Audio file

KN3 - Mark McCullough.m4a

Transcript

Hello and welcome to the Newton Knowledge podcast. My name is Mark Singer, one of the partners at Newton Warren. I'm joined today by my colleague, partner and principal of our firm, Steven Target. Steve, how are you?

Super Hot Day today here in.

Philadelphia. Ohh man, it's swampy out for those listening for the first time, the New Knowledge Podcast is intended to complement our new knowledge webinars by providing meaningful content to our valued advisor. For community, and generally anyone interested in learning more about sophisticated insurance related topics focused on estate planning and executive benefits during our podcast, we focused on discussions on topical issues that provide you with unique insight into the people, processes and products that make our industry so critical. We will occasionally highlight individuals who have been meaningful to meeting. And therefore have contributed to helping us serve our valued clients. New one is a national life insurance planning firm delivering insurance solutions structured to help clients and their advisors engaged in solving the state planning, wealth transfer and business succession and executive benefits challenges. We are a member of the young Financial Group offering our clients access to the nation's most prestigious insurance carriers who develop innovative products available throughout our network. Today we have. The privilege and opportunity to talk with Mark McCullough, President and founder of Blvd. Financial marks firm, specializes in the design, implementation, and administration of executive benefits and wealth preservation plans. Similar to on Financial Blvd. Works closely, clients and their advisors to offer advice and provide creative customized solutions to complex financial needs. Today's focus will be primarily on private placement, life insurance and annuities, so no further ado Mark welcome.

Thank you, mark. Thank you. Appreciate you having me today and thanks for the time.

Absolutely. We appreciate you being here and taking some time out here to talk to us. Let's kick off with your background and how you got started into the business and then and then. We'll elaborate a little bit more about the of our finance.

Sure, sure. Yeah, kind of. High level I. Started the in the insurance industry back in 1994, so quite some time ago I was doing the math this morning and I was getting getting there. It's getting up there in years, but I started in in 94 after graduating from law school. We're here in Kansas City. I started out in in Tulsa, began my career at Mass mutual and the traditional. On agency system and I had an exposure there to quite a few things. Was there for a handful of years, and then I left to take a position as the Vice President of the National Life Executive Office Division for Aon Consulting, which is the largest public broker in the world. What was interesting experience as well, a lot of exposure to executive benefits and wealth transfer opportunities through that relationship left there to establish the executive benefit. Vision on a national basis with locked in companies, which is what brought me here to Kansas City. They're the largest private insurance broker in the in the world. I left with there a number of years and then left in 2010. To establish what's not Blvd. Financial. So and our focus really is in delivering institutional life insurance solutions and executive benefit strategies for high net worth individuals and executives. And we really. I guess we've I would have focused the conversation or focused the emphasis of what we. Do is really. Around two types of tax issues income. In the state tax issues and we really craft policies for individual life insurance, executive benefit, non qualified plans, business succession and then how we can use corporate on life insurance arrangements in individual products to address those needs. And then we also have a a fair amount that we do in the Bank on Life insurance space as well. Thanks for that market. So it's helpful and it's it's important for our our listeners and audience to understand who we both are. And you know. I I guess I'll just reiterate that new one and Blvd. collaborated on projects and and we really enjoyed working with you and can't wait for the day again when you can jump on a plane and come visit with. Us out here. So let's jump into it and and we're going to talk a little bit about. A product today or products today, the private placement space private placement. Life and annuity. Products and I guess just as a kind of a foundational statement and I'll ask you for validation on. Whether you would. You would agree with this, but because of. The markets that we work. In and and these products and with the the likelihood that there's going to be some increasing taxes and with some recent changes improvements. Actually to the. To the the build of of life insurance product. We might say that there's there's no better time than the present to look at these products again for the right clients. By way of disclosure, private placement life and annuity products are not the right products for everybody. There has to be a thorough vetting process to determine if they're appropriate for the individual and for the corporate clients. But my question to you is you know, would you agree with that? You think just based on what we're hearing and and reading and and kind of trying to understand what what may be coming in the coming months and years with increased taxes is, is this potentially just a really good time to look at? These products again. Yeah. So you know it's it's a great point and uh and absolutely true. We're seeing a lot of uptick in in interest you know due to I guess you could say uncertainty but also there is some certainty with respect to direction in terms of where we think that where. We believe the. The those are going both from an income tax standpoint, the capital gains, which is also. You know a big piece. We also got state tax considerations and how those are going to be changed potentially. So all of those really play into the product that we're talking about today and for the right person, you know, what does that look like? And you know, what are the advantages, you know? And above, beyond a traditional retail type of product solutions. So we're seeing a lot of interest in and just because of the of the tax environment that you referenced. So it's absolutely true. Let's assume that somebody listening today has never heard of private placement products, life insurance products, and we have Professor McCullough on the on the phone with us today. Professor explained to us what a private placement product. I'll try to boil it down into just some, you know, kind of high points and and what some of the differentiators, but at its core really private placement product is really a customized life insurance product solution. So and and it's it's a it's a very big universal life insurance product that's available as a private placement and. Think of it I. Really, as the product has institution. Pricing versus retail pricing. So we're able to go into a product and customize it for that particular purpose. And when I say customize it, I mean the the charges, fees, commissions, all those things are customized, negotiated and spread over longer periods of time to create a very efficient product. So that product also offers a wide variety of underlying. Asset management choices for policy assets and. So you have traditional investments that you can funds, so to speak, that you can invest in, but you also have some alternative investment strategies that are very interesting and and create some leverage. So there's a wider, wider variety of of those underlying investments to purchase a private placement product, the investor, the purchaser must be. An accredited investor or qualified purchaser, the qualified purchaser, someone with individual with

