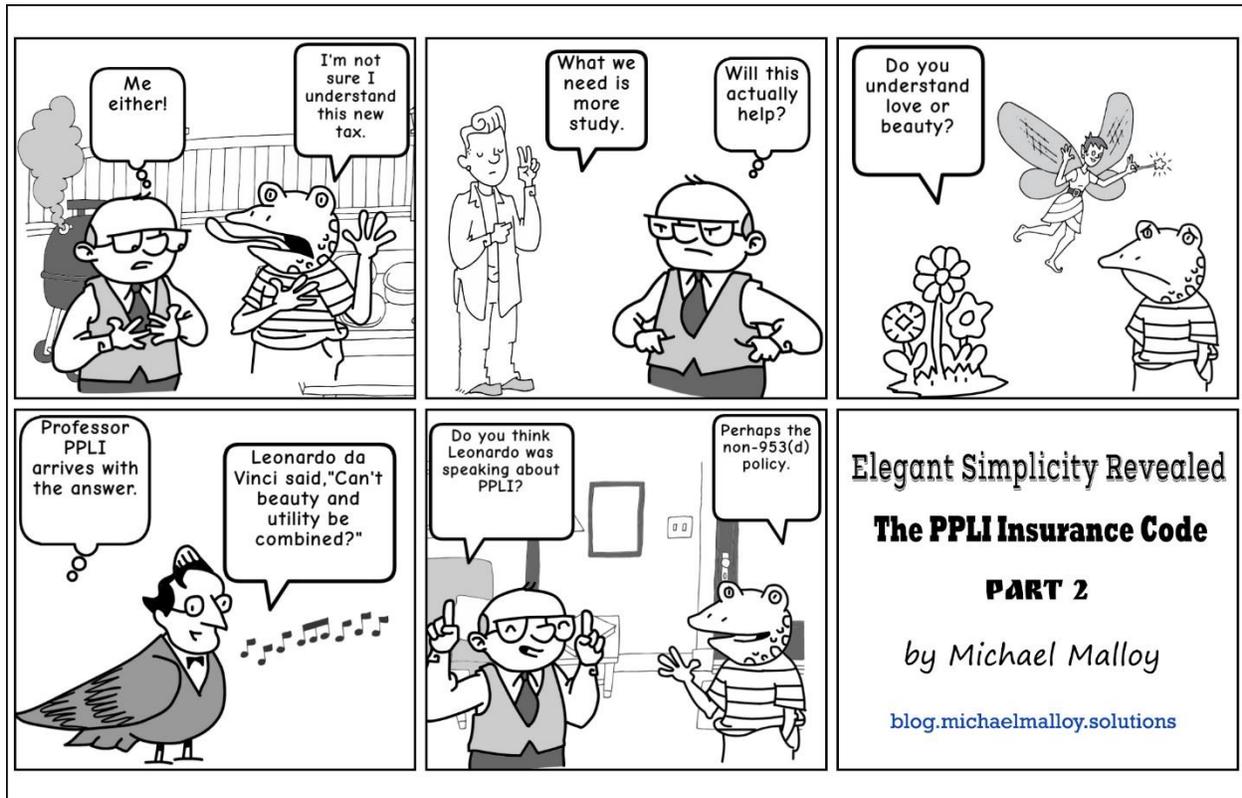


Elegant Simplicity Revealed



The PPLI Insurance Code

Part 2

*Our next few articles will comprise an in-depth look at the five main components of our **PPLI Concept Map: Professor PPLI meets Leonardo da Vinci.***

Although the basic framework of [Private Placement Life Insurance](#) (PPLI) policies is similar, each client situation is unique, and, therefore, calls for a new area of study. We use our [past experience](#) to bring the best possible outcome to a new set of circumstances.

Our past cases serve as a guide for new cases, but not as a rigid set of rules to follow. Previous cases at [Advanced Financial Solutions, Inc.](#) become a broad outline that guides us in the “undiscovered country” of the brand new PPLI challenge that presents itself.

Discovery is an endless process. As the Hungarian biochemist Albert Szent-Gyorgyi puts it,

“A discovery is said to be an accident meeting a prepared mind.”

One of our goals in these articles is to prepare the mind to accept such a simple tool to solve complex client issues.

Advisors tend to use the tools that they are familiar with. [PPLI](#) is not taught in law schools, so attorneys and other tax advisors must find it in the midst of their law practice. PPLI is also not well known by most insurance agents and brokers throughout the world.

Where did PPLI come from?

Here is a very brief account of its beginnings by Monroe Diefendord, Jr., and Gerald Nowotny, [*Private Placement Life Insurance, A Sophisticated Investment Solution for High Net Worth Investors*](#).

“The advent of PPLI began around 1992-1993 following the use of similar products (without hedge funds) by large corporations. AI Block, a substantial corporate owned life insurance (COLI) producer, placed the first high net worth policies with CIGNA. The offshore PPLI marketplace developed in 1995-1996 around two separate and distinct themes. Wealthy families emigrating to the U.S. used PPLI and private variable deferred annuity (PPVA) contracts as part of their “in bound” tax planning. Tremont developed a small Bermuda-based life insurance company around the same time.

