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United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

September 21, 2022

Susan K. Neely
President & Chief Executive Officer
American Council of Life Insurers
101 Constitution Ave., NW
Washington, D.C. 20001

Dear Ms. Neely,

I write seeking information regarding the growing use of Private Placement Life Insurance (PPLI) policies as a tax shelter for the wealthiest Americans. I am concerned that these insurance vehicles are being used, without a genuine insurance purpose, to invest in hedge funds and other investments while avoiding billions of dollars in federal taxes. We believe ACLI member companies active in selling/marketing PPLI policies include, but are not limited to, Lombard International, Zurich Insurance Group and Prudential Financial.

American Council of Life Insurers' (ACLI) member companies represent 95 percent of insurance industry assets in the U.S.¹ ACLI serves as an influential industry advocate and strategic planner. As such, I am seeking industry insight and statistics developed by ACLI to help my understanding of how these policies are used, as well as industry growth trends and the total scale of usage.

According to public reports, the bare minimum required to invest in a PPLI policy is \$2 million.² However, experts indicate that it is much more common for investors to devote at least \$5 million for the strategy to be worthwhile.³ By definition, these policies are only available to the wealthiest 1 percent of Americans and offer a myriad of tax advantages not available to most working Americans.

One of the market leaders in the PPLI industry described PPLI as a "core element of effective long-term wealth structuring strategies for many wealthy individuals and families."⁴ These policies are marketed by some in the industry as a means to invest in hedge funds, private equity funds and other

¹ ACLI Statement for the Record, Senate Committee on Finance, July 28, 2021, https://www.acli.com/-/media/acli/public/files/pdfs-public-site/public-newsroom/acli_statementbipartisanretirementlegislation_072821.pdf

² *The Very Rich Already Have a Plan to Escape Biden's Tax Increase*, Bloomberg, Sep. 2, 2021, <https://www.bloomberg.com/news/articles/2021-09-02/richest-americans-have-tax-loophole-that-s-legal-easy-to-exploit-hard-to-close#xj4y7vzkg>

³ Id.

financial products while avoiding income and estate taxes. According to marketing materials from the PPLI industry leader, a properly designed PPLI policy can be used to “minimize or eliminate estate taxes” and “defer or potentially eliminate income tax or any tax reporting associated with investment activities.”⁵ Some experts have also indicated PPLI would increase in importance if Congress were to eliminate the “stepped up basis” loophole used by the wealthiest households to transfer assets to their heirs tax-free.⁶ A PPLI policy can effectively replicate a basis step-up on unrealized gains through a tax-free insurance death benefit paid to beneficiaries.⁷

In addition to concerns that PPLI policies are promoted as a tax shelter, a recent investigation by the U.S. Department of Justice raises concerns about the involvement of PPLI policies in various offshore tax evasion schemes. Last April, Switzerland’s largest insurance company, Swiss Life, pleaded guilty to using PPLI policies and related investment accounts as “insurance wrappers” to help thousands of U.S. taxpayers’ conceal their ownership of assets offshore and evade paying U.S. taxes.⁸

Though the size of the PPLI market is difficult to determine, it appears that these policies and related investment accounts are now worth at least tens of billions of dollars and are proliferating rapidly among ultra-high net worth individuals. One major industry player’s overall assets under administration grew from \$55 billion in 2020 to over \$67 billion today.⁹ It is unclear exactly how much of these assets under administration are PPLI policies and related investment accounts, though reports suggest that this company “dominates the market.”¹⁰ Their clients reportedly placed over \$3 billion in new PPLI policies between 2017 and 2018 alone after the company worked with several large banks to market the product to wealthy clients.¹¹

As Chairman of the Senate Finance Committee, I am investigating the use of PPLI policies and other loopholes exploited by the wealthiest 1 percent of Americans to avoid paying their fair share in taxes. In order to better understand how key companies operating in this space may be assisting millionaires and billionaires to minimize or eliminate taxes on investment income, please answer the following questions no later than September 30, 2022:

⁴ *Biden’s proposed tax plan would increase importance of insurance and annuities in tax planning*, Lombard International, Oct. 29, 2020, <https://us.lombardinternational.com/en-US/Newsroom/Corporate-news/News-2020/Biden%E2%80%99s-Proposed-Tax-Plan-Would-Increase-Import-1>

