

Morgan Stanley



**The Old Pueblo Group
at Morgan Stanley**

The Captive Insurance Client

A unique opportunity as allowed under IRC 831(a) and 831(b)

Captive Insurance is a risk management tool that allows a business to establish its own insurance company to finance retained losses in a formal structure. The captive is primarily supplied by and controlled by its owners, which are also normally the principal insureds. Originally established in the early 1950's as a means to help businesses of all sizes properly manage their risks, Captives have continually evolved as comprehensive risk

mitigation tools used by most Fortune 1000 organizations.¹ While a handful of global risk management providers have historically dominated the market, they tend to work primarily with large, publicly held corporations. However, The Old Pueblo Group at Morgan Stanley offers the same robust asset management and custodial services typically found with large insurers to small business owners.

Financial Benefits of Captive Insurance

Ability to Self-Insure

The core concept of Captive Insurance is the ability of business owners to self insure against risks associated with the business. This is done through the creation of a Captive Insurance company which exists to pool and diversify risks associated with the business, while at the same time allocating current dollars for future liabilities. Additionally, the business owner may be able to add coverages that are otherwise unavailable or which are prohibitively expensive if purchased on the open markets. The business owner may also be able to use a captive as a tool to leverage insurance brokers into offering commercial coverages at lower rates as those risks are transferred to the owners Captive Insurance company.

Deductible Premiums

Captive Insurance companies can also offer income tax savings. By allowing the business owner to reserve for future claims on a pre-tax basis, premiums paid are thus considered a deductible expense to the business. The use of the Captive Insurance company essentially creates a tax deduction to the operating entity that would otherwise would have been unavailable. Starting in 2017 Captive Insurance companies that elect 831(b) status can accept up to \$2.2million a year in insurance premiums on a tax-exempt basis indexed to the CPI. If the risks that are insured never materialize, the captive insurance company makes an underwriting profit and the operating business keeps its deduction.

Tax Efficient Withdrawals

Withdrawals from your account for other types of expenses beyond insurance claims are allowed. While those distributions will be taxed, the rate on those dividends can be significantly less than ordinary income tax rates. These types of withdrawals would be treated as a qualified dividend, and taxed at the long-term capital gains rate of 20% for high-income individuals. With the 3.8% Medicare surtax added, the effective tax rate on the withdrawn funds is 23.8%. In contrast, without using a captive insurance strategy, you're likely facing a combined 37-50% tax rate with your federal and state taxes on those funds. You're potentially decreasing your taxes by up to 50% when you deposit the funds into your captive insurance account making it a tax-efficient strategy.



Asset Investment Utilizing Professional Advisory Services

Correctly managing Captive Insurance accounts are a challenge. Their complex structure, capitalization requirements, liquidity needs, tax treatment as well as their ability to generate considerable growth for the owner all

require unique strategies to meet these multiple mandates. The Old Pueblo Group's experience in this area can assist you in helping you ensure you Captive Insurance Company is compliant while maximizing its structure for your business.

The characteristics of Captive Insurance require unique strategies to meet these mandates:

Insurance

Captive Insurance accounts must first and foremost be considered and utilized as a risk mitigation tool for your business. In order to properly engage and meet the requirements of use, risk must be identified, premiums must be deposited and claims must be periodically made. Further the risk must be shared and pooled. Our experience and understanding in this area allows us to work seamlessly with your Captive Insurance manager as you work to ensure all regulatory requirements are met and your company remains in good standing. Risk examples: reputation, litigation, spoilage, warranty claims, reworks, deductible risk and much more.

Liquidity

Due to their nature of being required to fund payments associated with claims made, Captive Insurance accounts must maintain a proper level of liquidity relative to the dollars that are 'at risk.' Claims made against an owners Captive Insurance company generally lie at the discretion of the owner. However, in order to maintain proper insurance standards, liquidity requirements must be adhered to in order to meet regulatory oversight. By maintaining proper liquidity, the company always maintains adequate funds necessary to meet demands while meeting the requirements of being an insurance company.

Investments

Captive Insurance companies are allowed to invest premium assets into an appropriate risk strategy for long term growth. However, there are restrictions depending on the domicile that the company is formed and those requirements must be maintained at all times. Your Captive Insurance manager needs to ensure that all recommendations are in full accordance with these requirements and are acceptable to the Regulator. Depending on the objectives, most traditional investments are appropriate for these accounts as long as the strategy reflects the needs of an Insurance Company. We can help in selecting these investments.

