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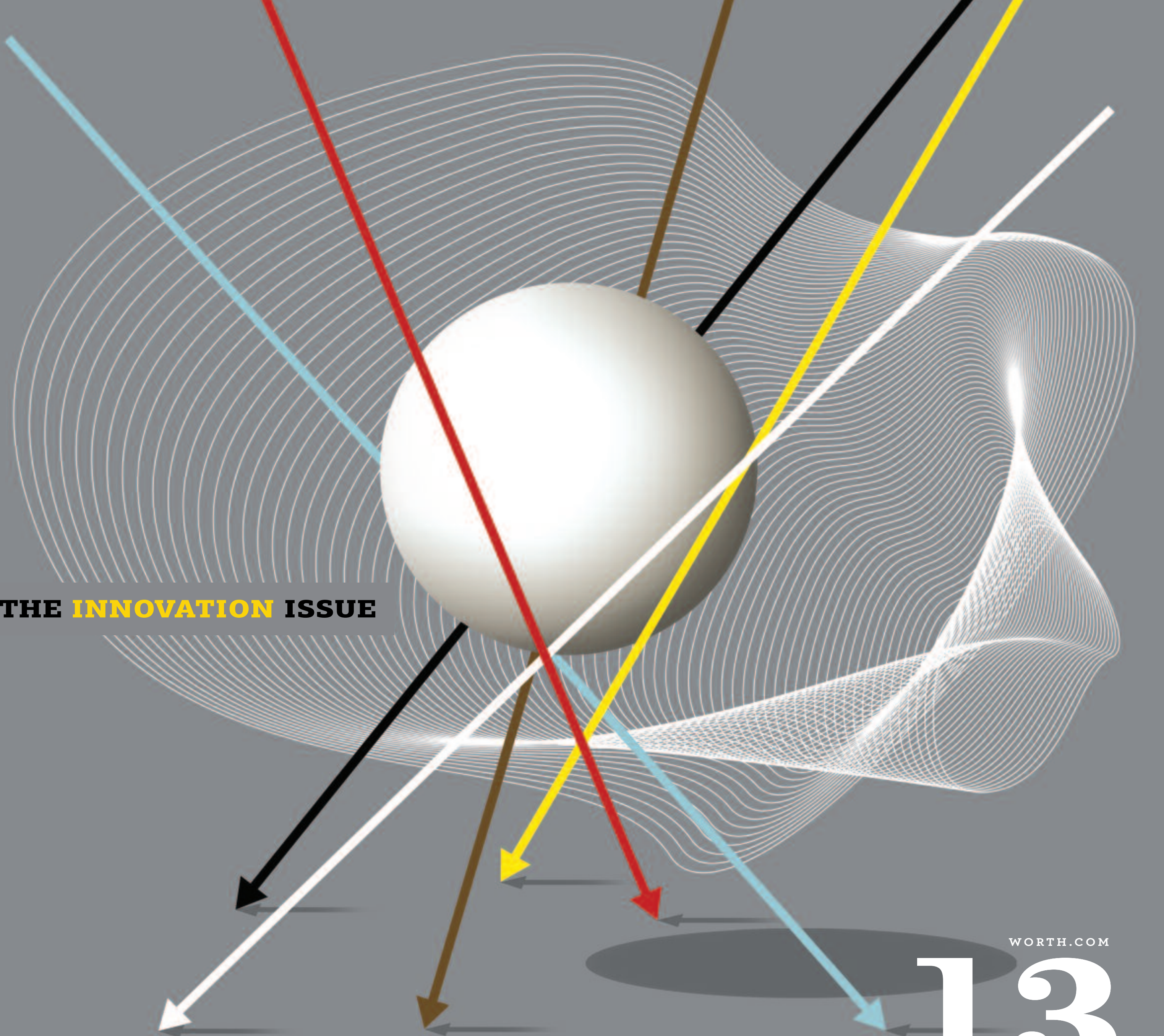

THE INNOVATION ISSUE

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Fairfield County, CT | **Leading Wealth Advisor**

LLBH Private Wealth Management LLC
Kevin Burns, Partner, Bill Loftus, Partner
Bill Lomas, CFP®, CIMA®, CRPC®, Partner
Jim Pratt-Heaney, CIMA®, Partner

"How do I handle rising taxes?"

By Bill Loftus

Investors have recently enjoyed historically low tax rates, but given the current fiscal environment, taxes may increase on income, dividends and capital gains. Most investors do not pay enough attention to after-tax returns. We expect that to change.

Private placement life insurance (PPLI) and variable annuity contracts (PPVA) can offer significant tax-free or tax-advantaged investment benefits. In their simplest form, they are stripped-down, low-cost insurance contracts. For example, with the annuity, there is no guaranteed income option. With private placement life insurance, the death benefit is not as robust as you would find in a traditional policy. Historically, private placement contracts have been used as a tax-free or tax-deferred way to invest in tax-inefficient asset classes such as hedge funds.

Hypothetical illustration of the benefits of tax deferral. Let us assume a 50-year-old investor, in a combined 35 percent tax bracket increasing to the proposed 43.6 percent in 2013 (remaining constant), places $10 million in a private placement contract to be invested in a portfolio of managed accounts or hedge funds. The portfolio earns 8 percent per year net of fees and expenses. Over 20 years, the investments held inside the private placement contract would grow to an after-tax value of $27.5 million, versus a fully taxable portfolio held outside the private placement that would grow to just $19.8 million.

