1291 HNW Insurance Experts Highlight the Multiple Appeals of PPLI and VUL within Astute Estate & Legacy Planning

Should high-value life insurance policies be included as part of a robust, multi-faceted approach to wealth planning for HNW and UHNW clients, and do they add value to estate & legacy structuring? Roger Chi, Managing Partner of the high-end and specialist life insurance solutions brokerage 1291 Group, and Benjamin Szeto, a 1291 Partner, certainly believe so. They made their case to delegates in a detailed Workshop at the Hubbis HNW Insurance Summit in Singapore on September 6. They articulated the many appeals of key life insurance structures, especially Private Placement Life Insurance (PPLI) and Variable Universal Life (VUL). They focused on the value of PPLI as a core asset holding structure that also offers many advantages around privacy, asset protection, tax optimisation, and that can be a very valuable addition to estate & succession planning. And they explained why VUL is still so attractive to clients seeking liquidity protection at challenging times, especially for clients who have abundant assets but whose cash resources might be low. These two life structures, they reported, have in recent years been growing in prominence. And they outlined why 1291 works so closely with the wealth management community on these concepts and products, which can significantly enhance private client relationships as well as safeguard AUM and also boost revenues.

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Roger Chi
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What is PPLI?

PPLI (Private Placement Life Insurance) is best understood as a flexible asset holding structure for a diverse array of assets, and a solution that works in both common law and civil law countries.

The client ceases to be the owner of the assets. From a Common Reporting Standard perspective, the insurer reports the underlying surrender value of the insurance policy, not the detail of the holdings, leading to a very substantial increase of privacy.

Ring-fenced

Correctly structured, the policy is fully protected from creditors and other claimants. The underlying assets held within the policy are owned by the insurer and cannot be seized by a client's creditors. Should the insurer face solvency issues, the underlying assets within the policy are fully segregated from the insurer's assets. But they also noted that advisors should beware of the fraudulent conveyance period - normally the underlying assets would be ring-fenced within six income and capital gains by taxation. This in turn means 100% reinvestment of capital gains and income, consequently enhanced returns through a compounded effect over time.

Additionally, PPLI is able to effectively address controlled foreign corporation tax-transparency issues and also reclaim withholding tax on dividends.

They stress that these solutions are all compliant with all applicable laws.

Efficient for the family

The speakers highlighted estate planning benefits. Upon the death of the insured person, it is not unusual for a policy to pay out to the named beneficiaries within thirty (30) days. The client has full discretion and freedom to elect beneficiaries, including parties

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It is not only bankable assets that PPLI can hold, but the 1291 speakers explained that assets such as operating businesses, real estate, private equity and even digital assets can also be included.

In a PPLI, the client transfers his assets (financial or non-financial) to an insurance company, which becomes both the legal and ultimate beneficial owner (UBO) of the respective underlying assets.

months after setup. Essentially, there should not be any claim against the client at the point of incepting the policy to ensure that there are no issues with fraudulent disposition.

Tax advantageous

There are also tax advantages with PPLI. Higher net returns can be achieved because there is no erosion during the term of the policy of the underlying investment

who are not family members without the constraints of forced heirship provisions.

There is no need to go through the typically cumbersome, costly and lengthy probate process (often in multiple jurisdictions) or obtain letters of administration. All these advantages mean that PPLI is an ideal tool to distribute assets to the next generation in a timely manner. For complex family situations,

Benjamin Szeto
1291 Group

separate policies can be set up for different branches of the family, preserving family harmony.

PATEC: crystallising five key attributes of PPLI

It is a truism that every individual and family is unique but from the collective experience of 1291's team working on life and wealth solutions for the wealthy, they characterise and summarise PPLI's five advantages under the acronym PATEC.

1291's acronym PATEC stands for: Privacy protection through a compliant structure; Asset protection by law; Tax Savings, higher net returns and simplified reporting; Estate planning separate from ordinary estate; and Cash to ensure sufficient liquidity at the time of a death. And clients today need asset protection with a strong layer of legal protection, so those assets are free from external interference and bankruptcy, simplified as to CRS and tax-deferred as to the growth of the assets.

