Protecting Wealth and Reducing Taxes:
Your Clients Can Have Their Cake and Eat It Too!

Financial Planning Association

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Amy P. Jetel

Robert W. Chesner, Jr.

100 CONGRESS AVENUE, SUITE 1440 | AUSTIN, TEXAS 78701

phone 512.767.7100 | ***fax*** 512.767.7101 | WWW.GSRJLAW.COM

Who Should Engage in Asset Protection Planning?

- **Asset protection planning is inherent in all estate planning**

- **Every client needs asset protection to some degree; although some clients are more at risk:**
  - **High-risk professions** *(doctor, lawyer, accountant, investment advisor)*
  - **High-risk corporate capacities** *(director/officer of public company)*
  - **High-risk business endeavors** *(manufacturing items that could cause harm)*
  - **High-profile positions** *(entertainer, sports figure, politician)*
  - **Risky hobbies** *(recreational pilot, into fast cars/motorcycles)*

The U.S. Legal System is Creditor-Friendly

- **Plaintiffs don't have any skin in the game**
  - **Contingency fees**
  - **No bond requirement, except in appeals**
  - **No loser-pay system**
- **Punitive damages are allowed in civil actions against individuals, not just against large corporations**
- **Parties in judicial proceedings receive privilege and freedom from civil liability for libel in pleadings, absent a finding of actual malice.**

Is Asset Protection Planning Against Public Policy?

"We . . . admit that there is a just and sound policy . . . to protect creditors against frauds upon their rights . . . . But the doctrine, that the owner of property, in the free exercise of his will in disposing of it, cannot dispose of it, but that the object of his bounty . . . must hold it subject to the debts due his creditors . . . is one which we are not prepared to announce as the doctrine of this court."

"[E]very State in this Union has passed statutes by which a part of the property of the debtor is exempt from seizure [for] the payment of his debts. . . . To property so exempted the creditor has no right to look . . . as a means of payment when his debt is created [and] this court has steadily held that [such exemptions are] invalid as to debts then in existence [but] as to contracts made thereafter, the exemptions [are] valid. This distinction is well founded in the sound and unanswerable reason, that the creditor is neither defrauded nor injured by the application of the law to his case, as he knows, when he parts with the consideration of his debt, that the property so exempt can never be made liable to its payment."

Nichols v. Eaton, 91 U.S. 716, 725–726 (1875).

Creditor Protection: Fraudulent Transfers

- **General rule**
  - **A gratuitous** *(or mostly gratuitous)* **transfer of property with the actual or constructive intent to avoid creditors may be set aside**
- **Classes of creditors & what they must prove**
  - **Present creditors** *(more protected)*
    - **Constructive intent: gratuitous transfer + insolvency**
  - **Future creditors** *(less protected)*
    - **Actual intent: proven with badges of fraud; or**
    - **Gratuitous transfer + intended to incur debts beyond ability to pay or was about to engage in a transaction for which remaining assets unreasonably small in relation to the transaction**
- **If fraudulent as to "any creditor," transfer will be void**

Creditor Protection: Fraudulent Transfers *(cont'd.)*

- **Statute of limitations**
  - **State Law: Statute of limitations on fraudulent transfer claims in most states is four years, or, if later, within one year of when the transfer could reasonably have been discovered**
  - **Bankruptcy Law: A bankruptcy trustee can have a fraudulent transfer set aside if the transfer is made within two years of bankruptcy; certain transfers to a self-settled trust or similar device subject to a ten-year statute of limitations**
- **A transfer of assets from non-exempt status to exempt status should be tested for fraudulent transfer**

Preventing a Fraudulent Transfer: Solvency Test

	Total value of assets
Less:	**Liabilities (including contingent)**
Less:	**Creditor-protected assets (e.g., homestead)**
Equals:	**Amount that can be transferred**

