



{ Private Placement Life Insurance }

NYFO: Not Your Father's Oldsmobile

Historically at Convergent Wealth Advisors, we have not viewed insurance as an investment vehicle, but rather as a hedge against a specific and identifiable risk. This view has been held by most of our clients, as well. They have typically purchased insurance if at all, to address a specific need or risk -- for example, to provide liquidity to pay the estate tax on an illiquid asset. In other cases, some clients have purchased insurance to serve, in part, as a substitute for an allocation to bonds, thereby allowing them to participate in the "lottery ticket" nature of insurance should the insured die prematurely,¹ although these cases have been relatively rare.

Times have changed, however. The private placement insurance and annuity markets have undergone significant transformation, making these products much more efficient and less costly. These changes, in combination with recent guidance from the Internal Revenue Service, have caused insurance and related products to become, in our view, more attractive for our clients. We now believe that private placement life insurance ("PPLI") or private placement annuities ("PPA") have a place in the portfolios of certain clients. Specifically, if the client has a need or desire to benefit from the protection traditionally provided by insurance or annuities, these instruments can serve as income-tax-efficient substitutes for a portion of their income-tax-inefficient investments.

In order to help the reader gain an understanding of the advantages of PPLI or PPA, this Primer will:

- review the income taxation of insurance and annuities;
- examine the economics operating inside insurance or annuity contracts;
- walk through an example of both PPLI and PPA;
- outline certain non-economic advantages and disadvantages; and
- conclude with our thoughts on when we believe these products should be included in a client's portfolio.

Income Taxation of Life Insurance

For many years, life insurance and annuity contracts have received significant preferential treatment under the Internal Revenue Code. Generally, the appreciation of, and yield on, assets inside a properly designed insurance or annuity contract are not subject to income taxation as that income is realized (or earned). Instead, the income taxation of that appreciation and yield is at a minimum deferred --- and at best eliminated.

Because the taxation of life insurance and annuities is relatively complex, we have endeavored to summarize certain of the more important elements. For ease of review, we have divided this into segments concerning:

- withdrawals, loans or partial surrenders during the life of the contract;
- scheduled payments (for annuities only) during the life of the contract;
- surrender (full) during the life of the contract;
- exchanges during the life of the contract; and
- payments made upon or after the death of the insured or annuity owner.²

¹ In most properly designed policies, if an insured passes away at or beyond his or her actuarial life expectancy, then the internal rate of return ("IRR") on the insurance proceeds is typically equivalent to the long-term return of a high-quality bond portfolio. If death is premature, then the IRR is much higher, hence the "lottery ticket".

² In this Primer, we assume for the most part that the annuitant and the contract owner are the same individual.



For each of those segments, the income taxation of properly structured life insurance and annuity contracts can be summarized as follows:

	LIFE INSURANCE	ANNUITIES
ACCUMULATIONS	Not subject to taxation as appreciation occurs.	Not subject to taxation as appreciation occurs. ³
WITHDRAWALS	Withdrawal of assets from a policy is generally income tax free to the extent that aggregate withdrawals do not exceed the contract owner's investment in the contract (analogous to one's "basis"). ⁴	Withdrawal of assets is treated as ordinary income to the extent there is untaxed appreciation inside the annuity contract, and amounts withdrawn in excess of that appreciation are treated as a return of the holder's investment in the contract (again, analogous to "basis"). A 10% penalty on the ordinary income portion may apply if the annuitant has not attained age 59½ (or met other conditions).
LOANS	A contract owner may borrow funds, using the policy as collateral (and typically reducing the account's value), and the proceeds of those loans will not be subjected to income taxation upon receipt. ⁵	Loans, pledges and assignments involving an annuity contract are treated as withdrawals and subjected to income tax as noted above.
SCHEDULED PAYMENTS	Generally not applicable.	Generally, each annuity payment is segregated into two portions: that part representing a partial return of the holder's investment in the contract, which is accordingly excluded from gross income, and the remainder of the payment, which is considered gross income. ⁸
SURRENDER	The amount received upon surrender is treated first as a return of the holder's unrecovered basis, and any excess is considered ordinary income. ⁶	A surrender is generally treated the same as a withdrawal, as discussed above. A gift of an annuity contract is treated similarly to a surrender.
EXCHANGES	Tax free if insured remains the same and properly structured and executed. ⁷	Tax free if the annuitant remains the same and properly structured and executed.
PAYMENTS UPON DEATH OR AFTER DEATH	Death benefits paid to a beneficiary are not considered income.	Amounts received by a beneficiary of an annuity contract are generally treated the same as amounts would have been treated if received by the contract holder.

