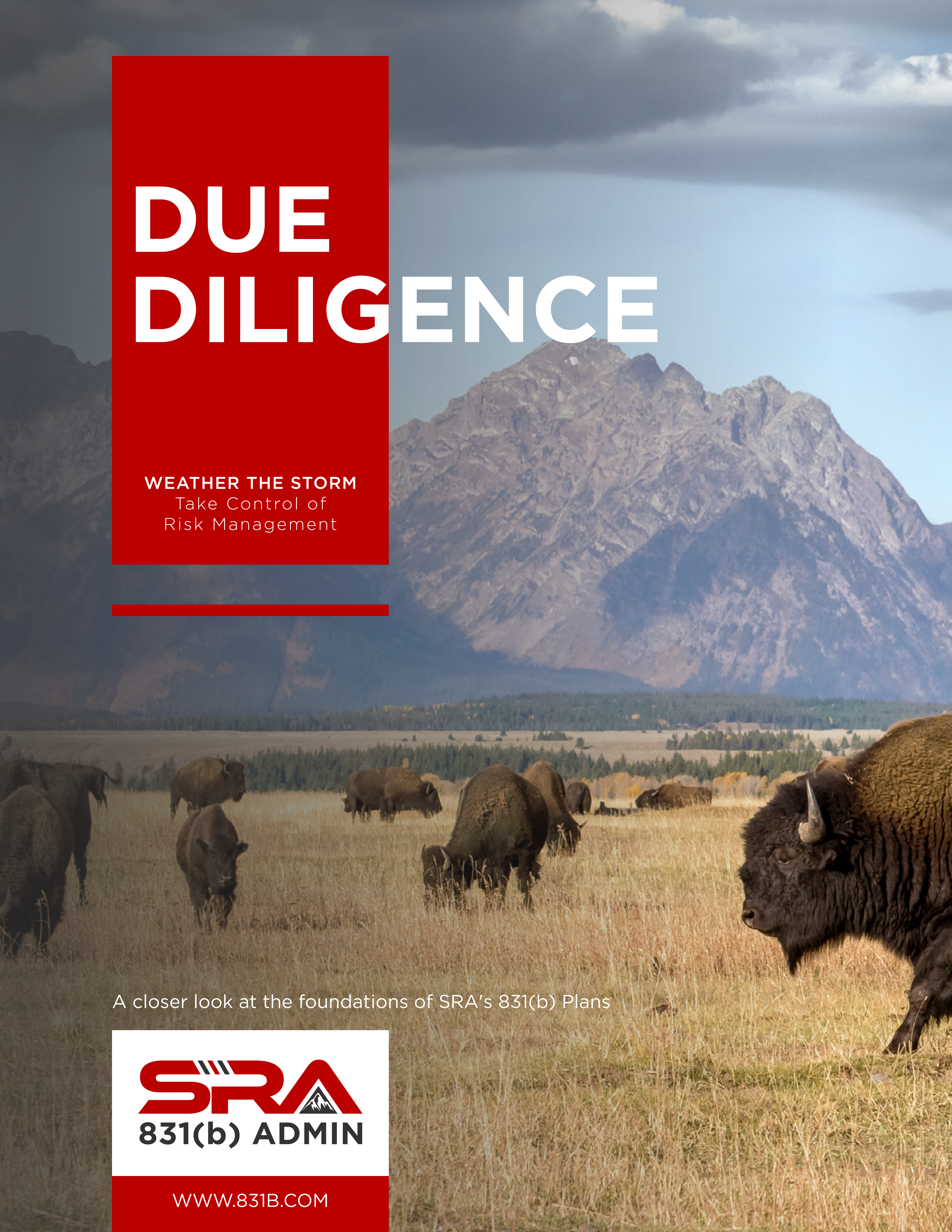
DUE DILIGENCE

WEATHER THE STORM
Take Control of
Risk Management



A closer look at the foundations of SRA's 831(b) Plans

SRA
831(b) ADMIN

WWW.831B.COM

CEO'S STATEMENT

COVID-19 was a hard lesson for many business owners. Insurance carriers denied business interruption claims citing indirect losses and language that limited coverage. State and local governments labeled businesses as non-essential and forced them to close. Hindsight is 2020, and the 2020 pandemic made it clear that business owners must establish an 831(b) plan.

