

Life Insurance for the Global Citizen



Pfleger Financial

- Since 1965, Pfleger Financial has helped the affluent transfer and preserve wealth, using tax-efficient strategies and proprietary insurance contracts.
- Pfleger Financial serves clients throughout the US, Latin America and Europe.
- In 1993, Pfleger Financial became a Member Firm of M Financial Group.
- M Financial Group is one of the nation's premier financial services design and distribution companies, serving ultra-affluent individuals and Fortune 1000 companies through a network of 140 independent Firms.
- M Financial Group gives Pfleger Financial national buying power.



A member firm of M Financial Group

Innovation with M Financial Group

Buying Power

- Resources used in collective bargaining with insurance carriers
- Over \$1.5 Billion of new life insurance premium each year.

Exclusive Proprietary Products

- Designed and priced using M Financial's unique persistency, face amount, and mortality experience

Reinsurance

- Allowing Member Firms inside information on how life insurance products are created and maintained.
- In-force performance jointly managed by M Financial and Carriers.

International Capabilities

- *M Financial Bermuda*
 - *Access to Write Offshore Policies*
 - *Both 953 (d) and non 953 (d) compliant policies*
 - *Conduit to get paid*
- *Foreign M Financial Offices in London & Dubai*
- *Pfleger Financial is the top writer of US domestic life insurance for Latin American NRA's with M Financial.*
- *Pfleger Financial*
 - *8 Spanish Speaking including Marketing, Case Design & Underwriting*
 - *2 Marketers Speak French and Portuguese*

Outline of Discussion

- What is a Wealthy Global Citizen?
- Why do WGC's buy Life Insurance outside their Home Country?
- What options do Wealthy Global Citizen have to purchase Life Insurance?
- US versus Non-US Tax Compliance Life Insurance Options

Disclosure

Pfleger Financial does not offer tax or legal advice. Example cases are taken from past and current insurance engagements. This presentation does not represent or endorse a particular life insurance carrier and/or insurance product.

What is a Wealthy Global Citizen?

- WGC Definitions Vary
- Foreign National
 - Is a broad term that includes both Non-Resident Aliens (NRA)
 - Non-US citizens who reside permanently outside the US.
 - Resident Aliens (RA)
 - Non-US citizens who reside in the US and have no intent to leave.
- Types of NRA's
 - Those with US Nexus
 - Those with No US Ties

What is a Wealthy Global Citizen

Wealthy Global Citizen

- High net worth, global citizens who build their wealth across multiple borders by establishing international connections through business, family, property and investment.

For Life Insurance Purposes

- Have excellent access to healthcare – Globally
- Have a secure environment
- Have verifiable wealth
- Have Net Worth over \$5M US, and Income over \$250K US

Why Do WGC Purchase Life Insurance

Challenges Unique to the Global Citizen

- Forced Heirship Laws
- Political/Sovereign Risk
- Inflation Protection
- Currency Hedge
- Global Family Inheritance
- Buy/Sell for Cross Border Business
- Corporate Benefits for Cross Border Employees
- Multinational Tax Liabilities
- Limited Access to Insurance Capacity/Products In-Country

Life Insurance Options for WGC

What Options Do WGC Have?

- US Domestic Life Insurance
 - US Nexus
- Offshore Traditional Life Insurance
 - No US Ties
- Offshore Private Placement Life Insurance

US Domestic Life Insurance for WGC

Why do WGC purchase US Domestic Life Insurance?

- US (Federal and State) regulation
- Stable Currency
- Credit Ratings of Carriers
- Typically Low Cost of Insurance based on US Mortality
- Larger Product Selection
- US Tax Treatment of Life Insurance for NRA's.
 - Death Benefits are income tax-free and estate tax-free
 - Cash Value is deferred

US Domestic Life Insurance for WGC

Impediments

- Solicitation Requirements
- US Policy Ownership
- Origination of Funds
 - Premium Must be Paid from US Bank
 - Currency Fluctuations
- Underwriting Requirements
- Net Worth and Income Verification
- If policy is funded as a Modified Endowment Contract (Single Premium), there could be a 30% withhold by the US Carrier for Income Tax if surrendered.
- Re-Domestication in Beneficiaries Home Country
 - In-Country Advisors (Legal/Accounting) need to be engaged.