PPLI policies were created with this issue in mind, namely; *“How does the high net worth investor combine the strong tax advantages of life insurance with a life insurance product that offers customized investment options for the sophisticated investor in a product that is institutionally priced?”*

Tax Code vs. Insurance Code

What is simpler? “Simplicity is the ultimate sophistication,” said Leonardo da Vinci. What we are calling the Insurance Code are the sections of the tax code that pertain to PPLI. They are for the most part sections 7702, 101, 817(h), and the various revenue rulings that address investor control: *Rev. Rul. 77-85, 1977-1 C.B. 12; Rev. Rul. 82-54, 1982-1 C.B. 11; Rev. Rul. 2003-91; Rev. Rul. 2003-2 C.B. 347 (Jul. 24, 2003).*

When you compare these sections and revenue rulings to the rest of the entire tax code that address the multiplicity of issues that face wealthy families, the conclusion is clear: what we are calling the Insurance Code is a vastly simpler body of knowledge. But simple is not simplistic, as a [**PPLI structure solves many planning issues in an elegant, conservative, and straightforward manner.**](#)

Sometimes we understand something by comparing it to its opposite. If a PPLI structure is a tool that gives assets the six principles of [**Expanded Worldwide Planning EWP**](#)--privacy, asset protection, tax shield, succession planning, compliance simplifier, trust substitute--what is its opposite? Let us consider a black hole, [**as just recently, scientists have been able to photograph it.**](#)

We further the analogy by positing--PPLI brings light to what can frequently be the complexity, read darkness, of [**clients' worldwide assets**](#). Darkness because these assets are usually not structured into a complete easy to understand structure.

Hannah Devlin of the *Guardian* gives us, "[**Black hole picture captured for first time in space breakthrough, Network of eight radio telescopes around the world records revolutionary image.**](#)"

"Astronomers have captured the first image of a black hole, heralding a revolution in our understanding of the universe's most enigmatic objects.

The picture shows a halo of dust and gas, tracing the outline of a colossal black hole, at the heart of the Messier 87 galaxy, 55m light years from Earth.

The black hole itself – a cosmic trapdoor from which neither light nor matter can escape – is unseeable. But the latest observations take astronomers right to its threshold for the first time, illuminating the event horizon beyond which all known physical laws collapse.

The breakthrough image was captured by the Event Horizon telescope (EHT), a network of eight radio telescopes spanning locations from Antarctica to Spain and Chile, in an effort involving more than 200 scientists.

Sheperd Doeleman, EHT director and Harvard University senior research fellow said: "Black holes are the most mysterious objects in the universe. We have seen what we thought was unseeable. We have taken a picture of a black hole."

However, the observations do not yet reveal anything about the black hole's inscrutable interior.

“The black hole is not the event horizon, it’s something inside. It could be something just inside the event horizon, an exotic object hovering just beneath the surface, or it could be a singularity at the centre ... or a ring,” said Ziri Younsi. “It doesn’t yet give us an explanation of what’s going on inside.” Ziri Younsi, a member of the EHT collaboration who is based at University College London.”

The last paragraph is of particular interest in that Mr. Younsi is attempting to describe something that in our everyday world on earth could not exist--a black hole. Luckily we do have the vocabulary to describe what we are calling its opposite: a properly structured PPLI policy which delivers the six principles of EWP to [*wealthy clients worldwide*](#).

We return to the world of tax with an introduction to the draft of an article by Emily Cauble, Professor of Law at DePaul University, on the subject of simplifying the U.S. tax code, “[*Superficial Proxies for Simplicity in Tax Law*](#),” 53 U. Rich. L. Rev. 329 (2019). To continue with our theme of simplicity, as you will read, this is not so simple!

“Simplification of tax law is complicated. Yet, political rhetoric surrounding tax simplification often focuses on simplistic, superficial indicators of complexity in tax law such as word counts, page counts, number of regulations, and similar quantitative metrics.

This preoccupation with the volume of enacted law often results in law that is more complex in a real sense. Achieving genuine simplification — a reduction in costs faced by taxpayers at various stages in the tax planning, tax compliance, and tax enforcement process — often requires enacting more law not less. In addition, conceptualizing simplicity in simplistic terms can leave the public vulnerable to policies advanced under the guise of simplification that have real aims that are less innocuous.

A perennial example involves lawmakers proposing a reduction in the number of tax brackets under the heading of simplifying tax law. In reality, this change does very little, if anything, to simplify law in a meaningful sense, and its truer aim is to reduce progressivity in the tax code.

Although the tax legislation ultimately enacted in December 2017 did not change the number of brackets applicable to individual taxpayers, political discourse preceding its enactment once again touted a reduction in the number of tax brackets as a simplifying measure.”

If you wish to keep things simple and at the same time achieve results not possible with other structuring methods, please [contact us today](#) for a free initial consultation.

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