

Special Education Cost Model Task Force

Proposal from Aon Risk Consultants Inc. to Study the Feasibility of the
Use of a Captive Insurance Entity Related to Unpredictable Special
Education Costs

October 10, 2018

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Cara Hart
Cooperative Purchasing Manager
Capitol Region Education Council
111 Charter Oak Avenue
Hartford, CT 06106

Dear Ms. Hart,

Thank you for allowing Aon the opportunity to participate in your search for a business partner to deliver Captive Feasibility Services to the Special Education Cost Model Task Force ("Task Force"). Our response is intended to demonstrate our commitment to providing quality, fee-efficient, and timely services. More importantly, we hope it demonstrates our dedication to the Task Force. Attached please find our response to your Request for Proposal.

Aon's captive and insurance management teams are one of the world's leading captive and insurance management service provider with more than 500 insurance experts with access to more resources and knowledge than any other captive manager. Overall, our resources allow us to provide superior results at great value.

Aon's Risk Finance and Captive Consulting practice is dedicated to helping each of our clients achieve the optimal risk financing structure to meet their profile and objectives. This can include reducing total cost of risk, decreasing volatility, enhancing return on capital, or increasing operational efficiency.

Aon's tried and tested process for captive feasibility studies is intended to establish the Task Force's viable options for financing retained risk. The final deliverable for the captive feasibility study will include our suggestions for the optimal program structure, as well as pro forma financial statements for the recommended captive program.

Aon is an industry leader in the analysis, formation, and strategic management of captive insurance companies. We are committed to bringing the best captive analytics resources and talents to our clients to provide quality, fee-efficient, and timely services. We have extensive resources at our fingertips allowing us to provide the greatest value, best talent, and superior results. Thank you for the opportunity to present our proposal for services to you. We look forward to discussing this matter with you in due course.

Please let us know if we can assist in any way as you work through the selection process. Thanks again, for thinking of us and for the opportunity to partner with the Task Force.

Sincerely,



Elizabeth C. Steinman, CPA, ARM, CPCU, ACI
Managing Director

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Introduction

Aon's Risk Finance & Captive Consulting team ("Aon" or "RFCC"), part of Aon's Commercial Risk Solutions, appreciates the opportunity to respond to the Request for Proposals from the Special Education Cost Model Task Force ("Task Force").

We are pleased to confirm Aon's qualifications to provide the Task Force and the wider Connecticut municipalities and schools with a comprehensive plan for the implementation of a captive insurance company that will achieve fiscal stability for the funding of special education services while still maintaining current state funding levels. We look forward to sharing with you, both through this written response as well as in person, the reasons, why we feel Aon is best suited to provide the resources and services required by the Task Force.

Aon Insurance Managers (USA), Inc. is licensed with the Connecticut Insurance Department to provide captive management and feasibility services. We have completed over 400 captive feasibility studies, captive utilization reviews, and captive consulting projects over the past 5 years. Specifically, we completed 35 captive feasibility studies over the past 12 months.

Aon Insurance Managers (USA), Inc. has 13 Education/Public Sector captives under management writing a combined \$340 million in annual premium.

Seamlessly working together with and synthesizing expertise, RFCC works our clients to meet their unique needs, assisting them with their insurance buying decisions, optimizing the balance of risk transfer, and retention financing through comprehensive valuation and comparative analysis. This maximizes costs savings, enhances capital returns, and increases operational efficiency while ensuring more coverage alignment.

