



An Easy Way to Maximize Your Investment Income...Private Placement Life Insurance

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This article continues my quest to lead the education parade for my readers in the areas of “How to make it” and “How to keep it.” Today’s subject matter—a little-known strategy—goes to the head of the class not only as 1) a star income tax saver, but also 2) an estate tax destroyer and 3) a superior asset protection device.

Yes, there is a single strategy that does all three. What is it? Private placement life insurance (PPLI). If you are fortunate enough to consider yourself an affluent individual, you’ll love every word you are about to read.

Who falls into the affluent category? Well, the most recent IRS data available (for 2007) shows the top 1 percent of taxpayers (earned \$410,000 or higher) paid a whopping 40.4 percent of all federal income taxes. Astounding, because those taxpayers made only 22.8 percent of the reported adjusted gross income for 2007.

In my book, this 1 percent group really deserves a tax break. Note: Now more than ever, because the elected Washington geniuses are a sure bet to raise the income-tax rates on upper income earners.

Now, what is PPLI? It is a form of variable universal life insurance offered privately, rather than through a public offering. Variable life insurance has cash value dependent on the performance of one or more investment accounts in the policy. Since the insurance company cannot know the spe-

cific investment goals of each traditional policy purchaser, the carrier often settles for registering a set offering, including a selection of mutual funds or hedge funds as investment options within the policy. On the other hand, the carrier customizes the investment options to meet the needs of each PPLI owner/investor.

The prime purpose of PPLI is to make your investment profits (whether capital gains, dividend income or interest income) tax-free. Simply put, all policy investments are wrapped in a tax-free insurance envelope.

Just how significant are the wealth accumulation results of taxable vs. tax-free? The following example (created by Lewis Schiff, an Austin, TX lawyer) will astound you.

Facts: A PPLI policy insures a 45-yr.-old male paying \$2.5 million in premiums for 5 years (a total of \$12.5 million). The assumed rate of return is 10 percent (net of investment-management fees), taxed as ordinary income (at 40 percent, including federal and state taxes).

The table below provides the results, in \$ millions (rounded):

End of Year	Taxable Investment	PPLI	
		Cash Value	Death Benefit
1	\$2.650	\$2.665	\$43.900
5	12.288	13.351	43.900
10	16.445	20.508	43.900
20	29.450	50.071	61.087
30	52.740	125.095	133.851
40	94.449	312.915	328.560

Two huge advantages become obvious: 1) the death benefit is always king, and 2) in the long-run, use every opportunity (notice the huge higher amount in “cash value” after 20 years compared to “taxable investment”) to get into an income-tax-free environment. Neither the “cash value increases” nor the “death benefit” is subject to income tax.

Note: PPLI premiums a) start from a low of \$1 million (for example, \$250,000 per year paid over four years) b) to a more typical \$5 to \$10 million or more (paid in the early years) or c) a large (\$5 million or more) paid as a single premium at inception. Yes, \$50 to \$100 million policies can be arranged.

Now let's look at a three-step example (courtesy of Donald D. Cameron, CLU, a long-time PPLI guru) that uses PPLI to create an effective private retirement plan.

Facts: A 50-year old male, non-smoker, with cash value compounding at a 10 percent annual rate (after investment management fees).

Step No. 1—Pays a \$1 million premium for a PPLI for 5 years...total premium of \$5 million.

Results: Step No. 2—After 15 years (age 65) receives \$1.2 million per year for life.

Step 3—After 50 years (age 100) \$9.9 million is payable as a death benefit. (Payments in Steps 2 and 3 are income tax-free.)

Let's take a look at some other advantages of PPLI:

1) Liquidity. When needed, you can borrow a portion of the “cash value,” which can be paid back at any time or out of the “death benefit.”

2) Asset protection. Your investments are placed in separate accounts, avoiding any risk of insurance company illiquidity.

3) Risk minimization. Insurance is a risk-shifting strategy in the event of a

premature death, always supplementing the tax-free investment results (at any age).

4) Estate tax free. The PPLI arrangement can be set up so the ultimate death benefit is not subject to estate taxes.

5) Investment flexibility. You can, with the help of the insurance company, select from a large number of hedge funds. Or, work with a third-party advisor (whom you select). You can even switch advisors or have more than one. Also permissible—invest in a private equity deal (maybe one of your own companies or someone else's) that you think has great upside potential.

6) Low investment cost. Traditional agent's commissions are eliminated, letting more funds “work” inside your policy... True “no-load” insurance. Typically, PPLI is placed with an offshore insurance company, further reducing policy costs. Also, there are no surrender charges or other insurance company penalties.

7) What if your health or age prevents you from getting insurance, including PPLI? You can purchase a private placement deferred variable annuity (PPDVA), similar to a PPLI except that the income is deferred until the policy owner takes a distribution (taxable at ordinary income tax rates).

If you have a large investment portfolio, whether CDs, municipal bonds, hedge funds, stocks or bonds, or any of the other endless parade of investment vehicles, then PPLI is something you should look at. Your investment wealth is sure to compound at an accelerated pace because you won't lose one cent in income taxes.

You're sure to have questions. Just call me (847-674-5295) to discuss how a PPLI or PPDVA can be designed just for you. **MF**

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