

## PREMIUM DEDUCTIBILITY

### R (Retrocession)-POOL TREATY

For several decades wholly owned Captives of Fortune 1000 companies have used R-Pool Treaties to achieve the "50% unrelated premiums" threshold Captives must meet in order for the Parent Company to be able to deduct the insurance premiums it pays to its Captive. For example, a Captive receiving \$500,000 Workers' Comp premium from its Parent Company reinsures its \$500,000 "related premium" to the R-Pool Treaty, which then "pools" all the R-Pool premiums from many unrelated Parent Companies and then "retro-cedes" back to the Captive \$500,000 of pooled "unrelated premiums".

Today businesses with Large Deductible policies or Self-Insured Retentions can form their own DRP (Deductible Reimbursement Policy) Cell Captives to fund their loss picks with tax deductible cash instead of using costly and cumbersome bank ILOCs. The DRP Cell Captive premiums are reinsured to the R-Pool Treaty, pooled and an equivalent amount of "unrelated premiums" is retro-ceded to the DRP Cell Captive, thereby making those DRP Cell Captive premiums 100% tax deductible.

The key points of using DRP Cell Captives and the R-Pool Treaty are:

- **Revenue Ruling 2002-89: 50% unrelated risk “safe harbor”**
- **Insured cedes to R-Pool their Workers' Comp loss pick for the highly predictable primary \$100,000 “frequency layer”**
- **R-Pool retro-cedes to Insured’s DRP Cell Captive an equivalent amount of POOLED Workers' Comp premiums**
- **R-Pool Workers' Comp premium is over 50% of DRP Cell Captive premiums, so...**
- **ALL DRP Cell Captive premiums are tax deductible**
- **Insured’s max treaty payout is 125% of ceded premiums**
- **FASB 113: 10% chance of 10% loss qualifies as insurance**