

The Role of Captive Insurance in the Current Healthcare Environment

STATE CAPITAL GROUP
GLOBAL CONNECTIONS, LEGAL SOLUTIONS



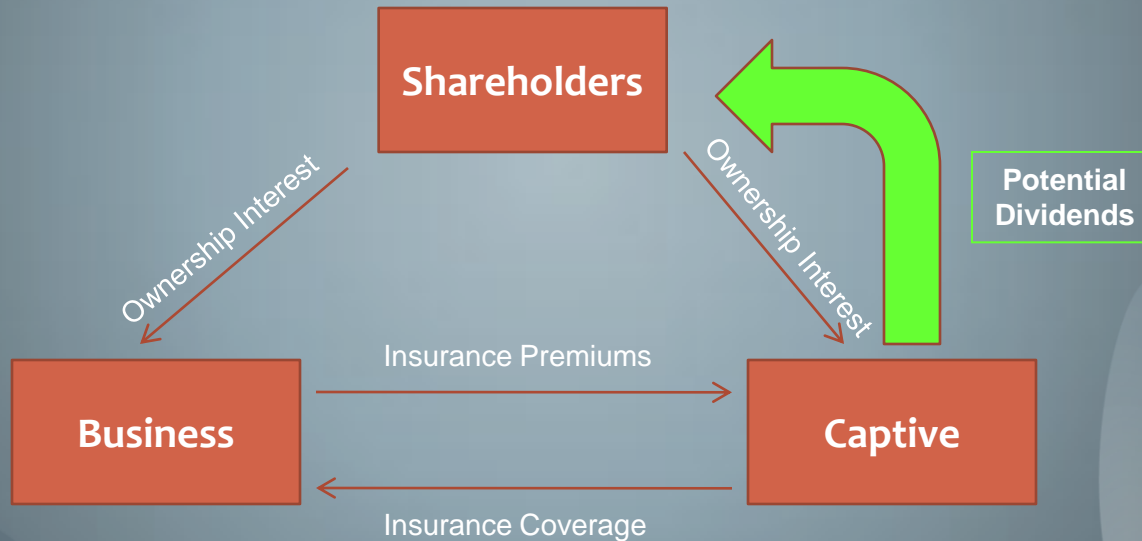
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July 2010

What Is A Captive?



A Captive is an insurance company that insures the risks of its owner, affiliated businesses, or a group of companies. It issues policies, collects premiums and pays claims.



The Basic Structure of a Captive

Why Form A Captive?



- ‡ Business Problem Not Solved By Commercial Insurance
- ‡ Suitable Insurance Not Available
- ‡ Pricing Inequality Resulting From Insurance Market Instability
- ‡ Allows Owners To Capture Underwriting Profits
- ‡ Turns An Expense Item Into A Profit Center
- ‡ Provides Tax Minimization Strategy
- ‡ Coverage Tailored To Industry Risk (ie. Administrative Procedures)
- ‡ Belief That Ownership Of Risk Can Be Profitable
- ‡ Small Insurance Company – No Tax On Underwriting Profits