As your 831(b) Plan administrator, we carefully monitor and provide you with relevant education, documentation, and best practices pertinent to owning an 831(b) Plan. This packet covers essential information including:

- 831(b) Plan Structure
- How Claims are Paid
- The SRA 4-Part Test
- The SRA Difference

We look forward to partnering with you as we help you weather the storm.

Van Carlson
Founder & Chief Executive Officer

> At SRA we believe small and mid-size businesses are the lifeblood of the American economy. The 831(b) Plans we administer are meant to ensure these businesses mitigate risk more efficiently.

TERMS TO KNOW

4-Part Test A test outlining the threshold requirements of an 831(b) Plan to qualify under the 831(b) tax code. The test consists of four parts: 1) risk transfer, 2) risk distribution, 3) the plan mitigates fortuitous risk, & 4) the plan acts within the usual principles of insurance.

831(b) Administrator An 831(b) plan administrator makes sure that 831(b) Plans follow the rules and help companies save for risk mitigation. Administrators work with legal documents, perform analyses and tests, and monitor plan operations.

831(b) Plan A tax deferral savings plan that allows a business owner to divert a portion of gross revenues to self-insure risks that are either uninsured or underinsured. Plans must meet a four part test to qualify under the 831(b) tax code. Plans are usually managed by a third party administrator to ensure compliance.

Allied Reinsurance Company (ARC) A C-Corp in which 831(b) Plan funds are held. The company is allied with other ARC's in a risk co-op that shares each other's risk under a treaty reinsurance agreement. Like a 401(k) account, an ARC has distribution rules as well as annual contribution limits.

Claim A formal request by a policyholder to an insurance company for coverage or compensation for a covered loss or policy event. The insurance company validates the claim (or denies the claim). If the claim is approved, the insurance company will issue payment to the insured or an approved interested party on behalf of the insured.

Direct Writer An insurance company that initially underwrites the risk, and then, may transfer the insurance it has written to another insurance company or reinsurance company.

Fortuitous Risk An event happening by chance or accident. It is an occurrence or failure to occur which is, or is assumed by the parties to be adversely affected by the happening of such an event.

Operating Company A company that makes a good or provides a service that it then sells to customers or clients.

Principles of Insurance Generally accepted characteristics and functions of insurance including contractual transfer of risk, utilization of the law of large numbers to distribute risk amongst many insureds, a defined claims process to determine covered losses, and managing reserves to generate investment income.

Ordinary Business Risk A risk that is likely to occur during the ordinary course of business and not fortuitous in nature.

Qualified Dividend A type of dividend subject to capital gains tax rates that are lower than income tax rates applied to ordinary dividends. Generally, dividends from shares in domestic corporations that have been held for at least a specified period of time.

Reinsurance Described as insurance for insurance companies. When multiple insurance companies share risk by purchasing of insurance policies from other insurers to limit their own total loss in case of disaster.

Retained Liability Premium (RLP) The amount of premium retained by a direct writer in a reinsurance transaction usually in proportion to its liability retention. Also referred to as a ceding fee.

Risk Co-Op A group (pool) of ARCs sharing each other's risk on a pro rata basis.

Risk Distribution The utilization of the law of large numbers which allows an insurer to reduce the possibility that a single claim will exceed the amount taken in as premiums.

Risk Transfer Occurs when a person/operating company facing the possibility of economic loss transfers some or all of the financial consequences of the potential loss to the insurer, such that a loss by the insured does not affect the insured because the loss is offset by a payment from the insurer.

Tax-Deferral Not taxed until sometime in the future.

