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TAKEN CAPTIVE

A captive insurance company is a licensed insurance company set up by a business owner to insure select risks of an operating business. While captives may deliver cash flow, operational savings, estate and tax benefits, for the greatest effect, the captive insurance company needs to work in concert with the company's commercial insurances.

BY RUSS ALAN PRINCE & HANNAH SHAW GROVE

"We often see companies in industries with a high claims history, such as real estate development, interested in captives," explains Frank W. Seneco, an advanced planning specialist and president of **Seneco & Associates** in New Haven, Conn. "When the company itself has a very low claims history, a captive can be very cost-effective for the owner."

Captive insurance companies can help the business owner to better manage the firm's cash flow. They can be useful in ensuring better claims handling and reporting. Plus, captive insurance companies have access to the wholesale reinsurance markets making the insurance less expensive than going through a broker.

"What is often missed by many business owners who establish captive insurance companies are the personal financial benefits," notes Richard J. Flynn, head of the family office group for **Rothstein Kass** in New York. "While captives increasingly are seen as a way to more effectively manage certain business risks they, very importantly, can serve as a way for the business owner to cost-effectively transfer wealth from the company to children and other people, as well as protect personal monies."

TAX BENEFITS

According to Seneco, "The premiums are paid with pre-tax dollars. These monies are then out of reach to any creditors of the business. Then, if the captive is owned by someone else, let's say the business owner's adult children, there are no federal gift or estate taxes on the transfer of these funds. If the captive is held in a trust instead of outright by the children, the asset can be protected from future litigants like future ex-spouses."

"A captive can also be structured to operate as a family bank," explains Flynn. "The captive can fund a limited liability company that makes loans to family members. The collateral of these loans can be the high-risk assets of family members. The result is that the family member taking the loan is protecting those assets from creditors while enhancing the family wealth and getting a tax deduction in the process."

Captive insurance companies are proving to be quite attractive because of their business uses. At the same time, in the hands of a skilled advisor, captives can be very useful as part of an estate and asset protection strategy.



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