MAXIMIZE BUSINESS VALUE PODCAST - EPISODE 14 Transcript with Ken Huffman

Announcer: 0:05

Welcome to the maximize business value podcast. This podcast is brought to you by mastery partners where our mission is to equip business owners maximize business value so they can transition their business on their terms. Our mission was born from the lessons we've learned from over a hundred business transactions, which fuels our desire to share our experiences and wisdom. So you can succeed. Now, here's your host CEO of Mastery partners, Tom Bronson.

Tom Bronson: 0:58

Hi, this is Tom Bronson and welcome to, to maximize business value. A podcast for business leaders who are passionate about building longterm sustainable value in their businesses. In this episode, I'd like to welcome our guest, Ken Huffman, he's president of captive nation, a captive insurance from in North Texas. I met Ken a few weeks ago, and as you're about to see he's passionate and full of energy about his business. And he really opened my eyes to the benefits of captive insurance, something that I've heard of for a long time, but never really understood once Ken explained it to me. The light bulbs kind of went off in my head and I started to realize how much captive insurance can really benefit business owners. So I'm really excited to have Ken here to kind of explain what captive insurance is and talk about what he does welcome to maximize business value. Ken, how are you?

Ken Huffman: 1:40

I'm doing great, Tom. I really appreciate the opportunity to come visit with you about captive insurance.

Tom Bronson: 1:47

I mean, it might sound like a boring topic

Tom Bronson: 1:49

to some of you out there, but just stick with us for a few minutes. Right. And so absolutely you'll love it. Yes. Tell us a little bit about your background and what led you to start captive nation.

Ken Huffman: 2:01

Absolutely. Well, I initially went to Texas a and M and got my accounting degree from there. I then started at KPMG, a big four auditing firm. And then from there, I went to a small CPA firm where I did audits, tax returns, all kinds of things. And I noticed at that time, there were a lot to a lot of tax strategies that we were not implementing because they were in different industries. After that, I did a short stent at Mobil oil and then launched out on my own and formed a company called CPA to CPA, where we taught CPAs about all these advanced tax strategies that they didn't even know about. And so one that became very, very popular was captive insurance problem was it was hard to find a good provider of captive insurance. So I thought, Hey, you know what, I'm a CPA. I know disparity males. And so I started captive nation. And so that's what we do. We in captive insurance and it's a tremendous business strategy that strategy that I'm, I'm pretty fired up about because I love business owners and I love helping them make more of what they got.

Tom Bronson: 3:10

Well, I wish I'd done that. You know, you went to A and M somebody who is a, is a big Aggie fan, and I'm always wondering perhaps what the words to that War Hymn. I know you don't have a fight song you have a War Hymn. .

Ken Huffman: 3:23

Exactly. Absolutely.

Tom Bronson: 3:27

We could maybe do another podcast on that. I didn't grow up in Texas. I have no ax to grind anywhere. Uh, and so, uh, That's awesome

Ken Huffman: 3:36

Absolutely. Aggies are great! The more you know, the better your life will be.

Tom Bronson: 3:42

That's what I hear from every Aggie.

Tom Bronson: 3:50

What is Captive insurance and how does it work?

Ken Huffman: 3:53

Yeah. Yeah. Let me give you a brief overview about what captive insurance is. You have a business, all right, they are going to form their own captive insurance company. They're only selling to their own business. The captive insurance company is going to issue policies to cover this business where unique things that their traditional commercial insurance is not covering them for either it's not available, that coverage is not available or it's too expensive. The business owner is then going to write a check, okay. From the business over to their captive insurance company to cover the cost of those premiums. Right? So they're getting real insurance policies that cover this business. The money goes to their captive insurance company. Then what are you going to do? We're going to reinsure all of those policies so that if something does happen, your business files a claim, we're going to pull it from the reinsurance. The money is also that's in there. We want to invest that so that the business owner aren't additional wealth. So a captive insurance company is a private insurance company owned by the business owner that accomplishes three things. Okay. It protects the business, decrease taxes and builds wealth. So in a nutshell, that's what captive insurance.

Tom Bronson: 5:13

All right. So, um, you know, I'm, I'm a simple man. Uh, so, so give me an example of something that you could cover under captive insurance that you wouldn't cover. Are we using a traditional insurance?

Ken Huffman: 5:29

Sure. Yeah. Well, here's a pretty popular one right now, Corona virus. That a lot of people

Tom Bronson: 5:37

For our listeners who haven't heard of that, you know?

Ken Huffman: 5:39

Yeah, yeah, yeah, exactly. We got a pandemic going on right now. What a lot of Tom, what a lot of business owners are finding out is that there's a little clause in their insurance policy that says we don't cover pandemics. Well, if you had a captive insurance company, you could get coronavirus policies. That's going to cover, okay, restaurants shut down, right. They shut down restaurants for like two months. Let's say they brought in a half, a million dollars a month in revenue. And they got shut down for two months. Well, that business owner could file a claim saying I got shut down for two months. And I lost a million dollars of revenue that you get a check for a million dollars to cover everything. Well, you know what? Your traditional commercial insurance is not going to cover that. And if they did, it'd be too expensive.