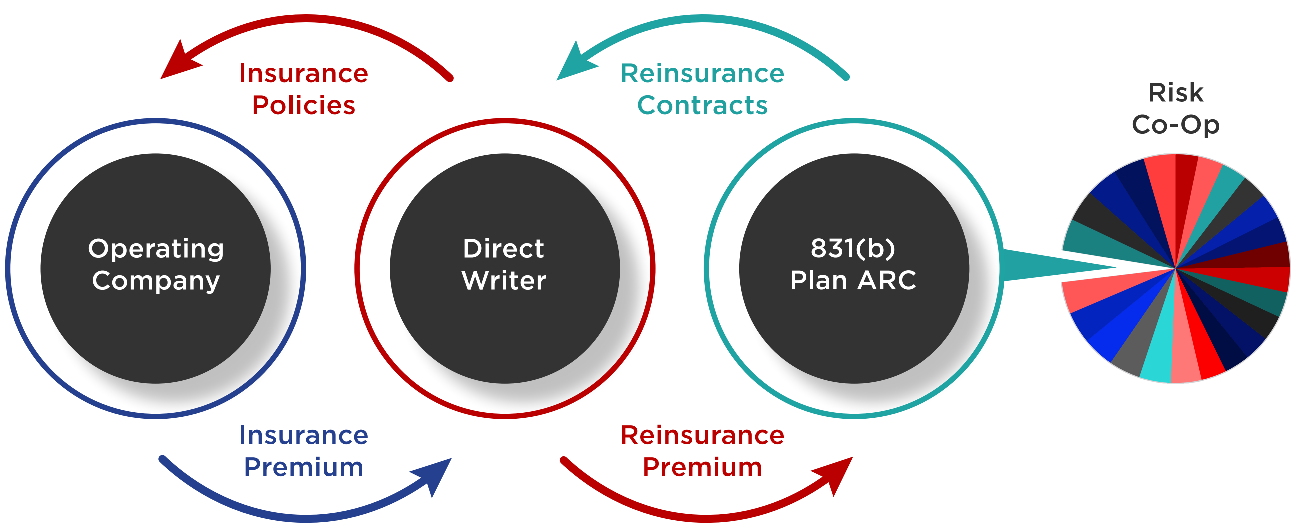
831(b) PLAN STRUCTURE

SRA's 831(b) Plan has its foundation in the principles of IRS Revenue Ruling 2009-26. This revenue ruling specifically outlines two fundamental characteristics of an insurance company that are required to properly elect under the 831(b) Tax Code:

1. **Risk Transfer &**
2. **Risk Distribution**

IRS REV RULE 2009-26

SRA's 831(b) Plan is specifically structured to meet the risk transfer and risk distribution requirements



Operating Company

- Engages the Direct Writer to contractually transfer its fortuitous risk
- One of many Operating Companies insured by the Direct Writer

Direct Writer

- Underwrites the Operating Company's risk and prices premium
- Issues policy contracts to the Operating Company in exchange for premium
- Transfers its risk to the 831(b) Plan ARC under a reinsurance contract

831(b) Plan ARC

- Contractually accepts a majority of the Direct Writer's risk in exchange for the majority of premiums
- Allied with many other 831(b) Plan ARCs inside risk co-ops that share risk on a pro rata basis
- Average client participates in 5 risk co-ops