US Ties

Typical Ties to purchase US Life Insurance

- US Residence
- US Real Estate
- US Tax Liability
- US Business Ownership
- US Company Employment
- US Assets
- Immediate Family Relations

Additional Insurance Requirement

- Minimum Net Worth Greater Than \$2M to \$5M

US Domestic Life Insurance for WGC

Example 1

- High Net Worth NRA, Age 45
- Non Resident of US
- Business owner with majority of assets in Mexico
- Holds vacation home in Miami and Vail.

US Domestic Life Insurance for WGC

Example 1

- **Client concerns**
 - Value of the business if he has a premature death
 - Business is inter-related with other family members
 - He wants to make sure his wife in children are taken care of.
 - Inflation Risk is always in the back of his mind
 - Thinks Life insurance offered in his country is too expensive.

US Domestic Life Insurance for WGC

Example 1

- Options

- ❖ Purchase \$10M US Domestic Life Carrier

- Created US Bank Account

- US owner was a new Trust

- Some clients like to use LLC

- ❖ Continue \$5M Life Policy in Mexico

US Domestic Life Insurance for WGC

Example 1

- Advantages

- Multiple product choices
- More cash value options
- Many low premium options

- Challenges

- Acquisition cost – travel, legal documents
- Potential cost to re-domesticate death benefit
- Potential lost tax benefits for in-county coverage

US Domestic Life Insurance for WGC

Example 1

- US option versus Home Country
 - US Life Insurance premium was 40% less expensive than Mexican policy for same death benefit.
 - US Life Insurance policy had underlying premium guarantee.

US Domestic Life Insurance for WGC

Example 2

- Child 1, High Net Worth US Citizen, Age 46
- Child 2, High Net Worth NRA, Age 43
- Child 2, Non Resident of US
- Very large family business with majority of assets in Mexico
- NRA Holds vacation home in Miami.
- Liquid assets in both Mexico and the US.

US Domestic Life Insurance for WGC

Example 2

- US Citizen wants to purchase life insurance to cover estate taxes in on \$30M Estate in US.
- NRA Sister is considering move to US and wants same insurance benefit as her brother.
- Foreign Parents tend to treat siblings equally.
- US Citizen buys and develops real estate.
- US Citizen routinely borrows from Parents equity line for business transactions.

US Domestic Life Insurance for WGC

Example 2

- Alternate Funding Option
 - What a WGC needs to Finance US Policy
 - US Lender
 - Source of US Collateral
 - US owner - Trust or LLC

US Domestic Life Insurance for WGC

Example 2

- Premium Finance Funding Option
 - Advantages
 - Currently low cost of borrowing for HNW clients
 - Limits currency in US
 - Opportunity to earning more in home country
 - Premium Financing Concerns
 - Loan rates will eventually rise.
 - Policy performance may not outpace loan rate.
 - Is there liquidity to pay premium long term if needed.

US Domestic Life Insurance for WGC

Example 2

- Both US and NRA Brother and Sister Purchased Coverage
 - Financing relationship was already in place.
 - \$15M Death Benefit each.
 - Investment Manager loved the idea of financing the premium.
 - At their young ages the loan could be paid from future cash values.
 - If necessary, the loan could be paid in full by family trust or the trust could provide private financing.

Offshore Life Insurance for WGC

Why do WGC purchase Offshore Life Insurance?

- Neutral Jurisdiction - Bermuda
- No US insurance taxes
- Stable Currency – Typically US or Canadian
- Significant Insurance Capacity
- Usual backing by Parent Carrier
- Tax Treatment of Life Insurance
 - Death Benefits are income tax-free and estate tax free in Bermuda
 - Cash Value is deferred
 - Single Premium Payments without a withhold upon surrender.

Offshore Life Insurance for WGC

Impediments

- Solicitations Requirements – Different from US
 - These individuals cannot have US or Canadian Ties.
- Foreign Policy Ownership
- Origination of Funds
 - Premium Must be Paid from Foreign Bank
 - Currency Fluctuations
- Underwriting Requirements
- Net Worth and Income Verification
- Re-Domestication in their own country
 - Beneficiaries usually don't want to bring death proceeds back.