Additional benefits. While the tax benefits are appealing, there are other positive considerations, some of which are: there is no K-1 tax-filing requirement; insurance contracts may provide asset protection in certain states; PPLI contract holders receive an income-tax-free death benefit, providing valuable estate planning options; the PPLI contract allows tax-free policy loans as long as the policy is not set up as a modified endowment contract; you may reallocate among a variety of investment options on a tax-free basis and withdraw from the contracts without paying surrender charges; PPLI and PPVA contracts hold client assets in a separate account from the insurance company general account; and the fee structure is lower than traditional insurance contracts.

Considerations. There are restrictions associated with insurance contracts. In the case of the annuity, distributions from the contract prior to age 59½ are subject to a 10 percent penalty in addition to ordinary income tax. The appreciation on the contract is distributed first so most of the early distributions are fully taxable. At the death of the annuitant, the beneficiary of the contract must pay taxes, and the contract will not receive a step up in basis.

In the case of the life insurance contract, death benefits and policy loans are tax-free as long as the policy remains in force. If the policy lapses for any reason, it could cause adverse tax results for the owner. Finally, as tax-inefficient assets such as hedge funds are the best vehicles to place in these contracts, investors should be aware of the liquidity and market risks associated with the underlying funds.

Generally speaking, the assets placed in private placement contracts should have a long-term time horizon with no immediate need for liquidity.

PPVA OR PPLI; IS ONE RIGHT FOR YOU?

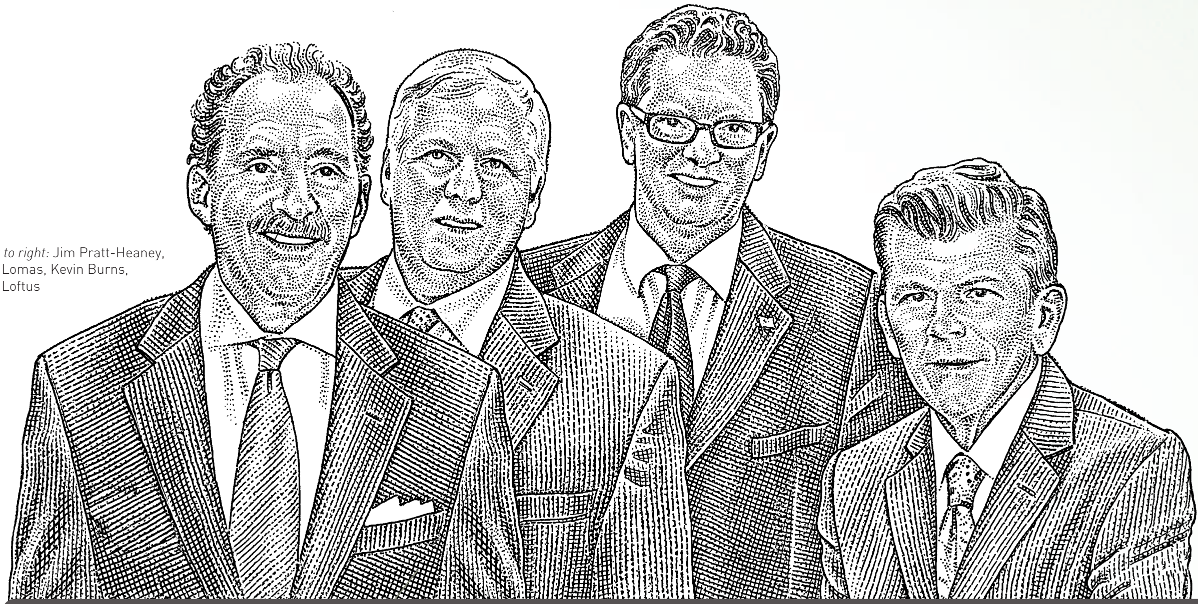
To invest in a private placement variable annuity or private placement life insurance contract, you must be an accredited investor and qualified purchaser ($200,000 annual income and investable assets of $5 million). Investments must be diversified into multiple investments. Additionally, policy owners are prohibited from directly controlling the investments inside the policy. The owner may select an investment advisor to invest the assets in accordance with general investment guidelines set forth by the owner.

"Most investors do not pay enough attention to after-tax returns."

– Bill Loftus

How to reach Bill Loftus

I look forward to discussing how I can help you reach your financial goals. I can be reached directly at 800.700.5524.



Left to right: Jim Pratt-Heaney, Bill Lomas, Kevin Burns, Bill Loftus

About LLBH Private Wealth Management

After 15 years teaching, Jim Pratt-Heaney joined EF Hutton in 1986. He became a vice president at Smith Barney before moving to Merrill Lynch in 1998. He is a Certified Investment Manager Analyst and leads LLBH's asset management. Bill Lomas started with PaineWebber in 1981, spent 18 years as a senior vice president at Prudential Securities and Smith Barney and joined Merrill Lynch in 1998. Mr. Lomas, a Certified Financial Planner™ and Chartered Retirement Planning Counselor℠, leads LLBH's holistic investment planning process. Kevin Burns, whose career began at PaineWebber in 1981, became a senior vice president at Oppenheimer & Co. and Smith Barney before joining Merrill Lynch in 2000. He leads LLBH's new client asset acquisition and client service and contact operation. In 1986, Bill Loftus joined Merrill Lynch and then spent 10 years as a senior vice president at Smith Barney before returning to Merrill Lynch in 1998. He leads LLBH's corporate executive advanced wealth planning, lending and alternative investments.

Assets Under Management
$750 million (team)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$10 million (investment services)

Largest Client Net Worth
$500 million

Financial Services Experience
120 years (combined)

Compensation Method
Asset-based

Primary Custodian for Investor Assets Pershing

Professional Services Provided
Planning, investment advisory, money management, advanced wealth transfer planning and corporate services

Association Memberships
Investment Management Consultants Association

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