Creating Your Insurance Company

Three Primary Stakeholders	<ul style="list-style-type: none">• The Business Owner• Captive Administrator or Captive Manager• Account Custodian or Investment Advisor
Establishing the Need	<ul style="list-style-type: none">• Business owner hires Captive Administrator• Administrator recommends and select actuary to objective asses business risk via feasibility study• Actuary review business operations, current insurance policies and determines risk associated with business
Creates the Insurance Company	<ul style="list-style-type: none">• Business owner decides on which risks to insure• Administrator determines policy limits and subsequent premiums for each coverage• Administrator establishes and creates the legal entity
Establishes the Account	<ul style="list-style-type: none">• Investment Advisor opens the accounts• Reviews applicable investment restrictions/guidelines• Determines business owners risk tolerance and expectations and determines appropriate strategy
Funding the Captive Insurance	<ul style="list-style-type: none">• Business owner makes premiums into the company• Administrator tracks premiums and claims• Investment Advisor invests premiums, maintains liquidity and meets cash flow requests by owner.

The Old Pueblo Group: A Focus on Captive Insurance Clients

The Old Pueblo Group has been working with Captive Insurance companies and their owners for over a decade. During that time, we have developed a full understanding of the complexities associated with Captive Insurance and, as a result, have helped guide our clients with the resources necessary to create, establish, and manage this important risk mitigation tool. Our clients need to ensure their investments are fully compliant with state and federal regulators while still meeting all the mandates of a Captive Insurance company. Our experience and understanding providing asset management and custodial services for this structure can be a useful resource for clients.

We advise to a myriad of entities including medical practitioners and facilities, manufacturing, warranty programs, construction, commercial, retail products, engineering, franchises and more. It is our understanding of the requirements of Captive Insurance investments that we believe makes our service a value add in the industry. Our team has been instrumental in effecting policy change at our firm by being at the tip of the spear of this ever evolving area. Our direct hands-on experience working with numerous insurance companies and management entities across the country has helped strengthen our ability to serve clients and increase our presence nationwide. We also have an understanding of the risks involved, as well as the expectations and legal requirements that the various domiciles place on these relationships. Currently, our team advises on Captive Insurance relationships that domicile their programs in over 9 states, 2 Tribal Nations and 6 countries and co-advise fellow Morgan Stanley advisor teams nationally.

Captive Insurance Services From a Global Leader

When you align your account with The Old Pueblo Group, you gain access to a comprehensive and expansive investment strategies from a leader in financial services. Our global presence and deep understanding of the financial markets bring you distinctive opportunities. Whether you are seeking simple financial strategies or the most sophisticated types of investment advice, our team serves as a gateway to the strength and resources of our firm.

TOP PROVIDER OF INVESTMENT CONSULTING

Morgan Stanley's Consulting Group, the investment advisory arm of Morgan Stanley Wealth Management, has a long tradition of consulting advice and services. Through our attention to client objectives, we have earned a distinguished reputation as a leading provider on investment advisory services. Our investment programs are designed to help you build your wealth, while creating lasting legacies for your families, and our forward-looking advisory products and services are supported by industry leading analysis, asset allocation advice and innovation.

COMPREHENSIVE PROCESS FOR MANAGER ANALYSIS

Our manager analysis professionals analyze and vet more than 1,300 investment strategies from over 300 investment firms, our Global Investment Manager Analysis Group ("GIMA") is one of the most rigorous money manager analysis teams in the industry today and considered a significant strength to our organization.

EXPERIENCED AND INSIGHTFUL INVESTMENT ADVICE

Our Global Investment Committee (GIC), a highly regarded group of individuals dedicated to supporting the interactions between our team and you, generates thought leadership on investing themes around the world. The GIC consists of senior professionals and noted authorities from within and outside of our firm, who guide Morgan Stanley's market outlook, maintain the firm's model portfolios, and provide advice on asset allocation and opportunistic investments for dozens of asset classes.

ALTERNATIVE INVESTMENTS

The Morgan Stanley Alternative Investments Group offers an array of proprietary and third-party alternative investment strategies to complement traditional investment portfolios. Alternative investments are offered only to qualified investors. A Client's eligibility to purchase alternative investments is typically based on the client's net worth.

