

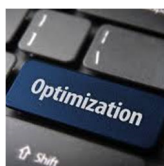


Quarterly Newsletter from Energy Insurance Services, Inc., Volume 5, Issue 2

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View on the Creek



This spring has been particularly mild. Meaning, we have had a spring season this year. The past couple years it seemed we moved from winter directly into summer.

As we settle into 2021, we have now returned to in-office days at our new location situated at 401 Mill Street, Mt. Pleasant. The view of the shrimp fleet on Shem Creek, as you can see, is literally about 100 steps from our office building. It is quite satisfying to spend our days working safely in our new offices, finally putting it to good use and enjoying the view!

As needs arise, we will entertain in-person meetings with EIM Members seeking to explore or launch a new Mutual Business Program, as well as, with our EIS Participants to discuss new coverages and structures within their existing Programs.

Please note our “save the date” message above. Our plans for a full in-person conference are on track. As time gets closer to mid-summer, we will be sending our registration information to you.

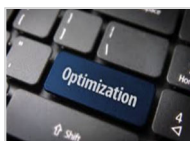
Anniversary Announcements

Please join us in congratulating Kim Jenkins on her sixth anniversary and Megan Ogden on her first anniversary with Energy Captive Management, both were in April. EIS and ECM are poised for the growth that will come to meet the market challenges and new risk financing strategies of EIM Members.

CICA Presentation

The Captive Insurance Company Association held its annual conference in March. Last year the conference was cancelled due to Covid and was the first impact felt from a business standpoint by EIS and ECM. This year the conference resumed but on a virtual basis. Karin Landry and Randy Martin presented via a pre-recorded session on employee benefits in a captive structure. The presentation featured the long-standing trust owned health insurance program which is underwritten in the EIS Mutual Business Program No. 15 (protected cell). This plan provides expense coverage for retiree medical plans and has been active since 1996.

Captive Optima



Two years ago, an EIS Participant risk manager facing pressure to reduce the overall spend on the utility's insurance budget considered options to possibly reduce the limits of insurance on one or more lines of insurance. Ultimately, this led to a new insurance policy created to aggregate the risk of four lines of insurance into one annual aggregate limit. The EIS Participant dubbed the name of this coverage as the "High Excess Umbrella Aggregate



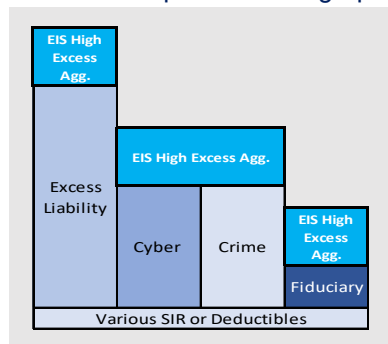
Policy".

This policy is one of the more creative coverage concepts introduced over the past six years within the collection of EIS Mutual Business Programs. The creative process was framed by the issue of 'across the board' premium increases, compounded by the utility's internal pressure to reduce expenses. Additionally, the risk manager did not want to bring additional exposure to operating companies by completely reducing protection provided with the current limits by line of coverage. This can be a dilemma. However, after analysis of the entire portfolio of insurance programs, it became apparent an appropriate compromise between cost and protection could be rationalized. The diversity of risk across the lines of coverage plays a significant part. Two coverage risk attributes need characterized to determine which lines of coverage are ripe for this compromise between price and limits:

- Cost Efficiency
- Loss Probability

This analysis can be performed through a benchmarking analysis or probabilistic analysis depending on the information available. The coverages with the greatest inefficient cost with very low loss probability in the top layers will become the primary targets for this concept.

Below is a representative graphic of four lines of coverage that



met the criteria for this EIS Participant. Over \$200,000 of cost savings were achieved by replacing the top \$15 million of limits for each of these lines with the High Excess Umbrella Aggregate Policy.

Captives are made for times like these and now is the perfect time to explore the use of a captive to deliver solutions to risk financing challenges.