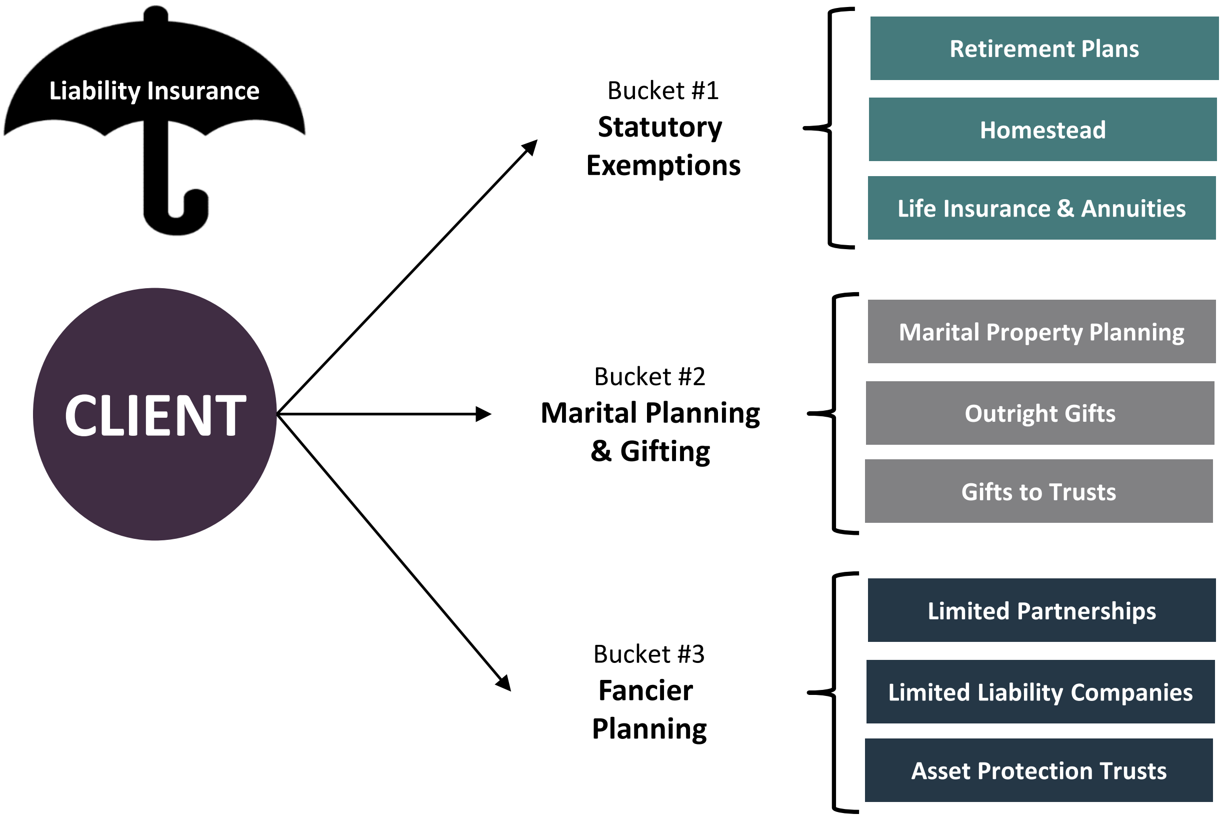
Asset Protection Planning—a Process

- **Determine whether the client is able to fully insure against foreseeable business and personal risks**

- **Fill the available “buckets”**

You will find that the greater the client’s net worth, the more difficult it is to achieve asset protection without a protective trust structure because the traditional protected buckets quickly fill to overflowing

Asset Protection Planning—a Process



Retirement Plans

- **In most states, unlimited exemption as long as the plan "qualifies" under the Internal Revenue Code**
- **ERISA contains anti-alienation provisions**
- **Inherited IRAs may or may not be protected under state law**
- **Bankruptcy**
  - **Fully protected if exempt from taxation under IRC §§ 401, 403, 414, 457, or 501(a)**
  - **Protection for IRAs** *(under IRC §§ 408 and 408A)* **capped at $1,000,000, adjusted for inflation every three years** *(increased in 2016 to $1,283,025)*
    - **Rollover amounts to IRAs are excluded from cap**

Homestead

- **State homestead exemptions based upon either acreage** *(e.g., Florida, Texas, and Kansas)* **or value** *(e.g., California and Missouri)*

- **Bankruptcy law limits equity obtained in homestead during ~40 months** *(1,215 days)* **prior to bankruptcy to $125,000, adjusted for inflation every three years** *(increased in 2016 to $160,375)*

Life Insurance and Annuities

- **Many states exempt cash value and policy proceeds of life insurance and annuities**
  - **There is much variation among state statutes, depending on the identity of the insured, the beneficiary, the owner, etc.**

- **In some states, this exemption extends to policy proceeds in the hands of the beneficiary and protects those proceeds from the beneficiary’s creditors as well**

- **In bankruptcy, exemption is limited to payments on the life of an individual of whom the debtor was a dependent, and only to the extent reasonably necessary for the support of the debtor and the debtor’s dependents**

Marital Property Planning

- **Third-party creditors**
  - **Property can be divided so that the exposed spouse owns exempt assets and unexposed spouse owns non-exempt assets**
- **Spouse/Steps as creditors**
  - **Marital property agreements clearly define property rights and protect spouses from each other upon divorce**
  - **In blended families, step-parent and step-children are protected from each other**
- **Partition agreements: beware of losing basis step-up on surviving spouse's half of the community**
- **Tenancy by the Entirety available in about half the states**

Gifting

- **Outright gifts**
  - **Annual-exclusion gifts to family members**
  - **Direct payment of medical bills**
  - **Direct payment of tuition**
  - **Gifts to charities**
- **Gifts to spendthrift trusts**
  - **Trusts for Descendants**
  - **Trusts for Spouse**

Gifts to Spendthrift Trusts

- **A spendthrift trust is one in which the beneficiary is precluded from voluntary or involuntary transfers of trust assets**

- **The consequence of a spendthrift provision in a trust document is that the beneficiary's creditors cannot reach trust assets to satisfy a claim**

- **In most states, settlors cannot utilize a spendthrift trust to protect assets from the settlor's own creditors**

Limited Partnerships and Limited Liability Companies

- **Aggregate Theory of Partnership (historical view)**
  - **The partnership is not a distinct legal entity separate from the partners**
  - **Each partner owns an undivided interest in partnership property, making turnover of assets to creditors without impact on non-debtor partners impossible**
  - **Charging order as a remedy protected both the creditor and the non-debtor partners**
  - **LLC statutes were modeled on partnership statutes, and so they adopted the partnership statutes' charging order provisions**

Limited Partnerships and Limited Liability Companies (cont'd.)

- **Entity Theory of Partnership** *(current view)*
  - **The partnership is a distinct legal entity separate from its partners**
  - **Partners do not own an interest in partnership property; instead, they own an interest in the entity as personal property**
  - **Under the entity theory, there is no real distinction between partnerships, LLCs, and corporations; thus, it is difficult to argue that charging order laws are needed to protect the other partners**
    - **Under the entity theory, the only thing standing in the way of a creditor's ability to divest a partner of his interest in the entity is the applicable state statute**

- **It is interesting to note that Nevada has passed a charging order statute applicable to privately held corporations** *(NRS § 78.746)*

Charging Order

- **An order issued by a court which charges the debtor's interest in the entity with the amount due to the judgment creditor**

- **The creditor only gets distributions from the entity to the extent of the debt** *(and only if the GP/Manager issues distributions)*

- **Once the debt is extinguished, the charging order is fulfilled; the debtor's interest in the underlying company assets is preserved**

Foreclosure

- **Some state statutes provide that a charging order is a "lien" on the debtor's interest in the entity that can be foreclosed upon**

- **If this happens, the debtor loses his interest in the entity and all of the future benefit of that interest forever** *(even if that benefit greatly exceeds the debt)*, **including a right to a pro rata share of any new assets at liquidation**

Foreclosure – Sources of State Laws

- **Uniform Partnership Act (1997) § 504 states that a charging order constitutes a lien that can be foreclosed upon by order of the court**

- **Uniform Limited Partnership Act (1976) § 703 is silent as to foreclosure**

- **Uniform Limited Partnership Act (2001) § 703 states that a charging order constitutes a lien that can be foreclosed upon by order of the court**

- **Uniform Limited Liability Company Act (1996) § 504(b) states that a charging order constitutes a lien that can be foreclosed upon by order of the court**

