

3. **It's not dependent on an individual's health or death.** The fees associated with a PPVA don't depend on the health of the individual. There's no mortality component of a PPVA. There are no medical exams required and no underwriting.

PPVA Limitations

As discussed more fully below, while a client may allocate to any of the IDFs offered on the company's PPVA investment account platform, the client can't control the selection of securities within the IDFs.

If distributions are taken from the PPVA investment account before age 59½, there's a 10 percent penalty in addition to income tax on the gain element of the distribution.

All gains accrued within the PPVA investment account are ultimately subject to the potentially higher ordinary income tax rates (unless distributed to charity).

And, any balance remaining in the PPVA investment account owned on the client's date of death is subject to both income and estate tax (unless left to charity).

So, when could it make sense to consider using PPVA?

Enhance Tax Efficiency

Clients with exposure to traditionally tax-inefficient asset classes (for example, hedge funds, high-yield bonds and growth-oriented equities) could benefit from using PPVA. It's important, however, not to let the tax "tail" wag the investment "dog." Typically, only if a top performing manager is available on the PPVA investment account platform could this make sense.

More broadly, though, clients with a typical multi-asset class portfolio in a higher income tax regime could also benefit from a PPVA.

A PPVA works in either case for the same reasons that retail investors have for years benefitted from investing in their individual retirement accounts: Income tax deferral almost always makes sense.

"After-Tax Advantage," this page, illustrates the benefit of owning a higher income tax portfolio in a PPVA investment account. After about five years, the PPVA account outperforms the taxable account.

Practice tip: While the client owns the PPVA investment account and can choose to allocate to any of the IDFs offered by the insurance company on its PPVA investment account platform, the IDFs are deemed to be owned by the insurance company's separate account. Therefore, investors in vehicles like hedge funds would like the fact that the K-1s are delivered to the insurance company, not to the PPVA investment account owner.

Charitable Legacy Planning

Extremely wealthy individuals who plan on making a substantial gift to charity at death have also awakened

After-Tax Advantage

Here are the differences in value between a PPVA account and a taxable account over a 30-year period, assuming four different growth rates

Net Growth Rate	Value					
4%	\$20,399	\$108,794	\$254,231	\$470,125	\$772,471	\$1,180,380
6%	\$8,638	\$56,435	\$193,941	\$338,454	\$549,502	\$828,781
8%	\$6,299	\$30,820	\$93,216	\$171,686	\$272,493	\$405,628
10%	\$4,271	\$17,714	\$48,827	\$103,606	\$175,985	\$279,012
	5	10	15	20	25	30
	Years of Deferral					

Returns are net of an assumed 1.5 percent of fund management fees on a \$5 million investment in a taxable account and a private placement variable annuities account; 75 percent of realized gains are taxed at ordinary income rates; and no withdrawals are made before age 59½. Ordinary income tax rate is assumed to be 40.7 percent in Year 1 and 48.7 percent thereafter. Capital gains tax rate is 20.7 percent in Year 1 and 29.1 percent thereafter. Assumes that the investment management fees aren't tax deductible in the taxable investment account due to the 2 percent of adjusted gross income threshold for itemized deductions.

— SALI Fund Services