Tom Bronson: 6:28

All right. So are there any guarantees of, uh, that you can get reinsurance on all of the things that

Ken Huffman: 6:34

Oh yeah. Every single one of the policies is reinsured and that accomplishes two things. You are achieving the proper risk distribution. That's a requirement. We'll talk a little bit more about that. And the second one, you just don't want to hold all the risks. You can't hold all the risk unless you have a lot of different 12 or more entities. So you're accomplishing risk distribution and you want that re-insurance so, cause if something happens, you don't want to pull all the money from your captive. You want to pull it from the reinsurance. Right. So you're leveraging your captive in a big way that way. Right.

Tom Bronson: 7:08

Right. So, um, how, how do you man, uh, setting up your own insurance agency, how do you, how do you determine what the premiums are for these insurances that you, I mean, I'm, I'm, uh, I'm an expert in helping businesses build value. I'm not

Tom Bronson: 7:24

The insurance company.

Tom Bronson: 7:26

What, what is the, the, uh, premium that I should be paying?

Ken Huffman: 7:31

Absolutely great question. What is going to happen is we initially do an assessment to say, Hey, is this something that's worth it or not? And then is it something that'd be beneficial to the business owner? But the way you determine the policies is we use a third party, actuary, somebody that's independent. If we do not hire them, we hire them, but we don't employ them with our own company. We want an outside perspective. They're going to look at this business and they're going to say, you have this amount of risk to cover this amount of risk are these 15 different policies. Okay? The policies are market value policies. So if you could get them, they're priced on market value. All right. So you're getting market rates. So then the business owner decides I want three, these three policies that add up to a hundred thousand dollars, or maybe it adds up to a million dollars. They say, I want these policies. We then issue the policies. They didn't pay for the premiums. Just like you normally would, any kind of other insurance. Except the good thing is, is that you get to keep the premium.

Ken Huffman: 8:43

You own the answer. Think about it, Tom, what if state farm send you a check back at the end of the year saying, you know, Tom, you never filed a claim. So we're going to go ahead and give you back. All the premiums that you paid throughout the year. One don't make you happy. How often has that happened? Has it ever happened to him?

Tom Bronson: 9:01

You mean they don't do that for everyone.

Ken Huffman: 9:08

Ah, it never happens. It never happens, right? And you're like, Aw, this is so frustrating. But if you had your own captive insurance company, that's exactly what happens. If you don't use it, you don't lose it,

Tom Bronson: 9:18

Right, but are you not taxed on it?

Ken Huffman: 9:20

You are not taxed on the first two point $3 million per year. And here's really a huge value.

Tom Bronson: 9:27

two point 3 million per year?

Ken Huffman: 9:28

Per year.

Tom Bronson: 9:30

Wow.

Ken Huffman: 9:30

Per year. So this is something business owners, love CPAs love. Okay. This is owners hate paying taxes right now. I want to make something very, very clear, right? From the get go. The purpose of a captive insurance company is to insure the business it's to insure the business. That is the primary reason that you would have a captive insurance company. It just happens to come with great tax benefits. And here's what I mean. You're going to write a check unless I'm going to use an example of a million dollars.

Ken Huffman: 10:00

You do not have to put a million dollars in, okay. But let's use an example.

Tom Bronson: 10:03

Okay.

Ken Huffman: 10:03

You write a check for a million dollars. It goes in your captive insurance company. If you did not have a captive insurance company and your tax at the highest rate, you're going to be paying about $400,000. And you're like for that money, right. But $400,000. So you have $600,000 worth, or you have a captive insurance company you're covered for unique policies. The money, the million dollars goes over to the captive insurance company. You still have a million dollars. And that is because there's a special exemption for small insurance companies called the eight 31 B exemption. And that allows you to be ducked up to two point $3 million of premium income every single year. You're just taxed on your investment. So it's an incredible benefit. And you're like, Tom, it sounds like I'm paying once and deducting it twice. That's exactly what happens. So you get a business. Now you get a business deduction over here. The captive insurance company gets another, you get to exempt that income. And so you save more money. Not bad.

Tom Bronson: 11:18

So, so, all right. So our listeners, now you see why, you know, mind blown, uh, on this. Cause I never really understood that. I mean, look, when someone said captive insurance, Hey, you want to talk about captive insurance? That's my signal to, Oh, I've got to go to the restroom or, you know, uh, forgot that I gotta go get a haircut, right?

Ken Huffman: 11:38

Yeah, yeah, exactly. And that's the thing that Tom, that really intrigued me as a CPA. I'm always looking for ways to save clients money, right. Business owners money. And this is a business strategy, right? Business owners, it's their cash cow. Right. They have spent 30, 40 years building this business. They want to protect it. Right. And so this is a way to protect that business and it happens to come with unbelievable tax benefits. So it's a great way to build wealth.

