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Memorandum

To: Advisor

From: John Lawson

RE: **Private Placement Life Insurance Meeting**

Our meeting will revolve around the purpose of the Private Placement Life Insurance (PPLI) transaction. One of the most difficult pieces of explaining this transaction is to get clients to forget everything they know about the typical or traditional uses of life insurance. A PPLI transaction is done first and foremost to provide income tax benefits to the purchaser. These contracts are typically funded using structured or alternative investments that otherwise kick off ordinary taxable income to the investor. The purpose of the PPLI is to shelter these types of investments from current income taxation so that the underlying investment grows without the diminution of an income tax drag. In addition, when we properly design the insurance contract to accept 3 to 5 years of premium payments, the purchaser of the PPLI contract not only receives the benefit of the income tax deferral but, under current income tax law, the purchaser can also withdraw basis from the contract and then access appreciation (of the investment account(s)) through the use of policy loans – and never pay income tax on any of the gains attributable to the investment account(s). In order to defer the income taxes for the lifetime of the insured, there must be a real-life insurance policy in place, and the policy has real costs associated with it. However, the objective of PPLI is to minimize these costs at every turn in order to maximize the gain in the cash values of the contract. The typical transaction contains only a fraction of the cost the investor would otherwise pay if the investment was held in a taxable account – this is the fundamental reason an affluent investor would consider PPLI for their investment portfolio.

In our meeting, we will review all of the benefits outlined above. I have illustrations and spreadsheets that show the benefits of the transaction and help the investor determine the total costs, the structure, and premium limitations based on the insured's age and health status. We will talk about the investment options and how they fit into the contract, the separate account that protects the investor's assets from the general creditors of the insurance company, the logistics of getting premiums into the contract, and the process of getting withdrawals and loan proceeds from the contract when cash flows are needed in the future.

In addition, we will discuss the entity(ies) that will own the policy(ies) and the different family members that will or could be considered as the insured(s) in the transaction. The domicile of the ownership entity(ies) is important as it relates to the State premium tax that is applied to the premium payments.

Once a client understands the benefits of using PPLI, decides on an amount that is appropriate for allocating to their transaction, and is prepared to move forward with the transaction, the underwriting process begins. To get us started with this underwriting process, we will gather some personal and medical information on the selected insured(s). I have attached items to this memo for your review. The first is a Questionnaire that each client will complete that provides us with the personal information we require for this process and which we eventually use to complete the applications that the owner will sign for submission to the selected insurance company(ies). The second document is a HIPAA Health-Related Information Authorization which the client signs to allow us to request and receive personal medical information. The third document, a Medical Information form, provides a location where the client will list all of the doctors they have seen in the past 5 – 10 years for any types of medical procedures or routine visits. With this list of doctors and the client's signature on the HIPAA Authorization, we will go to each of those doctors and request attending physician statements – simply the medical history of a client with each specific doctor. We turn these records over to the selected insurance company so they can provide the insurance capacity required for the transaction.

While we are in the process of gathering the medical information from the clients' doctor(s), we will set an appointment for the client to visit an approved physician for a routine physical exam. This exam is a non-invasive type of exam where the client will be asked questions regarding their health history, be weighed, measured, asked to provide a blood and urine sample, and take a resting EKG or a stress test (the stress test requirement is age and insurance company dependent). The results of that exam will be forwarded to the insurance company along with the attending physician statements for a medical analysis by the insurance company(ies) underwriters. In addition to these requirements, the insurance company will request a Motor Vehicle Report from the client's home state and will also request a Personal History Interview. This interview is done by a third-party information gathering company that will perform a 15-30 minute telephone or face-to-face meeting with the client to ask many of the same questions that the client has already answered. This process is completed differently by each of the insurance companies, but the purpose of the Personal History Interview is to identify any disparities in information gathered during the underwriting and application process. Lastly, we will have to obtain some level of financial disclosure from the client and/or the clients' advisor(s). This is called the financial underwriting process and the insurance companies do this to make sure that there is sound financial reasoning and purpose for the large amount of life insurance that is issued in these types of transactions.

When the medical and financial underwriting process is concluded, we will complete applications for the insurance coverage. In many instances, clients have entities such as limited partnerships, limited liability companies, charitable lead annuity trusts (CLAT), grantor retained annuity trusts (GRAT), etc that will own the policy(ies) being issued. Therefore, the entity that will own the policy is the entity that will actually apply for the coverage on the insurance company(ies') application. In other words, this entity is the "owner" of the contract and therefore a general partner, managing member, trustee, etc. will actually be the person signing the application in addition to the client being insured.

Once the insurance company agrees to issue the PPLI contract, we arrange for the ownership entity to fund the first insurance premium. Typically, there is a plan for three to five premiums to eventually be deposited into the contract. Once the monies are wired to the insurance company as a premium payment, the owner then makes the decision on how to allocate the cash value in the contract. After the monies are moved to the investment account(s) underlying the PPLI contract, all investment returns inure to the benefit of the policy with no taxes due on gains in the values.

On each subsequent anniversary, the next premium payment can be added to the contract. Those amounts will increase the cash value of the contract and be invested as the owner has directed the allocation among the investment account(s) available under the policy.

For the initial meeting to be effective and efficient, a client should have considered which entity will own the PPLI contract and discussed the structure of that entity with their lawyer, determined how much money they would like to allocate to the transaction, be prepared to provide the information or have already completed the attached Questionnaire and Authorization documents, have reviewed their calendars to determine potential times (preferably first thing in the morning) in the following few weeks that are convenient for a physical exam appointment with an approved physician, and be prepared to answer additional questions during the following 60 to 90 days as the process is completed. If the client is prepared as outlined above, we are able to efficiently meet their expectations and minimize the hassle factor required with placing a PPLI transaction.
