Family Office Insights

Life insurance? A powerful tax planning opportunity if used correctly

Like all industries, the insurance industry has continued to evolve over the past decades. The evolution in the insurance industry has resulted in a type of insurance referred to as private placement life insurance (PPLI).

PPLI is a wealth planning tool used by family offices and high-net-worth individuals to invest and transfer wealth to future generations in a tax-efficient manner. This brief article is not meant as an in-depth discussion of any insurance product, including PPLI, but is rather meant to encourage the reader to understand the variety of life insurance products in the market to find the right insurance solution for the reader's individual situation.

Life insurance comes in many forms and varieties—from annual term insurance, which one can view as an expense on their personal income statement, to permanent insurance, which one may view as an asset on their personal balance sheet. The key to making life insurance a powerful tool is to follow the same diligence process for most other business decisions: gather a team of reliable advisers, assess and analyze the pros and cons of each decision, determine if the proposed solution is a good fit, and identify the right design for each situation.

Sounds easy, but it isn't. With thousands of life insurance products and at least that many people trying to sell them, it can be a daunting task.

PPLI, for example, is a potential option to increase one's after-tax investment returns while providing for transition of assets upon death and may provide creditor protection. PPLI is also generally transparent in terms of its pricing structure, may provide access to cash via loans, generally has no surrender charges, and can eliminate some administrative issues with owning various investments outside a PPLI policy. There are also numerous structuring alternatives for PPLI, but a common structure is where PPLI is owned by a trust with the insured being a younger family member to help control costs and potentially elongate the amount of time the policy is in force.

Before committing to any form of insurance, one needs to consider the following items (among others):

- Proper individual or team to work with the insurance adviser (it is critical all of your advisers are coordinated and understand your goals and objectives)
- Select the right type of insurance policy
- Select the right person to insure
- Determine who will be the owner of the policy. Some of these items might sound remedial, but the wrong insurance, or structure, or insured party/policy owner could result in the taxpayer significantly overpaying (e.g., on fees, premiums, taxes, etc.).

If you have an interest in learning more about the topic above, please don't hesitate to reach out to us via read.kpmg.us/family-office.

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