

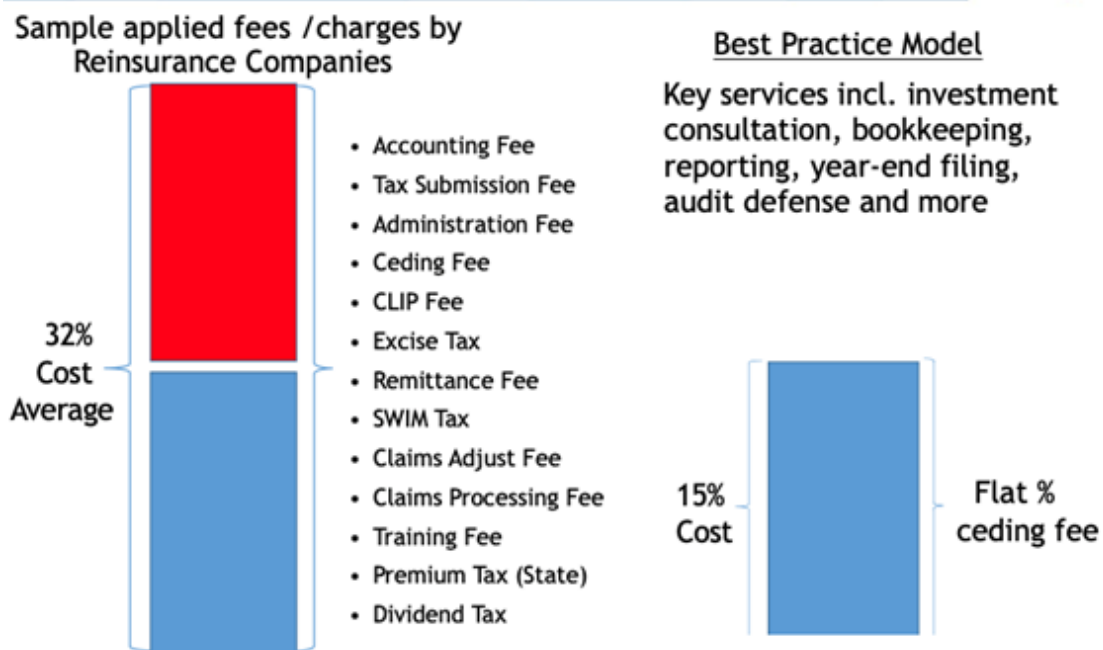
Frequently Asked Questions

For those considering Alliance Reinsurance Company (ARC), this guide will clarify fees and tax implications, coverage specifics, and regulatory considerations, along with helpful comparisons to traditional reinsurance setups. Explore below to understand how ARC can deliver a cost-effective and flexible alternative for your reinsurance needs.

Costs and Fees

Q: Are there fees, taxes relative to participating in Alliance Reinsurance Company (ARC)?

A: Associated costs represent roughly ONE HALF of the marketplace. Example, the one-time capitalization (\$7,500) is much less than competitors charging between \$15,000 and \$250,000. Similarly, the 17% ceding fee is a FLAT FEE for remitted premium; this represents ONE HALF of the marketplace charging approximately 30% with various fees and taxes. See image: Cost Comparison



Costs and Fees continued

Q: What specific costs are associated with participating in Alliance Reinsurance Company (ARC)?

A: Lower Capitalization & Gross Revenues Requirements – Capitalization requirements of a reinsurance company are \$50,000 and minimum gross revenues are \$1.5M, except for the eR3 Plan™.

Flexible Ownership Requirements – The ownership can be anyone, including family members, enabling a tax-efficient transfer of wealth to younger generations.

Lower Set-up and Administrative Costs – The one-time set-up cost of a reinsurance company is \$7,500, premium ceding fee is a flat 17%, and annual administrative costs are 1.5% of the eR3 Plan's asset value.

No State Insurance Regulations – There is no US state oversight, fees, or taxes; the reinsurance company is established under sovereign tribal law.