HOW CLAIMS ARE PAID

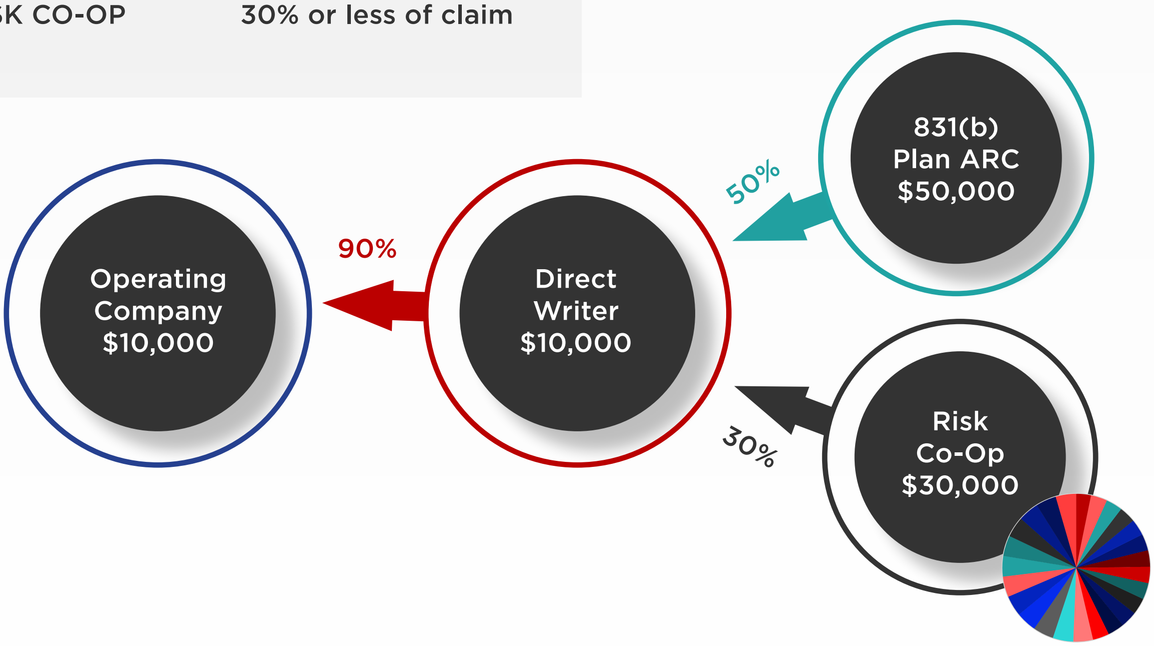
$100,000 Max Claim Case Study Example

Terri operates a dental clinic in a Southern U.S. college town. She started an 831(b) Plan administered by SRA and designed the plan to address the risks she was most concerned with, including third-party interruption. Terri participated in her 831(b) plan for two years without incident, but her concerns were realized during the COVID-19 pandemic. Terri watched her client-base disappear as the local college canceled classes and sent students home. Terri suffered months of lost income despite being an essential business. By filing a claim on her 831(b) Plan, Terri was able to recoup a portion of lost income and guide her business through the pandemic.

The outline below breaks down how Terri's $100,000 claim was paid by all parties, consisting of a deductible, her 831(b) Plan ARC, the direct writer, and the third-party interruption Risk Co-Op.

CLAIM BREAKDOWN

DEDUCTIBLE	10% of claim
831(b) PLAN ARC	50% of claim
DIRECT WRITER	10% or less of claim
RISK CO-OP	30% or less of claim



10 THINGS TO KNOW

TO PARTICIPATE IN AN 831(b) PLAN, YOU MUST MEET A FOUR-PART TEST

The plan must include a transfer of risk from the participant's operating company. To achieve this, SRA utilizes a direct writer. Along with a transfer of risk, the plan must utilize the law of large numbers to distribute risk among unrelated parties. The risks being addressed by the plan must be fortuitous in nature, and not ordinary business risks. Lastly, the plan must act according to the generally accepted principles of insurance.

PRIMARY BENEFIT: MITIGATE RISK MORE EFFICIENTLY

Traditional insurers cover a large portion of the risks business owners face. However, as many business owners learned during the COVID-19 pandemic, their policies often limited or excluded coverage. There are also many losses that insurers will not cover. An 831(b) Plan mitigates the risks business owners take each day, whether they realize it or not.

SECONDARY BENEFIT: TAX-DEFERRED PLAN CONTRIBUTIONS

An 831(b) Plan allows a business owner to defer income to address tomorrow's risks. Without an 831(b) Plan, business owners are self-insuring risks, such as a business interruption, with after-tax money from cash flow. With an 831(b) Plan, when catastrophe strikes, business owners can utilize these tax deferred reserves to weather the storm.

YOU'RE IN CONTROL

An 831(b) Plan can be tailored to meet a company's specific risk management and financial needs. Select from many different plan options to fill gaps in current policies and cover the risks that are not addressed by traditional insurers. Plan reserves can be managed to fit a participant's risk tolerance and investment goals.

