Charitable Planning With Private Placement Annuities

FEBRUARY 4, 2014 • MICHAEL LIEBESKIND , ERIC NAISON-PHILLIPS

Ultra-affluent families often earmark a portion of their investment portfolio assets to create a legacy through charitable giving. A private placement variable annuity (PPVA) investment account can generate significant incremental value for those assets.

The benefits of a PPVA investment account are compelling:

- **Deferral of investment gains from current period taxation.**
- **No K-1 reporting.**
- **Full ownership and control of the assets through the donor's lifetime.**
- **Elimination of capital gains taxes if a private foundation or public charity is named as the PPVA investment account beneficiary. The designation is revocable and can be adjusted by the donor at any time.**

Traditional charitable legacy planning—private foundations, donor-advised funds, pooled-income funds, charitable lead trusts or charitable remainder trusts—require assets to be gifted irrevocably in exchange for a current-period tax deduction. However, many individuals who may be inclined to make substantial charitable legacy gifts are not prepared to give up ownership and control of more than a small portion of their overall wealth during their lifetime.

A PPVA investment account defers the investment gains on portfolio assets from current period taxation (under IRC Section 72). The owner of an account may make deposits or withdrawals, adjust the asset allocation and change the beneficiary designation at any time. Not surprisingly, these accounts tend to be utilized for allocations to investments such as hedge funds, which would otherwise be subject to a high level of current-period taxation.

The most attractive PPVA investment accounts have low administration fees and offer an extensive selection of registered and non-registered investment funds. Assets can remain fully invested in the account until the owner is 95 or 100 years old. The gain element of any distributions taken from the account during the owner's lifetime is subject to ordinary income tax. If distributions are taken prior to age 59½, the gain element would also be subject to a 10% excise tax. However, assets remaining within the account until the death of the owner can be bequeathed to private foundations and favored charities, permanently eliminating income and estate taxes on all account values.

The benefits of creating a charitable legacy through a PPVA investment account are illustrated by comparing it to a taxable investment account. Assuming a 7% annual return net of investment management fees, and 25% of the gains in the taxable investment account

qualifying for long-term capital gains tax rates, the PPVA investment account delivers nearly twice as much value after 20 years, and more than three times as much value after 40 years.

In a rising tax rate environment, tax-efficient investment strategies are in high demand. When you can connect tax efficiency to charitable legacy gifts without giving up ownership or control, you sweeten the deal for investors and charities.

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