Tom Bronson: 12:10

Yeah. That is crazy. That is crazy. All right. So, so we kinda got off on a little bit of a tangent there. So help me out with what is the difference between just a traditional commercial carrier insurance and captive insurance,

Ken Huffman: 12:28

Right? Yeah. So a traditional commercial insurance company is going to look at your business. They're going to say, you have this amount of risk. How do you, how much insurance do you want? You're going to write them a check. It goes to the third party insurance company. You never see it again. If you don't file a claim, that's just an expense. Right? Right. So, but it's protecting the business, right? Not what a captive does. It integrates with your traditional commercial insurance. You do not drop your traditional commercial insurance. Now there's ways to make it cheaper. Right. And that's a great thing. There's ways to make your traditional commercial insurance more affordable and cheaper by implementing a captive insurance company into your insurance strategy. So what's the difference. One, they're both insurance, right. But one, you never see your premium. Again, you write your check to the third party, commercial insurance it's gone forever. Whereas if you have a captive, you own the insurance company. So the premiums that you write to your comp, your insurance company, you get to keep.

Tom Bronson: 13:39

Yeah. All right. Let me, let me just, uh, you own that you does the business on the captive insurance or, or like if, if I own the business, can I own the captive insurance personally? Or is it actually owned by the business?

Ken Huffman: 13:54

It is owned by the business owner. It is owned by the business. So not the business, but the business owner owners. Okay. Sorry. Yep, absolutely. So, and one, one captive insurance company, maybe the business owner has five different companies, right? So they could, one captive insurance company can cover all five businesses that that business owner owns.

Tom Bronson: 14:19

Okay.

Ken Huffman: 14:20

So one, one, one captive insurance company can do a lot.

Tom Bronson: 14:24

Okay. So, uh, it, it occurs to me, you know, that as you know, I've sat in the CEO's seat, a lot of have owned, bought, or sold a hundred different businesses. And, uh, and I'm sitting in the CEO seat, you know, there's, there's always an opportunity to, to get additional coverage for things. I call it death by a thousand, uh, premiums, right. Because, because every time our insurance, uh, from we had them come in annually, they kind of look at, do a risk assessment. And, and, you know, the, the 20 coverages that we had, they would always want to double that to 40 or 50 different coverages. And, and of course my answer was maybe I'll take two or three of them, or maybe I'll swap. But I always sitting in the CEO seat, it was what is my risk, you know? And, and is it worth the premium look, if it's, if it's gonna, if it's, uh, if it's a million dollar risk and, and it'll cost me, you know, $500 to cover it, I'm probably gonna do that. But if it's my teller risk and it's going to cost me 200,000 to cover that, you know, that's a whole different deal. And, and even, even since you and I met for coffee a few weeks ago and, and having this conversation, now, it occurs to me that business owners might think about all of those other risks and okay, we're going to keep our stuff over here with our traditional and I'll cover all of these other things under a captive.

Ken Huffman: 16:03

Exactly. That's exactly Tom. So that, that one big policy for a million dollars that cost you $200,000, you can get the same policy. The 200,000 goes into your own captive insurance company. And guess what you still have at the end of the year, if you never use it $200,000,

Tom Bronson: 16:22

plus the return on investment.

Ken Huffman: 16:24

Absolutely. So then you invest that money and earn even more, earning them more. So it just, it's one of those situations where people just don't know about, you know, Tom, 90% of your fortune 500 companies have a captive insurance company. They all have them. We're bringing it to the small, to medium sized businesses. They just don't know about it. You know, Tom, I use that.

Tom Bronson: 16:51

Why don't more people know about this?

Ken Huffman: 16:54

Most people think their CPA knows every single tax strategy it's out there. And the bottom line is that they do not,

Tom Bronson: 17:03

I've met a lot of CPAs that would convince you that they know every tax strategy.

Ken Huffman: 17:08

They don't know what they don't know. You know, I do continuing professional education CPE for CPAs. I teach for the Texas study, CPAs, the Fort worth division. I teach for several of them. And you would just be shocked. They have not heard of captive insurance. Um, they don't know how it works. And so as a CPA, I want to share that knowledge with them. Uh, so that at least they know how it works. Um, a real example that we had, we had a construction company, a CPA. This is owner went to him. He ended up having a million dollars of profit leftover at the end of the year. Right. That's pretty good. And so what did their CPA say at the end of the year, Hey, you need to buy some equipment, right? And so they bought like a million dollars worth of equipment that they really didn't even need.

Ken Huffman: 18:00

So the next year they talked to us and they were, they, another CPA introduced them to us. And they said, what about a captive? If you would put a million dollars in a captive in five years, how much is your, how much is the equipment that you bought last year going to be worth the thought years, $200,000, right? But if you put it in a captive in five years, your money will be worth one point $2 million. You got the same deduction from a tax standpoint, but you kept the key, all the premiums. You're putting money in an, uh, an asset that appreciates not depreciates.

Tom Bronson: 18:40

Wow.

Ken Huffman: 18:42

You see what I mean. You're getting all the insurance companies.