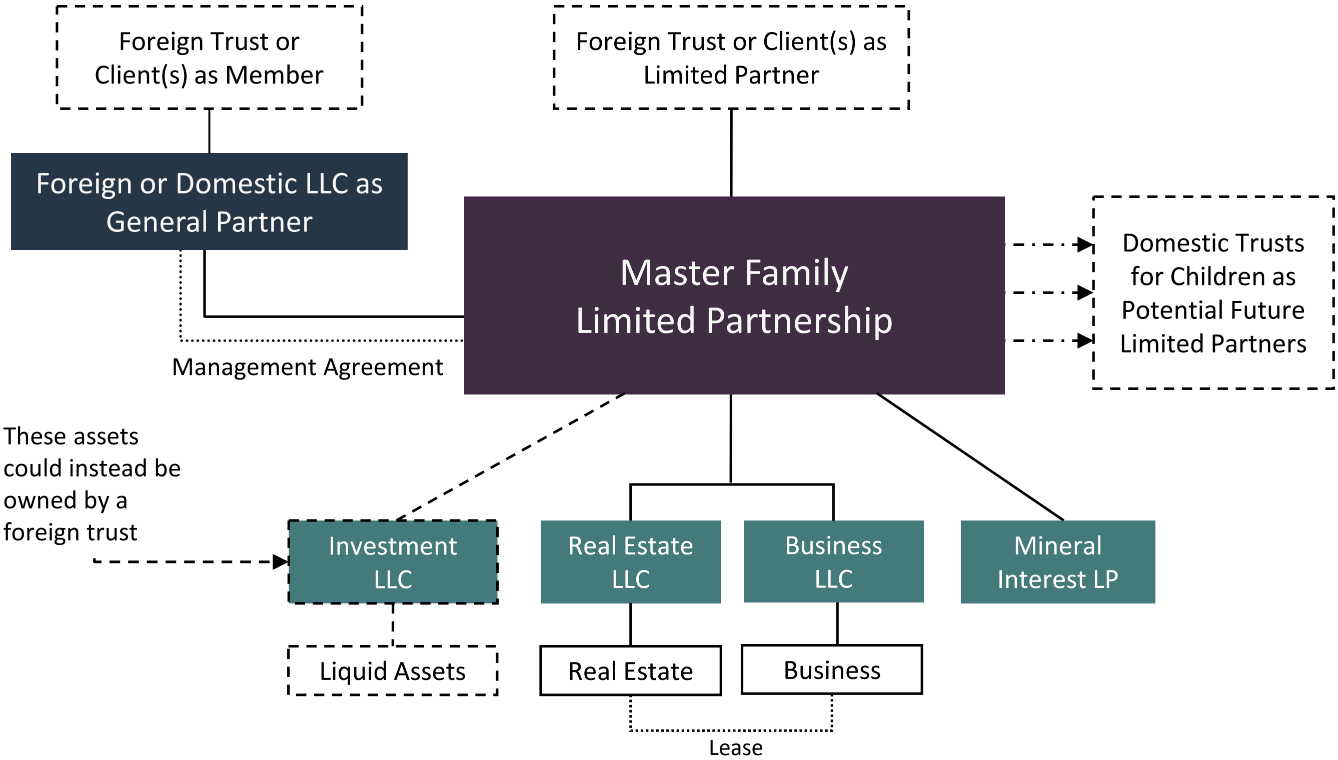
- **Revised Uniform Limited Liability Company Act (2006) § 503(c) states that a court may order foreclosure upon a showing that distributions under a charging order will not pay the judgment debt within a reasonable time**

Forced Dissolution

- **Limited Liability Companies – depends on source of the state's law: the 1996 or the 2006 Uniform LLC Act** *(as amended in 2011 and 2013)*
  - **1996 Uniform LLC Act § 503 allows a transferee after foreclosure to petition the court for a dissolution of the company**
  - **2006 Uniform LLC act does not contain this provision**
  - **Dissolution has also occurred in the bankruptcy context**

- **Partnerships & Limited Partnerships – no dissolution provision in any version the Uniform Acts**

Master Family Limited Partnership Structure



What is an "Asset Protection" Trust?

- **Definition:**
  - **The settlor** *(the person who transferred assets to the trust)* **is a beneficiary of the trust; and**
  - **The assets that the settlor transferred to the trust are protected from the claims of the settlor's creditors**
- **Sometimes also referred to as a "self-settled spendthrift trust"**

Protective Trusts: Foreign or Domestic

- **Domestic**
  - **Available in 15 states: Alaska (1997), Delaware (1997), Nevada (1999), Rhode Island (1999), Utah (2003), Missouri (2005), South Dakota (2005), Tennessee (2007), Wyoming (2007), New Hampshire (2008), Hawaii (2010), Virginia (2012), Ohio (2013), Mississippi (2014), West Virginia (2016)**
  - **Also, to a lesser extent, Colorado (1994), Michigan (2017), and Oklahoma (2004)**

- **Foreign**
  - **Available in many foreign countries**

Texas Asset Protection Trusts?

- **Prior to 2013, § 112.035 of the Texas Trust Code provided broad spendthrift trust protection, but self-settled trusts were specifically ineligible for that protection**

- **Section 112.035(d) provided, in part:**

  (d) If the settlor is also a beneficiary of the trust, a provision restraining the voluntary or involuntary transfer of the settlor's beneficial interest does not prevent the settlor's creditors from satisfying claims from the settlor's interest in the trust estate.

- **Effective September 1, 2013, § 112.035 was amended to permit certain self-settled spendthrift trusts**

Texas Asset Protection Trusts?

- **Section 112.035(g) of the Texas Trust Code (added in 2013) opens with:**

  For the purposes of this section, property contributed to the following trusts is not considered to have been contributed by the settlor, and a person who would otherwise be treated as a settlor or a deemed settlor of the following trusts may not be treated as a settlor: . . .

