

What are the fees typically associated with PPLI?

There are three primary insurance-related fees associated with PPLI products: the premium load, the “mortality and expense” charge, and the cost of insurance charge. The premium load will vary, but should typically be approximately 1% of premium, and the combination of the mortality and expense charge and the cost of insurance charge should average, over the life of the contract, less than 1% per year. Asset management fees will depend on the asset manager(s) selected to manage the insurance portfolio and will be charged at the fund level.

What is involved in the acquisition process?

Acquiring PPLI requires that the prospective insured undergo full medical and financial underwriting, and in the case of an offshore purchase, this is done offshore, typically in Bermuda where the major carriers do business. In addition, because a policy issued by an offshore carrier should have a foreign legal owner, it is necessary for the investor to establish a foreign trust or company to own the policy. Moreover, there are several important insurance design elements that must be carefully addressed in the acquisition process.

What will the policy beneficiaries receive when the insured dies?

The income tax-free death benefit consists of the cash value of the policy (the premiums paid, plus growth, less account charges and outstanding loans) plus the “risk” or pure insurance element. The insurance element generally will be minimized to the extent possible in the design process, and its amount will be determined with reference to U.S. tax rules. Insurance risk coverage in the offshore market is provided by the same reinsurance companies that reinsure the domestic life insurance market.

Which insurance carriers offer PPLI?

There are a number of high quality carriers in both the domestic and offshore markets. Some of the offshore carriers are subsidiaries of large, well-known U.S. carriers, but there is also a compliment of smaller carriers to consider. Few offshore insurance companies have credit ratings in their own right. Some describe their claims-paying ability with reference to the ratings of their parents or principal reinsurer(s). Others have claims-paying guarantees from their parent company. Capitalization levels vary widely among foreign life insurance companies. Carrier due diligence is an important exercise in the policy acquisition process.

Where is the investment account of the policy located, and is it safe?

The separate account(s) of the policy will be custodied in accordance with the asset manager’s normal custodial arrangement. Thus, in the case of an offshore policy purchase, there is no requirement of offshore custody. The separate account of the policy is protected by law in the state or foreign jurisdiction where the insurance carrier is located from both the creditors of the insurance carrier. Whether the policy is protected against claims of the policy owner’s creditors depends on a number of factors, including where the policy was issued and where the policy owner resides.

For more information, please contact:

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