Tom Bronson: 18:44

Wow.

Ken Huffman: 18:47

It's great, man.

Tom Bronson: 18:50

And that you really maybe don't need. Right.

Ken Huffman: 18:53

Right. You don't even have, you just don't want to write that huge check to the IRS. And so you're looking for any way you can, well, why not put it in, get something that's gonna protect your business. You get the same deduction and the money's gonna be there. It's going to only appreciate.

Tom Bronson: 19:10

So we've talked about, you know, uh, having a, a good and combined approach where you have some traditional and you've got some captive over here. So how, how do traditional insurance carriers feel about it?

Ken Huffman: 19:24

Yeah. Great, great question, Tom. You know, once they understand it, they're fine with it. Initially.

Tom Bronson: 19:32

You're not going to replace all your,

Ken Huffman: 19:35

no, and I'll be honest. We do not tell anybody to drop any of their commercial insurance. Now they may see that and make more sense to put a little bit in the end of the captive. But majority of the time they keep their same policies that they currently have with their traditional commercial insurance. So we're no threat. In fact, we work with commercial insurance companies, agencies that once they understand it, what they do is they do two different quotes to their owners, to their, their clients, one just straight commercial insurance. And then the second one is if you implement a captive insurance company into your strategy, this is what it's going to do. You're going to end up with more insurance and less premiums. So here's the reason why they like it. If they really get it, they're going to grow their commercial insurance firm. Why? Because they are saving business owners a little bit of money, right. They're saving business. So that's gotta be more attractive because the other three people that come to the table, the other, the commercial insurance companies, they're all gonna be about the same as far as the premium goes, right? Yeah. But if you implement a, if you're coming in 20% lower than anybody else, they're going to get the business every single time.

Tom Bronson: 20:52

So do you actually have, um, um, commercial insurance carriers that'll come in and educate a business owner about a captive and say, Hey, you ought to think about doing this way.

Ken Huffman: 21:04

Absolutely, absolutely. So commercial insurance companies, you'd be surprised some of your really, really big commercial insurance companies. They have a captive insurance division. They just don't talk a lot about it because they want to maximize the amount of policies they can. But, but the bottom line is there's just certain things that do not make financial sense to insure from a commercial insurance perspective. Um, like you said, a million dollar policy costing 200,000. However, if what if your commercial insurance agency told you about that and said, why don't you do it within the captive? We'll cover everything else. And we support the traditional commercial agency. So that makes more sense, right?

Tom Bronson: 21:51

I'm telling you, I I'm, I'm hopeful that some commercial insurance folks are listening to this because that, that to me as a, as a, as a business owner now, but as a former business owner, if somebody had walked into my office laying out something like this to me, boy, that would have been a game changer for that relationship. I would never leave that. You're bringing me so much value and yes, you might get a little bit less premium now, but you get a customer for life.

Ken Huffman: 22:20

You'll never lose them. They will not shop you anymore. Right.

Ken Huffman: 22:27

Because nobody's going to be able to compete with them because they're integrating a captive into their policies.

Tom Bronson: 22:32

Holy cow!

Tom Bronson: 22:36

It was really neat stuff. And now our, our listeners and viewers can understand why I was so excited to have you so on the program. So we've already talked about a lot of the benefits and the tax benefits. Are there any other, before we take a break, are there any other benefits of owning your own captive insurance?

Ken Huffman: 22:55

Yeah. I mean, w when you talk about, you know, what it does for you from the tax perspective, um, you know, you decrease it from the business, you decrease it from the captive insurance side, but also a lot of people are curious about this and that, how do I get money out of it? Right. I'm putting money into my captive insurance company. Is it gone forever? No, you own the captive insurance company, it's yours. And then starting in year two, you can start taking money out of the captive insurance company in the form of qualified dividends. You cannot do loans. All right, need to make that really clear. You do not loan money back to the business or to the business owner. All right, you'd have to do qualified dividends and pay capital gains rates. 15, 20%.

Tom Bronson: 23:49

You can pay the capital gains rates on that.

Ken Huffman: 23:52

You just pay the capital gains rates. And so when people say, how do you get money out of the captive? I like to say it, you can live, quit or die. I can live, I can use my captive insurance company. I'm getting coverage for my business. I'm making money on the investments, right? I'm loving it and living it. That's great. Or I could quit in year three, year, five year 10. I can say, I don't want to do this anymore. Right. And so what you do, what we would do is we would relinquish the insurance license. It becomes a regular C Corp. And then they can take that money and start a new business. They can buy apartments, they can buy whatever. It's just a regular C Corp at that time. Or you could liquidate it all the money that's in there and pay capital gains rates.

Ken Huffman: 24:41

And then the last, yeah. And then the last thing is, if you die right now, that's quite a project, but here's what happens. Let's say your kids is going to end. They're going to inherit everything that you have. And let's say over a period of time, you have $10 million in there. If you shut it down, you'd pay capital gains rates pay $2 million, or you happen to die. Your kids are going to get that step up basis. And so to $10 million, you die, stepped up basis. They can then take out all $10 million and pay zero and capital gains tax free.