- **2013 amendments (generally) cause Texas trust law to follow identity of transferor under federal transfer tax laws**

Permitted Self-Settled Spendthrift Trusts in Texas

- **Spousal Trust – whether it qualifies for federal gift-tax marital deduction or not**
  - **Example: W transfers funds to *inter vivos* trust for H and makes proper QTIP election on Form 709; if W survives H, then assets are held in further trust for W**
  - **Example: W transfers $5.45 million to discretionary trust for H and treats it as a taxable gift on Form 709; if W survives H, then assets are held in further trust for W**
    - **IRC Section 2037** *(reversionary interest)* **issues**
      - **Perhaps better to give H or an independent trustee a power of appointment with W as permissible appointee, rather than W expressly retaining an interest**

Permitted Self-Settled Spendthrift Trusts in Texas

- **"Reciprocal" Spousal Trusts**
  - **An irrevocable trust for a person, if the settlor was the person's spouse, "regardless of whether or when the person was the settlor of an irrevocable trust for the benefit of that spouse"**

- **Example: H and W partition $10.9 million of community property. H settles trust for W, and W settles trust for H with their shares of the partitioned property.**

- **Trust terms should vary sufficiently to avoid federal reciprocal trust doctrine**
  - **No state-law uncrossing of trusts for creditor purposes: provides estate-tax certainty for non-reciprocal trusts**

Permitted Self-Settled Spendthrift Trusts in Texas

- **General Power of Appointment Trust**
  - **Statutory language somewhat ambiguous: "an irrevocable trust for the benefit of a person . . . to the extent that the property of the trust was subject to a general power of appointment in another person"**
    - **Does protection apply to a trust where the GPOA is still outstanding?**
    - **Begs the question whether GPOA may exist for only a moment in time** *(subject to transfer tax implications)*

- **Example: A creates an irrevocable trust for the benefit of A and A's descendants and grants to C an *inter vivos* general power of appointment over the trust property, which lapses**

Permitted Self-Settled Spendthrift Trusts in Texas

- **Trusts Established by Exercise of Power of Appointment** *(General or Limited)*
  - **Example: *inter vivos* QTIP where donor-spouse does not retain interest following death of donee-spouse, but relies on donee-spouse's appointment back**
  - **Example: trust for settlor's spouse and descendants, where third party is granted limited power to appoint assets in further trust for a class that includes the settlor**
- **Power of appointment must be exercised, but need not be a general power**

Vulnerabilities of Domestic Asset Protection Trusts

- **Access to trust assets through U.S. court system**

- **U.S. Constitution**

Offshore Protective Trusts Offer Additional Benefits

- **Creditors cannot reach assets through U.S. court system**
- **U.S. judgments are not enforceable**
- **Cost of pursuing assets offshore is high; loser-pay systems**
- **Punitive damages and contingent fee contracts not allowed**
- **Secrecy and privacy laws prevalent and strictly enforced**

When To Settle a Protective Trust

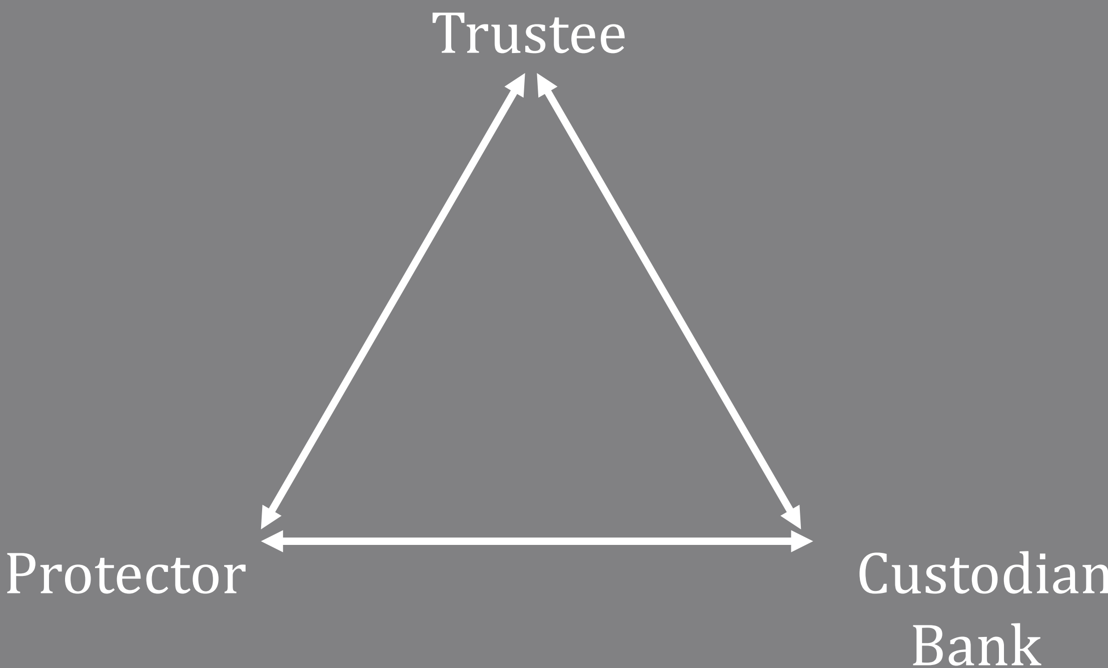
- **Before Insolvency**
  - **Cannot make a fraudulent transfer under state law or bankruptcy law; a 10–year claw-back period may apply in bankruptcy**

- **Before a claim arises**
  - **The greater the distance in time between the transfer and a claim, the better**

Asset Protection is a Spectrum

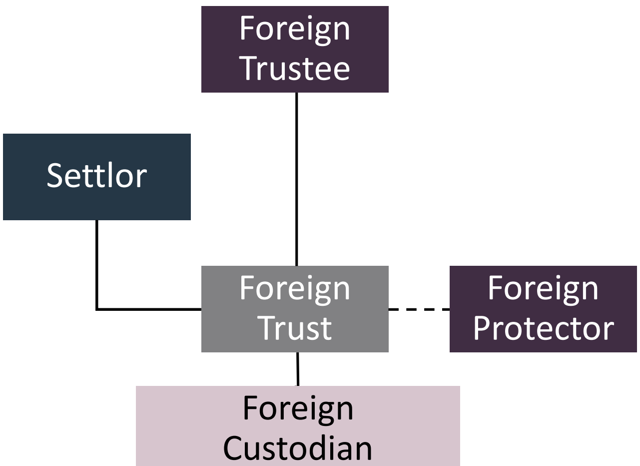
Less Asset Protection	**More Asset Protection**
Greater Settlor control	**Less Settlor control**
More U.S. contacts	**Few or no U.S. contacts**

