United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510–6200

August 15, 2022

Stuart Parkinson
Chief Executive Officer
Lombard International
One Liberty Place
1650 Market Place, 54th floor
Philadelphia, PA 19103

Dear Mr. Parkinson,

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 in the field 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.

Lombard International (Lombard) is one of the market leaders in the PPLI industry and has described PPLI as a "core element of effective long-term wealth structuring strategies for many wealthy individuals and families."[3] Lombard markets PPLI policies as a means to invest in hedge funds, private equity funds and other financial products while avoiding income and estate taxes. According to Lombard's marketing materials, a properly designed PPLI policy can be used to "minimize or eliminate estate taxes" and "defer or potentially eliminate income tax or

[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-Impor-(1)

any tax reporting associated with investment activities."[4] Lombard has also indicated that it expects 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] Lombard in a press release pointed out that a PPLI policy effectively replicates a basis step-up on unrealized gains through a tax-free insurance death benefit paid to beneficiaries.[6]

In addition to concerns PPLI policies are being promoted as a tax shelter, recent investigations by the U.S. Department of Justice have raised concerns regarding the involvement of PPLI policies in carrying out 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' to 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 insurance company separate accounts are now worth at least tens of billions of dollars and are proliferating rapidly among ultra-high net worth individuals. Lombard's overall assets under administration have grown from $55 billion in 2020 to over $67 billion today.[8] It is unclear exactly how much of Lombard's assets under administration are PPLI policies and related insurance company separate accounts, though reports suggest that Lombard "dominates the market."[9] Lombard clients reportedly placed over $3 billion in new PPLI policies between 2017 and 2018 alone after Lombard worked with several large banks to market the product to wealthy clients.[10]

As Chairman of the Senate Finance Committee, I am conducting an investigation into 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 Lombard may be assisting millionaires and billionaires minimize or eliminate taxes on investment income, please answer the following questions no later than August 31, 2022:

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[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

[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-Impor-(1)

[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] Blackstone woos wealthy with tax-free hedge fund, InvestmentNews, May 31, 2018, https://www.investmentnews.com/blackstone-woos-wealthy-with-tax-free-hedge-fund-2-74407

1. Please provide the current dollar value of assets under administration by Lombard International with respect to PPLI products held by Lombard clients. Please explain how Lombard International 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 Lombard 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 Lombard clients in each year starting with 2015 through 2021 and as of the date of your response to this letter in 2022.

3. Please provide a list of all pooled investment funds in which PPLI products of Lombard clients are invested, and the current fair market value for each such fund to the extent of aggregate Lombard client PPLI product ownership. Please provide a copy of all Form D filings filed by Lombard International or its affiliates with the U.S. Securities and Exchange Commission related to insurance dedicated funds offered to Lombard clients.

4. Is investment in PPLI products marketed to new or existing clients, including clients of parent company Blackstone, 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? Does your parent company, Blackstone, refer possible clients? 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 Lombard 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 Lombard 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 Lombard 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 Lombard 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