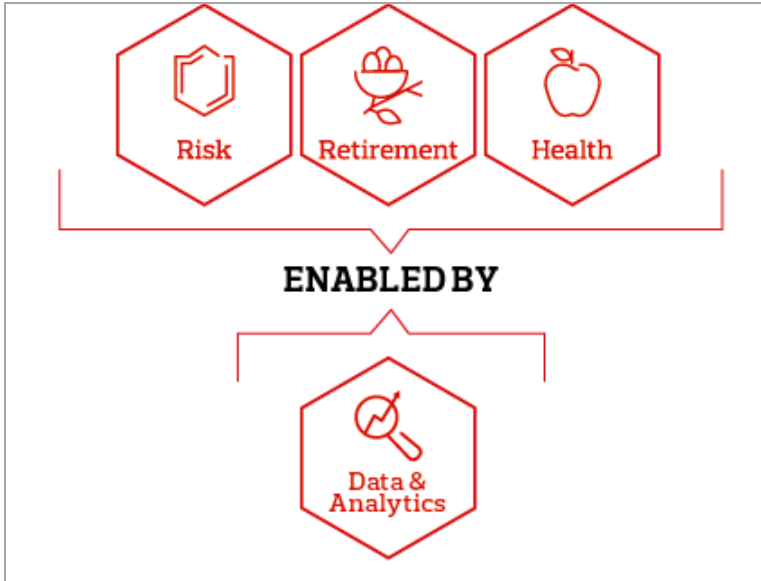
About Aon

Aon plc (NYSE: AON) is a leading global professional services firm providing a broad range of risk, retirement, and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

Aon is committed to creating a diverse, inclusive and collaborative workplace culture—one where colleagues feel empowered to unleash their full potential while expanding client and community impact and enabling business growth. We believe diversity drives insight, and that by giving the top talent seats at our table, we will produce the best outcome for clients.

Aon is committed to the principles of affirmative action. Each year, the Company develops and implements affirmative action programs at each of its facilities. These action plans are designed to ensure equal opportunity and to promote the employment and advancement of women, minorities, persons with disabilities and qualified covered veterans in accordance with our obligations as a contractor to the United States federal government and State and local governments.

Further information on Aon's Equal Employment Opportunity Policy is available at <http://www.aon.com/about-aon/attachments/equal-employment-opportunity-policy.pdf>



One Portfolio of Solutions

supported by
ONE OPERATING MODEL

Commercial Risk Solutions

- #1 primary insurance brokerage
- +\$60B bound premium annually
- +90% average retention

Reinsurance Solutions

- #1 treaty and facultative brokerage
- +\$30B bound premium annually
- 27 consecutive quarters net new business in core treaty

Retirement Solutions

- \$3.37B Global Assets Under Advisement ²
- Approximately \$136B assets under management, across global affiliates³
- Valuing over \$1T in liabilities across all industries⁴

Health Solutions

- #1 provider of health exchange solutions
- Leading provider of global health & benefits
- \$180B in premium and equivalents placed globally

Data & Analytic Services

- \$400M annual investment in data and analytics
- Approximately \$200B bound premium through Aon Inpoint platform
- +30M individual customers from +200 organizations served by Aon Affinity

Further information on Aon is available at www.aon.com

Scope of Work

Methodology

Aon's feasibility study methodology for the Task Force is designed to result in specific recommendations, as well as to identify appropriate options and issues for consideration.

Aon will approach this study on a systematic, phased basis (outlined in greater detail below):

- **Step I – Feasibility Study** - Defining Business Objectives, Information Gathering, and Assessing Cost Models
- **Step II – Stakeholder Input**
- **Step III – Recommendations for Operations – Recommendations for Operations**

Step I – Feasibility Study - Defining Business Objectives, Information Gathering, and Assessing Cost Models

During the feasibility phase, the actuarial analysis developed by the Goldenson Center for Actuarial Research at the University of Connecticut will be reviewed by Aon's Actuarial & Analytics team to determine:

- How the municipalities' contributions are calculated on an annual basis;
- The process by which municipalities would be reimbursed for special education costs incurred throughout the fiscal year; and
- How a municipality's experience in a given fiscal year would affect its required contribution in the subsequent fiscal year.

Aon will prepare 5-year pro-forma financial statements for the captive structure incorporating likely premium, loss forecasts, expense budget, initial capitalization and assumptions. These statements will be presented on an expected and adverse scenario basis and will:

- Provide a recommendation for appropriate capital levels to support the exposures as determined by the cost models;
- Determine the initial capital funding levels to support the exposures as determined by the cost models; and
- Identify suitable sources to fund the initial capital requirement.