5 million or more qualified investments, family owned company with 5 million of Qualified Investments Corporation or partnership with at least 25,000,000 qualified investments. Accredited investor is really individuals with a net worth greater than 1,000,000. Or reported annual income of 300,000 joint filers for the last two years and then institutional investors would would qualify at assets in excess of 5 million. So again, it's up you have to you qualify from a from that standpoint and then I would say. As you know, in terms of who's eligible or who typically. We're getting this part a little bit more later, but typically it's targeted towards a four to $5,000,000 investment or. So all those smaller amounts are possible, so typically that's that's where we we see the you know the the highlights in terms of who's a who's a purchaser and and where does it fit and what are some of the differentiators of that. But in essence of the customized life insurance solution and and we can go on and design a lot of those factors to make it a very, very efficient product. For the for the purchaser. Yeah, let's let's dive a. Little bit deeper into that. Can we talk about the ultra high net worth market you've defined?

We may be.

A good individual or family to to purchase this product. How does it? Apply in the corporate marketplace or where do you see the application of private placement life or annuity products? In the in the corporate market. As a corporate products are are, it's used in the corporate environment as well for companies who are trying to office. Traditionally companies who are. Trying to offset. Benefit liabilities that may be on the books I think of. You know non qualified plan, a sharp arrangement. Banks use a very similar product and can use it a true private placement product for bank on life insurance. So as strategic asset class companies use it like insurance companies use it. So insurance companies actually hold insurance products on their books because of the tracks, the tax. Treatment and and risk based capital attributes. So the product itself and private placement product can be used both in the individual setting and the corporate setting as you reference. And it really depends on what they're trying to accomplish and what they're maybe trying to offset from a from benefit cost or benefit obligation standpoint. So at at the higher levels. We see those products being used just because of the efficiencies and the pricing efficiencies inside those products. It creates some positive balance sheet impact for them from day one, so to speak. And then so that's where we see those types of policies being used in both in both settings. The opportunity to defer the tax on gains from the underlying separate accounts can apply to both individuals and to banks, companies, corporations and insurance companies. Could benefit all the above. That's right. There's no no taxation on that build up inside and inside the product. And then on the backside coming out through distributions and loans through the policy. So it's it's a very efficient accumulation distribution mechanism for those products to back those designs and programs that may be in place. I think with that these products are not upset it and forget it sort of strategy, right? I mean there there there's a lot of ongoing service and maintenance that needs to occur within within the products. Do you want to maybe touch on that a little bit? What what do you see as you know once the product is placed from an ongoing? Many years of service standpoint, one of the most important factors in order to make sure that the product performs appropriately. Yeah. No, it's definitely something that you know needs to be managed. And really that's for two reasons. One is you're wanting to manage. Because it's it's. A. It's a long term commitment and and typically you're managing towards a specific goal. That's in mind for the placement at the at the front. So those things can change over time as well. And the second thing is really that the the funds underlying the investment inside the product. You know need to be managed, so a lot of times, uh, when we place these we'll be and you know we'll be working with on outside money manager that maybe a family office, a private bank, you know someone that's that really brought that individual or or entity to the table. So it does. You know, there's within the policy, there's management that goes on on the investment side, but also managing the life insurance component. So really understanding on the front end what the individual or the companies trying to accomplish. And then again being able to craft this type of policy to really accomplish those things in that in the most efficient way. You know the benefits of that you know. An individual or or the OR the company is really the tax free investment environment for the policy cash value. So it's it's a very good hedge and alternative to other tax inefficient investments. On the transparency, the pricing and low cost structure is really of interest as well. So and then the flexibility, so you've you've got, you know broad selection of investment managers, strategies and asset classes. You can change those asset managers and classes within the product, you can borrow, withdraw and borrow from the policy at at minimal cost. Tax free through the policy if with proper structuring, and then the beneficiary, you know obviously with, you know, receive the death benefit free of income tax of a structured policy properly and free of estate tax as well. So because of those attributes it it does require management definitely to your point isn't. Like you just said and forget and it it does require active involvement and management of the policy. I guess another important factor is because of the specialized nature both of the product and the servicing and this frankly the sale of private placement products, you know not all insurance companies