⁵ *Private Placement Life Insurance and Split Dollar*, Lombard International, Mar. 13, 2018, <https://us.lombardinternational.com/en-US/Newsroom/Corporate-news/News-2018/PPLI-and-Split-Dollar>

⁶ *Biden’s proposed tax plan would increase importance of insurance and annuities in tax planning*, Lombard International, Oct. 29, 2020, <https://us.lombardinternational.com/en-US/Newsroom/Corporate-news/News-2020/Biden%E2%80%99s-Proposed-Tax-Plan-Would-Increase-Import-1>

⁷ *Id.*

⁸ *Switzerland’s Largest Insurance Company and Three Subsidiaries Admit to Conspiring with U.S. Taxpayers to Hide Assets and Income in Offshore Accounts*, U.S. Department of Justice, May 14, 2021, <https://www.justice.gov/opa/pr/switzerland-s-largest-insurance-company-and-three-subsidiaries-admit-conspiring-us-taxpayers>

⁹ *Lombard International reaches an all-time high of assets in 2019*, Private Banker International, Mar. 9, 2020, <https://www.privatebankerinternational.com/news/lombard-international-assets-2019/>; Lombard International, <https://us.lombardinternational.com/> (home page)

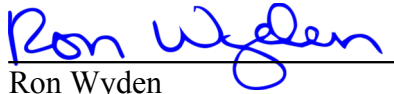
¹⁰ *The Very Rich Already Have a Plan to Escape Biden’s Tax Increase*, Bloomberg, Sep. 2, 2021, <https://www.bloomberg.com/news/articles/2021-09-02/richest-americans-have-tax-loophole-that-s-legal-easy-to-exploit-hard-to-close#xj4y7vzkg>

¹¹ *Blackstone woos wealthy with tax-free hedge fund*, Investment News, May 31, 2018, <https://www.investmentnews.com/blackstone-woos-wealthy-with-tax-free-hedge-fund-2-74407>

1. Please provide the approximate aggregate dollar value of assets under administration with respect to PPLI policies held by ACLI member company clients based upon the most recent available data.
2. Has ACLI conducted any surveys, studies or other research efforts to assess the size of the PPLI industry by assets under administration or other metrics indicating the dollar value of investments held by these policies? If so, please provide copies of the results of those efforts.
3. To the extent that statistics are available, please provide the total amount of new funds under administration in PPLI vehicles in years 2015 through 2021 and as of most recent 2022 statistics.
4. Based on your understanding of the industry, are PPLI policies typically marketed to new or existing clients as a means to minimize or eliminate ordinary income, capital gains or estate taxes? If so, please specify how these products help minimize or eliminate taxes.
5. What minimum criteria (net worth, income, etc.) does industry require, on average, for PPLI clients? What is the average dollar value of a PPLI policy?
6. From your perspective, what are industry best practices in terms of Know Your Customer (KYC) and Customer Due Diligence (CDD) processes with respect to a PPLI policy?
7. What are industry best practices to confirm legitimate source of funds accepted for investments made through PPLI products? Please describe industry standards for know your customer policies or anti-money laundering standards in place for companies offering PPLI products.
8. Please describe industry best practices for the following questions:
 - Should insurance companies allow insurance policy holders to direct the investments of an insurance policy?
 - Should insurance companies allow insurance policy holders to direct the investments of an insurance policy through the client's investment advisor?
 - Should insurance companies invest significant portions of an insurance policy in speculative, risky, or undiversified investments?
 - Should insurance companies allow insurance policy holders to direct the investments of an insurance policy into specific investment funds not available to the general public? With respect to investment of insurance policies into such investment funds, should insurance companies allow policy holders to select their own investment advisor to manage their policy's investment, and should insurance companies allow policy holders to guide their investment advisors on preferred funds and investment strategies?
9. Based on your analysis of the market, what percentage of PPLI clients are non-U.S. clientele? Of this population, what is their average net worth? Are you aware of insurance companies targeting their marketing for potential non-U.S. clients?
10. Please describe, in detail, what ACLI believes are the legitimate insurance benefits PPLI products provide to clients.

Thank you for your attention to this important matter.

Sincerely,



Ron Wyden
United States Senator
Chairman, Committee on
Finance