

# THE TEAM WITH THE BEST PLAYERS

WINS..... Jack Welch

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## INSURANCE RE-IMAGINED

By Ronald M. Roth, SVP Strategic Planning



Mention the word *insurance* to most business owners and you'll most likely get variations of the following response – a deep sigh, an eye-roll, and commentary on how expensive it is and how much they hate insurance and despise paying the premiums each month.

This is not surprising as insurance costs represent a large percentage of most businesses operating expense. According to *INC. Magazine*, that number can be upwards of 30% on average. In addition, since large claims are quite rare, business owners hardly ever see any type of monetary return on the premiums they pay to their commercial insurance carriers each year.

What if we could show business owners a way to redesign their current approach to insurance and risk management in a way that could produce actual monetary returns, lower their insurance costs, and accomplish all of this in a very tax efficient environment? We can... we do it every day. By helping our clients create a "private" insurance company (or a captive insurance company), we empower them to gain control of their insurance programs, recapture underwriting profits, and create a long-term

business planning tool. In essence, we help them *re-imagine* and re-align their entire mindset when it comes to their insurance and risk management planning.

All successful businesses have insurance needs. Outside of Fortune 500 companies, **most** of them pay premiums to commercial insurance carriers. Their coverages typically include property, medical, workman's compensation, disability, business interruption and a variety of other types of insurance. The commercial carrier collects the premiums and pays the claims. You know what else they collect? **Profits. Lots and lots of profits.** Take a tour through the ivory halls of the home offices of many large insurance companies and you'll see an opulent environment that is paid for by the revenues they collect and profits they enjoy. Our goal is to bring as much of that profit back to the business owner as possible.

By establishing your own private insurance company that insures the risks particular to your business and industry, business owners can control their risk more effectively and, therefore, create profits for their company and themselves.

How is this possible? Just think about how much more profitable an insurance company would be if there were no costs for advertising, commissions, extravagant corporate offices, and other fixed expenses. By removing all these expenses and transferring the revenue to the private insurance company, the owner of that company has created a business enterprise that is complimentary to his or her primary business and can be very profitable each year. As time goes on, premiums are paid, risks are managed efficiently, and reserves grow... so does surplus. Now imagine, surplus growing and accruing year after year in the private insurance company. An 831(b) Captive can receive up to \$2.4M in premiums each year. Even if the actual

insurance premiums are half of that amount, with proper planning and risk management control, it's easy to see how after just a few years there can be millions of dollars in surplus in that private insurance company.

**Whose money is that?** It ultimately belongs to and is controlled by the business and its owners. Also, let us not forget that those funds were transferred to the private insurance company on a tax-deductible basis. **Do you think a business owner who owns a private insurance company with millions of dollars of tax favored surplus at that point hates or despises insurance anymore? Not likely... We have helped them *re-imagine* their insurance and the possibilities that planning such as this can accomplish.**

**The next logical question is – what can they do with that money?** This is where the private insurance company becomes a true business tool and offers the business owner many attractive options for the use of the funds in their insurance company. First, we must understand that domestic captives are under the jurisdiction and supervision of the state in which they are domiciled. Each state will have formulas for how much of the overall funds in the captive represent surplus and how much they will require to be kept in reserves for future claims liability. Once the amount of surplus is determined, then the client can utilize those funds. There are many ways we see clients deploy and leverage these funds.

On the most basic level, they can apply to the state to have those funds distributed as a dividend. At that point they would have to pay tax on the distribution but will be taxed at long term capital gains rates and not ordinary income. This alone creates a tax efficiency that they would not have enjoyed had they not created a captive insurance company. **But why pay those taxes now unless necessary?**

There are many other ways we have seen business owners use their captive as a business tool and leverage the funds within their private insurance company. **For example, we have seen clients get approval from their state of domicile to purchase other companies, particularly ones that are in the supply chain of their base business.** If a supplier of goods or services necessary to the operations of the business becomes available for sale, why not utilize funds in the captive to purchase such a business? It guarantees a smooth transition for the business owner by not having them be

with a new player (a different potential owner of that company in their supply chain) and more importantly it creates profit opportunities and economies of scale by having this new business under their control. In essence, the private insurance company can use these funds for any legitimate business pursuit as the funds were already deemed surplus and not necessary to be considered for future claims liabilities – the possibilities are as vast as our and the business owner's imagination and with approval of the appropriate state regulators.

This type of forward thinking is how we help our clients enjoy the great possibilities that owning a private insurance company can create. We are careful to strictly follow all the rules, create captives that are truly private insurance companies from a risk shifting and transfer prospective, work closely with the states in which they are domiciled, and, help our clients *re-imagine* insurance every day.

**Call Independent Captive Associates, LLC to learn how to get started.**

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