



## CapPlus™ CAPTIVE INSURANCE COMPANY

### CASE STUDY

#### ABC MANUFACTURING, INC.

**Facts:** This client is a manufacturer of electronic components in the Midwest. The company does \$50 million in sales and is profitable. The company is a “C” corporation and is owned by one individual, aged 62. The company has a 401(k) plan, but the client is barred from maximizing his payments to the plan by the rules of ERISA.

**Objectives:** The client wishes better manage the business risks of his company. He would also like to reduce the company’s taxable income, but cannot take out any more salary and bonus. Since most of his wealth is tied up in his company, he wishes to build a retirement account for himself outside the company.

**Solution:** Intuitive Captive Solutions, LLC examined the risks of the manufacturing company and identified three major risks that could be profitably transferred to a private, captive insurance company: (a) the deductibles and exclusions on the company’s current policies, (b) product recall risk (coverage not being purchased from third party carriers) and (c) an increased umbrella liability policy above existing policy limits.

An independent actuary determined that a reasonable premium for such coverages would be \$840,000 per year.

Intuitive Captive Solutions, LLC formed a new corporation in the US, owned 100% by the owner of ABC Manufacturing. That new company applied for and was issued a license to sell property and casualty insurance to related parties. It also qualified for special rules under the Internal Revenue Code that exempted the premium income from its taxable income. The new insurance company issued appropriate property and casualty policies to the manufacturing company for an annual premium of \$840,000 per year.

**The Result:** ABC Manufacturing, Inc. now has established an off-balance sheet reserve against certain business losses. In addition, the company now pays \$320,000 less in annual federal and state income taxes. Upon the retirement of the owner, he will liquidate the captive insurance company and will acquire all of its assets, paying only capital gain taxes on the proceeds.