71%	$ 44,017,752
2	52	$2,500,000	$ 5,150,000	$ 386,250	$ (77,250)	$ 5,459,000	$ 5,361,050	$ 49,431,050	297.46%	$ 43,972,050
3	53	$2,500,000	$ 7,959,000	$ 596,925	$ (119,385)	$ 8,436,540	$ 8,301,041	$ 52,371,041	135.44%	$ 43,934,501
4	54	$2,500,000	$ 10,936,540	$ 820,241	$ (164,048)	$ 11,592,732	$ 11,463,174	$ 44,070,000	69.30%	$ 32,477,268
5	55		$ 11,592,732	$ 869,455	$ (173,891)	$ 12,288,296	$ 12,210,023	$ 44,070,000	48.63%	$ 31,781,704
10	60		$ 15,513,691	$ 1,163,527	$ (232,705)	$ 16,444,512	$ 16,890,261	$ 22,632,949	10.01%	$ 6,188,437
15	65		$ 20,760,818	$ 1,557,061	$ (311,412)	$ 22,006,467	$ 23,522,468	$ 28,697,411	8.09%	$ 6,690,944
20	70		$ 27,782,658	$ 2,083,699	$ (416,740)	$ 29,449,617	$ 32,700,900	$ 37,933,044	7.45%	$ 8,483,427
30	80		$ 49,754,509	$ 3,731,588	$ (746,318)	$ 52,739,779	$ 63,764,165	$ 66,952,374	6.89%	$ 14,212,595
40	90		$ 89,102,747	$ 6,682,706	$ (1,336,541)	$ 94,448,912	$ 123,333,332	$ 129,499,998	6.87%	$ 35,051,086
50	100		$ 159,569,450	$ 11,967,709	$ (2,393,542)	$ 169,143,617	$ 240,961,377	$ 240,961,377	6.78%	$ 71,817,760

Private Placement Variable Annuities (PPVA) - Maximize Charitable Giving

What are the Key Benefits of PPVA?

- Annuities require no medical or financial underwriting
- The policy owner has full access to the funds during their lifetime
- Growth is tax deferred
- 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

How is PPVA funded?

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

Who is the appropriate client for PPVA?

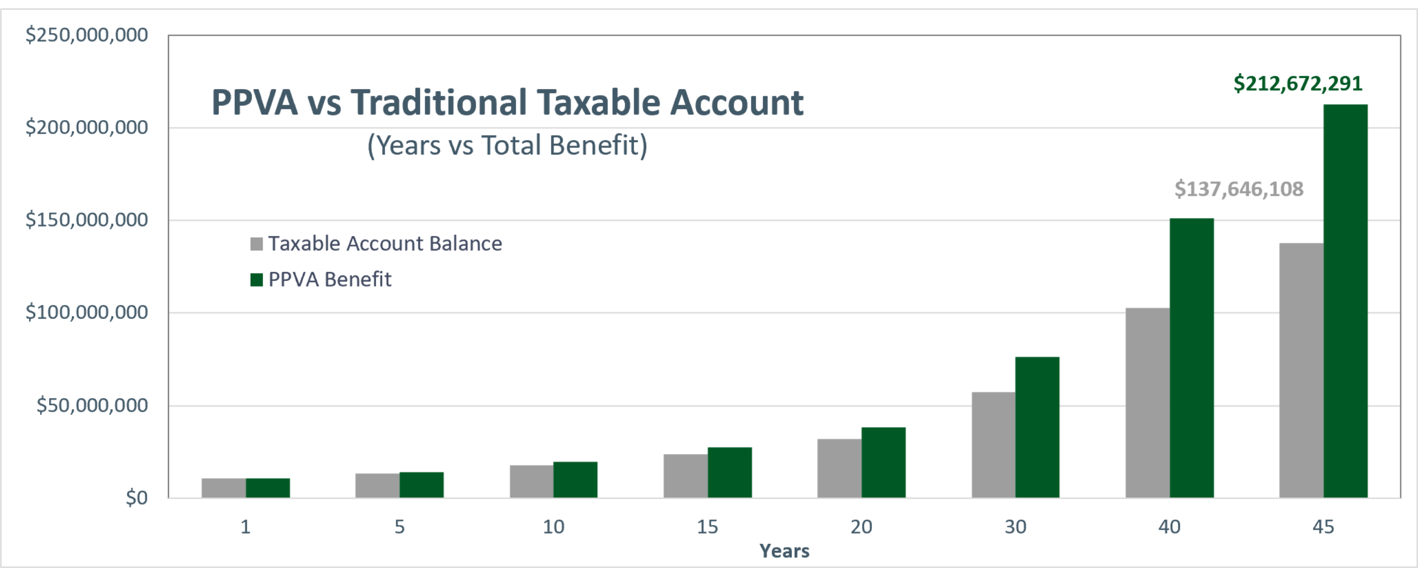
Clients wishing to defer taxes on their investments and establish charitable legacies in a tax-efficient manner. Typically, the minimum investment is $1M.