**HIGH EXCESS
UMBRELLA
AGGREGATE POLICY
PROFILE**

- SIGNIFICANT COST SAVING POTENTIAL
- SINGLE AGGREGATE LIMIT ACROSS MULTIPLE LINES
- FOLLOWS UNDERLYING COVERAGE
- PRICING CONTROL
- REINSURANCE SUPPORT, IF NEEDED
- FLEXIBLE STRUCTURE
QUOTA-SHARE OR LAYERED
VARIETY OF ATTACHMENTS PER LINE

Focus on Benefits – An Oldie but a Goodie



As mentioned above, the EIS trust owned health insurance program was a featured topic at the annual CICA conference. It has been quite some time since we have given mention of this program, if ever, in this newsletter. To rectify this, below is a review of the MBP 15 program – truly an oldie but a goodie!

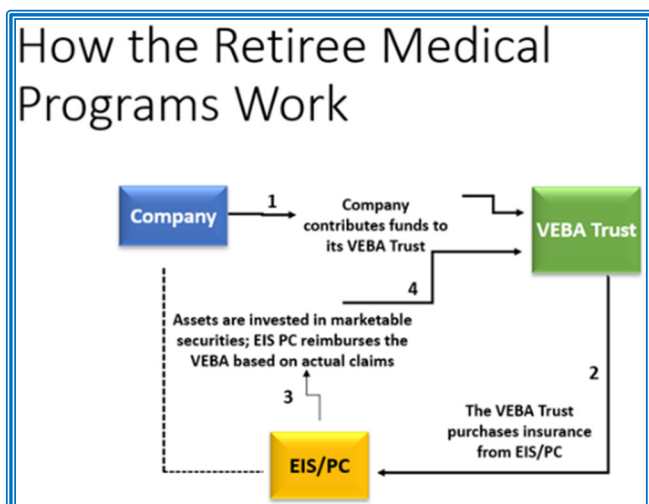
What is Program 15?

Energy Insurance Services, Inc. Mutual Business Program No.15, a South Carolina protected cell, is dedicated to write reimbursement insurance policies for retiree medical plans. This program was first conceived and launched in 1996. The policies are structured to cover retirees as defined in a Coverage Population. The population can be both for retirees of pre-65 and post-65 age. Elected cover includes

medical and Rx benefits. The policies are called Non-cancellable Accident & Health policies. These insurance policies are treated as life insurance for tax purposes. This allows a tax deferral on the assets held to support the policies.

Each participant/policyholder is treated as a sub-account within the protected cell. This segregates the accounting, banking, and investments from each policyholder, allowing each policyholder to achieve its own respective goals towards financing this risk. The actual participant is technically the sponsor organization of the VEBA Trust. The participants share a minimal level of risk (2%) between each of the issued policies. The policyholders are the VEBA Trusts of the Participant companies. VEBAs are separate taxable entities established for the benefit of the sponsor organizations' employees. These policies reimburse a portion of the incurred retiree medical costs.

The Transaction



A participating VEBA will purchase the Non-cancellable Accident & Health policy from EIS. The VEBA is the policyholder, owner, and the beneficiary. The insureds are the employees. The VEBA holds the insurance policy as an asset.

VEBAs are separate taxable entities that are established for the benefit of employees. By its design, the assets of the trust cannot revert to the employer but must be used for the benefit of employees.

The policies are treated as a life insurance policy under an IRS Revenue Ruling allowing the assets of the plan (within the captive cell) to earn interest and dividends tax free creating a highly efficient means to finance this benefit obligation.

The policies in Program 15 determine the level of reimbursement based on the member's Current Benefit formula. This formula is a "ribbon of coverage" (see the gold layer in the chart to the right) that pays a percentage of claims above a deductible, up to an annual maximum.

Joining

A company wishing to join MBP 15 must contribute to a VEBA if they do not already have pre-funding in place. A Covered Population is chosen. Modeling of required funding is performed by actuarial and consulting services is provided by Spring Consulting as contracted by EIS. Additionally, investment advisory services are provided by Merrill Lynch. Once a Participation Agreement is executed and the policy is funded, EIS issues the Non-cancellable Accident & Health policy, specifying a Guaranteed Benefit and program assumptions.

The premium is allocated 98% to the individual member's Separate Account and 2% to the MBP15 General Account. This General Account provides additional risk shifting and risk distribution to meet insurance requirements.

Currently, MBP 15 has 3 Participant/Policyholders. Kim Jenkins manages this program for EIS/ECM. Please call Kim with any questions or inquiries about this unique benefit tool.

Retiree Medical Claim Components

