



Marsh Captive Upside: 20/20/20 Webcast Series Session 2

May 1, 2020



Marsh Captive Upside: 20/20/20 Series Agenda and Speakers, Session 2

- Coronavirus Aid, Relief and Economic Security Act (CARES) tax considerations.
- Pandemic solutions for captives.
- Funding employee indemnities through your captive.
- Summary of next steps.



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CARES Act Tax Considerations

The CARES Act: COVID-19 CARES Act Considerations – Overall Review

- Conduct an overall due diligence review of a captive in the post-COVID-19 environment.
- Pursuant to the release of the CARES Act, assess net operating losses (NOL) carryback potential:
 - NOLs from 2018, 2019, and 2020 can be carried back five years, resulting in the potential to carry losses generated at 21% back to income generated at 35% (potential 14% benefit).
 - Example: Operating company has self-insurance reserve of US\$100 million (deferred tax asset (DTA) for full amount). Parent company pays captive to take on risk: cash payment/reserve moves from parent company to captive (DTA reverses) and captive receives cash/establishes reserve (insurance tax treatment of reserve subject to discounting). Deduction at parent company for reversal of DTA is then potentially carried back under CARES, see below:

Taxpayers may be able to claim deductions at a higher tax rate by:			
<ul style="list-style-type: none"> • Amending prior returns – higher tax rate in pre-2018 tax year. • Carrying back NOLs – five-year carry back of NOLs generated in 2018, 2019, and 2020. 			
Gross deduction on 2020 tax return:	Tax benefit on 2020 tax return at 21%:	Tax benefit if carryback NOL to pre-2018 tax return at 35%:	Permanent benefit of claiming \$100 million deduction on pre-2018 tax return:
\$100 million	\$21 million	\$35 million	\$14 million

- Deloitte and Marsh work together routinely and can assist clients that may want to explore the strategic use of their captives and any impact the CARES Act has on captives.
- Please reach out to Marsh Captive Solutions or Deloitte (Jeffrey Webb, Tax Partner) with any questions.

Pandemic Solutions for Captives

Pandemic Solution for Captives



Summary of Next Steps

Right now:

- Assess – review – implement pandemic risk coverage in captive:
 - We have > 25 captives writing BI/CBI Pandemic policies.
 - Formally fund pandemic risk and start simple with lower limits.

Near-term:

- In the near-term, look for reinsurance capacity for net captive retained risk and allow captive to offer large limits and expanded coverage:
 - Marsh and Guy Carpenter are currently working on reinsurance capacity and a dedicated Marsh “facility” for our captive owners.
- ILS and CAT bond facilities may be available and a captive can access them.
- Pandemic risk insurance backstop similar to TRIA as a solution for captives to offer pandemic coverage in the US.

Funding Employee Indemnities Through Your Captive

Employee Coverage COVID-19 Sample Indemnities

A package of indemnities and services dedicated to the company's employees as an additional benefit.

Hospitalization Indemnity €100

For each day of hospitalization after the 7th day caused by COVID-19 infection for a maximum of 10 additional days.

Convalescence Indemnity €3,000

Paid after the release from hospitalization in intensive care caused by COVID-19 infection.

Post-hospitalization assistance (for the following 14 days):

- Sending a general doctor.
- Ambulance transportation.
- Transport from emergency room to home.
- Transfer and return from the specialist care institution.
- Sending family carer: X hours.
- Sending babysitter at home: X hours.
- Accompanying minor children to school.
- Delivering shopping goods at home.
- Pet sitter: X hours max per day.

Employee Coverage for COVID-19

- Provides cash benefits and, in limited countries, concierge services to employees who are hospitalized as a result of COVID-19.
- A small number of insurers are leading product development.
- Can be structured as either:
 - An insurance product directly benefiting employees.
 - An indemnity policy to the parent whose local subsidiaries provide the indemnities directly to employees.
- In the US, typically available to employers with 5,000 or more eligible employees in most industries, excluding: health care industry professionals, employees age 70 and over, and dependents. No number limits in the EU where it's currently aimed at more of the small- and medium-sized enterprise market.
- Suitability will vary by country and employer:
 - Likely to be most applicable in countries with lower benefits generally.
 - Likely to be attractive to employers who don't provide private medical insurance to employees.
- Captives can be used in the financing arrangements.

Coming Next Webcast Session 3

Government backstops:

- Pandemic Risk Insurance Coverage - US
- Pandemic Re – UK.
- Other programs.

We will also cover “hot topics” based on questions submitted by our guests.

Questions? Reach out to us at:

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Marsh is one of the Marsh & McLennan Companies, together with Guy Carpenter, Mercer, and Oliver Wyman.

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