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Biden’s Tax Changes: Driving Sophisticated Advisors to Life Insurance

Taxes are going up for UHNW individuals. Are you and your advisor taking the right evasive action?

The key impact from Biden’s proposed tax changes to the wealthy appears to be a significant increase in taxation of long-term capital gains, bringing them in line with current income taxation levels. If you own Private Equity, Private Real Estate or Public Equities your projected portfolio returns will be crimped significantly and, there will be no favors for other asset classes.

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What are the consequences of the change?

- Advisors will to begin prioritizing investments with longer holding periods to allow gains to compound more before realization
- Previously tax-inefficient strategies like hedge and credit funds may pick up flows as their attractiveness increases on a relative basis.
- An increase in portfolio risk taking as advisors struggle to deliver similar after tax returns to what clients were accustomed to. With interest rates falling (even further) returns are ever harder to squeeze out.
- A rush to realize available long term gains before rates rise.

What’s this got to do with life insurance?

- Investors will be forced to rethink how they look at long term planning tools like life insurance - pivoting its perception as an estate planning mechanism to an asset class in its own right.
- The tax deferred or tax free environment of Life Insurance has become even more attractive as a vehicle to manage wealth for UHNW families. As taxation rises, the after tax returns of Whole Life, Universal and Variable products will increase on a relative basis whilst not burdening the investor with additional risk.

Why am I suddenly hearing more on PPLI?

- The options become far more interesting for the wealthiest families.
- The maturation of the Private Placement Life Insurance structure, whereby a family’s advisor can construct an investment portfolio within a life insurance policy, will accelerate in attractiveness as advisors seek to ring-fence significant portions of their client’s balance sheets from taxation to grow unimpeded. Left to compound tax free, this capital pool will become the “family bank” driving the legacy of the wealth creators whilst simultaneously serving as potential collateral during life and an efficient transfer of wealth after death.

How do I position my practice for success?

- Advisors should be looking for planning partners with experience and broad access to coordinate the best of the market outcomes.
- Fortunately the advent of the specialized Brokerage General Agencies appear to have solved the pain point of delivering the best of the insurance world to UHNW families and their advisors by utilizing open architecture platforms and combining high end advice with transparency.
- Make sure your partners are the best. Find your experienced BGA today.

With the threat of higher capital gains taxes in 2021 it's likely there will be a rush to realize available long term gains in 2020 before rates rise. There will be significant re-investment risk for these funds. What better way to take advantage of the situation than directing the proceeds to Life Insurance.

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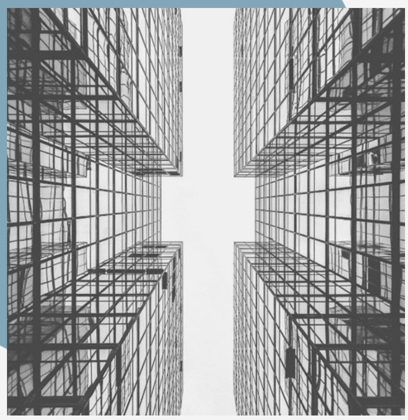

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