Check and Balance System



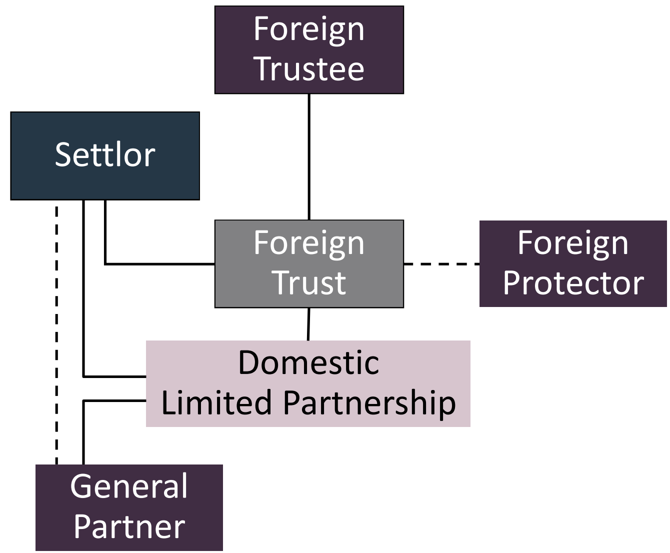
Two Fundamentally Different Offshore Strategies

EXPORT THE ASSETS



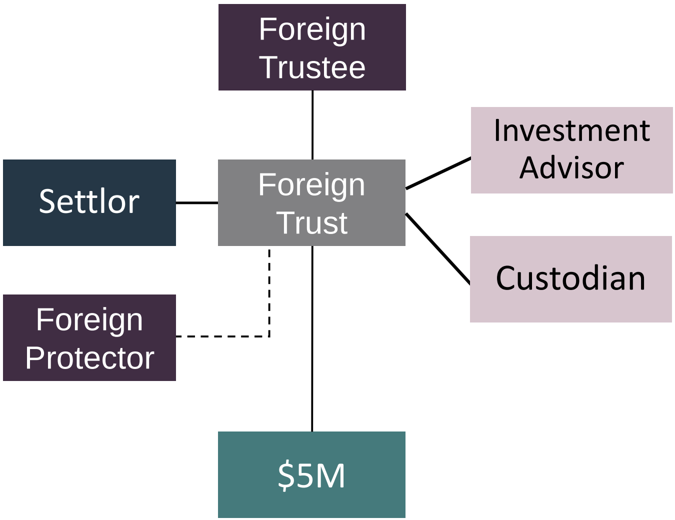
JURISDICTIONALLY SEVERED

IMPORT THE LAW



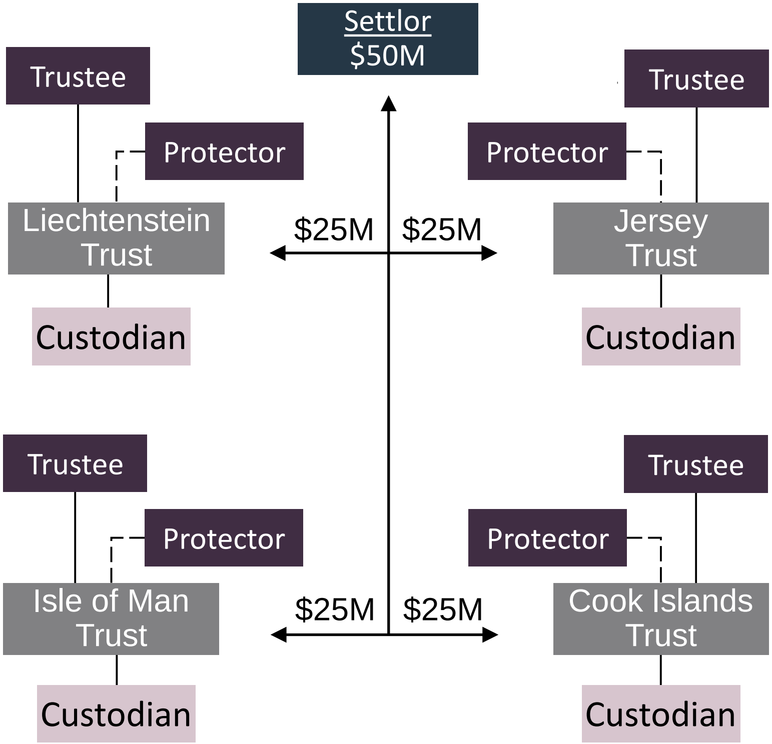
JURISDICTIONALLY CONNECTED

Nest Egg Trust



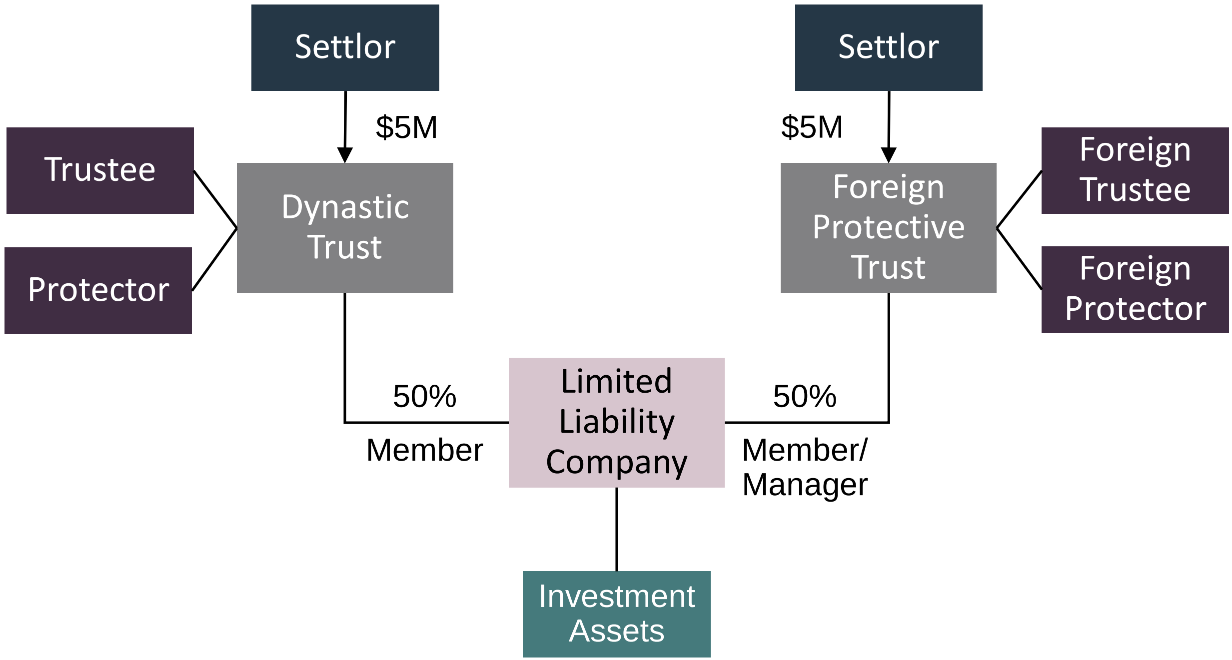
- **Settlor has $20M total assets**
- **Settlor has $10M investment assets**
- **Settlor retains $5M of investment assets personally and funds trust with $5M**
- **Investment advice to Settlor and to Trustee may be provided by pre-selected investment advisor**
- **Contributions to trust are not subject to gift tax**
- **Settlor is subject to income tax on all earnings of the trust**
- **Trust assets are includible in settlor's estate for estate tax purposes**

Multiple Trusts



- **Settlor has $250M total assets**
- **Settlor has $150M investment assets**
- **Settlor retains $50M of investment assets personally and funds four trusts with $25M each**

Combination of Trust Structures



Selection of Foreign Jurisdiction

- **"Traditional" Jurisdictions**
  - **Jersey**
  - **Guernsey**
  - **Liechtenstein**
  - **Isle of Man**
  - **Bermuda**

Selection of Foreign Jurisdiction (cont'd.)

- **Established "Asset Protection" Jurisdictions**
  - **Cayman Islands**
  - **Bahamas**
  - **Gibraltar**
  - **Belize**

Selection of Foreign Jurisdiction (cont'd.)

- **New "Asset Protection" Jurisdictions**
  - **Cook Islands**
  - **Nevis**
  - **Turks & Caicos**
  - **Mauritius**
  - **Niue**
  - **St. Lucia**

Liechtenstein

- **Loser Pay** *(and deposit 10–15% of asserted damages with court before filing suit)*
- **No punitive damages**
- **No contingent fee contracts**
- **Must engage Liechtenstein counsel**
- **No enforcement of foreign judgments** *(except Swiss and Austrian judgments)*
- **Legal proceedings conducted in German**
- **No “specific” asset protection laws**

Cook Islands

- **Highly “specific” asset protection laws**

- **Fraudulent transfer**
  - **Burden on creditor to prove beyond a reasonable doubt that:**
    - **transferor specifically intended to defraud creditor-claimant; and**