EXTENSIVE PLATFORM OF INVESTMENT OFFERINGS

As a client you will have access to a suite of professionally managed programs, which may include among other things, mutual funds and exchange traded funds, equities, fixed income and select option strategies. With your objectives in mind, The Old Pueblo Group leverages the global resources of Morgan Stanley to determine appropriate investments to implement based on your Captives strategy and investment objective.

CUTTING-EDGE WEALTH PLANNING TOOLS

Our team has access to a sophisticated suite of tools to create a realistic, holistic strategy that integrates the various aspects of your financial life, including investments and cash management needs. Our team works with you to:

- Define your financial Goals
- Review your current financial picture
- Design a customized strategy

The Old Pueblo Group at Morgan Stanley

Quality research coupled with strategic investment methodologies comprises the genetic makeup of our comprehensive advisory services. By working closely with affluent business professionals and institutional clients over the course of our careers, we have focused on tax-efficiency and risk mitigation strategies that are made available to Captive Insurance companies and their beneficiaries.

With a Certified Financial Planner®, highly tenured Portfolio Managers, with significant Insurance and planning backgrounds, Geoffrey Miller, Scooter Grubb, George Herget and Fernando Arreola believe that the highest ethical standards are at the very foundation of the service we provide. We strive to create a practice where our clients remain with us because of our values, empathic personal service and quantitative investment planning. Over the years, we have built meaningful, family-like relationships by being thoughtful, genuine and professional.

Today, new clients are turning to us for the same reasons. Like our clients who have been with us from the start of our Group, our newest clients rely on our investment and real-world experience, which has been both acquired locally and internationally. It is that experience coupled with industry-leading certifications which enable us to relate to each client's unique needs. Whether they are families who have always lived in Tucson or executives who have lived abroad, the scope of our knowledge and background provide incredible insight and understanding of the world around for the benefit of our clients.

The Values We Live By:

- **Integrity:** Adhering to the highest ethical standards
- **Communication:** Listening closely to you, and being clear, authentic and straightforward
- **Trust:** Developing our relationship with you by being accountable, accessible and responsive
- **Knowledge:** A fundamental belief that acquiring and utilizing knowledge is a lifelong process that never ceases.

MEET THE PROFESSIONALS



Geoffrey J. Miller, CFP®
*Senior Portfolio Management Director
Senior Vice President
Financial Advisor*

Geoffrey Miller, a Tucson native, began his career with Smith Barney in 2006 and is one of the original founders of The Old Pueblo Group.

As a Certified Financial Planner[®], Geoffrey enjoys creating and implementing personalized financial plans, portfolio management, and asset allocation strategies for individual clients. In addition, he has vast experience in consulting, investment planning, and risk management for institutional clients. Geoff is a problem-solver and trusted advisor for his clients.

Geoffrey is a graduate of the United States Naval Academy in Annapolis, MD. Prior to his advisory career, Geoffrey served with distinction as a Surface Warfare Officer in the United States Navy for over 5 years.

Outside of work, Geoffrey coaches youth sports, a leader with Boy Scouts of America, and is a member of various organizations, including the Arizona Captive Insurance Association, and the Southern Arizona Naval Academy Alumni Association. His hobbies include flying, boating, golfing, and motorcycles with his wife, Meghan and two boys.



Lewis 'Scooter' Grubb
*Senior Portfolio Manager
First Vice President
Financial Advisor*

Having begun his career in investment services in 1983, Lewis "Scooter" Grubb brings over 35 years of industry experience as a Senior Portfolio Manager for The Old Pueblo Group. Scooter manages discretionary portfolios under Morgan Stanley's Portfolio Management program. He focuses on stock trend analysis by identifying supply and demand opportunities within stock price movement to provide custom portfolio strategies to our clients where appropriate. One that focuses on risk mitigation that seeks enhanced returns over market cycles.

Originally from Ohio, he attended West Virginia Wesleyan College, and eventually settled down in Tucson in 1981 and started his financial career a few years later.

Outside of Morgan Stanley, Scooter is a globally renowned and published photographer and is an institution around the Bonneville Salt Flats motorcycle time trials. He is an avid Harley Davidson enthusiast who travels the country often in order to spend time with his large extended family and friends. He lives with his wife Carol, their three horses, and two dogs.

MEET THE PROFESSIONALS



George Herget, Jr.

*Vice President
Financial Advisor*

George, originally from Aurora, Colorado, graduated from the University of Arizona with a Bachelor's of Science in Agriculture with a focus on Agricultural Economics. While excelling in school, George also competed as a member of the Men's Gymnastics team.