³ For annuities, preferential treatment is only available for contracts considered, for income tax purposes, as owned by natural persons.

⁴ Tax free withdrawals are available only to policies that avoid "modified endowment contract" ("MEC") status. To do that, generally the premium payments must be made over the course of 4-5 years at a minimum to maintain the proper relationship between cash value and death benefit. Accordingly, caution must be exercised with withdrawals so that the contract remains "insurance" and avoids MEC status.

⁵ Again, loans are "tax-free" only for contracts that are not MECs.

⁶ This assumes that the contract is not a MEC. Additionally, caution must be exercised if a policy is surrendered and loans are outstanding which are secured by the policy. Gain can result if those loans exceed the holder's basis.

⁷ Exchanges of an insurance policy will require a re-evaluation of the insured's medical condition (e.g. an exam).

⁸ That portion of an annuity payment which is treated as a partial return of a holder's investment in a contract depends upon a variety of factors, the discussion of which is beyond the scope of this Primer.



As one can see, the rules regarding the income taxation of life insurance and annuities are rather involved, and if the reader has a specific question on this topic, we would encourage consulting with his or her tax advisor. Nevertheless, we have attempted to summarize certain rules, and generally, the rule of thumb that we apply is simple: *appreciation of and yield on the assets inside a properly designed insurance or annuity contract are not subject to income taxation as they are earned or realized.* Moreover, as you will see in the examples below, this deferral can become very powerful over time.

Economics of a Private Placement Insurance or Annuity Contract

To put into context the advantages inherent in PPLI or PPA, one must be somewhat familiar with the economic operations inside those products. Again, even though these economics can seem complex, we have endeavored to describe those internal workings in a user-friendly manner.

Typical Structure of PPLI or PPA

Almost exclusively, policies of insurance or annuity contracts that are issued pursuant to a private placement are “variable” contracts. This means that when the insurance policy or annuity contract is issued and the contract holder pays his or her premium to the insurance company, that premium payment (after loads, as discussed below) is held in a separate, segregated account.⁹ From there, the insurance company provides the new contract holder with a list of options into which those premium dollars may be invested, and the new contract holder selects from amongst those options how the holder’s premium will be allocated.

Historically, the menu of investment options offered by insurance companies replicated common mutual funds, such as an S&P 500 Index fund, an International (EAFE) fund or a small cap fund. However, even though similar to common, publicly available mutual funds, the investment options presented by an insurance company were (and are still) available only to insurance accounts, not the general public. More recently, insurance companies have expanded their options to include hedge funds (typically, fund-of-funds).

Like the “traditional” investment options offered by insurance companies, these hedge funds-of-funds are available only through the purchase of an annuity or insurance contract, and are referred to as “insurance dedicated funds.”¹⁰ In this way, a contract holder can choose to allocate his or her premium dollars among a variety of investments, including hedge funds, which are approved by an insurance company for inclusion on its platform.

Fees, Expenses, and Taxes

One of the more powerful evolutions in the PPLI and PPA market has been the substantial increase in transparency of fees and expenses inside the contracts. Because these contracts are privately placed, the purchaser is provided clarity into all fees and expenses charged. Accordingly, a contract purchaser has the opportunity to dissect his or her contract with a mind to negotiating those fees and expenses.

⁹ The assets of a segregated account are separate and distinct from the general assets (and liabilities) of the insurance company. Nevertheless, the purchaser of an insurance or annuity contract must perform sufficient due diligence (or seek advice from legal counsel who specializes in insurance or from an insurance consultant) on the insurance company that is issuing the contract. This is important because, in the final analysis, the purchaser is entering into a contract with a third party and will have to rely on that third party to perform its obligations under that contract.