    - **transferor rendered insolvent by transfer**

- **Statute of limitations**
  - **No transfer made more than two years before cause of action accrued is fraudulent**
  - **Creditor must sue within one year after transfer to Cook Islands trust**

Costs of an Asset Protection Trust

- **Start-up**
  - **Legal fees**
  - **Trustee fees**
  - **Protector fees**
- **Ongoing**
  - **Trustee fees**
  - **Protector fees**
  - **Legal fees**
  - **Accounting fees**
  - **Custodial fees**
  - **Money management fees**

Income Taxation

- **Income Tax: taxed as grantor trust if settlor and at least one beneficiary are U.S. persons (IRC § 679)**
  - **All items of income, deduction, and credit flow through to Grantor**

Capital Gain Taxation: Foreign Trusts and IRC § 684

- **“Pure” Asset Protection Trust Can be Foreign**
  - **If foreign, no tax on transfer of appreciated assets because it’s a grantor trust; no tax on appreciated assets at grantor’s death because assets included in estate**

- **“Estate Planning” Asset Protection Trust Should Not be Foreign**
  - **If foreign, no tax on transfer of appreciated assets because it’s a grantor trust; but tax <u>is</u> imposed on appreciated assets at grantor’s death because not included in estate**

Gift Taxation

- **Gifts can either be complete** *(taxable gifts)* **or incomplete** *(no taxable gifts);* **incomplete gift requires retention by grantor of a certain amount of "dominion and control"**
  - **Traditionally, grantor's retained beneficial interest plus retained testamentary limited power of appointment has been sufficient under the gift-tax regulations**

Estate Taxation

- **Structure a foreign trust to cause assets to be includible in the grantor's estate to avoid IRC § 684**
- **Domestic trust can be structured to avoid inclusion of assets in the grantor's estate**

Primary Foreign Trust Filing Requirements

- **Form 3520: Annual Return to Report Transactions with Foreign Trusts**

- **Form 3520-A: Annual Information Return of Foreign Trust with U.S. Owner**

- **Form 1041: U.S. Income Tax Return for Estates and Trusts** *(with Grantor Trust Information Letter attached)*

Primary Foreign Trust Filing Requirements (cont'd.)

