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United States Senate

COMMITTEE ON FINANCE
WASHINGTON, DC 20510-6200

September 21, 2022

Kristof Terryn
Chief Executive Officer
Zurich Insurance Group-North America
1299 Zurich Way
Schaumburg, IL 60196

Dear Mr. Terryn,

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.

According to public reports, the bare minimum required to invest in a PPLI policy is \$2 million.¹ However, experts indicate that it is much more common for investors to devote at least \$5 million for the strategy to be worthwhile.² 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.”³ These policies are marketed by some in the industry as a means to invest in hedge funds, private equity funds and other 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.”⁴ 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.⁵ A

¹*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>

² Id.

³ *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-Importance-of-Insurance-and-Annuities-in-Tax-Planning>

⁴ *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>

PPLI policy can effectively replicate a basis step-up on unrealized gains through a tax-free insurance death benefit paid to beneficiaries.⁶

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.⁷

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.⁸ 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."⁹ According to one estimate, Zurich Insurance Group has approximately \$14 billion in PPLI assets under administration invested in insurance dedicated funds and separately managed accounts.¹⁰

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 Zurich Insurance Group may be assisting millionaires and billionaires minimize or eliminate taxes on investment income, please answer the following questions no later than September 30, 2022:

1. Please provide the current dollar value of assets under administration by Zurich Insurance Group with respect to PPLI products held by Zurich Insurance Group clients. Please explain how Zurich Insurance Group calculates the dollar value of assets under administration with respect to PPLI products. If applicable, please also provide a breakout between assets under administration because a client purchases a PPLI product issued by Zurich Insurance Group or its affiliates as compared to assets under administration because a client is advised to purchase (and does purchase) a PPLI product issued by a third party insurance company.
2. Please provide the dollar value of new assets under administration with respect to PPLI products held by Zurich Insurance Group clients in each year starting with 2015 through 2021 and as of the date of your response to this letter in 2022.

⁵ *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-Importance-of-Insurance-and-Annuities-in-Tax-Planning>

⁶ Id.

⁷ *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>

⁸ 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)

⁹ *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>

¹⁰ https://lionstreet.com/wp-content/uploads/2022/01/PPLI_Report_1.19.22_Final.pdf

3. Please provide a list of all pooled investment funds in which PPLI products of Zurich Insurance Group clients are invested, and the current fair market value for each such fund to the extent of aggregate Zurich Insurance Group client PPLI product ownership. Please provide a copy of all Form D filings filed by Zurich Insurance Group or its affiliates with the U.S. Securities and Exchange Commission related to insurance dedicated funds offered to Zurich Insurance Group clients.
4. Is investment in PPLI products marketed to new or existing clients as a means to minimize or eliminate ordinary income, capital gains or estate taxes? If so, please explain the legal basis for why these products help minimize or eliminate taxes.
5. What minimum criteria (net worth, income, etc.) is required of your PPLI product clients? What is the average net worth of your PPLI product clients? What is the average income of your PPLI product clients?
6. How are possible clients for PPLI products identified? Do you receive referral of potential clients from other companies? If so, what are the referral criteria that must be met?
7. Please describe the Know Your Customer (KYC), Customer Due Diligence (CDD) or other anti-money laundering processes you have in place with respect to PPLI product clients.
8. Has Zurich Insurance Group ever marketed or told clients that PPLI products could be used as “insurance wrappers” to conceal ownership of offshore assets? If so, were clients advised of the need to declare ownership of accounts linked to these products to the appropriate regulators?
9. Please describe the typical policy acquisition and annual maintenance costs that apply to PPLI products. What other costs or fees are paid (directly or indirectly) by your PPLI product clients? How is your sales team compensated with respect to PPLI product clients (please describe in detail)?
10. For a PPLI product issued by Zurich Insurance Group or an affiliate, please describe the process by which a pooled investment fund is selected for the product, and the degree to which a client or his or her advisor controls this decision.
11. What percentage of Zurich Insurance Group PPLI product clients are non-U.S. persons, beneficial owners, or beneficiaries? Of this population, what is their average net worth based upon information provided by client? What is their average income? Is there targeted marketing for potential non-U.S. clients?
12. Please provide copies of all sales and marketing materials (to include client and Zurich Insurance Group agent versions) related to your PPLI product offerings.

Thank you for your attention to this important matter.

Sincerely,

Ron Wyden

Ron Wyden
United States Senator
Chairman, Committee on
Finance