The Rising Role of Private Placement Life Insurance in Advanced Planning for Ultra-High Net Worth Clients

By: Caroline McKay, JD, LLM, AEP

Private Placement Life Insurance (PPLI) has moved from a niche strategy to a central tool in planning conversations for ultra-high net worth (UHNW) families. Increasing tax complexity, sustained interest in private alternatives, and the maturation of the insurance dedicated fund ecosystem have made PPLI increasingly relevant for advisors responsible for designing long-term, tax efficient structures. Although PPLI has existed for decades, the sophistication of today's offerings—and their alignment with trust and estate planning—has made the strategy uniquely valuable.

Understanding PPLI: Eligibility and Structure

PPLI is a variable universal life insurance policy offered exclusively to qualified purchasers and accredited investors. These eligibility requirements ensure that only investors with sufficient financial sophistication and capacity can access the strategy's institutional level investment options.

An accredited investor is an individual or entity that meets specific financial thresholds under Regulation D, generally including individuals with income exceeding $200,000 (or $300,000 jointly) for the prior two years or a net worth exceeding $1 million excluding a primary residence. Certain entities qualify based on assets or regulated status. The purpose of this standard is to limit access to complex investment structures to those capable of absorbing risk and understanding the associated implications.

A qualified purchaser, a higher bar than an accredited investor, typically includes individuals or family-owned entities with at least $5 million in investments, as defined under the Investment Company Act of 1940. Institutional investors such as certain trusts or corporations can qualify at $25 million or more. PPLI carriers rely on these thresholds because the investment options inside PPLI often include sophisticated private funds that require qualified purchaser status.

PPLI's central value proposition lies in combining this advanced investment access with the tax treatment inherent in life insurance. Once premium dollars are inside the contract, investment earnings grow tax deferred. Policyholders can access cash value tax-free via withdrawals to basis and policy loans, provided the policy is not structured as a modified endowment contract (MEC). At death, beneficiaries receive the policy's death benefit free of income tax, a feature that takes on added significance when PPLI is integrated with irrevocable trust structures.

Insurance Dedicated Funds and Separately Managed Accounts

Unlike retail variable life insurance products, where investment options typically are limited to mutual funds, PPLI permits access to investment strategies not available to the general public. These typically come through two formats.

Insurance dedicated funds (IDFs) are pooled investment vehicles available only to life insurance companies for use within variable insurance products. They are designed to meet diversification requirements under Section 817(h) and restrictions on investor control. Today's IDF marketplace includes:

- Hedge fund strategies (long/short equity, global macro, multi strategy)
- Private credit and direct lending
- Private equity and venture capital feeders
- Real estate and real asset strategies

Many top tier managers now operate IDFs that mirror their flagship strategies, allowing UHNW clients to access institutional quality investments without the tax inefficiencies of direct ownership.

Alternatively, Separate Managed Accounts (SMAs) allow clients to select a registered investment manager to create a bespoke investment allocation. SMAs can be particularly useful when:

- Families have concentrated equity positions requiring tax-sensitive management.
- Advisors want to implement custom private credit or real estate strategies.
- A family seeks to replicate its existing asset allocation inside a tax efficient wrapper.

SMAs must still comply with diversification and control rules, but they offer a level of customization that appeals to large families and private trust companies.

Both formats allow high performing but tax inefficient strategies to compound without annual drag—making PPLI particularly compelling for clients with large allocations to private alternatives and high turnover strategies.

Why Advisors Are Discussing PPLI More Than Ever

Although PPLI has existed for decades, it is now experiencing meaningful adoption, moving beyond conference room discussion to real client implementation. This shift appears driven by many structural developments in the marketplace rather than promotional efforts, including:

1. Expansion of available IDFs and SMAs
   The number and quality of institutional managers offering insurance dedicated strategies has grown substantially. Top-tier hedge funds, private equity firms, and credit managers are increasingly comfortable operating in insurance formats. This expansion allows PPLI to deliver exposures that previously carried heavy tax burdens.

2. Increased client allocations to private alternatives
   UHNW investors continue to shift toward private equity, private credit, venture capital, and hedge funds. These strategies often generate short-term capital gains, ordinary income, or phantom income—all highly tax inefficient in taxable environments. PPLI offers a compliant structure that allows these strategies to compound without erosion from annual taxation.

3. Advisor familiarity and improved onshore carrier options
   Domestic PPLI offerings have improved significantly, with major carriers strengthening governance, underwriting flexibility, and investment platform quality. As a result, more attorneys, CPAs, and RIAs are comfortable incorporating PPLI into planning conversations, particularly for clients with complex trust structures.

