

PRIVATE PLACEMENT LIFE INSURANCE

PLI ANNUAL ESTATE PLANNING INSTITUTE

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Shishir R. Khetan is a Managing Director in the Valuation Advisory group. He has extensive global experience in corporate finance, valuations and strategic planning. He has advised clients ranging from Fortune 500 companies to medium and small privately held companies, private equity and investment funds, family offices, and accounting, legal and tax advisors.

Mr. Khetan has over two decades of financial advisory experience covering many industries, resulting in a comprehensive understanding of valuation concepts, capital markets, financial and economic analyses.

Prior to joining Stout, he was a Senior Managing Director of HFBE where he performed financial advisory and valuation services.

Professional Licenses

Mr. Khetan is a Chartered Financial Analyst (CFA) and a member of the CFA Institute and CFA Society of Houston.

What is Private Placement Life Insurance (“PPLI”)?



- PPLI is a specialized form of life insurance that is designed for high-net-worth individuals.
- PPLI combines the benefits of life insurance with certain investment opportunities.
- Typically, policies are structured as private placement variable life insurance policies.
- Benefits of PPLI are:
 - Wealth preservation
 - Tax efficiency
 - Investment opportunities

Wealth preservation:

- Tax-efficient way to pass wealth to heirs
- Protects assets from creditors and legal claims
- Privacy – generally private contracts and do not require public disclosure

Tax efficiency:

- Growth of underlying investments on a tax-deferred basis
 - No annual tax on investment gains
 - Potential for compounding effects on wealth
- Beneficiaries get tax-free death benefit
 - Minimizes estate tax exposure
 - Tax efficient wealth transfer strategy

Investment opportunities:

- Access to a wide range of alternative investments
 - Private equity, hedge funds, real estate, marketable securities, structured products, etc.
 - Investment options can be customized to match risk-return profile
 - Flexibility in policy design

- Premiums – typically paid as a lump sum
- Policyholder – depending on the estate plan discussed with your lawyers and other advisors, could be a trust or an individual
- Liquidity – can be structured to provide access to cash values or loans against the policy; provides certain liquidity to policyholders that can be used for funding other financial needs or opportunities
- Charitable giving – can designate charitable organizations as beneficiaries and do legacy planning
- Cross border planning – can provide a tax efficient way to manage cross border estate planning and reduce complexities of different tax jurisdictions.

Why get a valuation?

- Fair Market Value analysis of PPLI for gift and estate tax planning and reporting purposes
- Can I use cash surrender value (“CSV”) or another indication of value (cost basis or interpolated terminal reserve value (“ITRV”), as provided by insurance companies)?
- Fair Market Value can be different than CSV or ITRV.

Fair Market Value is defined as the price at which property would change hands between a willing buyer and a willing seller, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of the relevant facts.

The terms “willing buyer” and “willing seller” refer to hypothetical parties rather than any particular buyer or seller. It is important to note that the specific incentives or attributes of particular buyers and sellers may not be the same as the hypothetical buyer and seller from which Fair Market Value is determined.

Valuation analysis should consider the guidelines referenced in Revenue Ruling 59-60, 1959-1 C.B. 237, which include consideration of the following factors:

- the terms of the PPLI;
- the economic outlook in general and the prospects for the PPLI in particular;
- the net CSV of the PPLI;
- the projected cash flows associated with the PPLI (required premium payments and the total death benefit);
- the financial condition and financial strength rating of the insurance company;
- the insured's age, insurance risk class, life expectancy, and general health;
- previous sales or transfers of the PPLI (if any); and
- the market prices and rates of return of assets comparable to the PPLI.

Three standard valuation methodologies:

- Income Approach
- Market Approach
- Cost Approach

Fair Market Value of PPLI:

- Income Approach – future cash flows / returns from the PPLI
 - Discounted Cash Flow Method
 - Policy “term” – life expectancy of the insured
 - Present value analysis using an appropriate risk-adjusted discount rate of return

Risk-adjusted discount rate of return:

- Market based data
 - Life Settlements

	Life Insurance Policies	Life Settlements
1 Fixed Return	No	No
2 Variability of Amount of Possible Return	Moderate	Moderate
3 Additional Payment Required	Yes	Depends on Insurance Policy
4 Fixed Period Until Payment	No	No
5 Period Until Expected Return	Long	Short to Moderate
6 Variability of Timing of Possible Return	High	Moderate to High
7 Current income	No	No
8 Liquidity	Non-Existent	Fair
9 Liquidity Restrictions	Limited Market Restrictions	Limited Market Restrictions