George started his 33 year career in finance as a Life Insurance agent, and eventually transitioned into a Financial Advisor. His focus and experience has been centered around insurance, retirement and estate planning strategies while also considering himself a student of the markets.

George has many passions outside the office which includes golf, fly fishing, and trap shooting. He is an avid cyclist having competed in various endurance competitions throughout the southwest. However, it is his affection for horses that captures his heart most. George is the current President and Founding member of Southern Arizona Mounted Search and Rescue directly helping the community through his horsemanship.

He and his wife Beth have been married over 30 years, have 2 children, and 2 grandchildren.



Fernando A. Arreola

*Financial Planning Specialist
Financial Advisor*

Fernando Arreola joined Morgan Stanley in 2016, and The Old Pueblo Group in 2019 as a Financial Advisor where he assists the team and their clients in finding solutions to their wealth management needs through financial planning. As the Financial Planning Specialist on the team, Fernando has developed a passion for comprehensive financial planning, stock analysis, and portfolio risk mitigation. Fernando's thorough planning process allows him to develop, implement, and monitor a tailored investment solution for his client's unique needs.

Fernando received his Bachelor of Arts Degree in Economics from Michigan State University. He was born in Hermosillo, Sonora, Mexico and has lived abroad in Japan and the United Kingdom, which developed his love of travel from an early age.

In his leisure time, Fernando can be found on the golf course or spending time with his family, and his German shepherd, Lobo. He is an avid reader, and particularly enjoys non-fiction books on investing and biographies.

MEET THE PROFESSIONALS



Kristine Newman

Senior Registered Associate

Kristine Newman began her career in financial services as a bank teller and later as a customer service representative with Discover over a decade ago. With a passion for client service, she has led others in training for national new accounts procedures and practices as well as account surveillance for fraud. Kristine was designated an elite representative supporting some of the top Financial Advisors nationally.

Kristine became a Client Service Associate in 2013 and joined The Old Pueblo Group in 2015. She leverages her experience and licenses (Series 7 and 63) to effectively serve clients, which is what she enjoys most about her role.

Originally from Salt Lake City, Utah, Kristine now resides in Tucson with her husband, Chris, their two sons, and several dogs. When not assisting clients with a variety of matters, Kristine enjoys cycling with her husband, as well as being highly involved with physical training. She currently teaches various fitness classes as a Certified Fitness Instructor.



Rosa A. Reyna

Portfolio Associate

Rosa, a Tucson native, has over three decades of banking and financial service experience. She started her career with Valley National Bank (now J.P. Morgan Chase) working with a vast array of banking services and clients including commercial lending and debt management. As she is fluent in Spanish, Rosa transitioned to serve international private clients.

She joined Morgan Stanley in 2017 to further her professional growth as a Senior Registered Associate and has been with The Old Pueblo Group since 2019. Rosa manages the operations of the team and her experiences in both domestic and international relationships has been instrumental in improving client services while implementing processes to improve team functionality.

Rosa graduated from the University of Phoenix, and in her spare time enjoys dancing, reading and nature in Tucson. She loves spending time with her two sons, daughter, and three grandsons. Rosa volunteers her free time to various charities including serving as a volunteer for Habitat for Humanity, and helping at the Community Food Bank.

***“Our mission is to serve
our clients as their
Trusted Advisors”***

When you align with Morgan Stanley, you gain access to comprehensive and expansive investment strategies from a world-class leader in financial services. Our global presence and deep understanding of the financial markets offer you many opportunities you won't be able to find anywhere else.

Whether you're seeking simple financial strategies or the most sophisticated types of investments or advice, we leverage the strength and resources of our firm to customize solutions specific to your situation and personal financial goals.

¹ "3 Ways Captive Insurance Improves your Company's Financial Well-Being" Forbes, 2017

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Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. Alternative investments are appropriate only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period of time. They may be highly illiquid and can engage in leverage and other speculative practices that may increase the volatility and risk of loss. Alternative Investments typically have higher fees than traditional investments. Investors should carefully review and consider potential risks before investing.

The individuals mentioned as the Portfolio Management Team are Financial Advisors with Morgan Stanley participating in the Morgan Stanley Portfolio Management program. The Portfolio Management program is an investment advisory program in which the client's Financial Advisor invests the client's assets on a discretionary basis in a range of securities. The Portfolio Management program is described in the applicable Morgan Stanley ADV Part 2, available at www.morganstanley.com/ADV or from your Financial Advisor.

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