Understanding private placement life insurance

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For certain high-net-worth investors, private placement life insurance may offer a way to align long-term growth, tax efficiency, and estate planning goals.

Key points

- Private placement life insurance (PPLI) can help combine long-term investing with life insurance, making it a potential tool for both growing and transferring wealth.
- For some investors, it may offer advantages such as tax-deferred growth, access to a broader range of investments, and a tax-efficient way to pass assets to beneficiaries.
- Because PPLI is more specialized than traditional life insurance, it's generally best suited for high-net-worth investors working with experienced financial, tax, and legal advisors.

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Introduction

When most individuals think of life insurance, they think about protection—a way to provide financial support to loved ones. But life insurance can also be used to support long-term growth and wealth planning.

Private placement life insurance (PPLI) is one example of this approach. It combines investment management with the benefits of life insurance in a single structure. While it's not widely known, it may offer unique benefits for certain investors, particularly those focused on tax efficiency and wealth transfer.

This article explains what PPLI is, how it works, and who it may be appropriate for.

What is PPLI?

PPLI is a type of life insurance that allows individuals to invest assets inside the policy. Unlike traditional life insurance policies, which are typically designed to provide a set level of protection, PPLI is often used as an investment strategy with insurance benefits attached. In effect, it serves as a structure that holds and manages investments within a life insurance framework.

How does PPLI work?

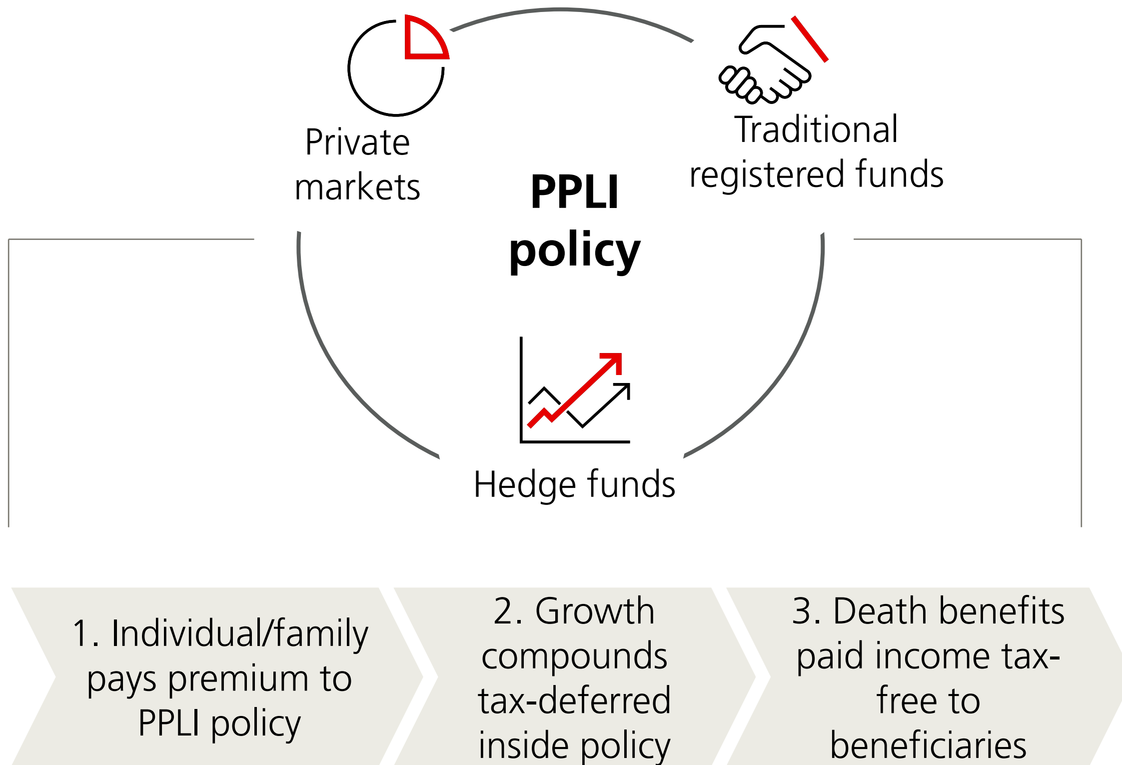
To initiate this strategy, an individual (the policyholder) contributes assets to a life insurance policy issued by a highly rated insurance company. The funds are then allocated across investment strategies, which may include alternative assets. Over time, the policy's investments grow without being subject to annual taxation each year, meaning they allow for tax-deferred growth during the lifetime of the insured.