No Premium Taxes – Participant pays zero annual premium taxes with our popular reinsurance model.

No Sharing of Risk with Others – Our model has zero 'sharing of risks' with other businesses [no risk 'pooling'].

Lower Premiums – Our unique reinsurance model requires a lower annual premium of \$50,000.

Partners and Structure

Q: Who does ARC use as a third-party insurance carrier and what is their role?

A: Alliance Reinsurance Company (ARC) platform partners with seasoned third-party insurance carriers with decades of service serving coast-to-coast clients. These third-party insurance carriers develop and issue policies (risk and premium) based on the risk assessment of respective businesses.

Flexibility and Duration

Q: Should I choose a Solo Roth 401(k) or a Roth IRA? How should I fund it?

A: Principles at Providence CPA Group and the Alliance Reinsurance Company (ARC) are seasoned CPAs, Attorneys, etc., and having studied both platforms, it is observed that the Solo Roth 401(k) has slightly better options/flexibility. Your remitted premium funds either the Solo Roth 401(k) or a Roth IRA through a professional industry-leading custodian.

Q: How long am I committed to ARC?

A: The participant can simply cancel their policy and/or cease remitting premium.

Keep in mind, one of the most common goals of ARC clients is to a) remit tax-advantaged premium; b) mitigate claims; c) protect assets and d) make investments. Clients have been with our legacy model for 10—15 years on average.

Risk Management and Coverage

Q: What risks will be covered with ARC? Am I replacing any of my current coverage?

A: Your enterprise risk will be identified/validated by a licensed, third-party Actuary using a formal Actuarial Assessment; relative enterprise risks make up the Insurance Policy. Generally, risks/policies within reinsurance platforms cover uninsured and under-insured risks and it is advisable to not cancel your commercial P&C policy [reinsurance-related risks typically augment your P&C policies; never duplicating coverages]. See image:

INSURED: [REDACTED]		Financial Services: Investment Advisor EXHIBIT 1				
INSURANCE PROGRAM						
SUMMARY OF PROJECTED ULTIMATE LIMITED LOSSES						
		50% Confidence Gross Basis	90% Confidence Gross Basis	Ultimate Indicated Premium Adverse Scenario	Policy Limits (Per Occurrence)	Deductibles (Per Occurrence)
		Projected Ultimate Limited Losses Expected Scenario (2)	Projected Ultimate Limited Losses Adverse Scenario (3)	(4)	(5)	(6)
(A)	ADMINISTRATIVE ACTIONS	11,250	22,500	33,962	500,000	-
(B)	CONTRACTUAL LIABILITY	4,500	9,000	13,585	500,000	-
(C)	CYBER RISK	6,750	13,500	20,377	500,000	-
(D)	DIRECTORS & OFFICERS LIABILITY	1,800	3,600	5,434	500,000	-
(E)	ERRORS & OMISSIONS - DIC	5,214	10,429	15,741	500,000	-
(F)	FIDUCIARY LIABILITY - DIC	900	1,800	2,717	500,000	-
(G)	LEGAL EXPENSE REIMBURSEMENT	6,000	12,000	18,113	500,000	-
(H)	LOSS OF KEY BUSINESS RELATIONSHIPS	7,500	15,000	22,641	500,000	-
(I)	LOSS OF KEY TALENT	2,700	5,400	8,151	500,000	-
(J)	REGULATORY CHANGES	13,500	27,000	40,754	500,000	-
(K)	REPUTATIONAL RISK	13,500	27,000	40,754	500,000	-
Total		73,614	147,229	222,229		
				Annual Revenues	1,500,000	
				Net Income	1,200,000	
				Industry	Financial services - investment advisor	

Risk Management and Coverage continued

Q: Does ARC use risk pooling?

A: No. The Alliance Reinsurance Company (ARC) platform does not pool risks. Your risks are not 'pooled' with other business leaders.

Regulatory and Tax Considerations

Q: I've heard the IRS is cracking down on micro-captives, is ARC subject to IRS scrutiny or potential audit?

