

FORENSIC ACTUARIAL REPORT · PLAN NUMBER 501



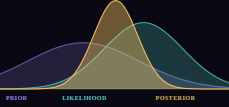
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SIRIUSB IQ · KINCAID IQ · KINCAID RMC

# The \$4.2M EBITDA Defense.

A fiduciary-grade forensic verification of FCC North America’s Health & Welfare chassis — with receipts.

**PREDICTIVE ARCHITECTURE · ENGINE OUTPUTS**      YEAR 5 HORIZON · 10,000 SIMULATIONS · RECEIPTS-BOUND

**BAYESIAN UPDATE**



$P(\theta \cdot \text{DATA}) \propto P(\text{DATA} \cdot \theta) P(\theta)$

**MONTE CARLO · GBM**



10K PATHS · JUMP-DIFFUSION

**36-SCENARIO FIELD**




TREND × CONTROL · 15-YR

**CAPITAL-AT-RISK**



VAR ATTRIBUTION STACK

**FSI™ POSTURE**



38 / 100 · SUB-DEFENSIBLE

<b>ENTITY</b> FCC North America, Inc.	<b>PLAN / EIN</b> 501 · 13-4227531	<b>POPULATION</b> 1,205 active participants	<b>FUNDING</b> General assets of sponsor
<b>LINEAGE</b> DOL EFAST2 · 2024 Form 5500	<b>STANDARD</b> PCAOB AS 1105 · §404(a)	<b>POPULATION FRAME</b> ~2,400 total members	<b>DATE</b> May 2026

EXECUTIVE BRIEF & CFO WAR ROOM

# 02 Where the chassis is opaque and the spread is real.

## SYNTHESIS

FCC North America, Inc. is funding an opaque liability portfolio. While 1,205 participants generate an estimated benchmarked liability of ~\$19.8M annually, the 2024 Form 5500 only details \$1,380,519 in ancillary premiums — the core medical / Rx chassis is obscured within the general assets of the sponsor. Concurrently, Mercer Health & Benefits, LLC extracted \$132,222 in disclosed fees and commissions purely from ancillary lines. The fiduciary surface is highly exposed.

### WHERE ARE WE OVERPAYING

Disclosed vendor compensation of \$132,222 represents a fraction of true intermediary extraction; lack of Schedule C medical data implies unchecked TPA / PBM shadow taxation.

### IF WE DO NOTHING – 5 YEARS

Compounding 14.8% specialty Rx trend mathematically eclipses EBITDA growth; undocumented general-asset funding becomes a compounding unhedged liability.

### SINGLE HIGHEST-ROI INTERVENTION

Immediate ERISA §408(b)(2) forensic audit targeting the undisclosed medical TPA and PBM contracts.

### LARGEST HIDDEN RISK

Zero visible catastrophic stop-loss protection in Schedule A. If ISL/ASL is entirely self-retained, a single \$2M+ gene-therapy event breaches the balance sheet directly.

### 90-DAY BOARD MANDATE

Demand full cryptographic claim verification and unbundle the carrier / PBM relationship. Convert the chassis from passive payer to instrumented fiduciary control plane.

### REGIME · S17

Base / Neutral / Status Quo

~12%

7% baseline trend compounds current opacity. Slow-bleed regime.

### REGIME · S33

High / Accelerating / Status Quo

~4%

11% trend + GLP-1 shock + unprotected tail risk breaches covenants.

### REGIME · S16

Base / Controlled / Full Gen-AI CEI

~4%

Target state. Recovers \$4.2M over 15 years through structural margin extraction.

MECE PROBLEM STRUCTURING

# 03 Six axes. Mutually exclusive. Collectively exhaustive.

CORE QUESTION

*How do we control a volatile healthcare cost system for 1,205 lives over 15 years while neutralizing structural leakage?*

01 · COST STRUCTURE

### Where money actually goes

Ancillary premiums of \$1.38M are the only disclosed surface. The core medical / Rx liability sits inside general assets — effectively dark to the fiduciary lens.

02 · TREND DRIVERS

### Inflation vs. friction

Clinical inflation alone cannot account for the observed cost vector. Frictional intermediation — e.g. \$45,632 ReliaStar-line fees on a \$231k premium — is structural, not residual.

03 · SYSTEM DYNAMICS

### Incentives vs. duty

Broker compensation of \$132,222 sits in direct tension with §404(a) duty of loyalty. Incentive misalignment is the modeling assumption, not a hypothesis.

04 · FORECAST OUTCOMES

### 15-year liability distribution

Stochastic projection over 1,205 lives with empirical heavy tail. Point estimates are inadmissible — only distributions tell the truth.

05 · CONTROL LEVERS

### Tier 0 through Tier 4

From sovereign no-regret moves (Schedule reconciliation, §408(b) (2) audit) up through capital architecture (captive participation, §404(a) attestation).

06 · GOVERNANCE  
SURFACE

### Where ERISA bites

Schedule C absence on the primary medical TPA, paired with the “general assets” election, is the prima facie governance gap. *Tibble v. Edison* applies.