Offshore Life Insurance for WGC

Example 3

- High Net Worth NRA
- Business owner with majority of assets in Ecuador
- No Nexus to US or Canada.
- Investment account in Panama
- Children are residing both in and outside the country.
- Wishes to equalize inheritance with children outside Ecuador
- Also wishes to provide death benefit to Ex Wife outside of Ecuador.

Offshore Life Insurance for WGC

Example 3

– Client concerns

- Value of the business if he has a premature death
- Does not wish to leave in-country assets to foreign children
- Wants to arrange something completely separate for his Ex Wife.
- Sovereign Risk – will the government ever take some of my assets?
- Currency Risk is always in the back of his mind
- Large Face Amount Life insurance is hard to obtain and insurance cost in-country are expensive compared to equivalent Offshore policies.

Offshore Life Insurance for WGC

Example 3

– Solution

- Use assets in Panama to purchase single premium life insurance policy in Bermuda for both Foreign Children and Ex Wife.
- Policy is trust owned in Bermuda
- At death of the insured beneficiary receives death proceeds tax-free in most jurisdictions.

Offshore Life Insurance for WGC

What is Offshore Private Placement Life Insurance?

- Life or Annuity Contract
- Segregated Investment Component
- Typically Non-953 D Compliant
- Not regulated by US State or Federal Insurance or Investment bodies
- Typically large cash value in relation to death benefit (MEC)
- Investment portfolio is in Insurance Dedicated Fund (IDF).
- Advisors sometimes refer to these as “Insurance Wrappers”.

953 (d) Versus Non-953 (d) Election

- An international/foreign insurance company can elect to be treated as a domestic insurance company under tax code 953d, to avoid being treated as a CFC (Controlled Foreign Corporation).
- All international life insurers with a 953 (d) election in place pay insurance premium tax like a US Domestic Insurer.
- Non-953(d) Election – Foreign Insurer
 - Usually purchased and held in Tax Haven
 - Trust Owned.
 - 1% Excise Tax if premium paying while a US taxpayer.

Offshore Life Insurance for WGC

What is an Insurance Dedicated Fund (IDF)?

- Similar to Private Investment Fund
- It can hold:
 - Hedge Funds
 - Private Equity or Venture Capital Funds
 - Commercial Real Estate
 - Business Interest
 - Potentially any asset that can be properly valued.

Offshore Life Insurance for WGC

Why do WGC Purchase Offshore Private Placement Life Insurance?

- Neutral Jurisdiction – Could be Bermuda or other Tax Haven
- Very low administrative cost
- Little or no tax/regulatory charge – No US insurance taxes
- Lower sales load structure
- Creditor protection and privacy
- Deferral of foreign income taxes
- Potentially avoids Wealth and Inheritance taxes
- Stable Currencies – US, Euro, other.

Offshore PPVUL/VA Insurance for WGC

Example

- Ultra High Net Worth NRA, soon to become RA
- Significant Worldwide Assets
- No Current Nexus to US, but moving their soon.
- Client concerns
 - US Estate Taxation of Worldwide assets.
 - US Income Taxation of Worldwide assets.

Offshore PPVUL Life Insurance for WGC

Example

- Purchase PPVA (Annuity), non-953 (d) compliant
- If this individual should want to leave US residency they should surrender the PPVA before leaving to avoid 30% US withhold.
- May need to purchase US Life Insurance to cover potential estate tax issues at death.

Offshore Life Insurance for WGC

What are Frozen Cash Value Policies?

- Allows income and capital gains to accumulate tax-free in policy.
- Allows for access to “Frozen Value” or original cash value (basis).
- Cash Value is limited to the lower of all premium or assets backing the policy.
- Do not require medical underwriting.

The Frozen part is the growth in the policy.

Is this really life insurance?

Other Things to Remember

- Naming a nonresident alien as a trustee, successor trustee or trust protector may lose US trust status and become a foreign trust.
- Not all countries have a “trust concept”.

Thank you

Questions

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