¹⁰ Note, however, that often the underlying hedge funds into which the fund-of-funds manager invests are available outside of the insurance context, and consist of some of the best known managers in the hedge fund space.



Below, we have endeavored to explain the fees, taxes and expenses which operate inside an annuity or insurance contract and of which the purchaser should be aware.

For **life insurance**, a contract holder's premium dollars are immediately subject to the following reductions (sometimes called "loads").¹¹

- **Federal Deferred Acquisition Costs Tax ("DAC Tax")** – this is a tax imposed upon the insurance company, which it then passes through to its insureds. This is, on average, a 1.0% charge.
- **State Premium Tax** – this charge is imposed by the state where the contract is issued (assuming that the contract purchaser has sufficient nexus with that state). The amount of this tax varies greatly from state to state; for example, currently Maryland's premium tax is 2%, while South Dakota's tax is negligible in large cases. Often times, clients will create trusts that are located in a low-tax jurisdiction to purchase the contract to avoid these taxes.¹²
- **Commissions (paid to the selling agent)** – these commissions are based upon the amount of premiums paid and are deducted directly from the premiums as they are paid. Additionally, sometimes commissions are structured so that they are "trailing," that is, paid in small amounts over time from (and as a % of) the contract's cash value.

Below are expenses that are paid each year:

- Insurance company **mortality and expense** charges (so-called "**M & E**") – "M & E" is something of a misnomer; these charges are simply the profit element for the insurance company.¹³
- **Cost of insurance ("COI")** – this is the true cost of the insurance protection provided by the policy. It is analogous to the cost of term insurance, and is directly related to the net amount at risk ("NAR"), which conceptually is the difference between the promised death benefit and the cash value of the policy.¹⁴
- **Investment Management Fees** – these charges are paid at the investment level and investment returns are reported to the separate account net of these fees. Of course, these particular charges would exist outside of the insurance/annuity context and thus are not unique to PPLI or PPA.

Annuities are subject to the same charges described above, with these exceptions:

- Because annuities typically do not provide a death benefit, there is no COI charge.
- DAC taxes are not imposed.

¹¹ For clients who are willing to consider purchasing an insurance or annuity contract outside of the U.S., these clients typically will encounter contracts with lower fees (i.e. smaller loads). A discussion of purchasing a contract outside of the U.S. is beyond the scope of this Primer.

¹² A full discussion of state premium taxes is beyond that scope of this Primer, and of course, these taxes should be closely examined by a prospective contract purchaser prior to execution of a transaction.

¹³ Whether the M & E charge is "current" or "guaranteed" is an important element for a contract purchaser to negotiate with the insurance company. "Current" charges can be changed by the insurance company at its discretion and could thus differ significantly over time (particularly as compared to the illustration provided by the carrier). As noted elsewhere in this Primer, one of the advantages of PPLI or PPA is that the contract purchaser can negotiate certain elements of the contracts with the insurance company. A purchaser should make sure that his or her insurance advisor assists him or her in considering whether to negotiate the variability of those charges.

¹⁴ COI charges can also be "current" or "guaranteed" and thus, the footnote immediately above applies as much to COI as it does to M & E.



- Agent commissions for annuity contracts are typically significantly lower than those for insurance contracts.
- Depending on the particular state at issue, state premium taxes are generally not applied to annuities or even if applied, are much lower than those applied to insurance.¹⁵

Thus, from an economic standpoint, annuities have less “friction” inside the contracts than does insurance, but also do not possess the flexibility to access the cash value (and other benefits) that are inherent in insurance contracts as discussed above.¹⁶

Crunching the Numbers

At Convergent, we realize that crafting a “rule of thumb” regarding the economic benefit¹⁷ of investing inside a PPLI or PPA versus investing in a taxable environment is very difficult due to the fact that each contract owner’s particular circumstances will significantly affect the PPLI or PPA economics. In other words, the economics of any private placement variable insurance or annuity contract differs for each contract and depends upon a number of factors, including age, health, the insurance company’s costs, specific items negotiated with the agent or insurance company, and actual investment performance. Accordingly, because we cannot fashion a rule of thumb to be applied in all circumstances, we believe it would be helpful to review an example of how these costs and other economics would operate for a hypothetical insurance or annuity contract purchaser using certain noted assumptions.¹⁸