In some cases, policyholders can access the value through loans or withdrawals, depending on how the policy is structured.

When the insured individual passes away, the policy pays a death benefit to the policy's beneficiaries, and this lump sum payment is generally income tax free.

Figure 1 - How assets flow through a PPLI strategy

A simplified view of how assets may move through the policy and support investment growth and wealth transfer. Includes examples of insurance dedicated funds that may be offered in a PPLI.



Source: UBS. For illustration purposes.

At a high level, PPLI and traditional life insurance both provide a death benefit to beneficiaries, but the difference lies in how they are typically used. For instance, traditional life insurance is primarily used to provide financial protection. The focus is on maintaining a specific level of coverage, often with more limited investment options. Traditional policies are typically funded over time to maintain coverage.

By contrast, PPLI is typically funded upfront and is used as an investment strategy structured to support long-term growth while still providing the benefits of life insurance.

Figure 2 - How PPLI compares to traditional life insurance
Key differences in purpose, structure, and role in wealth planning

	Traditional life insurance	Private placement life insurance
Purpose	Protection	Growth + protection
Funding	Ongoing premiums	Upfront funding
Investments	Limited options	More options, including alternative investments
Role	Protection-focused	Investment-focused

Source: UBS. For illustration purposes.

PPLI is not a replacement for traditional life insurance. Instead, it is best viewed as a complement for investors with more complex planning needs.

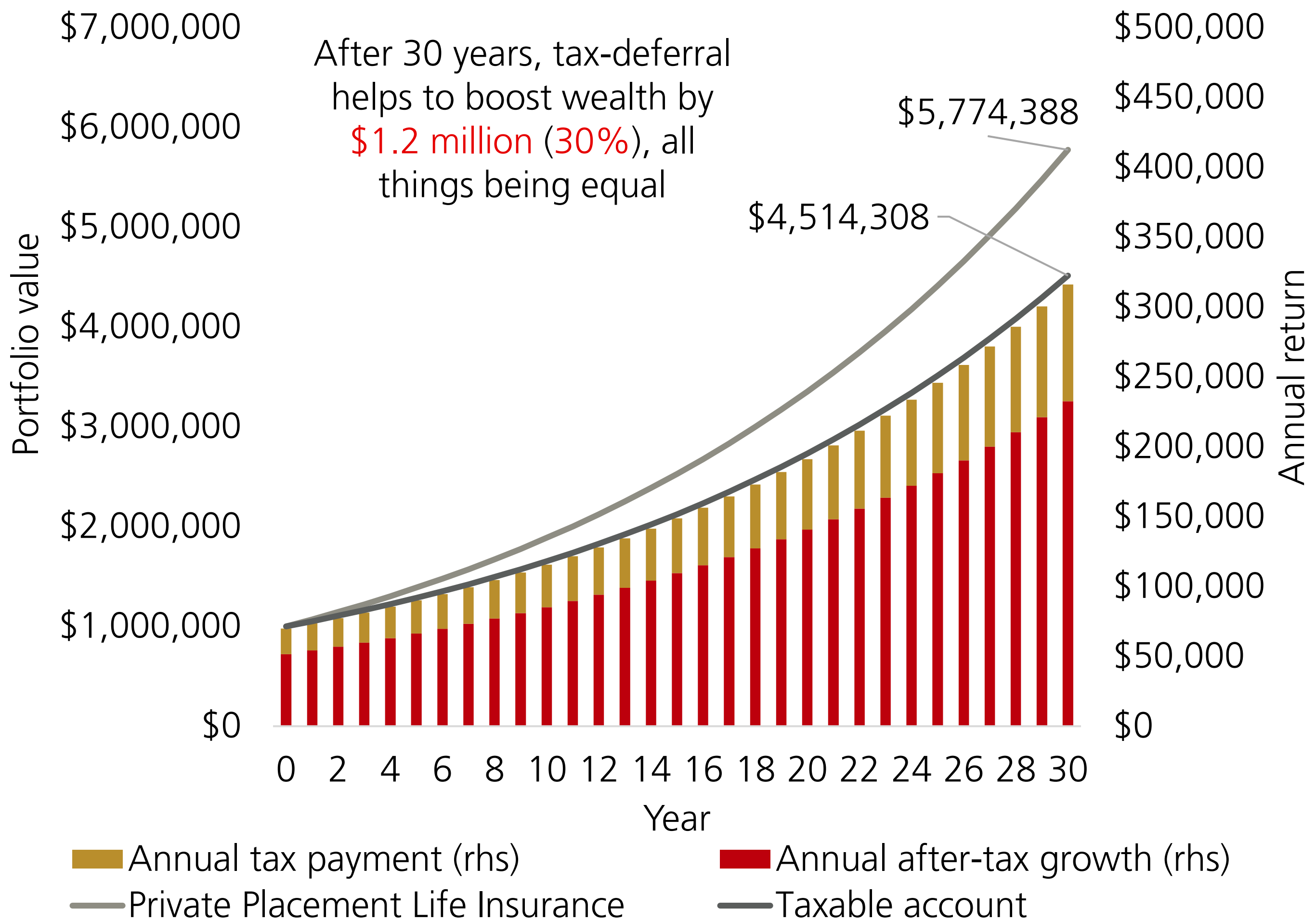
What are the potential benefits?

