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The Simplicity of a Private Placement Variable Annuity (PPVA) Investment Account

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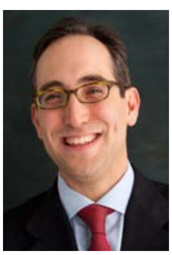
Wealthy individuals and families interested in tax-efficient investing are increasingly drawn to the benefits associated with Private Placement Variable Annuity (PPVA) Investment Accounts. This article provides an overview of PPVA Investment Accounts and the typical investment planning applications for which these accounts may be utilized.

Private Placement Variable Annuity Investment Accounts

A PPVA Investment Account enables investors to defer income tax on investment gains, and should therefore be thought of as simply a "tax-deferred investment account." Investors can make deposits and take distributions from these accounts with the same flexibility as any other investment account; however, there's a 10 percent excise tax levied on any deferred investment gains that are distributed from the account before the owner's age 59½. After age 59½, any deferred investment gains distributed from the PPVA Investment Account will be taxed as ordinary income. The owner of the PPVA Investment Account always remains in control of the assets within the account. The owner can make deposits, adjust the asset allocation among various investment options, and change the beneficiary designation at any time. Unlike a traditional retail annuity, a PPVA Investment Account doesn't have features such as income guarantees or principal protection. As a result, PPVA Investment Accounts generally have substantially lower fees than traditional retail annuities. Additionally, PPVA Investment Accounts allow individuals to invest in non-registered investment offerings, such as hedge funds.



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PPVA Investment Accounts can be beneficial for high-income individuals who intend to retire to a lower-tax jurisdiction. For example, a New Jersey-based couple who anticipates moving to Florida at some point can defer the income tax on their investment gains until they've relocated to a lower-tax jurisdiction, at which time they would take distributions and pay a lower effective tax rate.

Another typical application of PPVA Investment Accounts is for families who have an investment asset allocation that includes hedge funds. Many hedge funds are inherently tax-inefficient, producing mostly (if not entirely) short-term capital gains and ordinary income tax treatment. By locating the hedge fund investment allocation in the PPVA Investment Account, these taxes can be deferred.

PPVA Investment Accounts are also used by high net worth individuals and families who intend to leave assets to a public charity or private foundation at their passing. If a charitable entity is named as the beneficiary of a PPVA Investment Account, all of the deferred investment gains can be distributed tax-free to the charity. However, unlike other charitable strategies that are irrevocable in nature, PPVA Investment Accounts remain under the full ownership and control of the owner and of the owner's surviving spouse throughout their lifetimes. As a result, PPVA Investment Accounts can provide flexibility for the individual or family if there's ever a desire to access these assets during the owner's lifetime.

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