Captives Are The Most Efficient Method of Handling Loss

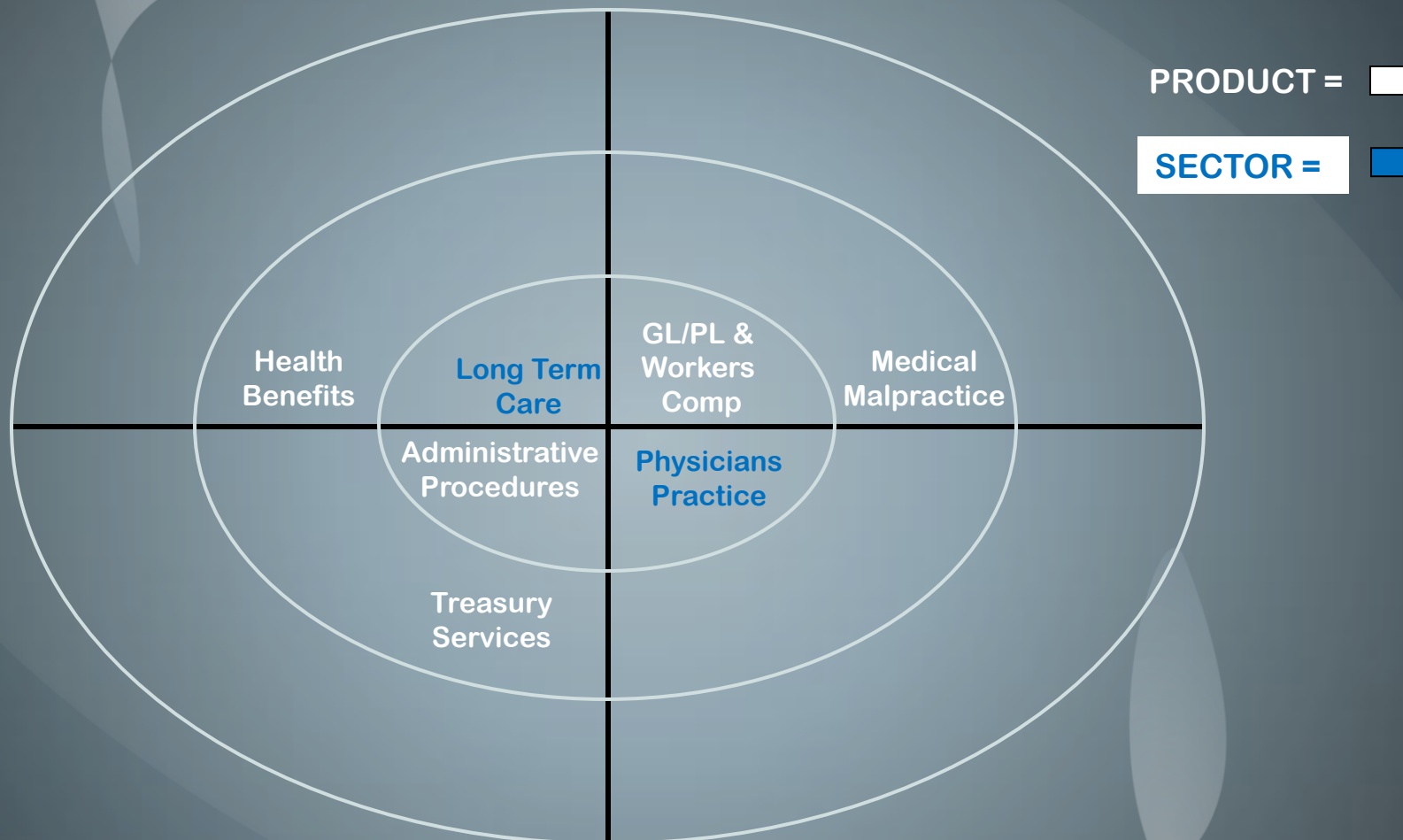
VCM Basic Captive Advantage



- ABC Corporation (“ABC”) pays \$2 million annually in insurance premiums
- ABC has a good loss history, and has filed few claims
- With traditional insurance, the \$2 million in premiums is paid and gone
- ABC forms a captive and still pays \$2 million in annual premiums
- Assuming low claims, \$800,000 (25%- 40% recapture) is dividendable
- The net insurance cost went from \$2 million to \$1.2 million
- If claims are high for a particular year, ABC still has full insurance coverage
- ABC has a “win win”: refund in good years & full coverage in bad years

Captives Offer An Excellent Risk/Reward Profile

VCM Target Sectors and Products



VCM Is The Industry Leader In Healthcare Captives

Optimal Solution



- ✦ **CONTROL** – Over Claims, Coverage and Cost of Risk
- ✦ **OWNERSHIP** – Clients Create Profitable Subsidiaries
- ✦ **PROFIT** – Protects Assets and Must Make Money



Captive Domicile – Turks & Caicos Islands



- ✦ Lower Overhead Costs
- ✦ Governed By British Law
- ✦ Captives File As US Taxpayers
- ✦ 8th Largest Captive Domicile
- ✦ Professional Infrastructure
- ✦ Local Attorneys, Auditors
- ✦ Favorable Banking Laws
- ✦ VCM - TCIs Largest Captive Manager