manufacture these products. There's a very kind of narrow lane of of available products. Do you want to talk maybe you know without naming carriers, but just. About access to the products and and how clients would find access to these products. I don't think. All insurance advisors are even aware of private placing. That's, you know, it's a very small subset really it it's a small product space and and it's a small advisor space really that has access to those products and and on the period side it can take a number of years to get that product priced and off the ground and have the you know the funding behind that from. The client standpoint to to really make that. Profitable, so to speak, at the carrier level, so. It is something that very few people we've actually had some very large insurance carriers have had products in the past that have discontinued those products and because of the market and and and where it is, although we've we've seen a lot of consolidation as well. So for the Magnus star platform that that in financial has has has been around since 2001 when it was introduced. And it's actually a platform of of three different carriers product. Has a common administration platform and product pricing and they use we're able to use the pricing and mortality assumption through them that we've had since the late 70s. So we have the reinsurance company as well and financial read that's behind that. And if you like it since 2001, we have asset in that product now that are approaching $3 billion. Pretty substantial, but that that platform. Allow the flexibility to charge the expenses and premium loads and amortize and and other things over long periods of time and in the flexibility to optimize the short term or long term performance. So it is a small product space but it is one that is consistently growing to your point earlier about the tax environment that we're in and where we're headed. So it is something. That's a hard market to get. Into, you know, it is one that we've been in through the Mega Star platform for quite some time and and have had some some real success. I also want to point out to one of your earlier questions, the benefits to private placement and and who's eligible. One thing also that I failed to mention that I think is important is the underlying investment issuers inside those. Contracts you you don't have K1 generation, so you eliminate the K1 generation from the underlying investment this year and. That could be a a. Pretty big deal for people who are invested in the same type of funds in a taxable environment. When you have that inside this, the private placement product, you eliminate those K1 and I think really to kind of help crystallize the product retail. Versus private placement. And when I say retailer, I mean typically retail what most people would be familiar with retail off the shelf type. Product retail products, typically you're trying to maximize death benefit with smaller deposits or premium over longer periods of time and death benefit is really the primary purchase goal of that product private placement. You're really minimizing debt benefit with larger deposits of premiums over shorter periods of time with tax efficient investment as the really primary. So you're comparing tax efficient purchase goal of cash versus primary purchase goal of death benefit on the retail side. So I really would say a lot of times it's the primary advantage of private placement is the ability to design A life insurance policy could look opposite from or less like a traditional life insurance policy.

Another item that that makes this insurance product unique is the transparency of expenses. At a high level, what? Are the embedded expenses in both life insurance placement as well as? Annuity product within private placement.

Yeah. So typically insurance related taxes and fees are made-up of a few things that taxes federal back taxes are typically 1 to 1 1/2%. So a hundred, 150 basis points on premium tax really varies by state, but on average, it's, you know, typically a 200 basis point premium tax on that mortality and expense. And any charges inside a contract, typically those are scaled by asset size and duration, so. So I'd say if we were seeing typically you'd see something in the 50 basis points of cash value the 1st 10 years, maybe 40 basis points, the 2nd 10 years and then 20 basis points thereafter. So you know, again, that's something that's moves over time based on the the mortality and and expense charges and and and then the last one really. Or the last two I guess with the cost of insurance charges, those are variable. Those really depend on death benefit amount. Age of the person. And gender of the person and then the health of the insurer. So that's another charge. And then the last one would be compensation. So critically with private placement, there's very, very low, if any front end compensation. And it's typically more on a percent of premium on a go forward basis on a on a trail. So typically that's some. We're in the 10 to 50 basis points per year of cash value in terms of compensation. So again, some of the things that you mentioned, you don't want it, it's more efficient and it's a result really of of all those things you can do, some some interesting things as well. You know with respect to placement, you know where that particular contract is owned, which can make it into here in a minute, but. That those would be the main things that with respect to fees and taxes and again you know the idea with this product being because of the institutional nature and of the investments and the contract itself and being able to really customize those and spread them over long periods of time. So it becomes a very, very efficient tool for accumulation distribution.

Yeah, that's great. And and in terms of customization, what sort of separate accounts or insurance dedicated funds can be accessed? In in a private placement product.

