

Captive reinsurance

Managing employee benefit risk

We have been active in reinsuring group life insurance coverage to employers' captive insurance companies since 2004. We will work with you to determine if this strategy is right for your client's group life insurance program.

What is captive reinsurance?

A reinsurance captive assumes a defined share of the group's risks from the insurer in return for a premium.

How does it work?

The employer obtains a Prohibited Transaction Exemption (PTE) from the Department of Labor (DOL) and the group life policy is issued to the employer by the insurer. Insurer expenses resulting from reinsuring to a captive are covered by a fronting fee, paid to the insurer by the employer or the captive.

The insurer issues the group life insurance policy. Once the employer obtains the PTE from the DOL, we can begin ceding coverage to the captive.

The captive arrangement is transparent to the employer's benefit staff. Premium is remitted to the insurer, not the captive, and claims are submitted to and paid by the insurer.

Reinsurance settlements take place quarterly. The captive receives its portion of the reinsured premium net of reinsured claims, administrative expenses and fronting fees, premium taxes and conversion charges. If the reinsurance settlement results in an amount due to the captive, we pay this amount to the captive. Conversely, if the reinsurance settlement results in an amount due to the insurer, the captive pays this amount directly to the insurer.

What we offer

We offer a variety of advantages and services to organizations considering or moving forward with captive arrangements:

- Willing to cede up to 100 percent of life coverages, up to \$750,000 per life, and a portion of accidental death and dismemberment coverages, to captives
- Attractive fronting fees
- Assistance with risk analysis to make sure neither the employer nor the captive are taking on types or levels of risk with which they are not comfortable
- Review plan design to suggest enhancements that will help in obtaining DOL authorization
- Provide reinsurance treaty drafts and sample reinsurance settlements

Is captive reinsurance right for your clients?

Though ultimately each employer is in the best position to evaluate the potential benefits, we can help. Items to consider include:

- Premium from group life insurance could help generate tax advantages¹ of captive through accumulation of unaffiliated premium
- Potential for small employer profit² by putting plan in captive

For more information, contact your regional group sales manager or call our national sales office at **800-606-LIFE (5433)**.

¹ The information provided in this document is for general reference only and is not legal advice. Any client considering a captive funding arrangement should seek the counsel of a qualified tax professional.

² We are not involved in the advisability of placing group life insurance captives. This role is typically served by consultants.

This information is a general discussion of the relevant federal tax laws. It is not intended for, nor can it be used by any taxpayer for the purpose of avoiding federal tax penalties. This information is provided to support the promotion or marketing of ideas that may benefit a taxpayer. Taxpayers should seek the advice of their own tax and legal advisors regarding any tax and legal issues applicable to their specific circumstances.

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