



CAPTIVE NATION

Captive Insurance Management





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WHAT IS CAPTIVE INSURANCE?

*A Private Insurance Company
Owned by the Business Owner*

WHAT DOES IT DO?

PROTECT BUSINESS

Protect the Business You've Built

Integrates with Your Traditional Commercial Insurance

Access to Policies Not Available Commercially or Too Expensive (Custom)

Create a New Asset/Corporation that is Creditor Proof

DECREASE TAXES

Keep More of What You've Earned

Premiums are Tax Deductible for the Business

Premiums are Tax Free for the Captive

Distributions are Taxed at Lower Rates (Capital Gains)

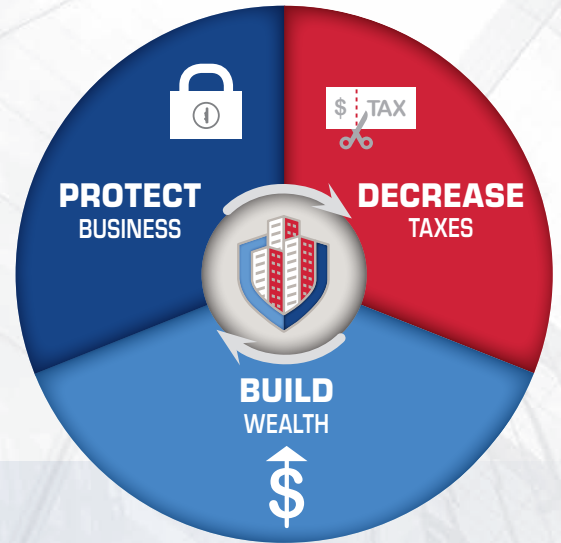
BUILD WEALTH

Turn Premiums into Profit

Premiums are Retained, Investable, and Reinsured

Reduced Traditional Commercial Insurance Costs

New Profit Center - Offer Warranty/Insurance Program



We Serve All Industries

Physicians
Manufacturers
Construction
Health Care
Oil & Gas

Transportation
Wholesale
Auto
Retail
Professional Services

CAPTIVE TAX BENEFITS

| WITHOUT A CAPTIVE | ANNUALLY | YEAR 5 | YEAR 10 |
|---------------------|-------------------|---------------------|---------------------|
| Net Business Income | \$ 1,000,000 | \$ 5,000,000 | \$ 10,000,000 |
| Income Taxes (40%) | \$ (400,000) | \$ (2,000,000) | \$ (4,000,000) |
| Net | \$ 600,000 | \$ 3,000,000 | \$ 6,000,000 |


UNPROTECTED!

| WITH A CAPTIVE | ANNUALLY | YEAR 5 | YEAR 10 |
|---|-------------------|---------------------|---------------------|
| Captive Premiums <i>MILLIONS IN COVERAGE!</i> | \$ 1,000,000 | \$ 5,000,000 | \$ 10,000,000 |
| Management & Operating Expenses | \$ (50,000) | \$ (250,000) | \$ (500,000) |
| Reinsurance/Risk Distribution Reserve | \$ (20,000) | \$ (100,000) | \$ (200,000) |
| Investment Income* | \$ 50,000 | \$ 650,000 | \$ 3,000,000 |
| Net | \$ 980,000 | \$ 5,300,000 | \$12,300,000 |

PROTECTED & INVESTABLE!

\$4M TAXES SAVED!

NET GAIN WITH CAPTIVE

| | | | |
|---|------------------|--------------------|--------------------|
|  | \$380,000 | \$2,300,000 | \$6,300,000 |
| | ANNUALLY | YEAR 5 | YEAR 10 |

Based on preclaims. *Assumes a 5% pretax rate of return on investments.

CAPTIVE CASE STUDIES

PROTECTING YOUR BUSINESS

A pizza company transported cheese to their locations around the country in refrigerator trucks. If the truck refrigeration failed, the cheese would spoil causing a loss of product and a loss of pizza sales. To insure this risk and offer a "satisfaction guarantee," the pizza company formed a captive and put \$10 million of premiums into it each year—this saved the business owner \$5 million in taxes per year.

