ELITE RESOURCE TEAM

February 2016

UPCOMING EVENTS

EDUCATIONAL WEBINAR:

Topic: Commercial Insurance w/ Focus on Captive Insurance Companies
Date: February 17, 2016
Time: 8:30am - 9:30am PST / 11:30am - 12:30pm EST
Speakers: Keith Langlands, CPA, and Keith Runyon

There are very few commercial insurance brokerage firms that truly specializing in captives. Keith Langlands, CPA and Keith Runyon, Co-Managing Members of Synergy Insurance have over 40 years combined experience in the captive and commercial insurance industries. Uniting the power of captive and commercial insurance, Synergy offers clients a comprehensive enterprise risk management program all under one roof.

Keith Langlands is co-managing member of Synergy Insurance, overseeing the captive insurance side of the business. An active CPA, Mr. Langlands is also a member of the Captive Insurance Company Association (CICA), and the Vermont Captive Insurance Association (VCIA).

Keith Runyon is co-managing member of Synergy Insurance, overseeing the commercial side of the business. Prior to establishing his own firm in 2010, Keith was part of the Leavitt Group, one of the nation's largest private insurance brokerages, for 23 years.

Registration Link:
https://attendee.gotowebinar.com/register/4969995239490492674

ARTICLE OF THE MONTH

What CPAs Should Know About Captive Insurance Companies

CPA's are in the business of enhancing client profitability and protecting assets while minimizing risk. One often overlooked tool is the establishment of a captive insurance company to manage enterprise risk while capturing underwriting profits for the captive owners.

What is a Captive Insurance Company?
A captive insurance company is an insurance company formed by a parent company to insure the risks of the parent. Captives are established to meet the special risk management needs of the owners.
Once established a captive looks like a commercial insurer: issuing policies, collecting premiums, and paying claims. However, a captive does not offer insurance to the general public and is regulated as a captive. Captives are regulated by the state of domicile. Captives require an annual audit by an independent CPA firm and most domiciles require an actuarial review of the captive's pricing policy and loss reserve methodology.

The Benefits of Forming a Captive
There are several benefits to forming a captive. Among them are:

- Direct access to the reinsurance market
- Ability to capture underwriting profits
- Can be designed to insure the customized risks of captive owners
- Insurance can be written for risks that are cost prohibitive or unavailable in the commercial market
- Timing of premium payments can be customized to the cash flow needs of the insured
- Premium amounts actuarially determined based on specific loss record of insured rather than industry group as a whole

Examples of Risks insured by Captives

- Deductibles
- Construction Defect
- Exclusions
- Product Warranty
- Supplier Interruption
- Market Litigation
- Regulation
- Business Interruption
- Receivables
- Breach of Data
- Competition
- Intellectual Infringement

History of Captives

It is believed captive insurance originated over 500 years ago amongst ship owners in England and Italy who wanted risk sharing arrangements for the cargo and fleets involved. In the 1800s New England textile manufacturers formed a risk sharing group due to high fire insurance rates. The term captive was established in the 1950s by Frederic M. Reiss, an Ohio insurance broker to describe the insurance company he formed to provide insurance coverage solely to the parent. In the early 1960s, there were 100 captives established. In the mid-1980s in a difficult insurance market when liability coverage was either unavailable or unaffordable, the captive market began to take off. Today there are over 6000 captives worldwide and 90% of the Fortune 1000 have captives.

Internal Revenue Code Section 831(b)

One of the drivers of the captive market in the mid 1980s was the addition of section 831(b) to the Internal Revenue Code. Insurance companies (including captives) are generally taxed on premium income received less operating expenses and claims paid. Code Section 831(b) allows an exception for so-called "small captives." A small captive may elect to be taxed only on investment income provided the premium it receives does not exceed $1.2 million. This election cannot be revoked without IRS consent. When properly structured the insured entity is allowed a tax deduction for the premiums paid to a captive. In recent years there has been significant growth in the utilization of small captives (also known as "mini-captives' or "micro-captives"). In order to qualify as an insurance company, the captive must have the elements of risk shifting and risk distribution - see below. Promoters of alternative investments highlight the tax benefits of creating a captive. While there are tax and estate planning benefits utilizing a captive structure, the primary objective has always been enterprise risk management. Attempts to promote captives as tax shelters have brought about increased IRS scrutiny.

Risk Distribution and Risk Shifting

In order for a financial arrangement to qualify as insurance, the "insurer" must accept risks from multiple separate entities directly or by participating in a risk pooling arrangement with unrelated businesses. This is known as risk distribution. Risk distribution is deemed by the IRS to have occurred when the risk is spread among 12 different entities. Risk shifting is where an operating company must show that it has transferred specific risks to the captive for a reasonable premium.

Feasibility Study

To determine if a captive is appropriate for any organization the first step should be to conduct a feasibility study. The feasibility study examines historical loss trends, exposures, premiums, policy analysis and other factors to determine the costs and benefits for the insured organization. The feasibility process generally includes the following:

- Identification of potential risks to be transferred to the captive in both the short term and the long term
- Definition of the operational parameters (fronted v. direct, proper domicile,

retention level)
- Projection of losses actuarially within the captive
- Development of pro forma financial statements
- Drafting the feasibility report including findings, recommendations, assumptions for owners, management and captive regulators

Summary
Clearly, captives are not right for everyone. The feasibility study will indicate the appropriateness for the organization. A captive must initially be capitalized according to the standards of the State of Domicile of the captive and can run as high as $250,000. Planning opportunities for a CPA abound within the captive structure including tax and estate planning. A proactive CPA will ask a client CFO if a captive is under consideration for a solution to enterprise risk

- Keith Langlands, CPA

Keith Langlands, CPA is the Managing Member of Synergy Insurance LLC in Las Vegas, NV. Keith holds an active CPA license in the states of Arizona, Nevada, and California.

THE CPA TEAM BASED MODEL

The CPA Team Based Model is a proprietary system designed to help CPAs offer more proactive and holistic services to meet the continually-evolving needs and expectations of their clients. This is accomplished with the support and guidance of a specially-trained financial advisor, along with their top-notch team of specialists provided by ERT. When this partnership is developed with the mutual goal of delivering more meaningful value to the CPA's client, and the advisor becomes the go-to resource for all of the CPA's needs, a true win/win/win is created. Learn more at: **www.elitert.com**

OTHER EVENTS

April 21 & 22, 2016
CPA Team Based Model Institute
2-Day training event in San Diego for financial advisors interested in working with the CPA Team Based Model. Interested in learning more? **Click here**

June 16 & 17, 2016
Elite Tax Planning Academy
Co-hosted with Certified Tax Coach, this educational event is designed to teach CPAs and financial advisors how to increase holistic and proactive planning, as well as learn from some of the top specialists in the country on a variety of planning topics. 16 free CPE credits offered.
Click here to register

July, 2016
CPA Team Based Model Institute
2-Day training event in San Diego for financial advisors interested in working with the CPA Team Based Model.

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