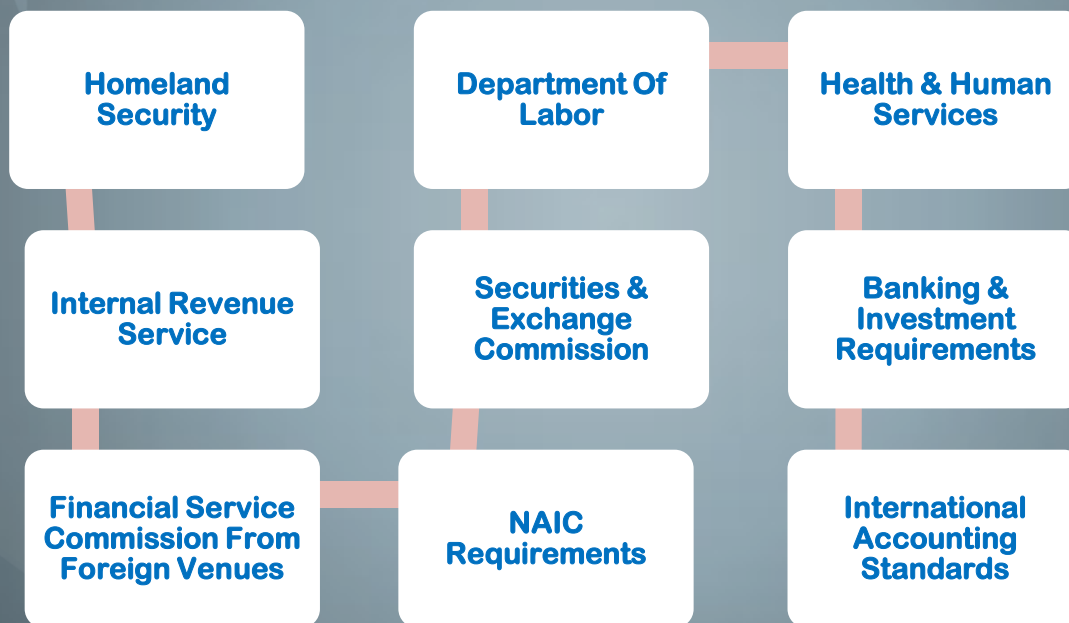
VCM Services



VCM Offers A Turn-Key Solution For Each Captive

Captive Compliance

- ✦ We Develop And Manage Flexible Structures For Our Clients
- ✦ We Specialize In Maintaining Regulatory Requirements From:



VCM Has Broad Expertise In Captive Compliance

RAC Audits & Administrative Procedures Coverage

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- **Nationwide rollout of Recovery Audit Contractors (RACs) and Medicaid Integrity Auditors (MICs) beginning in 2010**
- **Goal of RACs and MICs is to identify improper payments made on claims of healthcare service providers**
- **RACs are private companies hired to identify improper payments, fight fraud, waste and abuse in Medicare program**
- **When RACs and MICs find adverse determinations they will recoup reimbursements automatically off future payments**

VCM Admin Policy Will Cover RAC & MIC Findings



- RACs review hospitals, physician practices, nursing homes or any other provider that bills Medicare

- **Claim Selection Process**
 - Automated Review Focus – RAC analyses claim data using proprietary techniques to identify claims containing errors
 - Complex Review Focus – RAC requests medical records

- **Determinations**

- **Appeal process at all levels**

RAC Review Likely For Most Medicare Providers

RACs & MICs – Type of Improper Payments Noted



- **Did not meet Medicare medical necessity criteria**
- **Services were incorrectly coded**
- **Provider failed to submit documentation**
- **Claim paid with outdated fee schedule**
- **Provider paid twice for the same claim**

Government Imposes Broad Criteria to RACs & MICs

Recovery Audit Fact Set



- **Centers for Medicare/Medicaid (CMS) improper payment Reports issued over the past few years cited:**
 - **2009 improper Medicare/Medicaid payments of \$54 Billion**
 - **Medicare error rates more than doubled from 2008 to 2009**
 - **Aggregate improper payment rate of 7.8%**
 - **Paid claim error rate for Chest Pain (DRG 143) = 17.9%**
 - **Paid claim error rate for Back Pain (DRG 243) = 17.0%**

CMS Is Committed To Eliminating Improper Provider Payments

VCM Administrative Procedures Coverage Overview



- **Growing need for healthcare providers to be protected against regulatory non-compliance**
- **Nationwide rollout of Recovery Audit Contractors (RACs) and Medicaid Integrity Auditors (MICs) beginning in 2010**
- **State Health & Human Services (HHS) annual surveys are becoming more stringent**
- **VCM Admin Procedures covers defense, fines, penalties and loss of income from HHS Surveys, RAC & MIC findings**
- **Defense costs MAY be reimbursable via cost reports**

VCM – Key Personnel



- † Sterling Shuttleworth – CEO – Senior Executive responsible for creating alternative risk funding structures. 48 years of Industry experience. MBA, BS, MS & Internship Underwriter at Lloyds/Munich Reinsurance.
- † Linda Nethery - COO responsible for managing all aspects of operations for alternative risk funding structures/limited purpose companies. BS Finance. Experience includes AIG, Safeco, Willis & CNA.
- † Michael Hartman – Managing Director and Head of Finance & Marketing. Wharton MBA with 20 years of Banking, Finance & Insurance experience. Previous employment includes The Carlyle Group & Deutsche Bank.

VCM Has A Qualified Team of Experienced Professionals