- Taxes Saved:** \$5,000,000/yr.
- Additional Protection:** \$100M–\$200M
- Additional Benefits:** Tax Reduction, Profit Protection, Competitive Edge with "Satisfaction Guarantee"

EXTENDED WARRANTY INCOME & COMPETITIVE EDGE

Commercial-grade cooking ranges typically come with a 1-year embedded warranty that is included in the cost of the product. A range company formed a captive that enabled the manufacturer to double the warranty to 2 years. All the warranty income was income tax free, and sales increased because they offered a longer warranty than their competitors.

- Taxes Saved:** \$200,000/yr.
- Additional Protection:** 2 Year Warranty Cost
- Additional Benefits:** Increased Sales/Competitive Advantage, New Warranty Profit Line

COMMERCIAL INSURANCE PREMIUM REDUCTION

A company had \$2.5 million in commercial insurance premiums. The business owner created a captive to cover their commercial insurance gaps, exclusions and deductibles. Because the company created a captive, they increased their commercial insurance deductibles which lowered their commercial insurance premiums to \$1.5 million, netting the business owner \$1 million in savings.

- Taxes Saved:** \$500,000
- Additional Protection:** \$10M–\$30M
- Additional Benefits:** Reduced Insurance Costs by \$1M

TAX PLANNING: CAPTIVE vs. 179 TAX DEDUCTION

A construction company had a \$1 million profit and their CPA suggested that they purchase \$700,000 worth of equipment (that they really didn't need) to avoid taxes. The business owner reluctantly did, but the next year another CPA in town suggested a captive instead of buying equipment. The owner saved more in taxes and got to keep the \$1 million in an asset that appreciates instead of depreciates. The business owner has a new CPA.

- Taxes Saved:** \$450,000
- Additional Protection:** \$5M–\$15M
- Additional Benefits:** Tax Planning Efficiency

OUR TURN-KEY SERVICES

Captive Nation, Inc. provides turn-key services in captive insurance formation and day-to-day management.

Simply put...we do it all. Our management services provide clients with all the administrative, underwriting, and operational support needed to create and manage a captive insurance company. Founded by a CPA, Captive Nation ensures that your captive insurance company is in compliance with all state and federal regulatory requirements.

COVERAGE BEYOND COMMERCIAL INSURANCE

How do you cover gaps, exclusions, deductibles and business risks? Forming a captive is the solution.

WITHOUT A CAPTIVE

- ✗ Tax Deductible ✓
- ✗ Business Protection ✓
- ✗ Custom Insurance ✓
- ✗ Access to Reinsurance ✓
- ✗ Retain Premiums ✓
- ✗ Financially Ahead ✓

WITH A CAPTIVE



WHAT IS COVERED UNDER A CAPTIVE

Captives typically cover low frequency, high severity risks. Below is a partial list of coverages.

TOP INSURED RISKS

- Business Interruption
- Commercial Gaps/Exclusions
- Coronavirus/Pandemics
- Cyber Risk/Data Loss/Hacking
- Deductible Reimbursement
- Employment Practice Liability
- Loss of Key Client/Contract
- Loss of Key Employee
- Loss of Key Supplier
- Product Warranty/Insurance
- Regulatory Change
- Rental Income Replacement

- Audit Liability
- Collections/Receivables
- Commercial Property/Inland Marine
- Construction Delay & Defect
- Consumer Boycott
- Directors & Officers
- Embezzlement
- Eminent Domain Insurance
- Environmental Liability
- Errors & Omissions
- Fiduciary Liability
- Foreign Operations Insurance
- Government Action Liability
- Health Insurance/Stop Loss
- Independent Distributor's Liability
- Intellectual Property Infringement
- Inventory/Cargo Loss
- Kidnap/Ransom/Extortion Liability
- Labor Cost/Strike
- Litigation Expense
- Malpractice Liability
- Patent/Copyright/Trademark
- Product Recall
- Property & Natural Disaster
- Sexual Harassment
- Subcontractor Default
- Terror or Acts of War
- Trade Secrets
- Unfair Competition Liability
- Workmanship Liability



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Captive Nation, Inc. is an Affiliate of CPA to CPA, Inc.

"90% of Fortune 500 companies have a captive insurance company. Now small to mid-sized companies can, too."
Ken Huffman, CPA and Captive Manager

CAPTIVE FORMATION STEPS

