



Converting Risk Costs into Dollars for Philanthropy

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“U. S. Philanthropy Suffers Biggest Fall in Fifty Years,” an article by Tara Loader Wilkinson, 6/17/09 [DJ Financial News](#) –

Scott Oki, Co-Founder, Microsoft Alumni Association, discussed the problems facing the philanthropic community at the June 2009 Family Office Forum and offered a solution – **Micro Philanthropy**.

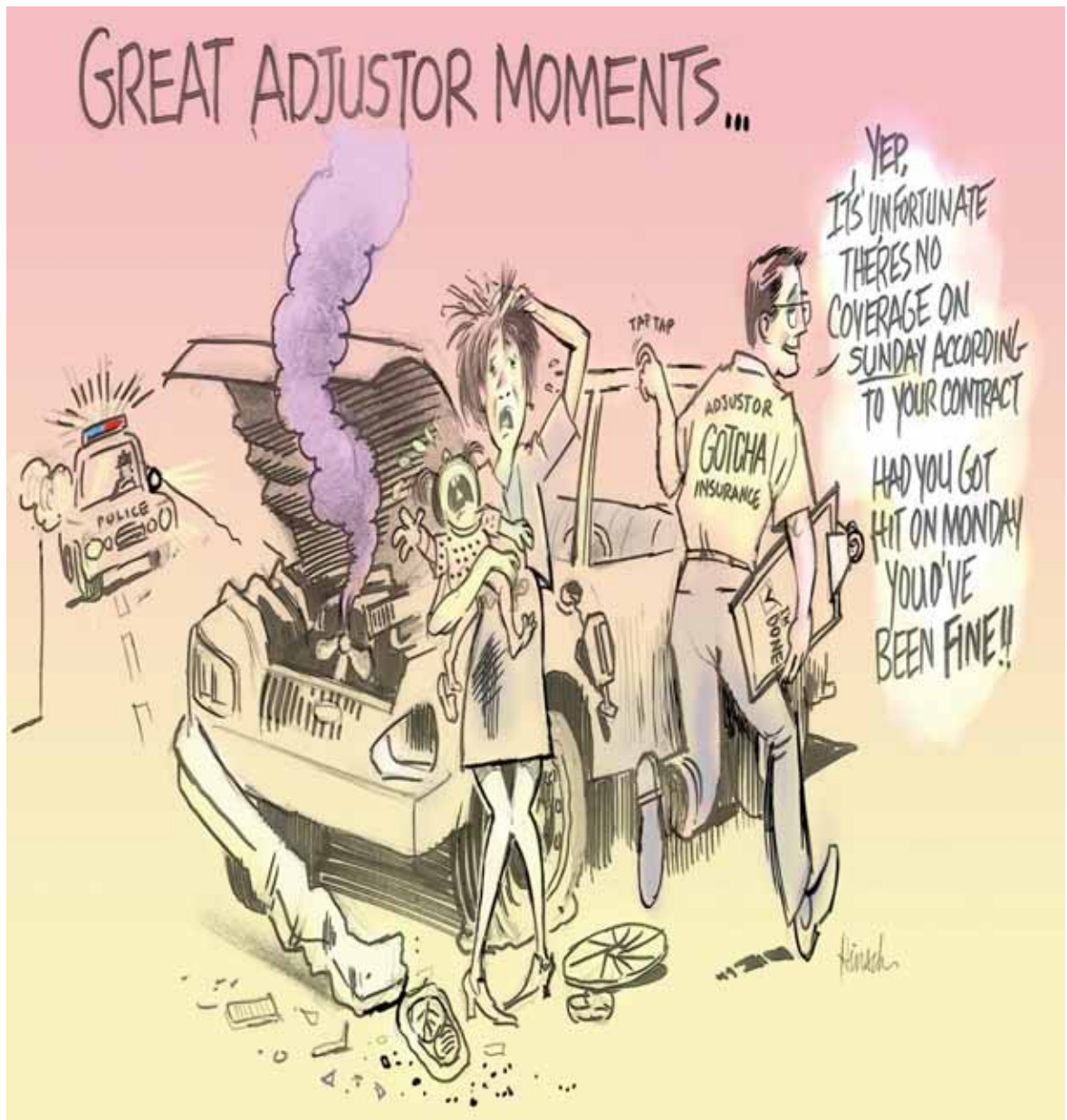
- **Micro Philanthropy** is the encouragement of small donations from many people by immediately showing them the results of their gifting. The concept motivated me to consider how to convert insurance/risk costs into dollars for philanthropy.
- Small insurance/risk cost reductions, repeated globally, could result in a large increase of dollars for philanthropic causes.



Where are the hidden opportunities to reduce costs in Property & Casualty insurance policies?