- **Form 709: United States Gift (and Generation-Skipping Transfer) Tax Return**

- **Form 8938: Statement of Specified Foreign Financial Assets**

- **FinCEN Form 114 (formerly TDF 90-22.1): Report of Foreign Bank and Financial Accounts** *("FBAR")*

- **Forms 8858, 8865, 5471 . . .**

Question: **What reduces your investment returns the most?**

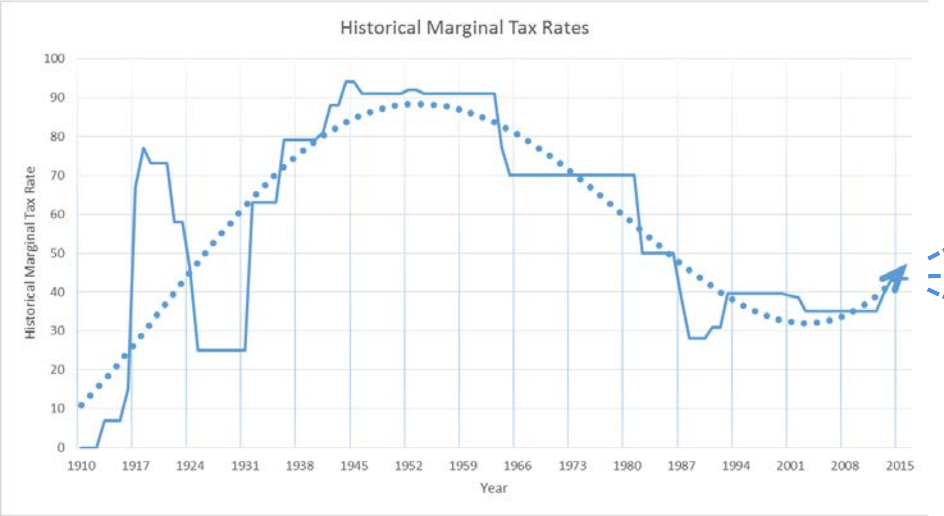
Answer: TAXES!

Overview

- **Grow your investments free of income tax**
- **Access these investments – for retirement or otherwise – free of income tax**
- **Pass these investments to your beneficiaries and heirs free of all income tax** *(and potentially estate tax)*

Historical Top Federal Tax Rates

Year	Rates
1913	7%
1918	77%
1930	25%
1944	94%
1955	91%
1967	70%
1975	70%
1992	31%
2000	39.6%
2010	35%
2016	43.4%



2017 and beyond

?

?

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Add in state income tax and you can lose 50% or more of your investment return

Always remember: TAXES AND FEES MATTER and

*It's not what you earn, **<u>it's what you keep!</u>***

The Strategy is an Insurance Wrapper

- **Extremely low fees** *(less than 1-1.25% per annum of account value)* **which is a fraction of the taxes you would otherwise pay**
- **Typically, no insurance agent/broker involvement and no commissions**
- **Customized to each investor's needs and their investment choices**
- **You can still use the same investment style your manager** *(RIA/fiduciary)* **is using – open architecture**
- **This insurance strategy is referred to as Private Placement Life Insurance** *(PPLI)*

The Economics: Taxable Account

Four Annual Investments of $2,500,000
Male, Age 50, Net Investment Return: 8%

			TAXABLE INVESTMENT		
Year / Age		*Deposit*	*Account Value*	*Internal Rate of Return*	*Tax Cost*
1	50	2,500,000	2,630,000	5.20%	2.80%
2	51	2,500,000	5,396,760	5.20%	2.80%
3	52	2,500,000	8,307,392	5.20%	2.80%
4	53	2,500,000	11,369,376	5.20%	2.80%
5	54	-	11,960,583	5.20%	2.80%
10	59	-	15,411,009	5.20%	2.80%
15	64	-	19,856,823	5.20%	2.80%
20	69	-	25,585,179	5.20%	2.80%
25	74	-	32,966,069	5.20%	2.80%
30	79	-	42,476,220	5.20%	2.80%
40	89	-	70,518,531	5.20%	2.80%
50	99	-	117,074,054	5.20%	2.80%
51	100	-	123,161,905	5.20%	2.80%

Assumes a hypothetical combined effective state and federal income tax rate of 35% on taxable earnings.

The Economics: Taxable Account vs. PPLI

Four Annual Investments of $2,500,000 – Non-MEC
Male, Age 50, Preferred Non-Smoker, Net Investment Return: 8%

			TAXABLE INVESTMENT			PRIVATE PLACEMENT LIFE INSURANCE		
Year / Age		*Deposit*	*Account Value*	*Internal Rate of Return*	*Tax Cost*	*Subaccount Value*	*Internal Rate of Return*	*Death Benefit*
1	50	2,500,000	2,630,000	5.20%	2.80%	2,606,855	4.27%	47,782,855
2	51	2,500,000	5,396,760	5.20%	2.80%	5,392,018	5.14%	50,568,018
3	52	2,500,000	8,307,392	5.20%	2.80%	8,380,700	5.66%	53,556,700
4	53	2,500,000	11,369,376	5.20%	2.80%	11,586,625	5.98%	56,762,625
5	54	-	11,960,583	5.20%	2.80%	12,348,195	6.14%	56,762,625
10	59	-	15,411,009	5.20%	2.80%	17,228,114	6.58%	23,500,000
15	64	-	19,856,823	5.20%	2.80%	24,530,327	6.85%	29,926,999
20	69	-	25,585,179	5.20%	2.80%	34,939,018	6.98%	40,529,261
25	74	-	32,966,069	5.20%	2.80%	50,536,086	7.12%	54,073,613
30	79	-	42,476,220	5.20%	2.80%	73,233,129	7.22%	76,894,785
40	89	-	70,518,531	5.20%	2.80%	151,896,293	7.31%	159,491,108
50	99	-	117,074,054	5.20%	2.80%	318,980,676	7.39%	318,980,676
51	100	-	123,161,905	5.20%	2.80%	343,982,737	7.40%	343,982,737

Taxable Investment Vs. PPLI

≈ $9.4 M *(36% more)*

≈ $81.4 M *(115% more)*

Notes

1. Assumes a hypothetical combined effective state and federal income tax rate of 35% on taxable earnings.
2. The policy is designed as a non-Modified Endowment Contract (Non-MEC) under current tax law.
3. Under current tax law, if the policy is fully surrendered, all investment gains in excess of the policy owner's basis are taxable to the policy owner as ordinary income in the year the policy is fully surrendered. Withdrawals or loans can be tax-free to the policy owner.
4. These calculations make assumptions as to future investment returns, mortality costs, and administrative expenses that are not guaranteed. Actual results may be higher or lower. The contents of this report are provided strictly for information purposes.

