



## MANAGING RISK WITH *CapPlus*

Captive Insurance Companies are not what they used to be: exotic offshore private insurance companies for the Fortune 500 requiring a deep pocket of capital and an army of lawyers and accountants.

With recent IRS ruling and Legislative changes, captives can now be established on-shore and if structured properly have tax consequences that make them a very effective tool to manage risk for medium sized businesses.

### **What is a Captive Insurance Company?**

A privately held insurance company that is licensed to sell property and casualty products to a single business group; usually a related operating company.

### **Who owns the Captive Insurance Company?**

Traditionally, captives have been wholly-owned by their parent company. For tax planning purposes, *CapPlus* captives should be owned by anyone other than the company it insures. Ownership is usually a group comprised of the owners, executives and key managers of the operating company, family members and their heirs.

### **What types of risk can be insured?**

A captive can insure any legitimate risk the owners want to insure. Examples include large deductibles, self-insured retentions, Directors and Officers Liability, Professional Liability (errors and omissions), Umbrella Liability, Fiduciary Liability, Automobile Physical Damage, Product Liability and Product Recall to name a few.

### **Where are most Captive Insurance Companies based?**

26 states have enacted legislation to allow for the creation of captives. The best jurisdiction for a captive depends upon the location of the operating company, the laws for captive creation and the regulatory services in the state of the captive domicile.

### **What are the tax benefits of *CapPlus*?**

If the captive is formed and operated properly, the operating company can deduct its premium payments made to the captive insurance company. The *CapPlus*, however, will pay no taxes on that premium income. In addition, upon liquidation of the captive, its owners can access the captive's assets at capital gains rates.

**How big does a company have to be to establish a captive?**

While the size of the company is important (generally a company must contribute premiums of \$.5-\$1.2 million to be economically viable) other considerations include the type of risk to be insured, availability of insurance from the traditional markets, and the willingness to assume certain risks.

**Are there other financial consequences for establishing a captive?**

Yes, and depending upon how the captive is structured, these can be very positive and significant.

For example when the operating company purchases a policy from the captive, no brokerage commissions are paid on the premiums. Considering that a typical broker receives between 10% to 15% commission per year, the cost savings over a 10 year period can be substantial.

**Once the premiums are paid to the captive, who manages the funds and how can they be invested?**

The owners of a *CapPlus* captive determine both who manages the funds and how the funds are invested. Funds can be invested in bonds, mutual funds, real estate, and/or stocks.

**What if the operating company needs additional cash flow in any given year?**

Insurance does not have to be purchased from the captive every year. Additionally, cash that resides in the captive can be loaned back to the operating company at market rates with proper documentation.

**Who manages the Captive Insurance Company?**

*Wickford Partners* is the leader in establishing and managing *CapPlus* captives. They not only select the best jurisdiction for your captive but also act as the turn-key manger, providing annual audited financials, tax returns, actuarial updates and other regulatory filings necessary to ensure your captive remains compliant.

**This is an interesting product, how do I know if it will work for my business?**

To determine if *CapPlus* is the right product for you contact Jim Landis or Howard Potter of Wickford Partners, LLC at 303-290-7460.

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*Wickford Partners, LLC* is a Denver based company that specializes in the formation of *CapPlus* captive insurance companies for owners of closely held businesses. The principals of Wickford have over 20 years experience in the captive market, having formed and managed over 1% of all captive insurance companies world-wide.