4. Increased individual tax rates & compressed trust tax brackets
   With federal ordinary income tax rates remaining elevated and many high tax states—such as California, New York, and Massachusetts—imposing additional burdens, individuals and families in the highest brackets are increasingly seeking ways to reduce tax exposure. This pressure has intensified as portfolio allocations have shifted toward private investments, which often generate significant amounts of ordinary income. For families using irrevocable trusts as part of their estate planning, these higher tax rates affect both grantor and non-grantor trust structures. As advisors look for solutions to reduce ongoing taxation on alternative investments held in trust, PPLI has become an increasingly natural fit.

Trust Owned PPLI: Aligning Tax Efficiency with Estate Objectives

Trust owned PPLI can be a powerful tool for families who have moved significant assets into irrevocable trusts—whether through lifetime exemption gifts or transfers designed to shift future appreciation out of the estate. Although this planning reduces estate tax exposure, it often introduces substantial income tax challenges. PPLI helps address several of the most persistent issues that arise inside both grantor and non-grantor trusts:

1. Grantor trust fatigue

   Grantors frequently tire of paying income taxes attributable to grantor trust assets, especially when those assets generate substantial amounts of ordinary income from alternative investments. Placing those investments inside a PPLI policy reduces the annual income tax burden and alleviates grantor fatigue.

2. Non-grantor trust tax compression

   Non-grantor trusts face the highest marginal federal tax rate and the net investment income tax at extremely low-income thresholds. By allowing income and gains to accumulate tax deferred inside the policy, PPLI can reduce or eliminate this tax compression and restore economic efficiency to trust level investing.

3. Lack of basis step-up

   Assets held in irrevocable trusts generally do not receive a basis step-up at the grantor's death. While PPLI cannot change basis rules, the income tax-free death benefit provides liquidity that economically mimics the effect of a step-up by delivering tax-free proceeds to the trust—offsetting the embedded gain that would otherwise persist.

4. Beneficiary access to cash

   As long as the policy maintains non MEC status, trustees may access cash value through withdrawals or policy loans without triggering income tax. This provides beneficiaries with flexible, tax efficient liquidity—something often unavailable when trusts own private investments directly.

5. Multi-generational planning and dynasty trust alignment

PPLI is well suited for dynasty trusts and other long duration structures. Designing policies on younger generations reduces cost of insurance charges, lengthens the compounding horizon, and increases long term planning flexibility. Within multigenerational frameworks, PPLI supports:

- sustained, tax efficient compounding over decades
- flexible distribution planning for future beneficiaries
- long term alignment with family governance and investment objectives
- reduced administrative complexity compared to holding alternatives directly inside the trust

Conclusion

For UHNW families facing the dual challenge of tax inefficient investments and trust tax fatigue, PPLI stands out as a sophisticated and flexible tool. Its ability to shield alternative investment income and gains from annual taxation, integrate seamlessly with trust planning, and deliver tax free benefits over multiple generations makes it increasingly relevant for advisors designing advanced strategies.

If you are interested in learning more about PPLI, please reach out to us for a discussion.

Disclosures

Investors should consider the investment objectives and horizons, income tax brackets, risks, charges, and expenses of any variable product carefully before investing. This and other important information about the investment company is contained in each fund's offering memorandum. Please read it carefully before you invest.

SOLELY FOR INSTITUTIONAL INVESTORS, defined by FINRA Rule 2210(a)(4) to include any (a) financial institution, insurance company, registered investment company, registered investment adviser or any other person (whether a natural person, corporation, partnership, trust or other entity) with total assets of at least $50 million, (b) governmental entity, (c) employee benefit plan, (d) qualified plan, (e) member or registered person of such member, or (f) person acting solely on behalf of such institutional investor.

The Coyle Company is a member of the M Financial Group, a financial services producer group of independently owned and managed Member Firms. M Financial provides product design and marketing assistance but does not control the activities of its Member Firms, which are not required to offer financial service products designed or promoted by M Financial. M Financial does not issue insurance policies or financial service products to purchasers.

Please go to http://www.mfin.com/DisclosureStatement.htm for further details regarding this relationship.

Securities offered through M Holdings Securities, Inc., a Registered Broker/ Dealer, Member FINRA/SIPC.
The Coyle Company Insurance Group, LLC is owned and operated independently from M Holdings Securities, Inc.