Tom Bronson: 25:21

Well, as long as, I mean, if you would have, yeah. I mean, how big can they get? Can you have a captive insurance with $50 million in it?

Ken Huffman: 25:28

Absolutely. And there's a lot of them that do it. We have clients that put in, you know, a hundred thousand dollars a year.

Ken Huffman: 25:35

We got clients that put in $10 million a year.

Tom Bronson: 25:37

No kidding.

Ken Huffman: 25:39

You may have, you know, a million in, you may have tens of millions in there. So these get back, you look at your big companies that have these there. They've got billions in there. Wow. And you're not limited to 2.3 million. It's just a small cap that is considered two point $3 million or less large cap than you can put in 10 million, put a lot more. It's just how that deduction works a little bit.

Tom Bronson: 26:06

Different rules. Okay. Got it. So we're talking with Ken Hoffman. Let's take a quick break. We'll be back in 30 seconds.

Ken Huffman: 26:14

Absolutely.

Announcer: 26:29

[inaudible] Mastery Partners equips business owners to maximize business value so they can transition on their own terms. Using my four step process. We start with a snapshot of where your business is today. We help you understand where you want to be and design a custom

Announcer: 26:44

Strategy to get you next. You execute that strategy with the help of our amazing resource network. And ultimately we help you transition your business on your terms. What are you waiting for more time, more revenue. If you want to maximize your business value, it takes time. Now is the time get started today by checking us out at mastery partners.com or email us at info at masterypartners.com

Tom Bronson: 27:21

We are back with Ken Hoffman. And we are talking about the exciting topic of captive insurance. If you didn't think it was exciting before this show, you're sure to think it is at this point. So, uh, Ken, and the first part of the program, you talked about the three benefits of captive insurance. Can you go over those one more time for me?

Ken Huffman: 27:41

Sure. Yeah. Tom, a captive insurance company is going to protect your business, decrease taxes and build your wealth. Those are the three things it's going to do. And when we talk about protecting your business, I'm going to give you an idea of kind of what type of policies we're talking about. Um, business interruption, let's say you got a, a place and they start doing road construction in front of your business and you lose half your sales. You could file a claim and get paid for half of those sales that you lost. Okay. Um, gaps, exclusions, and deductibles, Tom, you know how you get your commercial insurance policy? And it's like, one page of what's covered in 300 pages of what's not covered.

Ken Huffman: 28:28

Well, that's what captive insurance does is that it covers those 300 pages. It could be that maybe you produce some chair, leather chairs and you get a really good deal on the leather. Cause you've been working with this supplier for 20 years, that the competitors are 50% higher. If that supplier of leather goes out of business, it's going to hurt your profit line because you're gonna have to pay, the competitors, which are 50% more captive insurance covers that. So if that were to happen, you're going to get a check that make up that difference. I mean, that is adding value to your bottom line, protecting it like never before.

Tom Bronson: 29:09

Alright. So how do you, how do you think of these things? Right? I mean, look until coronavirus hit. Would anybody think about covering that? I know coronavirus is a big one. Nobody would, nobody did now.

Ken Huffman: 29:25

They do. Now it's on the radar. And so now you can get a coronavirus or a pandemic policy to cover your business if something were to happen. So that's what an actuary does. That's why we hire a third party, independent actuary to look at your business. And we also look at it too and say, okay, you you're exposed here. And we talked to the business owner, what are you concerned? What keeps you up at night? People don't realize that a lot of the things that keep them up at night could be covered by insurance. And again, if they don't use it, they don't lose it. It's just sitting over here. You know? Um, another thing that's pretty popular, Tom is what have you have? You know, a lot of business owners, they're kind of checked out right there on the beach. They have a key person, or maybe they bring in 70% of their sales, a salesperson.

Ken Huffman: 30:12

And you're afraid what if my competitor picks them out? You know? And I lose my key, man. Well, if you have a captive insurance company, you can cover that. So if that were to happen, you could get a check for a million dollars. That covers what the value was that they were to you. I mean, it's huge. It really is. It's huge. Another one.

Tom Bronson: 30:35

Yeah. Give me another one.

Ken Huffman: 30:38

So no one, you know, coronavirus, it's caused all kinds of extra expenses to business owners that they didn't, you know, now they have to borrow this sanitation equipment and it's extra costs, right? The government's going to probably regulate that you're going to have regulatory change. Well, that's going to be more expensive for the business. If they could have a captive, they could get all that covered. So any type of regulatory change, environmental change, um, you know, that all that can be covered within a captive insurance company.

Tom Bronson: 31:19

You're nuts. It must be crazy. There's no way you can do all that.

Ken Huffman: 31:21

A lot of people think they're shocked, Tom, that I'm a CPA. They're like, are you sure you're a CPA? I absolutely. I'm a CPA. We're the personnel. It's just people don't know about what's out there and available to them. Another thing that's really popular that I just, I love commercial, commercial, strip, shopping centers, commercial properties. If somebody skips out, right, they say they sign a two year lease and they leave. You can get up to six months of payments if they bolt on you.