Yeah. So you it's really like standard. It's constantly changing. Things are being added all the time, which is great. You have your traditional funds that that people would be similar with. So when we have a a product, for instance, that one of the products on the Mega Star platform is there's like 140 some odd investment choices that you have things. You know household names, so to speak, and your traditional font, so you know, American funds, Fidelity, Vanguard, MFS, JP, Morgan, Black Rock. You know, you have some target funds, invest target, date, type funds so really and and those can be in in areas you know where you have tactical type investment choices. We can have growth commodities. The other really bucket, so to speak or area is alternative investments. So these are things that you know you may have some credit strategies or sector strategies or credit opportunities you may. Have some you know macro type strategies or event driven type funds, multi strategy so taxation you may have a real estate fund. So there's different asset strategies that you can put inside that contract. So a lot of times we'll work with people who may be working with a family office or a private bank and. And they have right now, you know, they may be invested in something they really like from a investment standpoint in terms of returns and market exposure. What they don't like is. The taxation of that. So there's a lot of portfolios, sometimes portfolio turnover inside those alternative classes or dividend capital gains that I mentioned, the K1 generation. So a lot of times you will we're brought in to actually create a insurance dedicated fund that matches that taxable fund. So someone may say well. My clients, you know, they have twenty $30 million invested in. Fund A and we'll go in with them and create an insurance dedicated fund on the life insurance platform. So we're basically wrapping that strategy in the in the life insurance wrapper. So that now you don't have those taxing efficiencies and drag inside that investment strategy any longer. So it becomes a very efficient way. And to to mitigate those taxes and and portfolio turnover, K1 generation et cetera that I mentioned.

You've kind of.

Alluded to this, but I'll I'll ask you to dive a bit deeper as you're building and structuring these policies, there's some. There's also some opportunity. I think to. Depending upon the ownership and maybe you know where the domicile of ownership is of that contract that that could also impact impact some of the pricing is that, is that true? Absolutely. Yeah. We had a client recently who had a. I trust that it was the trust owned policy, private placement product and was actually. With the carrier. Who had exited the business, the large carrier, they decided to to get out of that space. And so we moved that product and they only had six investment choices inside that product. So we actually moved over to the Magnus, our platform product. And we're able to get them, as I said, could take them from six choices to almost 140, and we cite is that actually the trust was located in South Dakota. So because of that, we were able to get depressed even further that some of those taxes that we mentioned that vary by state. But there are friendly states, so to speak. You know, with respect to these arrangements, Delaware mentioned South Dakota and Nevada. So there's there are places where it makes sense to look at that. And then we were able actually to to my previous point there, we actually they were working with an investment advisor out in New York 150 plus year old. Investment manager and we actually they they had a strategy that they were invested in that they really liked. But again they didn't like the taxation of that. So we are actually able to. Take the money of the existing money that was inside the private placement clone, a strategy that that the investment manager came up with and bolted it on, so to speak, to the product and and we're able then to keep them invested in the same ways. But now inside that tax free environment inside the the life insurance products. So it was a win. Not only from outside is where it was located from a tax standpoint and and pricing standpoint that you referenced, but also from the ultimate investment choice and where they wanted to be. So is is is a great. Well, Mark, there's there's so much more we can go into here and I guess before I turn it back to you for some closing comments, my my closing comment or suggestion would be that if anybody listening today has any additional questions or they believe that there may be some opportunity any of their clients or themselves for that matter. We had Newton. One would certainly be happy to talk to you as well. Mark and his team at Blvd. So we appreciate you being with us, taking time out of your busy schedule, and I'm going to pass it back to you to to close down your. Is there anything that we missed? Is there anything at a high level that you would like our listeners to to take away from? Yeah. I think wrapping to your your earlier point, when we first started, you know this, you know private placements are a great solution for the right person, right need it's not someone that's with traditional life insurance needs in terms of income replacement or conservative risk profile. It's really for someone that has a, you know, large percentage of the wealth and invested. As opposed to illiquid, assets are closely held business interests and and a portion of that investment portfolio is invested in tax inefficient asset classes. And so if they have that and they've got a desire to invest. And alternative or or as it as we say non correlated to the equity markets asset classes if if that's a an interest and they seek to maximize that growth of assets over time for transfer to the next generation then you know it's a great a great consideration and again because of the the leverage and the tax environment that we're in. And potentially going towards it it. Certainly may have a a place in in. Their overall strategy.

Mark, this was great. Thank you for your time. And and I just want to say being part of the the end family, we're truly fortunate to have yourself and and Bill of our financial as a a resource and A and a close partner for when the the right scenario and occasion comes up in private placement is a a discussion that needs to be had to to rely upon you and your team and partner with you. So on behalf of Steve and I just want to say thank you for your time. If there's anything else you'd like to add, that's that's. All we have for the day.

Thanks for the invitation.

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