Some benefits of PPLI are shared with traditional life insurance, while other benefits reflect its more investment-focused design.

Tax-efficient growth
Like other insurance policies, investments inside PPLI can generally grow without being taxed each year, which may improve long-term growth potential (Figure 3). This tax deferral can be especially valuable for tax-inefficient investments, such as hedge funds, private credit, and other asset classes that offer high return potential but also generate significant income and capital gains that could generate high annual taxes if held outside a tax-advantaged account. In addition, the policy's death benefit is generally paid to beneficiaries income tax free.

Figure 3 - Tax deferral may help improve compounding growth potential

Hypothetical growth over time showing the difference between taxable and tax-deferred compounding growth potential



Source: UBS. For illustrative purposes only.

Assumptions: $1 million starting investment, 7% return (net of fees). Assumes 75% annual portfolio turnover, with 67% taxed at the short-term capital gains tax rate (40.8%) and 33% taxed at long-term capital gains tax rate (23.8%). Similar results may be achieved with other tax-advantaged account types or tax-deferral strategies.

Access to broader investments (differentiator)

PPLI may provide access to a wider range of investment strategies than traditional life insurance, including certain alternative investments not typically available in standard policies. Because interest, dividends, and capital gains generated within the PPLI are generally not subject to taxation, it is possible for growth to compound more efficiently over time within PPLI. Holding these investments within a PPLI may help to improve the after-tax growth potential of a portfolio.

Flexible portfolio management (enhanced relative to traditional policies)

Investments within the policy can often be adjusted over time without triggering immediate taxes, allowing for ongoing portfolio management. Depending on the structure, policyholders may also be able to access liquidity through loans or withdrawals.

Efficient wealth transfer

As with other life insurance policies, PPLI provides a tax-efficient way to transfer assets to beneficiaries. Because the policyholder designates beneficiaries up front, proceeds are paid directly based on those instructions. This can improve clarity, streamline the transfer process, and be coordinated with other estate planning strategies, such as naming a trust as the beneficiary.

Potential asset protection

In some jurisdictions, the policy's value and death benefit may be protected from certain legal claims or creditors. The extent of this protection depends on applicable laws and individual circumstances.

Who might consider PPLI?

PPLI is not intended for every investor. To purchase a PPLI policy, you must be a Qualified Purchaser and an Accredited Investor. PPLI is generally more appropriate for individuals with substantial investable assets who are focused on transferring wealth efficiently over time. Because of its complexity and structure, it is typically used by investors who are comfortable with more advanced planning approaches.

Important considerations

PPLI policies are more complex than traditional life insurance, and the benefits are generally realized over longer periods. Fees, insurance costs, and investment performance can all influence outcomes, making proper structuring crucial. As with any complex planning strategy, it is important to work with a financial advisor, tax accountant, and an attorney to determine whether it aligns with the family's overall objectives.

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