

Captive Insurance

An introductory guide to Captive Insurance

REDHAWK WEALTH ADVISORS

A Publication of



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WHAT IS A CAPTIVE INSURANCE COMPANY (CIC)?



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The CIC was originally created to solve the problem of rising commercial insurance costs and the difficulty in obtaining certain types of insurance coverage. Most companies now establish CICs for microeconomic reasons such as cost reduction, risk management, or risk control.

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WHAT IS A CAPTIVE INSURANCE COMPANY (CIC)?

A Captive Insurance Company (CIC) is a property and casualty insurance company that is established to provide coverage primarily to a Parent Operating Company. Captives are an effective risk management strategy to insure against risks for which commercial insurance is not available or may be too expensive.

A CIC formed by a business or business owner can provide flexibility in covering property, casualty, and liability risks and the potential to retain underwriting profits. Premiums paid to a captive may be tax-deductible as a business expense, and premium income to the captive may be reduced by loss reserves or, for certain small captives, nontaxable up to a limit under Sec. 831(b).

WHAT IS A CAPTIVE INSURANCE COMPANY (CIC)?



CIC Coverage Examples:

- Data Breach - Release of Data
- Employment Practices Liability
- Loss of Key Employee
- Loss of Key Client
- Loss of Key Vendor
- Loss of Licensure/Certification
- Loss of Market
- Reputational Risk



CAPTIVE INSURANCE BENEFITS

It's clear why over 50% of the Fortune 1500 companies have captives.

Captive Insurance Companies provide risk mitigation, protection, and reduces exposure for the parent company. Additionally, it's an opportunity to create asset growth, building a non-correlated wealth accumulation account for captive owners over the long haul. Even without the tax advantages, the captive is an excellent business planning vehicle. Being able to insure low frequency, high risk events keeps your business secure.

CICs are an ideal solution by allowing premiums received to be invested rather than "lost." They may issue property and/or casualty insurance coverage against a wide variety of possible exposures. In addition, it enables owners to insure against commercially unavailable or unaffordable liabilities. Access to reinsurance markets and additional estate planning benefits are among many other ancillary benefits CICs provide their owners.

CAPTIVE INSURANCE BENEFITS

Benefits Overview

- Improve Risk Management
 - Customize Policies
 - Increased Breadth of Coverage
 - Greater Control of Collecting on Claims
- Reduce Insurance Costs
 - Stabilize Pricing
 - Manage Deductibles
 - Retain Premium Dollars
- Increase Cash Flow
 - Earn Investment Income
 - Retain Underwriting Profits



IDEAL CAPTIVE INSURANCE CANDIDATES

A wide range of businesses can benefit from owning a captive insurance company.

What kind of businesses or business owners are the best candidates for CICs? Profitable businesses with uninsured risks, a history of low insured losses, and businesses willing to undertake the cost and management of the formation and administration of the captive.



Larger corporations can benefit from a wholly-owned captive, insuring a variety of risks. Smaller companies may find a Micro Captive fits their risk management needs. Conducting a Feasibility Study will allow a company to assess potential risks, analyze tax considerations, and determine if they are an ideal candidate for a Captive Insurance Company.

