Utilizing Private Placement Insurance products to offset the elimination of SALT

The new limitations of State and Local Income Tax ("SALT") deductions are being felt by many high earning families in certain states with high income and real property taxes, including California, New York, New Jersey and Illinois. The limitation of SALT deductions means that after a family has paid $10,000 in state and/or local taxes, including property taxes, that family is no longer able to deduct any remaining state income taxes nor property taxes. A family has very few options to mitigate these higher taxes as moving to a different state with a lower tax structure could be too disruptive if the breadwinner's job is geographically dependent on being located in that high tax state or if grandchildren would then be too far away.

Although the elimination of SALT limitations is unlikely in the near term and higher income taxes in certain states are here to stay, a family may seek tax relief in its investment portfolio. Just as the income tax landscape has changed so has the ability to shield one's investments from long-term capital gains, short-term capital gains and ordinary income taxes. Private Placement Insurance vehicles are institutionally priced financial products that allow an investor to defer or entirely eliminate taxes on one's investments. The cost for these vehicles ranges from .5% to 1.5% depending on one's age, the size of the investment and the specific insurance vehicle being utilized. Available investments include mutual funds, hedge funds, private equity funds or one's own independent RIA ("Registered Investment Advisor"). The implementation of Private Placement Insurance products may almost double the net return of one's investments depending on the underlying tax footprint of the investment and the state income taxes one would be paying outside of using the Private Placement Insurance vehicle. Please see below for a simple comparison of a taxable account vs Private Placement Insurance account:

Taxable Account

Investment	Return	Tax	Net Return
$1,000,000	7%	35%	$45,500.00
$1,000,000	7%	55%	$31,500.00

Private Placement Insurance Account

Investment	Return	Insurance Fees	Net Return
$1,000,000	7%	0.50%	$65,000.00
$1,000,000	7%	1%	$60,000.00
$1,000,000	7%	1.50%	$55,000.00

Simply put, Private Placement Insurance products create tax/structural alpha in that the ownership structure of the investment reduces taxes thus increasing returns. Similar to utilizing an IRA or a 401k for one's retirement assets, Private Placement Insurance vehicles should be viewed as an asset location strategy where one's investment objectives and investments do not change; however, the taxation of those investments can be dramatically improved. It is a common practice for investors to 1035 exchange (tax-free rollover of basis and gains) their existing retail life insurance and annuity products into Private Placement Insurance products to reduce costs. More than ever it is important to make sure that one's investments are invested and compounding as tax efficiently as possible to make up for

the reduction in SALT and resulting increased income taxes. Last, it is important to consider that Private Placement Insurance vehicles are extremely complex and require the guidance of experienced financial services professionals and tax advisors.

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