Step I Output

- Development of the criteria by which the feasibility of a captive can be evaluated;
- Development of the process by which municipalities current and future contributions, and reimbursements are calculated;
- Determination of an agreement regarding feasibility study project parameters to meet all stakeholder requirements;
- Assessment of the cost cooperative models;

Step II – Stakeholder Input

This step will be facilitated during an initial meeting with the Task Force which will be attended in person by the Aon project team. In addition, Aon will attend up to six focus group meetings with the Regional Education Service Center areas and one focus group meeting with teachers.

This step will serve the purpose of:

- Gathering information pertinent to the project requirements;
- Planning project reporting requirements; and
- Discussions with various stakeholders on the financing of special education in Connecticut to:
 - Understand the overall needs of the stakeholders;
 - Discuss the proposed funding models as an alternate to the current funding mechanisms;
 - Discuss operational requirements specific to municipalities, school districts and individual students requirements;
 - Discuss financial implications and other concerns to municipalities, school districts and students with disabilities; and
 - Discuss the benefits and associated costs of the proposed models and receive comments, suggestions and concerns from the stakeholders.

Step II – Output

- Summary of each meeting with the focus groups will be provided to the Task Force.

Step III – Recommendations for Operations

Once the optimal level of expected retained loss costs have been determined, Aon will work with the Task Force to establish the most efficient captive structure to fund the retained risks. This will include an appreciation of the legal structure and capital funding to start the captive. We will then review the financial and strategic benefits of financing these costs within a captive structure.

The captive structure will be evaluated against the performance criteria and cost model analysis established in Step I – Feasibility Study, utilizing the feedback from Step II – Stakeholder Input. This final evaluation will include:

- **Ownership Structure:** potential ownership structures will be compared in terms of their effectiveness in reaching the risk management objectives of the Task Force, as well as their financial efficiencies. Aon will consider multiple captive structural options and the ramifications of these arrangements, including: legal structure, capital funding, and entry and exit strategies.
- **Domicile Selection:** determining which captive domicile is the most advantageous for the Task Force given the Task Force's role in special education needs in Connecticut. We will focus on Connecticut as a potential domicile for the captive.
- **Regulatory Requirements of Insurance Transactions:** assessing the requirements for admitted policies and the potential cost and collateral implications of employing a fronting company for a reinsurance structure, if any.
- **Operational Assessment:** assessing the operational requirements for Regional Educational Service Centers, municipalities and schools to participate in the captive and how premiums and losses would be collected and paid out.
- **Financial Modeling:** Aon will prepare 5-year pro-forma financial statements for the captive structure incorporating likely premium, loss forecasts, expense budget, initial capitalization and assumptions.

Step III – Output

- An evaluation of the optimal structure and potential domicile (i.e. Connecticut) for the captive, including:

Timeline for Services

Activity	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12	Week 13	Week 14	Week 15	Week 16	Week 17
Date	8-Oct	15-Oct	22-Oct	29-Oct	5-Nov	12-Nov	19-Nov	26-Nov	3-Dec	10-Dec	17-Dec	24-Dec	31-Dec	7-Jan	14-Jan	21-Jan	28-Jan
Decision to Appoint Aon	█																
Step I - Feasibility Study																	
Data Delivery	█							█									
Data Review		█	█	█	█												
Review of Cost Models		█	█	█	█	█	█	█	█								
Step I Outputs									█	█							
Step II - Stakeholder Input																	
Meetings with Task Force, RESC's & Teachers		█	█	█	█	█	█	█									
Step II Outputs									█	█							
Step III - Recommendations for Operations																	
Structural Analysis		█	█	█	█	█	█	█	█								
Financial Statements & Supporting Analysis								█	█	█							
Prepare Draft Captive Feasibility Report & Recommendations										█							
Present Draft Captive Feasibility Report & Recommendations											█						
Feedback and Editing of Final Report											█	█	█				
Final Captive Feasibility Report														█			
CT General Assembly Session begins														█	→		