The Economics: Taxable Account (with Distributions)

Four Annual Investments of $2,500,000
Net Investment Return: 8%

			TAXABLE INVESTMENT		
Year	*Age*	*Deposit*	*Investment Income*	*Taxes Paid (35%)*	*Ending Value*
1	50	2,500,000	200,000	(70,000)	2,630,000
2	51	2,500,000	410,400	(143,640)	5,396,760
3	52	2,500,000	631,741	(221,109)	8,307,392
4	53	2,500,000	864,591	(302,607)	11,369,376
5	54	-	909,550	(318,343)	11,960,583
10	59	-	1,171,940	(410,179)	15,411,009
15	64	-	1,510,025	(528,509)	19,856,823
Years 17-30 (age 66-79)			Annual Distributions of $2,100,000		
Year 30 (age 80)			You're Out of Money		

Total Distributions **$ 28,043,639**

The Economics: PPLI (with Distributions)

Four Annual Investments of $2,500,000 – Non-MEC

Male, Age 50, Preferred Non-Smoker, Net Investment Return: 8%

			TAXABLE INVESTMENT			PRIVATE PLACEMENT LIFE INSURANCE			
Year /	*Age*	*Deposit*	*Investment Income*	*Taxes Paid*	*Ending Value*	*Investment Income*	*Insurance Fees*	*Ending Value*	*Death Benefit*
1	50	2,500,000	200,000	(70,000)	2,630,000	195,556	(88,701)	2,606,855	47,782,855
2	51	2,500,000	410,400	(143,640)	5,396,760	402,869	(117,706)	5,392,018	50,568,018
3	52	2,500,000	631,741	(221,109)	8,307,392	624,898	(136,216)	8,380,700	53,556,700
4	53	2,500,000	864,591	(302,607)	11,369,376	863,103	(157,178)	11,586,625	56,762,625
5	54	-	909,550	(318,343)	11,960,583	920,159	(158,589)	12,348,195	56,762,625
10	59	-	1,171,940	(410,179)	15,411,009	1,280,588	(128,352)	17,228,114	23,500,000
15	64	-	1,510,025	(528,509)	19,856,823	1,822,201	(147,445)	24,530,327	29,926,999
Years 17-30 (age 66-79)			Annual Distributions of $2,100,000			Annual Distributions of $2,100,000			
Years 31-41 (age 80-90)			Distributions of $0			Annual Distributions of $2,100,000			
42	91	-		You're		209,674	(255,039)	4,474,792	7,573,626
46	95	-		Out of		229,678	(5,951)	5,200,941	5,200,941
51	100	-		Money		333,890	(8,651)	**7,124,271**	**7,124,271**

Total Distributions from Taxable Investment **$28,043,639**

$52,500,000 **Total Distributions from PPLI**

PPLI Generates over.......<u>$24 Million more</u>.........in tax-free distributions over the life of the insured!

PPLI will continue past age 100 to the death of the insured, at which point the death benefit will be payable to the policy's beneficiary.

The Economics: PPLI (with Distributions)

Four Annual Investments of $2,500,000 – Non-MEC

Male, Age 50, Preferred Non-Smoker, Net Investment Return: 6%

Year	Age	Deposit	TAXABLE INVESTMENT			PRIVATE PLACEMENT LIFE INSURANCE			
Year /	*Age*	*Deposit*	*Investment Income*	*Taxes Paid*	*Ending Value*	*Investment Income*	*Insurance Fees*	*Ending Value*	*Death Benefit*
1	50	2,500,000	150,000	(52,500)	2,597,500	146,664	(88,558)	2,558,105	47,734,105
2	51	2,500,000	305,850	(107,048)	5,296,303	299,233	(117,136)	5,240,202	50,416,202
3	52	2,500,000	467,778	(163,722)	8,100,358	459,592	(134,864)	8,064,931	53,240,931
4	53	2,500,000	636,021	(222,608)	11,013,772	628,443	(154,657)	11,038,716	56,214,716
5	54	-	660,826	(231,289)	11,443,309	657,346	(154,829)	11,541,233	56,214,716
10	59	-	800,138	(280,048)	13,855,729	830,029	(123,981)	14,606,307	23,500,000
15	64	-	968,819	(339,087)	16,776,722	1,069,865	(123,554)	18,843,985	23,500,000
Years 17-33 (age 66-82)			Annual Distributions of $1,370,000			Annual Distributions of $1,370,000			
Years 34-41 (age 83-90)			Distributions of $0			Annual Distributions of $1,370,000			
42	91	-	You're			38,565	(129,705)	856,996	2,460,515
46	95	-	Out of			33,228	(253)	738,406	738,406
51	100	-	Money			39,696	(284)	882,126	882,126

Total Distributions from Taxable Investment → **$23,250,000**

$34,250,000 ← **Total Distributions from PPLI**

PPLI Generates over.......$11 Million more.........in tax-free distributions over the life of the insured!

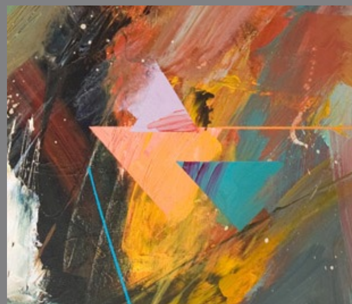
PPLI will continue past age 100 to the death of the insured, at which point the death benefit will be payable to the policy's beneficiary.

Who Should Use PPLI?

- **Individuals with a net worth of at least $7-10 Million**
- **Willing to commit a minimum of $500,000 - $1,000,000 per year for at least 4 years**
- **U.S. taxpayers and non-U.S. taxpayers in some cases**
  - ***e.g.,* Pre-Immigration Planning**
- **Individuals who are interested in asset protection**

Summary

- **Taxes and fees matter; taxes are your greatest drag that reduces your investment return**
- **Work with a fiduciary to achieve LOWEST insurance fees; they must put your interests before their own**
- **Private Placement Life Insurance:**
  - **Grow your investments free of income tax**
  - **Access these investments – for retirement or otherwise – free of income tax**
  - **Pass these investments to your beneficiaries and heirs free of all income tax** *(and potentially estate tax)*

Amy P. Jetel
ajetel@gsrjlaw.com
512.370.2747

Bob Chesner
bchesner@gsrjlaw.com
512.370.2736

100 CONGRESS AVENUE, SUITE 1440 | AUSTIN, TEXAS 78701

phone 512.767.7100 | ***fax*** 512.767.7101 | WWW.GSRJLAW.COM