Rates of Return

Current Month Treasury Yield Curve Rates

Date	5 yr	10 yr	20 yr	30 yr
9/15/2022	3.66%	3.45%	3.75%	3.48%
9/14/2022	3.60%	3.41%	3.73%	3.47%
9/13/2022	3.58%	3.42%	3.75%	3.51%
9/12/2022	3.47%	3.37%	3.76%	3.53%
9/9/2022	3.45%	3.33%	3.71%	3.47%
9/8/2022	3.39%	3.29%	3.69%	3.45%
9/7/2022	3.37%	3.27%	3.67%	3.42%
9/6/2022	3.43%	3.33%	3.74%	3.49%
9/2/2022	3.30%	3.20%	3.61%	3.35%
9/1/2022	3.39%	3.26%	3.64%	3.37%
8/31/2022	3.30%	3.15%	3.53%	3.27%

Source: U.S. Department of the Treasury. www.treasury.gov

Insurance Company Rating

Financial Strength Ratings

A.M. Best	A+
Fitch	AA-
Moody's	A1
Standard & Poor's	AA-

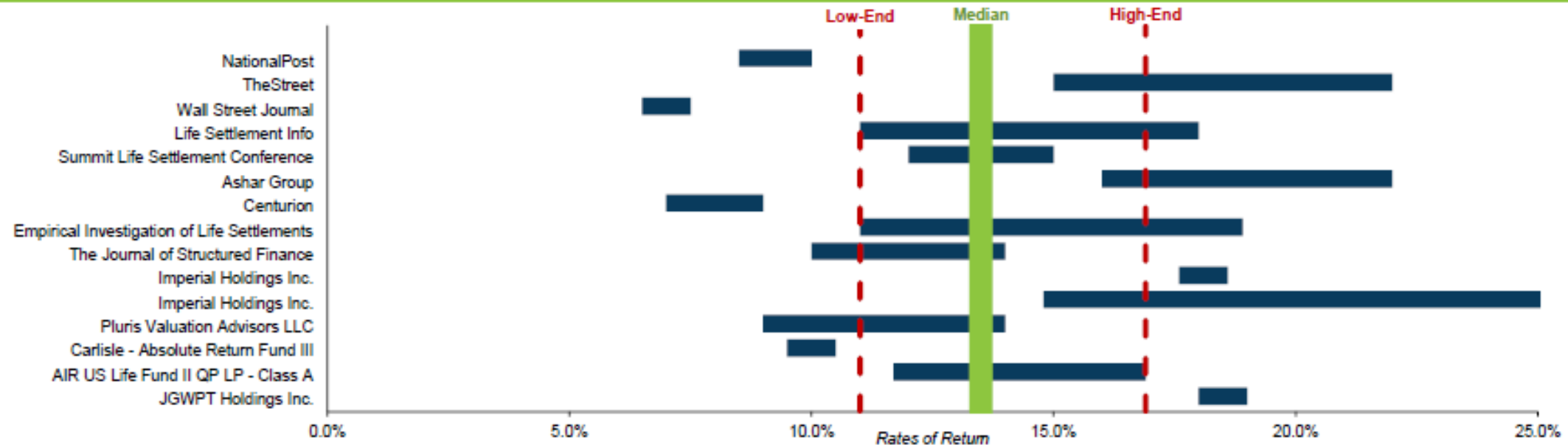
Corporate Bond Yields

Yields

	As of 9/15/2022		5yr Avg		10yr Avg	
	Corporate A	Finance A	Corporate A	Finance A	Corporate A	Finance A
1-Year	3.99%	4.15%	1.66%	1.73%	1.25%	1.36%
2-Year	4.23%	4.41%	1.85%	1.94%	1.52%	1.65%
3-Year	4.32%	4.47%	2.01%	2.10%	1.77%	1.91%
5-Year	4.47%	4.66%	2.31%	2.41%	2.23%	2.39%
7-Year	4.60%	4.80%	2.61%	2.70%	2.64%	2.80%
10-Year	4.79%	4.94%	2.94%	3.03%	3.09%	3.24%
20-Year	5.13%	5.25%	3.59%	3.67%	3.92%	4.05%

Source: Bloomberg, L.P.

Rates of Return - Life Settlements



Low High Low-High Average Source

- Valuations can be complex and require sophisticated analyses and support
- High-net-worth clients and their advisors want “peace of mind” when using PPLI for estate planning and need a valuation to be performed

THANK YOU