Insurance

Please refer to the graphic below titled “Private Placement Life Insurance - Example”. It illustrates three values:

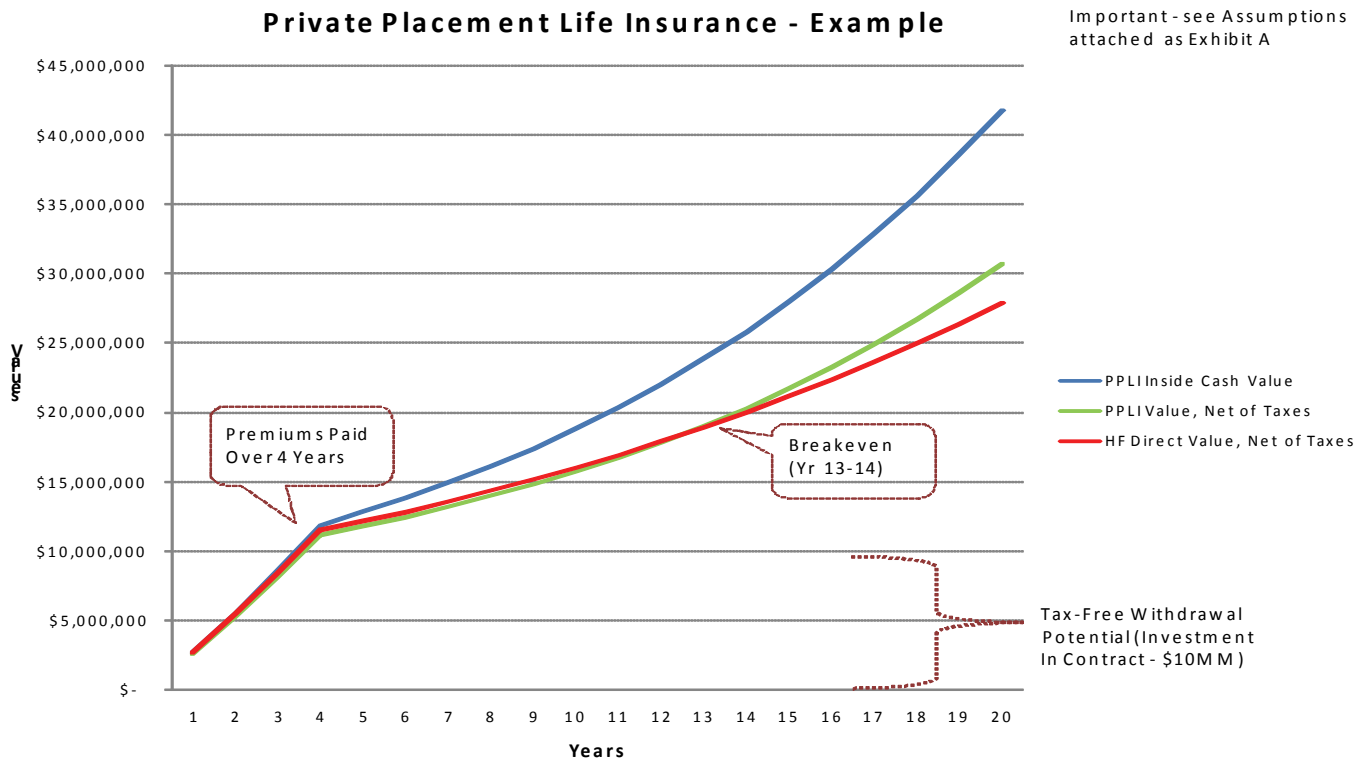
- The after-income-tax value (in red) of a hedge fund portfolio in a taxable environment, where the portfolio is assumed converted to cash at any particular point in time and all income taxes paid;
- The after-income-tax value (in green) of a hedge fund portfolio inside the insurance contract (i.e. in a tax-deferred environment) where the contract is assumed cancelled at any particular point in time and all income taxes paid; and
- The pre-tax value (in blue) of a hedge fund portfolio inside the insurance contract where the contract is assumed maintained.