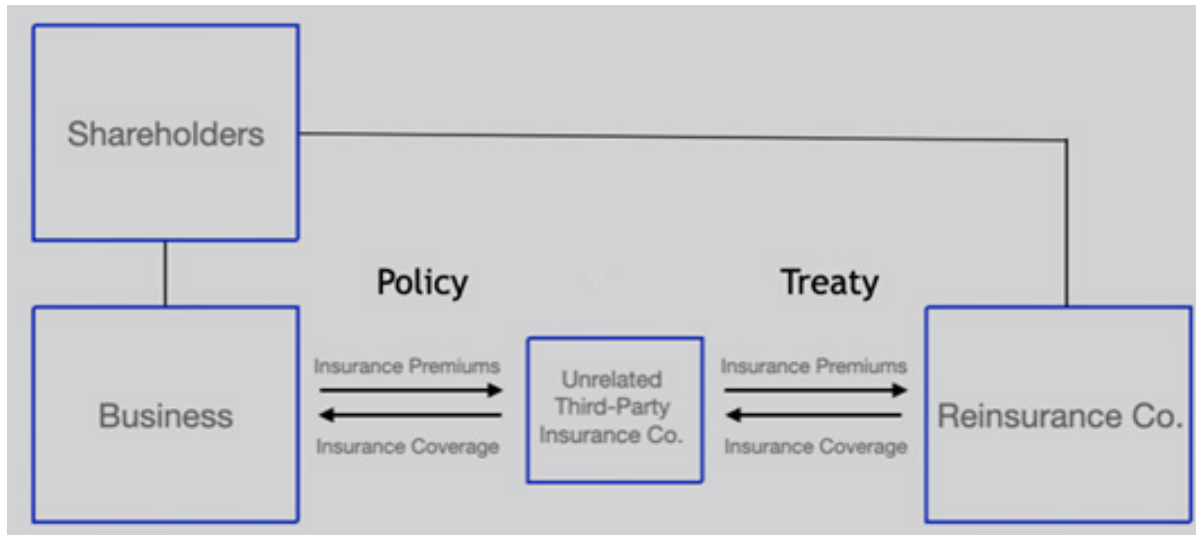
A: Alliance Reinsurance Company (ARC) recognizes there are many alternative risk management strategies to include, but not limited to, captive arrangements, micro arrangements and PORCs. ARC's research has found some models are better than others. It is our opinion, clients should avoid direct writes and parent-child models; clients should consider a model which does not use (or sparingly uses) the 831(b) election.

ARC prefers compliant, best-in-class PORC models. The IRS does audit and may tax/penalize the approximate 3% of abusive captive insurance arrangements formed outside of the US tax code, statutes and IRS guidelines; it seems this small percentage of 'abusers' receive most of the attention in search engine results.

Q: What is a PORC?

A: In a PORC (Producer Owned Reinsurance Company), an unrelated third-party Insurance Company issues a policy directly to the business for the deductible expense, then cedes the risk and premium to the PORC according to the reinsurance treaty in place. A PORC may reduce the cost for general liability, medical malpractice, auto liability, property, or other conventional insurance.

See image: **Best Practice Flow Model**



Q: How is the PORC taxed?

A: Statutory accounting determines that a reinsurance company is taxed on earned premium minus expenses such as claims, claims reserves, ceding fees, IBNR, etc. The reinsurance company is taxed on the investment earnings of the insurance company as a c-corp and files an 1120PC (earnings minus deductions).

Claims and Investments

Q: How are claims paid?

A: Filed claims are reviewed by the policy-issuing commercial insurance company who determines if the claim is payable against the policy details. Generally, the claim form receives a thorough review to approve or deny the claim, whereby the reinsurance company reimburses the insurance carrier via reinsurance treaty.

Q: How can the assets of the insurance company be invested?

A: One of the benefits of the ARC model is that tax-advantaged premium assets can be invested in any way the owner of the PORC desires to include offsetting CMA accounts, stocks, bonds, mutual funds, real estate, private loans (including related party loans at AFR), etc.