Tom Bronson: 31:55

No kidding.

Ken Huffman: 31:56

Oh, that's huge. Right?

Tom Bronson: 31:58

You can't get, you can't get the balance of the lease.

Ken Huffman: 32:01

Yeah. You get up to six months. If you say I want 12 months or 18 months, it's just going to cost more. But again, do you really care? I mean, the money's going from your business over your captive insurance company. So these are custom policies from, these are things that are either too expensive or just are not available commercially. And so everything can be customized to that business or business owner,

Tom Bronson: 32:30

every, every business owner that I know. And that's a lot could benefit from this somehow, somehow. All right. Um, before we get off in the weeds, I want to back up, because you said that, uh, captive insurance can help you build wealth. How does that, how does that work?

Ken Huffman: 32:52

Yeah, well, one thing is, this is a separate entity, a separate corporation. So people consider your business and get what's in your business. They can Sue the business owner or get things from the business owner. Alright, but this is a separate corporate entity. Nobody has any standing. Nobody can force the liquidation of a captive insurance company. So it's creditor proof. So you're protecting your wealth. You're building your wealth because nobody can grab it. Right? So that's a really huge, big deal that we want to remember. And then all the premiums that go into it are retained. You're not giving them to anybody. Yeah. You keep all the premiums. They go into your captive insurance company. They're retained and they're reinsured. If something happens, we pull from the reinsurance and then they're investible. So you're investing money into, to wall street funds. So it's a great way to save money. Um, something else that's really interesting is we talked about the traditional commercial insurance, right? And a lot of times it can lower the cost of your traditional commercial insurance. And the way we do that is you can increase the deductible, which drives down your premiums,

Tom Bronson: 34:08

But you can still get the coverage, even though you've increased the deductible, you can get.

Tom Bronson: 34:12

Absolutely, absolutely. It's the same amount of coverage. You're just saying, Hey, instead of a $5,000 deductible, I want a $25,000 deductible or a hundred thousand dollars deductible. Well, what's that going to do? Drive down your premiums and you think, Oh, well, what if, I mean that money? Get it from your captive insurance company, you write a deductible reimbursement policy so that if you have to use it, you need that. You just pull it from your captive insurance company. So, I mean, that's huge, right? Um, a lot of times nursing homes are really having trouble getting insurance right now because of what all is happening. So you can say, all right, we're going to take the first million within the captive insurance company. And that's, and then from there traditional commercial, we'll take the rest or more than that. So that drives down the premiums, a tremendous amount, you know, something else, Tom, that I love this aspect of a captive insurance company. Have you ever gone and bought a TV like at best buy what's the last thing they asked you at the check register before you check out.

Tom Bronson: 35:17

Do you want the five year extended?

Tom Bronson: 35:21

I say, no,

Ken Huffman: 35:25

but if you have a captive insurance company, you can do the exact same thing with whatever product you produce, you can create a warranty, an extended warranty, and you know, you can charge for it or not charge for it, but it let's say it's $200. Um, you know, that $200 goes directly into your captive insurance company with a tax rate of zero. So what have you just done? You create a whole new profit line, a whole new revenue stream and significantly lower their taxes. We had a commercial insurance, commercial range company. One time, you know, they make food at restaurants. They came to us and said, can we do a two year warranty? Everybody does a one year warranty. We said, sure. They did a two year warranty. Didn't even charge for it. Sales went like this (up)

Tom Bronson: 36:16

And, and they insured that through their captive.

Ken Huffman: 36:19

Absolutely. Absolutely. So you're talking about tremendous value. It's one of the reasons why people do it, just that alone to be able to offer a warranty or insurance on their product. It's reason alone to do a CAPTA. So it's pretty powerful.

Tom Bronson: 36:34

All right. So, um, you know, for those of you who are watching on YouTube, you can see over my shoulder, I have, I have three daughters and a beautiful life. Can I start a captive insurance to cover their cell phone damage?

Ken Huffman: 36:45

Apparently that's an issue.

Tom Bronson: 36:53

Yeah. Oh man. Sorry.

Ken Huffman: 36:56

Yeah, no, you could, you could, you can, you could do it. You know, extended warranties were for companies. Absolutely.

Tom Bronson: 37:03

Only the only thing that I regret not doing is maybe I tell our family, we don't do extended warranties on that stuff

Tom Bronson: 37:10

Money in the pocket.

Ken Huffman: 37:13

But the phones are so expensive. I mean, they're so crazy expensive

Tom Bronson: 37:18

Drives me crazy. So, alright. Let's, let's get back on task here. Who, uh, who does, sorry. I, I, I have add, you know, that,

Tom Bronson: 37:29

Is there some magic number you have to reach in order to be eligible to start a captive insurance agency?