¹⁵ Caution must be exercised when planning for the annuitization of an annuity contract because some states apply a premium tax on that event rather than the issuance of the contract.

¹⁶ Assuming an insurance contract is not a MEC.

¹⁷ This is aside from the traditional insurance or annuity protection which is of course an important element of why a client should pursue PPLI or PPA.

¹⁸ Of course, these calculations in the example are for illustrative purposes only and depend upon a variety of factors, including age, health, when premiums are made, etc. See Exhibits A and B for a list of certain of the assumptions that we employed in performing these calculations reflected in the graphics.



Among other things, what the reader should note about the above example is that, under the (given assumptions shown on Exhibit A):

1. The cash value inside the insurance contract (i.e. pre-tax) is greater than the after-tax value of the taxable hedge fund portfolio **as early as year 4**, and that trend (i.e. the gap between the blue line and the red line) simply accelerates over time due to more value compounding;
2. Even though the comparison in 1 above can be criticized as being “apples” to “oranges” (due to one value being pre-tax and the other after-tax), nevertheless the contract holder has access to cash by taking tax-free withdrawals (not in excess of basis), or loans during the life of the contract if access to cash is necessary, **thus making the fact that one is after-tax and one pre-tax less important**.¹⁹
3. If the insurance contract is liquidated and tax paid on any inside build-up (green line) in any particular year, then **year 13 or so is the first year that the contract holder would be “ahead”** as a pure economic matter by being invested inside the insurance contract compared to being invested in an “outside” hedge fund portfolio that is converted to cash (red line). Of course, **the “break-even” year could be earlier or later depending upon the particular economics in a client’s insurance contract, particularly the returns of the underlying investments**.
4. Typically, to avoid MEC status, premium payments must be made over a number of years.
5. In the later years of an insurance policy, the cash value (blue line) approaches the value of the death benefit payable under the contract. Thus, if the client held the insurance contract

¹⁹ Assuming an insurance contract is not a MEC.