Premiums and Tax Filings

Q: Are premiums paid by the insured deductible on their books?

A: Yes. Policy premiums are treated no differently than other traditional Property & Casualty insurance companies (e.g., Century, Chubb, Progressive, State Farm, Geico...). Insureds pay a premium (defined by the policy) to protect their businesses; Premiums are an expense on the business' P&L.

Q: Who files the tax return for the PORC?

A: ARC's in-house and partnering CPAs/insurance tax experts prepare the cession statements, financials, and tax returns for your reinsurance company. We also take care of the annual reports and all domicile communications.

Terms / Glossary – Basic Principles of Insurance

Insurance: assumes an “insurance risk” which is a fortuitous risk not a speculative (investment) risk.

Insurance contact: is a contract that has risk transfer (from insured viewpoint) and risk distribution (from insurer viewpoint), meaning it is not some other kind of contract such as real estate, sales, finance, etc. Seventh Circuit: “Suppose we ask not “What is insurance?” but “Is there adequate reason to recharacterize this transaction?” given the norm that tax law respects both the form of the transaction and the form of the corporate structure... For whether a transaction possesses substance independent of tax questions is an issue of fact....” Sear Roebuck, No. 91-3038 (a).

Risk transfer: is from the perspective of the insured, did insured transfer an insurable risk to another party.

Risk distribution: is from the perspective of the insurance company and has no relevance to the insured's deductibility of premiums (See *Helvering v. Legierse* 1941 U.S. Supreme Court, see especially definition includes “Historically and commonly”). Distributing risk allows the insurer to reduce the possibility that a single costly claim will exceed the amount taken in as premiums and set aside for the payment of such claim. By assuming numerous relatively small risk, independent risks that occur over time, the insurer smoothes out losses to match more closely its receipts of premiums (*Clougherty Packing v. Commissioner* (9th Cir.1987); *Humana* (6th Cir. 1989). *Beech Aircraft Corp. v. United States* (10th Cir. 1986, (risk distribution” means “that the party assuming the risk distributes his potential liability, in part, among others”). Said more simply, risk distribution is determined to have occurred if the premiums attributable to a certain risk exposure doesn't substantially pay for the claim on that risk exposure.

Insurance company: is a company in which more than 50% of its business is the business of insurance... “it is the character of the business actually done in the taxable year, which determines whether a company is taxable as an insurance company under the Code.”

In *Helvering v. LeGierse* the Court: “We think the fair import of subsection (g) is that the amounts must be received as the result of a transaction which involved an actual “insurance risk”; at the time the transaction was executed. Historically and commonly insurance involves risk-shifting and risk distributing” which is also repeated in *Americo v. Commissioner*, 1992 Ninth Circuit.

Additionally in the same case: “That these elements of risk-shifting and risk-distributing are essential to a (life) insurance contract is agreed by courts and commentators”

The simple synopsis is there are only two attributes to a contract of insurance as denoted above. That the IRS has asserted a third attribute called “insurance in its commonly accepted sense” is not a new attribute but part of the same definition as used in this case is limited to the last line “Historically and commonly insurance involves risk-shifting and risk-distribution” is the definition of insurance not an additional attribute requirement. The IRS has been misquoting the case for the last few years in order to assert a regulatory authority over the “business of insurance” which it is specifically forbade from doing in the *McCarren-Ferguson Act* “that the continued regulation and taxation by the several States of the business of insurance is in the public interest, and that silence on the part of Congress shall not be construed to impose any barrier to the regulation or taxation of such business by the several states” It stated that from then on, “no Act of Congress shall be construed to invalidate, impair, or supersede any law enacted by any state for the purpose of regulating the business of insurance or which imposes a fee or tax upon such business, unless such Act specifically relates to the business of insurance.” The IRS is not Congress and has no authority over the business of insurance, only the taxation of an insurance company (i.e. on the GAAP side of the M-1 Adjustment on the 1120 PC tax form).