DESIGNED TO COMPLIMENT YOUR BUSINESS

We understand the complex lives business owners have. SRA's 831(b) Plans are meant to bring efficiencies to our client's business and limit disruptions. As the plan's administrator, SRA ensures the plan is meeting the four-part test and achieving the risk mitigation goals of the business owner. SRA has a defined process to assist business owners through plan implementation and ongoing plan maintenance.

CONTRIBUTION LIMITS AND DISTRIBUTION RULES

Like a 401(k) Plan, an 831(b) Plan has annual contribution limits. As the plan's administrator, SRA uses a defined methodology to determine annual contributions. Two main factors include gross revenues and the participant's industry. Plans operating for three to five years are subject to annual solvency testing; distributions may be required depending on the plan's solvency. Plan participants can elect to distribute plan reserves by declaring a dividend. Dividends are limited to surplus reserves.

TAX DEFERRAL DOES NOT MEAN TAX FREE

831(b) Plan reserves are held in a C-Corp that elects under the 831(b) tax code which allows for up to $2.3 Million in annual tax deferred contributions (subject to contribution limits). Investment income and realized gains, generated by plan reserves, are taxable at the C-Corp rate. Dividend distributions taken by shareholders are taxable to the individual at the qualified dividend rate.

YOU HAVE OPTIONS TO ACCESS PLAN RESERVES

As detailed above, plan participants may elect to distribute plan reserves by declaring a dividend. More importantly, when catastrophe strikes, business owners can file a claim against the 831(b) Plan like a traditional insurance policy. SRA guides plan participants through a defined claims process, in order to ensure compliance with the principles of insurance. After the claim is properly processed, participants will be made whole in consideration of losses incurred up to plan limits.

NOT A RISK-FREE TRANSACTION

In order to meet the risk distribution requirement of the Four-Part Test, all 831(b) Plan participants are placed in risk co-ops with other participants and share in each other's risk on a pro rata basis. Participants will be responsible for a portion of 831(b) Plan claims made by unrelated parties. Risk co-ops are designated by the individual risk being covered and utilize the law of large numbers to disperse risk amongst many participants.

TRANSPARENT FEE STRUCTURE

SRA charges a single annual fee to the 831(b) Plans it administers. The annual fee of $5,000 provides the plan participants with all ongoing plan maintenance including claims processing, annual tax returns, annual tax reporting requirements, plan adjustments, and proper documentation of plan distributions. The retained liability premium charged by the direct writer is an additional fee and is tiered based on annual contributions. Financial institutions holding plan reserves may charge additional fees.

831(b) & 401(k) **SIMILARITIES**

Much like the 401(k) tax code allows an employer to set aside tax-deferred dollars for retirement, the 831(b) tax code allows a business to set aside tax-deferred dollars for underinsured and/or uninsured risks. The similarities are clear and business owners should consider the risk mitigation advantages.

831(b)	401(k)
Tax code passed by Congress in 1986	Tax code passed by Congress in 1978
Owner contributions tax deductible	Owner contributions tax deductible
Tax-deferred income to incentivize self-insuring unforeseen risks	Tax-deferred income to incentivize retirement savings
IRS Safe Harbors	IRS Safe Harbors
Contribution limits & distribution requirements	Contribution limits & distribution requirements
Must meet certain guidelines: 4-Part Test	Must meet certain guidelines: ERISA
Requires 3^{rd} Party Admin: SRA • Preparation of risk mitigation plan documents • Monitoring compliance with rules & regulations • Approval of transactions • Annual compliance filings	Requires 3^{rd} Party Admin • Preparation of investment plan documents • Monitoring compliance with rules & regulations • Approval of transactions • Annual compliance filings

Our 4-Part Test

Built on the foundations of Rev. Ruling 2009-26 and recent court rulings, SRA has created a stringent 4-Part Test to ensure 831(b) Plan compliance. Each part of the test is essential to successfully owning your 831(b) and the ability to elect under the 831(b) Tax Code.