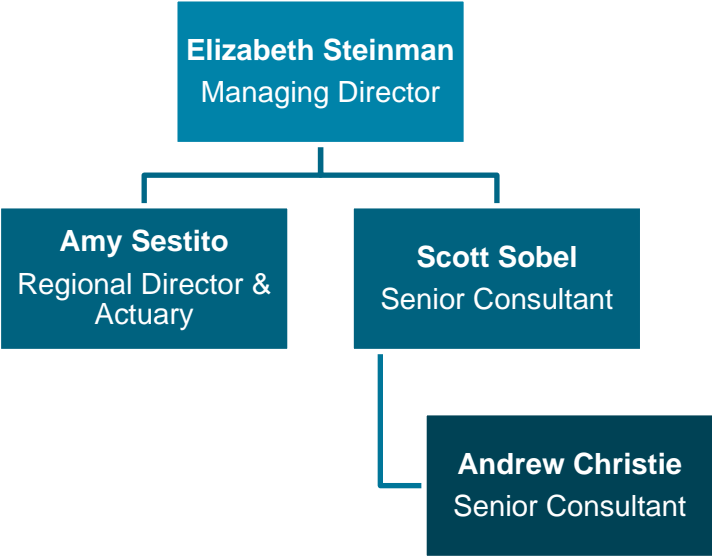
█ Activities by Aon
█ Activities by Task Force
█ Key Deliverables

Organizational Chart

This is the global Aon plc organizational chart as it relates to Captive Consulting.



This is the structure of the Aon Risk Finance & Captive Consulting team and Actuarial & Analytics.



Resume of Principals

We have summarized the qualifications and role of the main team who will be assigned to the Task Force study.

Contact Name	Scott Sobel
Title	Senior Consultant
Mailing Address	One Liberty Plaza, 165 Broadway, New York, NY 10006
Telephone Number	+1.212.441.1622
E-Mail Address	scott.sobel@aon.com
Role	Scott will be the lead consultant for the study and will be your primary point of contact.

Contact Name	Andrew Christie
Title	Senior Consultant
Mailing Address	One Liberty Plaza, 165 Broadway, New York, NY 10006
Telephone Number	+1.212.479.3226
E-Mail Address	andrew.christie@aon.com
Role	Andy will support Scott during the study.

Contact Name	Amy Sestito
Title	Regional Director & Actuary
Mailing Address	1650 Market Street, Philadelphia, PA 19103
Telephone Number	+1.215.255.1719
E-Mail Address	amy.sestito@aon.com
Role	Amy will lead the actuarial analysis team for the study.

Contact Name	Elizabeth Steinman
Title	Managing Director
Mailing Address	One Liberty Plaza, 165 Broadway, New York, NY 10006
Telephone Number	+1.212.441.1364
E-Mail Address	elizabeth.steinman1@aon.com
Role	Liz will provide review and overall guidance for the study

Scott Sobel

Senior Consultant | Global Risk Consulting | Risk Finance & Captive Consulting

Commercial Risk Solutions
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Scott.Sobel@aon.com



Responsibilities

Scott is a Senior Risk Consultant within Aon's Risk Finance and Captive Consulting team. In this role he is responsible for consulting with clients to evaluate and develop unique solutions using alternative financing methods either in conjunction with or distinct from traditional insurance markets.

Experience

Prior to joining Aon in 2018, Scott Sobel served as Managing Director at Link Reinsurance where he sourced and structured collateralized reinsurance and Insurance-Linked Securities (ILS) transactions, working with leading global insurers and reinsurers, brokers, and institutional investment managers. Earlier Scott served as Managing Director for a captive manager where his responsibilities included developing client relationships, determining feasibility, forming, and managing captive insurance programs for commercial enterprises. He has over 15 years of broad industry experience along with prior career success as a credit analyst with Dun & Bradstreet, regional manager with Thomson Reuters, and member of executive team that built and then sold Clicker Corp to Duchossois Industries.

Expertise

Scott's expertise includes: Captive Insurance, Risk Finance, Insurance-Linked Securities (ILS), Reinsurance, Risk Consulting & Management, Market Development, Client Relations, Program Management, and Alternative Risk Transfer programs.

Education

Scott Sobel earned a B.A degree from The University of Arizona in 1989.

Andrew Christie

Senior Consultant | Global Risk Consulting | Risk Finance & Captive Consulting

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Andrew.christie@aon.com



Responsibilities

Andrew is a Senior Consultant in the Risk Finance & Captive Consulting (RFCC) team based in New York, NY. RFCC focuses on consulting with clients to evaluate and develop unique solutions using alternative financing methods either in conjunction with or distinct from traditional insurance markets.