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/reallocate premium dollars into a variety of registered and non-registered vehicles known as Insurance Dedicated Funds. Policy owners can also create separately managed accounts that can be customized by the policy owner's investment criteria.



PPVA has an additional $75M of value in year 45

- 50 year old male
- Funding of $10M for 1 year
- Effective tax rate (20%)
- Net rate of return (7.5%)

See following page for complete details

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PPVA Case Study

CLIENT: Male, Age 50, Preferred Risk Class

GOAL: Maximize charitable contribution

ASSUMPTIONS:
- $10M funding in year 1
- Varying effective tax rates
- Varying net rates of return
- Performance @ age 95

	Example 1	Example 2	Example 3	Example 4
Effective Tax Rate (%)	20%	20%	35%	35%
Net Rate of Return (%)	7.5%	9.0%	7.5%	9.0%
Traditional Taxable Account Net To Charity @ age 95	$ 137,646,108	$ 228,436,418	$ 85,160,622	$ 129,148,333
Private Placement (PPVA) Net To Charity @ age 95	$ 212,672,291	$ 398,389,728	$ 212,672,291	$ 398,389,728
Private Placement (PPVA) Advantage ($)	$ 75,026,183	$ 169,953,310	$ 127,511,669	$ 269,241,395
Advantage (%)	55%	74%	150%	208%

Detailed Review of Results for Example 1: 20% Effective Tax Rate and 7.5% Net Rate of Return

			Standard Taxable Account				PPVA Policy		PPVA Advantage
Year	Age End of Year	Annual Funding	Balance Beginning of Year	Annual Gain	Tax on Gain	Balance End of Year	Cash Value End of Year	IRR%	Benefit Differential
1	51	$10,000,000	$ 10,000,000	$ 750,000	$ (150,000)	$ 10,600,000	$ 10,697,310	6.97%	$ 97,310
2	52		$ 10,600,000	$ 795,000	$ (159,000)	$ 11,236,000	$ 11,443,245	6.97%	$ 207,245
3	53		$ 11,236,000	$ 842,700	$ (168,540)	$ 11,910,160	$ 12,241,194	6.97%	$ 331,034
4	54		$ 11,910,160	$ 893,262	$ (178,652)	$ 12,624,770	$ 13,094,785	6.97%	$ 470,015
5	55		$ 12,624,770	$ 946,858	$ (189,372)	$ 13,382,256	$ 14,007,897	6.97%	$ 625,641
10	60		$ 16,894,790	$ 1,267,109	$ (253,422)	$ 17,908,477	$ 19,622,119	6.97%	$ 1,713,642
15	65		$ 22,609,040	$ 1,695,678	$ (339,136)	$ 23,965,582	$ 27,486,462	6.97%	$ 3,520,880
20	70		$ 30,255,995	$ 2,269,200	$ (453,840)	$ 32,071,355	$ 38,502,754	6.97%	$ 6,431,399
30	80		$ 54,183,879	$ 4,063,791	$ (812,758)	$ 57,434,912	$ 76,240,774	7.01%	$ 18,805,862
40	90		$ 97,035,075	$ 7,277,631	$ (1,455,526)	$ 102,857,179	$ 151,078,630	7.02%	$ 48,221,451
45	95		$ 129,854,819	$ 9,739,111	$ (1,947,822)	$ 137,646,108	$ 212,672,291	7.03%	$ 75,026,183

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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 a 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 enables 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 and risk management. We deliver value and "edge" through our expertise, 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

40+ Years

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

$5 Billion

JR KATZ is a premier Midwest advisory firm, managing more than $5B in life insurance portfolios

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