RISK TRANSFER

There must be a contractual transfer of risk from the operating company to an insurer. The SRA 831(b) Plan utilizes a Direct Writer that underwrites the risk and issues policy contracts to the operating company in exchange for premium.

RISK DISTRIBUTION

In order to reduce the possibility that a single claim exceeds the amount of premiums collected, the 831(b) Plan must utilize the law of large numbers to disperse risk among unrelated parties. Each 831(b) Plan ARC administered by SRA is allied with others in risk co-ops that share each other's risk on a pro rata basis.

FORTUITOUS RISK

The risk being contractually transferred must be fortuitous in nature and not considered to be an ordinary business risk. SRA's Direct Writer underwrites many different risks that are fortuitous in nature including business interruptions, dispute resolution, political risk, brand damage and many more.

INSURANCE PRINCIPLES

The 831(b) Plan must act just as an ordinary for-profit insurance company would by following the principles of insurance. These principles include: contractual transfer of risk, utilization of the law of large numbers, a defined methodology to determine premium, a defined claims process to determine covered losses, and managing reserves to generate investment income.

THE SRA DIFFERENCE

Fortune 500 Companies have been utilizing similar risk mitigation tools for decades. Until recently, these tools were unaffordable for small-to-mid-sized companies.

SRA's 831(b) Plans remove the unnecessary complexity and costs found in those traditional captives and micro-captive plans. Built on the foundations of the 4-Part Test, SRA utilizes these fundamental requirements outlined by case law to successfully administer 831(b) Plans at a reasonable cost to our clients.

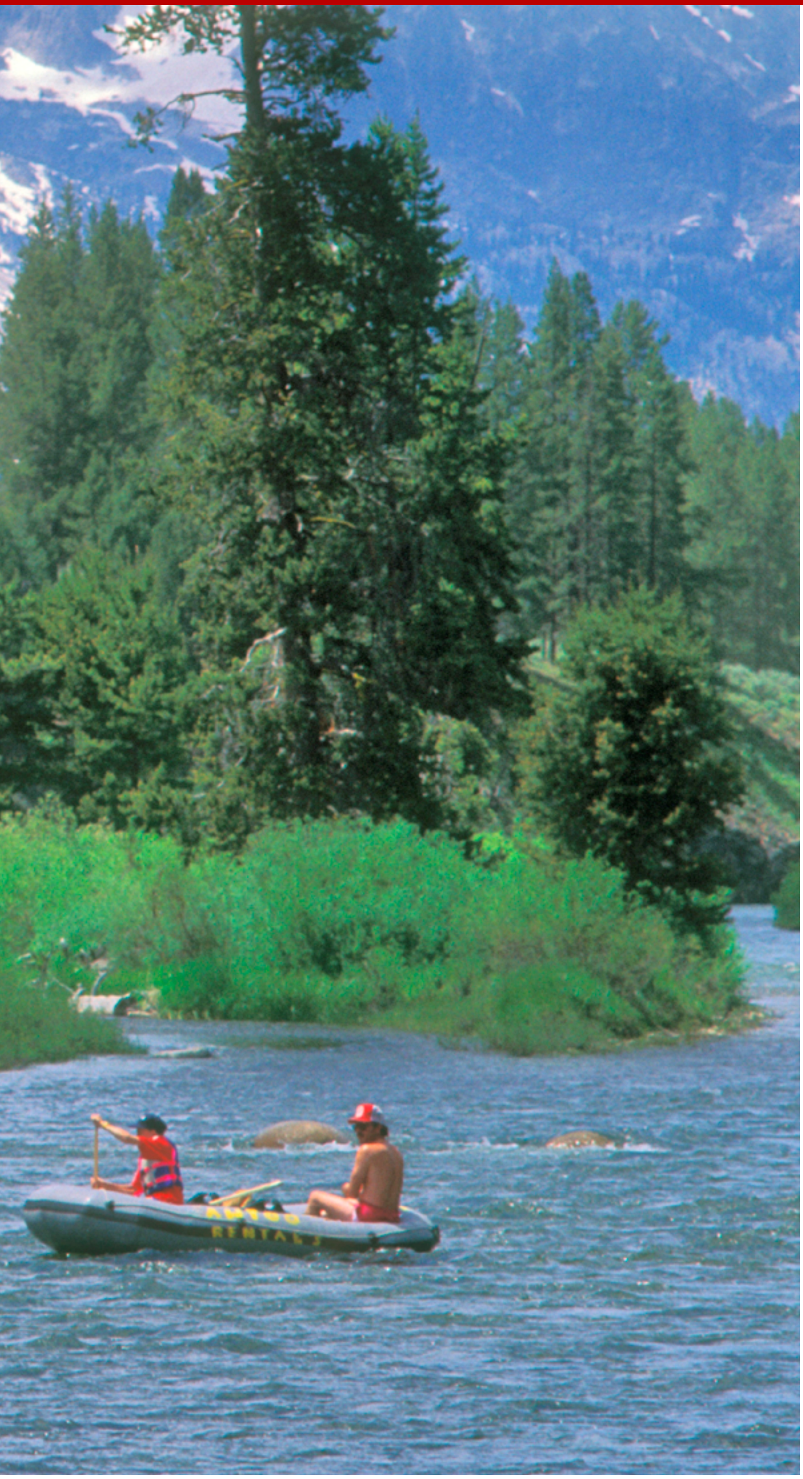
We care deeply about the financial security of our clients and their businesses. Our talented team of risk managers has an average of 10+ years of industry experience and strives to provide creative, quality, well-designed plans to address the varying needs of the clients we serve.