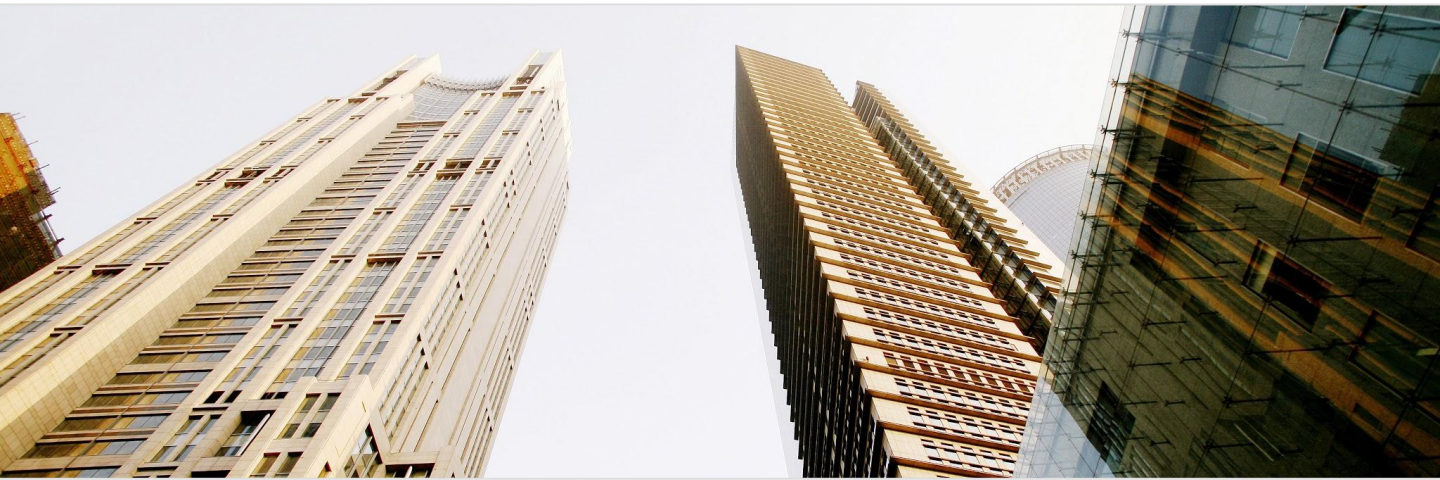
IDEAL CAPTIVE INSURANCE CANDIDATES



Ideal CIC Candidates

- Business clients with a significant operating business, or professional risk, with a minimum of \$500,000 year in taxable income.
- Physician groups.
- Other professional groups such as engineering, title companies, law and accounting firms.
- Real estate developers, home builders, and contractors.

TYPES OF CAPTIVE INSURANCE COMPANIES



Types of Captive Insurance Companies

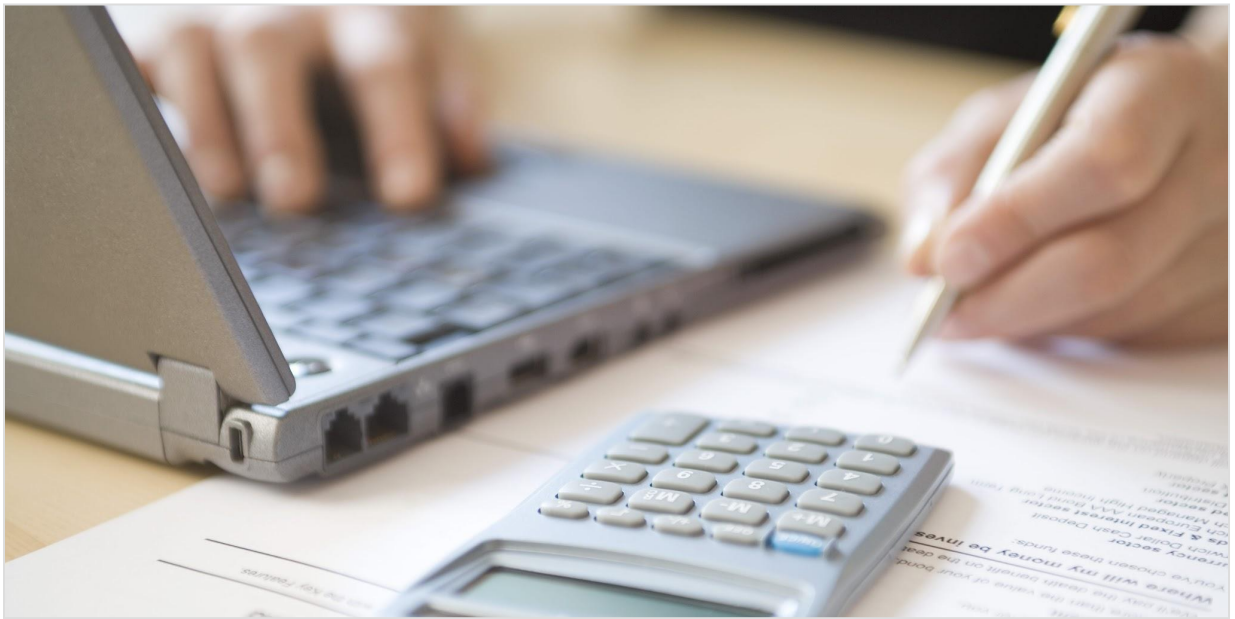
- Diversified Captives
- Micro Captives
- Special Purpose Captives
- Single Parent Captives
- Group Captives
- Association Captives
- Protected Cell Captives
- Rent-a-Captive
- Risk Retention Captives
- Industry Captives

CAPTURE STRUCTURING

Structures for CICs

- **Micro-Captives 831(b)**
 - Under Section 831(b) of the Internal Revenue code, insurance companies that write \$2.2 million or less in annual premium only pay income tax on investment income. This means that underwriting surplus and profits can accumulate in the insurance company on a tax-deferred basis. Risk is shared and distributed according to safe harbor and IRS guidelines.
- **Property & Casualty or Pure Captives 831(b)**
 - A Property & Casualty Captive Insurance Company, or Pure Captive, writing less than \$2.2 million, insures more traditional E&O, Health, Workman's Comp and exposures.