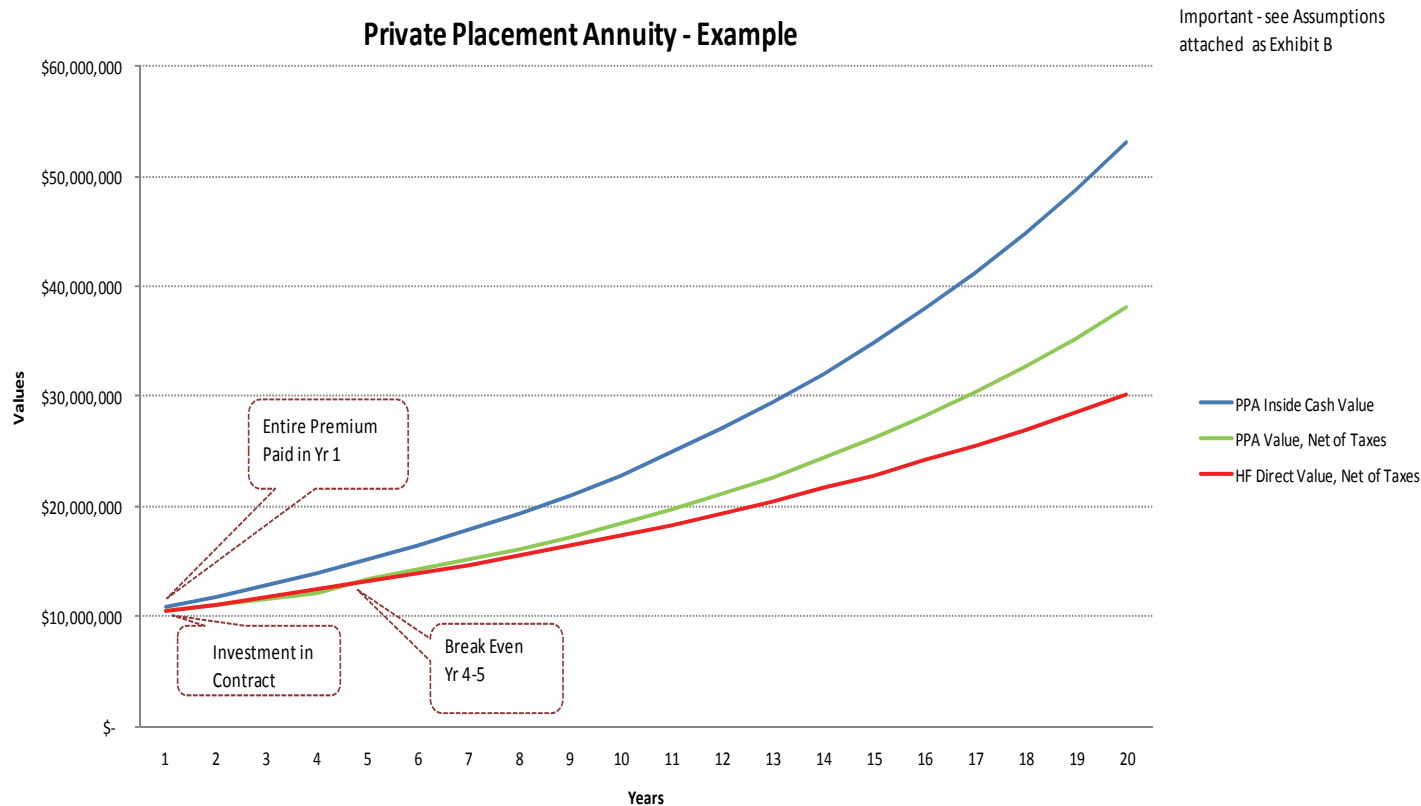


until death of the insured, then the value indicated by the blue line (plus some additional, modest death benefit most likely) would be received by the insurance contract beneficiaries free of income tax. In the above example, that is an extra \$10 million in year 20 (given the initial investment of \$10 million and the other noted assumptions).

Annuities

Please refer to the graphic below titled “Private Placement Annuity – Example.” It illustrates the same three values as the graphic above, namely:

- The after-income-tax value (in red) of a hedge fund portfolio in a taxable environment, where the portfolio is assumed converted to cash at any particular point in time and all income taxes paid;
- The after-income-tax value (in green) of a hedge fund portfolio inside the annuity contract (i.e. in a tax-deferred environment) where the contract is assumed cancelled at any particular point in time and all income taxes paid; and
- The pre-tax value (in blue) of a hedge fund portfolio inside the annuity contract where the contract is assumed maintained.





When reviewing the annuity example above, the reader should note certain items:²⁰

1. The cash value (blue line) inside the annuity contract (i.e. pre-tax) is greater than the after-tax value (red line) of the taxable hedge fund portfolio *almost immediately* - lower expenses (agent commissions, absence of premium taxes, no COI) cause the tax savings to become apparent much sooner in the annuity than in insurance.
2. The contract holder's "*break-even*" year (if full liquidation is to occur) is typically the year when the annuitant reaches age 59½. If dollars are withdrawn prior to reaching that age, a 10% excise tax is due, in addition to "normal" income tax, on the taxable portion of the withdraw thus undermining all the tax savings. So, in this example, the annuitant is 55 when she purchases the annuity, and thus her "break-even" year is year 5 – i.e. the year she turns 59½.²¹

Of course, there are considerations other than pure economics involved in purchasing an insurance or annuity contract and investing in tax-inefficient investments inside of such a contract. We discuss those briefly below.

Other Miscellaneous, Non-economic Considerations

Advantages of PPLI

Of course, purchasing an insurance or annuity contract provides the protections historically associated with those products. As we note below, a need or desire for those traditional protections should be one of the primary motivations for a client to pursue PPLI or PPA.

In addition to those traditional protections, there are certain other benefits to procuring an insurance or annuity contract and then investing in tax-inefficient, alternative investments inside the contract. For example, doing so:

- Renders moot the fact that earnings of alternative investments (outside of the insurance context) are taxed even though distributions are not made;
- Avoids the increasing complexity of K-1s, for which the client's accountant will likely give thanks;
- Avoids the necessity of waiting for late K-1s and thus avoids the scramble to complete returns in mid-October (again, something for which accountants will likely give thanks);
- Avoids the difficulty of making estimated payments (on the alternative investments earnings) due to uncertain earnings estimates; and
- Provides, in certain states, some form of protection against creditors.

