

TO: Winged Keel Group, Inc.

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RE: U.S. Tax Treatment of Private Placement Variable Annuity

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The following memorandum addresses the general U.S. federal income tax treatment of a U.S. individual owning a private placement variable annuity ("PPVA") to be issued by an insurance company (the "Insurance Company").

SUMMARY

Generally the owner or beneficiary of the PPVA will not have taxable income for U.S. federal income tax purposes in respect of the PPVA until a payment is made to him or her. Thus there is deferral of taxation on the growth in value of the investment portfolio underlying a PPVA, in contrast to the tax treatment if the owner instead made a direct investment outside of a PPVA. The income on the PPVA is treated as ordinary income when received. The owner or beneficiary is generally permitted to reduce this income by the amounts invested in the PPVA, although the timing of such recovery depends on the type of distribution.

For scheduled annuity payments made after the annuity starting date, generally referred to as "amounts received as an annuity," the owner's income is generally partially reduced by an allocated basis amount. That is, the amount the owner is considered to have invested in the PPVA is allocated among these scheduled annuity payments. The amount of the payment in excess of this allocated amount is treated as ordinary income.

If the owner or beneficiary fully surrenders the PPVA for payment at any time or makes a partial withdrawal from the PPVA before the starting date of the annuity, the surrender payment or partial withdrawal is taxed as ordinary income to the extent that it exceeds the adjusted basis in the PPVA – initially the deposit into the contract. After all gains are distributed, the adjusted basis is received income tax-free.

Upon death of the owner, the PPVA will be included in the estate of the owner for federal estate tax purposes. Payments from the PPVA will result in taxable income to the estate or beneficiary of the PPVA for federal income tax purposes. However, neither tax will generally apply if a tax-exempt charity or private foundation is made the beneficiary of the PPVA either under the PPVA itself or as a legatee under the owner's will. In such case, for estate tax purposes the estate will receive a deduction for the charitable contribution offsetting the