HOW TO SETUP AND MANAGE A CIC



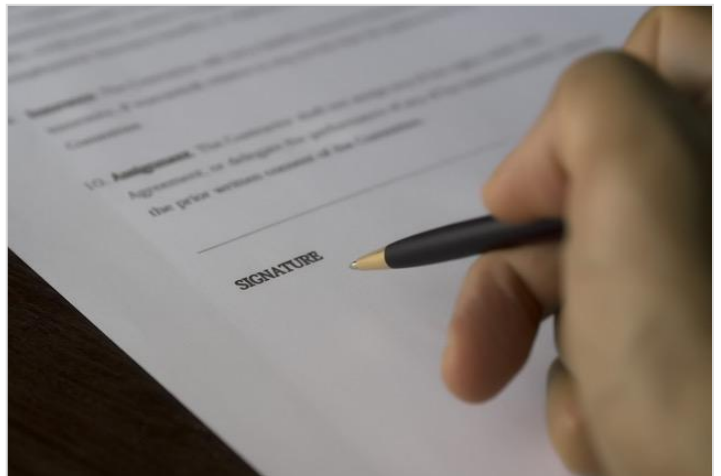
Setting up and managing a Captive Insurance Company may seem like a daunting task; CICs can be very complicated and are heavily regulated. It's very important that you hire a captive manager to serve as the administrator of your CIC.

Put Redhawk Wealth Advisors' years of experience to work. We make managing CICs less complicated and more understandable.

HOW TO SETUP AND MANAGE A CIC

Steps to Set up a CIC

- Feasibility Study
- Determine the Risks
- Obtain Third Party Administrator
- Domicile Selection
- Submission of application for an insurance licence

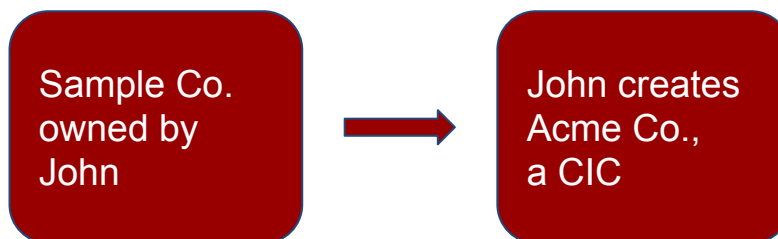


Managing Administrator

- Appropriate Investment Plan
- Risk Distribution
- Checks and Balances
- Process Claims
- Navigate Industry Guidelines

CAPTIVE INSURANCE COMPANY EXAMPLE

Sample Company, owned by John Anderson, has uninsured risks that his current third-party property and casualty insurance company doesn't cover. John creates Acme Co., a Captive corporation, an insurance company covering Sample Company's uninsured risks.



The insurance premium for the uninsured risks are determined to be \$1,200,000 per year. Sample Company pays the \$1,200,000 premium to John's Captive Insurance Corporation, Acme Co. Under the Captive rules, all of the \$1,200,000 is income tax free to Acme.



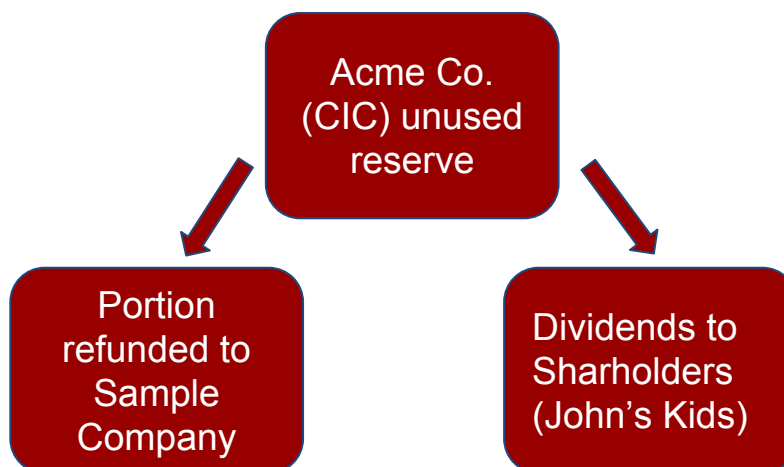
Acme Co. has the entire \$1,200,000 to invest (minus fees). However, Acme Co. is a Captive and must hold the premium, plus earnings, as a fund to pay claims for the risks it insures.

CAPTIVE INSURANCE COMPANY EXAMPLE

Sample Company pays premiums to the Captive to insure for litigation defense, professional liability and contract fulfillment. Remember with a commercial insurance company, if the insured has no losses, the CIC keeps the entire premium.

Even though a Captive cannot reduce premiums, a financial windfall results if the insured's actual losses are less than actuarially predicted.

For example, suppose John's Captive, Acme Co, has an unused reserve. A portion of the unused reserve can be refunded to Sample Company, reduce future premiums or be paid to the Captive's shareholders (John's children) as a dividend.





ABOUT REDHAWK WEALTH ADVISORS



REDHAWK WEALTH ADVISORS™

At Redhawk Wealth Advisors, Inc., (“Redhawk”) our focus is on creating, growing and managing wealth through a broad range of financial products and services that promote the economic well-being of our select group of clients and advisors.

- SEC Registered Investment Advisor since 2008.
- Working with over 1,800 advisors in 47 states.
- Over \$610M in AUM (as of 09/30/2016).
- Clears through TD Ameritrade, Charles Schwab, Fidelity, and Mid-Atlantic.
- Friendly broker-dealer relationships with PKS and Freedom Investors.

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What's Your Risk?



Capture your risk tolerance and
see if your portfolio fits you.

Get Your Risk Score