Andrew joined the New York team in January 2016 from Aon Insurance Managers (Cayman) Ltd. where he was a Senior Manager on a portfolio of captive insurance companies.

Experience

Andrew has 8 years' experience in the insurance field and specializes in the following disciplines:

Captive consulting – Working closely with corporate risk managers, Andrew evaluates the financial and strategic benefits of utilizing a captive insurance company, tailored to specific client profiles. The RFCC team has extensive experience working with all major captive domiciles worldwide, both onshore and offshore.

Captive operations – Drawing on experience from his former role as a captive manager and relationship point, Andrew advises on regulatory, audit, tax and other operational considerations of forming and operating a captive insurance company.

Insurance program design – Andrew analyzes corporate clients' insurance requirements against market capacity, drawing on Aon's market expertise as appropriate, and proposes the optimal insurance program structure.

Education

Honors degree in Business, Accounting and Finance from the University of Newcastle, England

Chartered Accountant with ICAEW

Associate of General Insurance

Amy Sestito, FCAS, MAAA

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amy.sestito@aon.com



Responsibilities

Amy is responsible for managing the Northeast Region of the U.S. Actuarial & Analytics Practice. Amy and her team provide actuarial support in all aspects of analyzing and managing clients' total cost of risk. She also manages numerous actuarial projects in a variety of industries and geographies.

Amy's areas of expertise include loss reserving and forecasting analyses, stochastic modeling, retention analyses, allocation models, and feasibility studies for various self-insurance programs and captive insurance companies.

Experience

Amy has more than 20 years of insurance industry experience and has been with Aon for 14 years. Prior to her experience at Aon, Amy worked for CIGNA Property & Casualty and ACE INA.

Education

B.A. from Illinois Wesleyan University, with majors in Mathematics and Risk Management.

Elizabeth Steinman, CPA, ARM, CPCU

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Responsibilities

Elizabeth Steinman is the Managing Director of the Risk Finance & Captive Consulting (RFCC) practice. RFCC focuses on consulting with clients to evaluate and develop unique solutions using alternative financing methods either in conjunction with or distinct from traditional insurance markets. Elizabeth joined Aon in 2016.

Experience

Elizabeth has over 25 years of experience in the alternative risk insurance industry.

Elizabeth has extensive experience both as a buyer and provider of risk management services, joining Aon directly from the Archdiocese of New York where she was the Director of Risk Management and Insurance. Prior to her risk management role Liz established the captive and insurance management operations in the US for HSBC and provided captive consulting and management services to its clients. In her early career, Liz was an account manager for captive insurance companies, a risk financing underwriter for a large insurance company and an audit & tax manager at a “big 4” accounting firm specializing in insurance, reinsurance and alternative risk structures.

Education

Elizabeth has a Bachelor’s degree in Accounting and has earned the Chartered Property and Casualty Underwriter (CPCU) and Associate in Risk Management (ARM) designations. She is a Vermont licensed Certified Public Accountant (CPA).

Elizabeth has served as a director and officer for many captive insurance companies’ board of directors as well as on committees for captive industry organizations and associations.

Client Recommendations

We kindly request that the Task Force notify Aon before contacting the references noted below.

References:

Butler University

Zach Finn
Clinical Professor, Risk Management & Insurance
Student Run Captive
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zfinn@butler.edu

Temple University Health System

Ron Jasner
Director, Office of Risk Services
3509 N. Broad Street | Boyer Pavilion | Philadelphia | PA 19140
+1.215.707.9598
ronald.jasner@tuhs.temple.edu

The University of Michigan

Paul Moggach
Director of Risk Management
500 S. State Street | Ann Arbor | MI 48109
+1.734.763.0928
pmoggach@umich.edu

Cost of Services

Activity	Fee
A: Core Fee: Captive Feasibility Study	\$100,000
<ul style="list-style-type: none"><li data-bbox="152 506 862 533">▪ Step I: Feasibility Study<li data-bbox="152 548 862 575">▪ Step II: Stakeholder Input<li data-bbox="152 590 862 621">▪ Step III: Recommendations for Operations	

About Aon

Aon plc (NYSE: AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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