Even though these advantages may not be quantifiable, they are nevertheless real and should not be underestimated.

²⁰ Again, these calculations are for illustrative purposes only and depend upon a variety of factors. See Exhibit B for certain of the assumptions that we employed in performing these calculations.

²¹ Again, this "break-even" year could be slightly earlier or slightly later depending upon the particular economics in a client's particular annuity contract, particularly the performance of the underlying investments.



Disadvantages of PPLI

Of course, as we all know, there is no free lunch. Where there go advantages, so accompany disadvantages -- and PPLI and PPA are no exceptions. From Convergent's perspective, we believe that the primary disadvantage to being invested through an insurance or annuity contract is that the client relinquishes a material amount of control over the investments. To gain the income tax deferral provided to insurance or annuity products, the Internal Revenue Service requires (among other things) that the contract owner not have dominion over the underlying investments (the so-called "Investor Control" prohibition). We believe that the control that the contract owner is permitted to have is selecting from among the investment options provided by the insurance company and reallocating among those options from time to time. In our opinion, what the owner is prohibited from doing is *participating in any way* in:

- The selection of the ultimate underlying investments;
- In setting or revising the investment strategy (or goals) for any of the investment vehicles listed as options by the insurance company; or
- The hiring or firing of the investment advisor or sub-advisor to the insurance dedicated funds.²²

In practical terms, the owner of the contract cannot simply wrap his or her favorite hedge funds with an insurance or annuity tax-deferral shield. Moreover, the contract owner cannot direct an insurance carrier to pursue a particular hedge fund strategy inside an insurance dedicated fund or to change strategy from "x" to "y." In our opinion, the contract owner can, as more and more insurance dedicated hedge funds and fund-of-funds are created with more and more variety of strategies, allocate and reallocate cash value, as permitted by the insurance carrier, among those insurance dedicated funds and their respective strategies.

In the final analysis, the client is purchasing an insurance or annuity contract, and the insurance company has chosen to make certain investment options (we have focused on hedge funds in this Primer, but there are clearly other investment options) available to support the insurance companies obligations under those contracts.

Putting It All Together

At this point, the reader is probably asking "what do I make of all this?" The answer is that one can make certain general observations regarding the topic and the type of client who would be a good candidate for PPLI or PPA:

- A need or desire for the traditional protections provided by insurance or annuities should be a primary motivating factor in a client's decision to pursue PPLI or PPA.
- On average, a client purchasing a private placement **insurance** contract should be committed to remaining in the strategy for at least 10 years – any shorter time horizon is likely detrimental from a pure economic standpoint.
- On average, a client purchasing a private placement **annuity** contract should be committed to remaining in the strategy until at least reaching age 59 ½.

²² This discussion is of course an oversimplification of the investor control rules. In addition, there are various other rules imposed by the Internal Revenue Service on insurance dedicated funds and segregated accounts supporting private placement insurance or annuity products. A thorough discussion of these rules is beyond the scope of this Primer. If the reader has specific questions regarding these rules, the reader should consult his or her legal or tax counsel.



- If a client intends to pursue either PPLI or PPA, the client should be prepared to commit no less than \$1 million to \$5 million to the contract.
- If a client is willing to trust the details of the investment strategy and manager selection to a hedge fund-of-funds manager, then the client is a good candidate for PPLI or PPA. In contrast, if a client feels the need to be materially involved regarding the setting of investment strategy or underlying investment selection, then that client is not a good candidate.
- All things being equal, a healthy person with good insurability should consider pursuing PPLI over PPA if that person is planning to hold the insurance contract until death. This is because death proceeds are income tax free (thus all gains inside the insurance contract ultimately escape income tax), whereas gains in an annuity contract are ultimately subject to income taxation regardless of whether the contract is held until death.
- If a client already has a large commitment to alternative investments and as a practical matter does not anticipate using those assets during his or her lifetime (e.g., for spending needs), then that client should consider pursuing PPLI or PPA – particularly PPLI - for a material portion of those assets to shield them from income taxation and to participate in the protections provided by the products, e.g. the lottery ticket nature of insurance should the insured die prior to his or her life expectancy.