- Self Insuring Auto Physical Damage – The average cost savings for vehicle fleets of ten (10) or more is 40% over a five year period.
- Blanket Art and Jewelry *vs.* Scheduling
- Business Insurance – Business Interruption
- Directors & Officers Liability/Employment Practices Liability – Consolidation of Entities
- Negotiate Agent Compensation

Exclusions that Threaten both Legacy and Philanthropy



Exclusions that Threaten both Legacy and Philanthropy

- Protective Safeguards Endorsement (Exclusion) – Gives insurance company the right to void coverage
- Employment Practices Liability – Domestic employees limitation and third party liability.
- Don't get caught in the "Notice" trap. An EEOC charge is a claim that needs to be reported.
- Flood Exclusions in the Flood Policy – Three different definitions of surface water run off:
 1. from any source; (Best)
 2. any surface; and (OK)
 3. any natural surface. (Restrictive)

Also, Homeowner policies exclude hydrostatic pressure. (The Pub Underwater)

What Risks to Assume and What Risks to Insure?

Insure

High Frequency / High Severity	Low Frequency / High Severity
<ul style="list-style-type: none"> • Auto Liability • General Liability • Workers' Compensation • Employment Practices Liability for Domestic and Business Employees • Products Liability 	<ul style="list-style-type: none"> • Flood & Earthquake • Property Losses • Professional Liability • Excess Workers' Compensation • Directors & Officers Liability • Internet Liability • Patent/Copyright Infringement • International Liability • Umbrella/Excess Liability • Aviation & Marine Liability • Jewelry and Fine Arts

Assume or Partially Self Insure

Low Frequency / Low Severity	High Frequency / Low Severity
<ul style="list-style-type: none"> • Property/Homeowners Deduct. • Crime Deductible • Auto & General Liability Deduct. • Eliminate Accident Policies • Internet Liability Deductible • Professional Liability Deductible • Assume Service Interruption • Patent/Copyright Infringe. Deduct. • Aviation & Marine Deductible • Jewelry and Fine Arts Deductible 	<ul style="list-style-type: none"> • Auto Physical Damage • Workers' Compensation Deductible or Self Insurance



Why Form a Captive?

- Every business and personal insurance program has a level of “self-insurance.” This may include deductibles, assumed excess liability, partially self-insured benefits plan liability, and losses that are otherwise excluded.
- A Captive is a means to treat the “self-insured” risks and potentially becomes a profit center.
- Permits more flexible design of the insurance/ risk transfer program.
- May lower net cost of Excess Liability limits for Commercial and D&O program. Switch upper layers of liability limits from traditional insurers to an owned Captive. Premium could be refunded in the future if claims are lower than expected.



Potential Captive Tax Benefits

- For Business Enterprise – Ability to deduct premiums to Captive.
- For Captive – Able to reduce gross income booked for loss reserves. A small Captive may be able to exempt all income, other than investment income, from tax.
- For Owner – Able to receive distributions from the Captive at capital gain rates when loss reserves can no longer be actuarially supported.

Case Study – The \$5MM Stairwell



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- Client refused our offer for house safety inspection.
- Undocumented, independent contractor/ gardener
- Compound fracture of the arm, resulting in infection, skin graft, nerve damage and possible amputation.
- Injured party is seeking Workers' Compensation benefits for permanent, partial disability. If granted, award of up to \$10,000 per year for life.
- Medical expenses to date (18 months) exceed \$500,000. Projected to exceed \$1MM.
- Permanent total disability is a future possibility, with a potential grant of \$30,000 per year for life (\$1,350,000 to age 75, plus inflation).
- Homeowners Liability insurance limit is \$2MM – BUT – reservation of rights letter notes exclusion for injuries related to employment.

Case Study – The \$5MM Stairwell

- Potential Outcomes:
 - Creditor Health Providers may join with the injured party, suing for medical expenses – potential \$1,000,000.
 - Grant of Workers' Compensation benefits would be assessed against the homeowner, with penalty. Example: \$30,000 plus cost of living for life could be \$1,500,000, plus. (Workers' Compensation penalties and award not insured.)
 - Current Reserve for Litigation - \$2,000,000.
 - Punitive Damages - \$1,000,000 possible.
 - Litigation Expense Projected - \$250,000 to \$500,000 (not insured if claim is denied).

SUMMARY

- Encourage aggressive assumption of non-catastrophic risk.
- Have a home safety/security inspection completed every three to five years.
- Read the insurance policies and negotiate for enhancements and cost reductions.
- Give claim notice directly to insurance company early and often.
- Assuming modest risk, eliminating coverage gaps and aggressive loss mitigation should reduce risk costs by 10% to 25%. The ROI from this project should be at least 2 to 1, after factoring the cost of the independent advisory services.

Every dollar of premium saved, claims paid and claims avoided frees precious dollars for philanthropy!