



One integrated planning idea business owners can consider is the concept of establishing a captive insurance company under §831(b) of the Internal Revenue Code. For one reason or another, this idea is **not appropriate for most businesses**. However, for those with adequate size and stability and meeting other criteria, taking such a coordinated view of their risk management approach may bring value on a number of fronts:

- reduce commercial insurance costs, or provide a new profit center;
- provide substantial, legitimate tax shelter;
- help keep key employees;
- enhance asset protection, and
- keep the owner in complete control of his / her assets

Multinational companies have relied on captive insurance companies for over 35 years to create profit centers from self-insured risk pools . . . and now “middle market” companies and their controlling owners are using the device to manage risk in an integrated, strategic, and proactive manner. With the cost of many types of coverage escalating and sometimes resembling “Swiss cheese,” forming your own captive to cover commercial policy deductibles and exclusions and some of the retained risks mentioned above may make economic sense. You / the operating company determine policy terms, the types of coverage to write, and other important variables – but, to receive certain tax benefits, you must run the captive in a professional manner as a real insurance company, which entails certain infrastructure costs.

Some of the industries where underinsured and retained (self-insured) risks can be adequately demonstrated include manufacturers, distributors, industrial concerns, physician groups, associations, real estate concerns, construction, and transportation companies.

Without question, those contemplating forming a captive insurance company must be properly advised by professionals specializing in the formation of fully licensed, properly operated, captive insurance companies. My firm collaborates with two (2) such reputable firms who have advised hundreds of clients in the creation and operation of captives in many domiciles. Their services include explaining fully and well the concept, its costs, and the on-going requirements. They provide turnkey guidance from the feasibility study and domicile analysis to actuarial work and a comprehensive business plan with 5-year pro forma financials. They remain actively involved throughout the life of the captive - assisting in its operation and compliance with various important requirements, including items of a corporate governance and legal charter nature.



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