Given the complexities involved, whether a client should pursue PPLI or PPA for a portion of his or her portfolio should be analyzed by the client with assistance of his or her team of advisors, including legal, tax and insurance counsel. At Convergent, even though we cannot advise clients on legal or insurance issues, we can assist clients and their advisors in analyzing the economics involved in PPLI or PPA.

In conclusion, we believe that clients with a significant allocation to tax-inefficient investments (such as alternative investments whose appreciation for the most part has historically been subjected to current taxation at the highest income tax rates) should at least consider owning a portion of this allocation inside of insurance or annuities due to the significant protection provided by these products traditionally and the income tax deferral for appreciation inside a properly designed contract provided under our current tax system. Ultimately, a client may decide that PPLI or PPA is not for him or her, but we at Convergent have provided this Primer in an effort to continue to bring to our clients the latest and most powerful wealth management thinking.



Exhibit A – Assumptions for Private Placement Life Insurance Graphic

Premiums are assumed to be made over four years in equal installments and in an aggregate amount of \$10 million for an insurance contract that qualifies as “insurance” as a non-MEC under the Internal Revenue Code.

The rate of return for modeling purposes is assumed to be approximately 9%, net of management and advisory fees, hedge fund fees and expenses, and fund pass-through expenses. The calculations illustrated here assume that the rate of return will continue unchanged for all years shown. There is no guarantee or expectation that an actual portfolio will have a comparable return and hedge funds do not typically have the same returns year after year. Therefore, caution must be used in inferring that these results are indicative of the future performance of any strategy, fund, manager or group of managers.

The illustrated calculations also assume that premiums are invested in an insurance dedicated fund-of-funds that, prior to the noted premium payments, has approximately \$25,000,000 in assets under management. Pass-through fees for that insurance dedicated fund are assumed to be approximately \$40,000 in year 1 and increase at a rate of 4% annually.

Insurance broker commissions are assumed to be 1.5 % on premiums and 20 basis points on assets under management for the life of the contract.

There are minimal state premium taxes for insurance premiums due to the state in which the insurance contract was assumed to be purchased.

Cost of Insurance and Mortality and Expense assumptions are based on information provided by a third party for a hypothetical “Preferred Insured,” age 45, non-smoking male. Actual Cost of Insurance and Mortality and Expense charges will depend on several factors including the age, sex and health of the insured as well as the amount of death benefit provided.

The DAC expense is assumed to be 1% of premiums.

Annual hedge fund earnings are assumed to be 100% realized for income tax purposes, and treated 100% as short-term gains or ordinary income items. The effective tax rate was assumed to be 35% for realized ordinary income and short term gain items. State income taxes are not included.



Exhibit B – Assumptions for Private Placement Annuity Graphic

The annuity contract is assumed to be funded by the payment of one premium payment made at the beginning of the annuity contract in an amount of \$10 million.

The rate of return for modeling purposes is assumed to be approximately 9%, net of management and advisory fees, hedge fund fees and expenses, and fund pass-through expenses. The calculations illustrated here assume that the rate of return will continue unchanged for all years shown. There is no guarantee or expectation that an actual portfolio will have a comparable return and hedge funds do not typically have the same returns year after year. Therefore, caution must be used in inferring that these results are indicative of the future performance of any strategy, fund, manager or group of managers.

The illustrated calculations assume that premiums are invested in an insurance dedicated fund-of-funds that, prior to the noted premium payments, has approximately \$25,000,000 in assets under management. Pass-through fees for that insurance dedicated fund are assumed to be approximately \$40,000 in year 1 and increase at a rate of 4% annually.

Insurance broker commissions are assumed to be 7 basis points on cash value for the life of the contract.

There are no state premium taxes for the annuity premium due to the state in which the contract was assumed to be purchased.

Mortality and Expense assumptions are based on information provided by a third party for a hypothetical contract holder. Actual Mortality and Expense charges will depend on several factors including the amount of the annuity contract.

Annual hedge fund earnings are assumed to be 100% realized for income tax purposes, and treated 100% as short-term gains or ordinary income items. The effective tax rate was assumed to be 35% for realized ordinary income and short term gain items. State income taxes are not included.



{ Notes and Disclosures }

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