Ken Huffman: 37:38

Great question, Tom. It's any company that has gross sales, total revenues of $2 million to $2 billion, 2 million to 2 billion. That's a huge wide. And I don't mean net profit. Okay. I don't mean take home. I mean, does your total sales, does your total gross revenue of all the companies that you have together combined? Is it at least $2 million, then it's something you want to look at? And Tom, what we do is we just do an analysis of right, how much do you have? What are your businesses? We get estimate the amount of premiums, the type of policies you could get, what it would cover and the premiums. And we do a cost benefit analysis because you need to see this, this really make financial sense for you. And oddly enough, Tom, if you're doing 2 million more, you end up better financially, meaning you end up with more cash at the end of the day, by doing one of these than by not doing it.

Tom Bronson: 38:42

Oh, I'm convinced of that. Look at, you know, that's, that's intuitive. I mean, I would hope that our listeners could have picked up on that already and why I didn't do this, uh, for years I have no idea. I w I, I wish that I'd run into you, Ken.

Ken Huffman: 38:57

Yeah, we're together now. We've got it going on now.

Tom Bronson: 39:03

Just a little bit insight into the, uh, how hard is this to set up? I mean, how do you set up a capital?

Ken Huffman: 39:10

It's it's very simple because we do all the work. Okay. So we create in main, into the captive insurance company for the business owner, they don't have to hire additional staff. They don't need a desk. They don't want to build onto their business. We handle the entire thing and there's four stages. One is the feasibility study. We do that, that we don't charge for that. We just do a quick analysis of, does this make financial sense or not? Then if it does the business owner is like, I like this. We then moved to underwriting and that's where we hire the third party actuary. That's going to look at the business and say, you have this amount of risk to cover that as these 15 policies, and then, you know, X amount of money, then the business owner can decide how much they want. So that's the second stage then they'll know, okay.

Ken Huffman: 39:58

Yes, I want to do this. We then move to the formation stage. That's where we form the, uh, the insurance company. Okay. It's a C Corp. We obtain the insurance license. That's required. Policies are issued to the business. Premiums are paid, um, distribute the risk properly. And then after that, the fourth and final thing is the ongoing management of captive insurance companies. Every year, they have to have an independent audit. They have to have an actuary look at them to determine, do you still have the same amount of risk or has the risk gone up? Um, and so,

Tom Bronson: 40:34

So you'd have to, that's an annual deal, okay,

Ken Huffman: 40:36

That's an annual deal. And, um, you know, you just have to manage these things correctly. That is the most important thing. And as a CPA, that's one thing we make sure we do is manage these things correctly.

Tom Bronson: 40:49

And so, and so for your services, your clients pay you a fee to do all of those things.

Ken Huffman: 40:57

Yeah. Cause you're constant. You're communicating with the state insurance department. There's a whole list of things that we do, but I'm just kind of summarizing it.

Tom Bronson: 41:06

Yeah. Yeah. This is only an hour long program. Come on. So

Ken Huffman: 41:10

That's right. You don't want to get into all the details, but I'm happy to share all the details.

Tom Bronson: 41:15

Alright. So it begged one additional question, you know, I've had where I've been the only owner. And so that's real simple, but I've also had in businesses that I've had as many as 40 or 50 shareholders, does the captive insurance have to be owned on the same basis as ownership of the business, or could I, as maybe I'm a 50% owner and then I've got a bunch of other shareholders, could I own the captive insurance, uh, and, and the other owners of the business, not on it.

Ken Huffman: 41:47

Right. Great question, Tom. Typically, it's going to mirror the ownership of the business unless there's a do that. Right. I mean, it makes sense. It makes sense. Um, there was a recent, over the last several years, there was a recent legislation that increased the amount that you could put into the captive from 1.2 million to 2.3 million per year. But it came with a stipulation that if mom and dad owned the business, mom and dad have to own the captive. Okay. So it has to mirror the ownership as the mirror, not there. Yeah. So it's reasonable. What people were doing, his mom and dad owned the business and the kids owned the captive,

Tom Bronson: 42:28

but they kept that basically just passing the money.

Ken Huffman: 42:31

Yeah. So they cut that out. Um, but, uh, as far as you, if you have unrelated people, uh, business owners, there's five different business owners and there's some good business reason why one of the owner not doesn't want to be part of it. Then you could do that. You know, you could, it doesn't have to mirror it exactly. If they're not related,

Tom Bronson: 42:51

Honestly, I could see how, um, in the hands of somebody who is unscrupulous, you know, you might be as, as a, uh, as a part owner in a business, set up something like this and get a lot of financial benefit where, where it should be shared among the, they would have gotten the money. I'll be at a reduced amount because of the taxes, but they would have gotten.

Ken Huffman: 43:14

Right. Exactly. That's the deal. That's exactly right.

Tom Bronson: 43:19

As far as I know, um, you know, uh, your business is the only business captive nation. It's the only business on the planet that does this. I I'm sure you have. I'm sure there's some competition. This is, this is your opportunity to kind of, now that you've given a lot of really good value in education to our class, what kind of sets your business apart from others that do what you do.