Extremely versatile

The presenters explained that the PPLI is a versatile structure. It can work seamlessly with an offshore company structure, a trust, a family office, or even a Singapore Variable Capital Company (VCC).

The most popular combination is a Trust holding a PPLI. Many Asian families already have established trusts, so they know and understand the structure. Nevertheless, the reality is that increased global regulations such as the Common Reporting Standard (CRS) and Controlled Foreign Companies (CFC) have, over the years, reduced some of the trust's earlier considerable advantages around privacy, asset protection, and also tax optimisation. But those advantages can be reinstated by, for example, inserting a PPLI between the Trust and the underlying assets.

Clients from China

The presenters said that Chinese clients making wills must comply with statutory succession rules, which may restrict their freedom on bequeathing legacies.

And they explained that Chinese citizens, even if resident in Singapore, need to be –mindful of still being liable for Chinese individual income tax on worldwide income and capital gains they retain their Chinese Household Registration ("Hukou"). This is regardless whether they enjoy any tax benefits under Section 13O or 13U of the Singapore Income Tax Act.

They explained however that PPLI can help solve these issues if structured correctly.

Eyes on the targets

They concluded the technical aspects of their talk by summarising the key advantages of PPLI policies. Life insurance if selected and structured properly is a solid and well-established wealth planning tool, either stand-alone or in combination with other structures. It allows the client's assets to grow in a tax-optimised manner, achieving higher net gains.

The benefits may be summed up by 1291's PATEC formula:

P: Privacy from prying eyes

A: Asset protection

T: Tax savings

E: Estate planning

C: Cash and liquidity access

A tried, true and trusted structure with a long history

And they noted that PPLI has a multi-decade history dating back to the 1970s in the US, and is well regarded as a bona fide solution across the US and Europe.

But they also cautioned that it is vitally important that these solutions are set up correctly with an insurer appropriate to the client, with the help of highly competent advisors.

Partnering with wealth advisors

1291 works very closely with the wealth management community around the world. PPLI can help advisors engage their clients on a host of key issues, including robust wealth and legacy planning, privacy, asset protection, tax optimisation, portability, and next-generation planning. The aim is for the advisor elevate the discussion as a trusted advisor.

A wide range of advantages for wealth advisors

Advisors earn incremental fees from PPLIs that their clients enter into.

For private bankers, financial assets do not from their bank or from the existing custodial arrangements. Further, the compliance burden is shifted to the insurer. PPLI reduces risk in general, with country-specific reporting minimised, because from a CRS and FATCA perspective, all the reporting is subsequently undertaken by the insurance company.

Their final words were a call to action. "When you're engaging your clients, and if you hear any of these PATEC words being mentioned - privacy, asset protection, tax savings, estate planning, or cash and liquidity access - that is when you should start thinking about these policies, these concepts, and how to bring them to your clients' attention and nurture them toward the best solutions," Roger concluded.

1291 Group Leading the Way

The 1291 Group Ltd is a global financial services group, offering tailor-made wealth protection plans to private individuals and investment professionals. The "1291" name refers to the historical year of birth of Switzerland as a nation. The 1291 team is comprised of tax lawyers, wealth planners from private banks, insurance specialists, and trustees with many years of experience in wealth protection, international tax, legal and compliance issues, as well as the use of insurance in wealth and legacy planning.

Their private clients are high net worth families from all over the world. 1291 is licensed in over 36 countries, has compliant solutions for over 45 countries and works with over 48 insurance carriers in 15 jurisdictions. The firm has 14 offices around the world, including the headquarters in Zurich, as and in Asia both Hong Kong and Singapore.

1291 is the number one PPLI broker and VUL broker around the world. In addition, it also offers a wide range of other solutions including traditional high death benefit policies such as UL and Whole of Life. From their Singapore office, the business is split roughly half traditional products and half structuring and more complicated PPLI structures.

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