

*from*

 Montage Investments

# Introduction to Private Insurance Companies



# PIC applications

Cover risk not serviced in insurance marketplace

Enhance risk management program

Prefund large deductible to mitigate unforeseen balance sheet impacts

Wealth preservation, accumulation and transfer

Estate planning

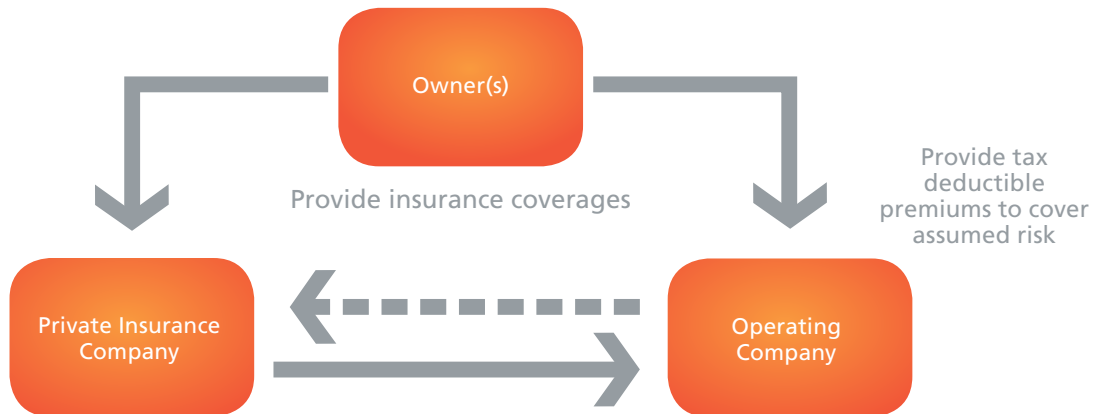
Company perpetuation

# Operating company benefits

Custom tailored coverages and policy language to meet unique risk management needs

Flexible risk financing options

Premiums qualify as business expense

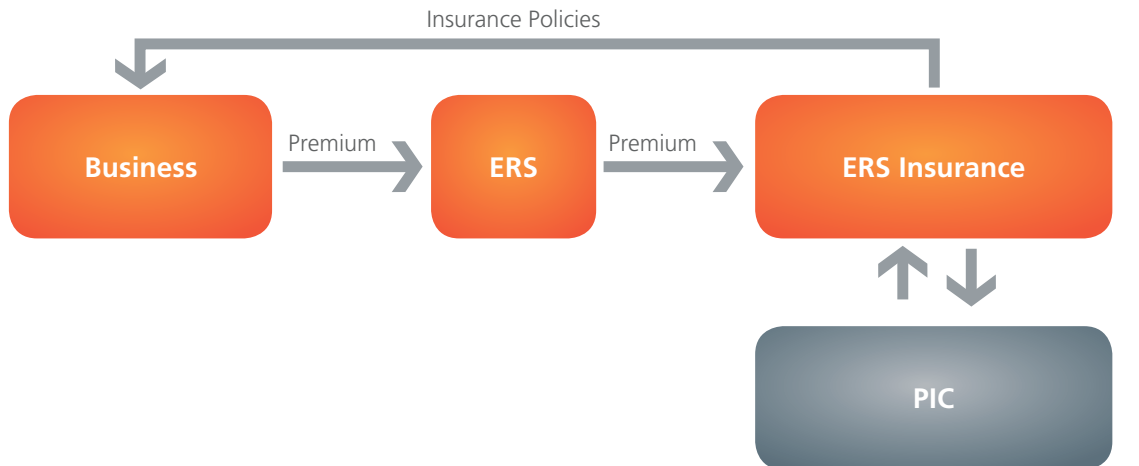


# Private Insurance Company benefits

Qualifies for preferential tax treatment

Assets grow for funding potential future claims

Liquidation at capital gains rates



Reinsurance *(risk sharing and distribution agreement)*

Reinsurance Premiums

# Client profile

Private/Closely held organization

Highly compensated professionals

Significant uninsured risk

Minimum gross revenues of \$5 million

Consistently profitable

Strong personal cash flow

Entrepreneur

# PIC sample analysis

## Working Premise

Premium	\$1,000,000
Claims % of Premium	0%
Investment Returns	4%
Assumed Combined Federal & State Tax Rate	40%

## Financial Proforma

	Year 1	Year 3	Year 5	Year 7	Year 10
Premium*	\$1,000,000	\$3,000,000	\$5,000,000	\$7,000,000	\$10,000,000
Funds Available**	\$916,000	\$3,021,065	\$5,339,999	\$7,909,244	\$12,294,560

Net Benefit <i>(income tax saved and additional investment asset)</i>	\$316,000	\$1,221,065	\$2,339,999	\$3,709,244	\$6,297,560
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Value of one Private Insurance Company after 10 years	\$12,294,560
Deferred Capital Gains on Liquidation (assuming 10 year life) plus state taxes	\$(2,000,000)
Net Value (including deferred tax liability)	\$10,294,560

## With No Insurance Company

Annual Post tax amount to invest outside of Private Insurance Companies	\$600,000
Value of investment after 10 years	\$7,491,811
Capital gains and state taxes on investment income	\$(1,498,362)
Net Value without PIC	\$5,993,449

\*Assumes premium paid and investments made at beginning of the year

\*\*Available for claims, surplus and distributions to shareholders; 4% investment return

## Estate Analysis

Estate Tax Rate	45%
Value of estate after estate taxes without PIC	\$4,120,496
Overall savings to estate through PIC	\$6,174,064

*All insurance company formation, management and underwriting fees are considered in this analysis*

*Capital requirements are not included in this analysis*

*For discussion purposes only. Actual results will vary.*

# Case studies

**Orthopedic Physician** uses surplus in the PIC to fund the purchase of a medical building.

**An architectural firm uses a combination** of Deductible Reimbursement policy and PIC to fund small/nuisance Professional Liability claims without using their market policy.

**Physician's practice uses the PIC** to provide coverage for the practice in the event that one of the key physicians is unable to work.

**Orthodontist's practice's most profitable procedures** are crowns, root canals, dentures, and implants. The time spent redoing/repairing those procedures is time he cannot spend with paying patients. He uses the PIC to reimburse the practice for the reduction in income.

**Residential air conditioning contractor** uses the PIC for partial reimbursement of a drop in revenue resulting from the loss of a contract with a large builder.

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# Contact us

Robert Nizzi

**President**

11300 Tomahawk Creek Parkway

Leawood, KS 66211

Mobile: 913-220-0442

[rnizzi@eriskstrategies.com](mailto:rnizzi@eriskstrategies.com)



[www.eriskstrategies.com](http://www.eriskstrategies.com)