Ken Huffman: 43:43

Yeah, Tom, that's a great question. There's a lot of people out there that have done this. Um, the most important thing is that these things are created and managed properly, according to state and federal guidelines. And that is where people get into trouble. They use managers that don't know what they're doing. They're not competent, you know, or they form overseas. And some of those are overseas are okay, they're fine. Right. But there's a lot of them that are formed overseas, that the, the rules of the insurance department over there do not match what the federal guidelines are. And so like the owners, if it's, if it's a foreign, they may say, sure, you can take loans out against that. Just the money, bring it back whenever you can't do that, they can then go and try to file the eight 31 B exemption, federal IRS guidelines says you can't do okay.

Ken Huffman: 44:40

You cannot loan money, um, out from there. So what makes us different is that we're CPAs. That's the biggest thing, right? We're held to a different standard. We have a state board of accountancy. So we have to do things according to the law each and every time. And the second thing is, all of our captives are set up right here in the good old USA, the States. And so that's the truth. That's the biggest thing is that we make sure you're compliant with state guidelines and federal guidelines as a CPA. We're not gonna, we're gonna make sure you're always in good standing.

Tom Bronson: 45:16

Awesome. That, uh, that, that is amazing. We're running low on time here. So let me ask you, um, one last question when, um, uh, you know, this podcast is all about maximizing business value. So if there's one thing that you want business owners to walk away from here with what is the one most important thing that you recommend business owners do to build value,

Ken Huffman: 45:47

Protect the cash cow, protect the business that you already built, right? And you can do that through a captive insurance company, and it's going to build even more wealth for you. So you want to protect things that maybe you're going to sell in three to five years, make sure it stabilize it, nothing crazy happens to it so that you can get the most value out of your business as possible. And a captive insurance company is going to do exactly that.

Tom Bronson: 46:18

Why that is, that is good and solid advice now for our listeners who listen to this podcast regularly. And I hope you've had a chance to go and listen to it. I always ask a bonus question. And that is Ken. What personality trait has gotten you in the most trouble through the years?

Ken Huffman: 46:39

Yes. You know, I'm pretty spontaneous. I'm pretty creative and spontaneous. And so, you know, that can get you in trouble. Cause sometimes you make a quick decision, then you're like, you know what, maybe I shouldn't have done that. I've got, when my son turned 16 years old, I thought what would be a fun thing to do? Let's go have a candy dash. And so we took him to seven 11 and said, you have 16 seconds to grab as much candy as you want. And so grabbing handfuls 16 seconds later, $106 in candy.

Tom Bronson: 47:26

106 dollars!I look, I love seven 11, very local, uh, convenience

Tom Bronson: 47:30

Store based here in North Texas, but you're not probably paying the least amount of money.

Ken Huffman: 47:38

now. That was not a great choice. It was just close to the house. And so I thought, well, let's just try this. I'm standing up there. And I'm like, are we really gonna pay $106 for all this? But I told him we would. So it's something that it was so much fun. It created a memory, never forget it was well worth $106.

Tom Bronson: 47:59

Oh, that's awesome. Folks who haven't heard my podcast about my daughter graduating from high school, then, you know, life is about creating a series of moments of memories that your kids can carry with you for the rest of their lives. Nothing else matters. Right? I mean, it's.

Ken Huffman: 48:17

nothing else does.

Tom Bronson: 48:19

that and tell that story for a long time, he would probably be smarter than you and not do that with is okay, mr.

Tom Bronson: 48:29

Spontaneous. So, uh, how can our viewers and listeners get in touch with you, Ken?

Ken Huffman: 48:35

Sure. Yeah. You can go to our website, captive nation.com or email me Ken captive nation.com or our phone number is (888) 944-5588. If you're curious about this, have questions, um, or yet thank, ah, I wonder if this has worked for this client, it works for any business. There's no business that every business has risk. And so it doesn't matter if you're a physician or manufacturer construction, it works, but we'll just do an analysis, see the cost benefit and see if it's something to move forward with.

Tom Bronson: 49:07

That's awesome. And that doesn't cost anything to have that done, we do free.

Ken Huffman: 49:11

We do free assessments and we do all the costs. You know, what is the bottom line? No Nickle and dime. Give me the whole entire story. What's the cost, all the costs, what's the benefit.

Ken Huffman: 49:23

And then the business owner can make an informed decision if that's good for them or not.

Tom Bronson: 49:27

Perfect. Perfect. So, uh, so Ken, thank you for being our guest today, you can find ken@captivenation.com or on LinkedIn, or you can reach out to us always. And I can put you in direct contact with Ken. This is the maximize business value podcast, where we give practical advice to business owners on how to build a longterm sustainable value in your business. Be sure to tune in each week and follow us wherever you found this podcast and be sure to comment. We love comments and I promise you, we respond to all of them. So until next time I'm Tom Bronson reminding you to take action on one thing you've learned today, while you maximize business,

Announcer: 50:23

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Speaker 4: 51:08

[inaudible].

Speaker 5: 51:08

That was perfect. I wouldn't make any changes on that.