Fee	SRA	Captive	Micro-Captive
Start Up Fee	$5,000	$30,000 - $80,000	$5,000 - $25,000
Annual Fee	$5,000	$30,000 - $80,000	$5,000 - $10,000
Premium Taxes and Fees	included	2% - 10%	3% - 10%
Retained Liability Premium	3% - 10%	0%	0%
Annual Tax Returns	included	$1,500 - $20,000	$1,500 - $5,000
8886 Filing	included	$500 - $15,000	$500 - $3,000
Actuarial Services	included*	$3,500 - $10,000	$3,000 - $10,000
Feasibility Study	included	$2,000 - $10,000	$1,500 - $5,000
Consulting Fee	included	$275hr - $500hr	$0 - $500hr
Claims Handling	included	$100hr - $300hr	$100hr - $300hr
Loan or Dividend Docs	included	$500 - $1,500	$100 - $1,000
Capitalization Requirement	$0	$100,000 - $1,000,000	$50,000 - $500,000
Termination Fee	$2,000	$3,000 - $10,000	$3,000 - $5,000
Dormancy Fee	$0**	$1,500 - $20,000	$1,500 - $105,000

*Actuarial services only required for custom products.
**Company closes after 3 years of dormancy. Annual fee still applies.

"Before working with SRA, I used to lay awake at night worrying about the 'what ifs.' Knowing I have my 831(b) Plan protecting my business allows me to sleep better at night."

Don T.
Engineering Firm Principal



SRA 831(B) PLAN ADMINISTRATORS

WHAT YOU CAN EXPECT FROM US.

Initial design of 831(b) Plan

Preparation of plan documents and risk assessments

831(b) Plan transaction approvals

Monitor compliance of 831(b) Plan rules and guidelines

Compliance filings of 8886, 1099-DIV and meeting minutes

Annual tax return

Claim services

Annual renewals

Ongoing client consulting

OUR WARRANTY TO YOU

SRA provides a written warranty to all of its administered 831(b) Plans. Provided that plan participants adhere to SRA's rules outlined in the plan manual, SRA will provide legal and audit support in the event a company is audited as a result of participating in an 831(b) Plan. SRA audits plans on an annual basis for improper conduct. If improprieties are detected, participants will be notified and be guided back into compliance. Upon a second notice of impropriety, SRA will, at its discretion, disengage with the client.

SRA

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