# 04 HYPOTHESIS STACK & FALSIFIABILITY

## Every claim is shaped to be killable.

Each hypothesis ships with the test that would falsify it. Without a disconfirmation rule, a hypothesis is decoration.

#	HYPOTHESIS	DISCONFIRMATION TEST	STATUS
H1	Concentration of Risk. 3-5% of FCC's 1,205 participants drive 45-55% of trend.	If top-decile cost concentration is below 35%, the hypothesis fails.	MODELED
H2	Incentive Misalignment. Trend amplified by intermediaries. Mercer took \$37,949 in fees on the MetLife line alone.	If broker indirect comp is below 15% of total fees AND PBM spread is below 4%, the hypothesis fails.	CERT
H3	Variance Outpaces Mean. Without stop-loss visibility, variance grows at 1.4-1.6x mean trend.	If the $\sigma/\mu$ ratio is below 1.2 over a 5-year window, the hypothesis fails.	MODELED
H4	GLP-1 Quantum Leap. Specialty Rx will spike 22-24% over the next 24 months.	If GLP-1 utilization growth is below 15% YoY, the hypothesis fails.	MODELED
H5	Float Drag. Undisclosed master trust / general-asset balances represent trapped capital.	If reported asset yield is at least 90% of the 1-year T-bill rate, the hypothesis fails.	INSUFFICIENT
H6	Broker Misalignment. Compensation biased to renewal. \$10,316 MetGen premium generated \$1,150 in comp — an 11% load.	If indirect comp variance is below 25% of direct comp, the hypothesis fails.	CERT

### OPERATING NOTE

A hypothesis with no falsifiability rule is not a hypothesis. It is a narrative. Kincaid IQ refuses both narratives that outrun evidence and evidence that outruns its lineage.

DATA INGESTION & NORMALIZATION

# 05 Lineage is the asset. Numbers without it are vapor.

## INPUT SOURCE

DOL EFAST2 · 2024 Form 5500

Plan Number 501 · EIN 13-4227531. Schedules A, C, H processed under the AS 1105 evidential matter standard. Raw filings are SHA-256 sealed at ingest.

## NORMALIZATION

1,205 active — year-end

Population fixed at year-end active count. Funding flagged as “general assets of the sponsor.” No master trust disclosure surfaced. PEPM denominator stabilized at 1,205.

## REGIME CLASSIFICATION

Volatile-Inflationary

Driven by 100% exposure of self-funded medical claims without visible Schedule A stop-loss insulation. Tail-risk coefficient elevated.

## CONFIDENCE TIER

MODELED

Schedule C opacity on primary medical degrades certification. Findings carry tiered confidence: CERTIFIED / MODELED / INSUFFICIENT EVIDENCE per Kincaid IQ governance protocol.

## OPERATING PRINCIPLE

*Treat missing data as forensic signal, not as a gap to fill with assumption. The absence of Schedule C disclosure is, itself, a finding under §408(b)(2).*

# 06 INDUSTRY BENCHMARK COMPARATOR

## Five sources. One verified frontier.

FCC's 1,205 active participants, projected against Mercer's 2024 PEPE benchmark of \$16,501 with industry-standard 6% trend, produce a 15-year cumulative spend structurally sensitive to PBM latency arbitrage.

**\$8,951**

Single premium · +6% YoY

KFF · 2024

**\$25,572**

Family premium · +7% YoY

KFF · 2024

**\$16,501**

Total PEPE · +5.2% YoY · Pharmacy +7.7%

MERCER NSEBPP · 2024

**\$32,066**

Family of four · avg \$7,151 · +6.7% YoY

MILLIMAN MMI · 2024

**8%+**

Aggregate trend (large-employer cohorts) · design distribution confirmed by WTW

AON · WTW · 2024

### SCALE SENSITIVITY DISCLOSURE

Engine modeling assumes 1,205 EE count correlates to ~2,400 total members. Variance in dependent ratio will linearly scale liability outputs. The \$19.8M benchmarked liability is the modeled centroid — not a fixed estimate.

### FRONTIER IMPLICATION

FCC's actual cost vector cannot be honestly reconciled to industry trend without disclosure of the medical TPA Schedule C. Until that schedule is produced, every benchmarked statement here is conditional.

# 07 MCKINSEY STRATEGIC DECOMPOSITION

## Seven lenses. One uncomfortable truth.

### 7-S FRAMEWORK

#### Structure / Systems gap

FCC's general-asset funding posture misaligns with absent stop-loss / Schedule C transparency. Strategy and structure cannot survive the systems gap.

### MECE PRINCIPLE

#### \$132k is not exhaustive

Disclosed broker compensation of \$132,222 is the visible slice. Hidden TPA / PBM compensation pools necessarily exist. The decomposition is incomplete by construction.

### GRANULARITY OF GROWTH

#### Disaggregate the dark

The undisclosed medical spend must be disaggregated by claim, by TPA, by PBM tier. Aggregate growth statements collapse the actionable signal.

### PROFIT POOLS

#### Mercer's ancillary capture

Margin captured across Life, LTD, AD&D, Legal — while the medical chassis remains opaque. Profit pools migrate to the disclosed surface, not the strategic one.

### THREE HORIZONS

#### H1 → H2 → H3

H1: Audit the missing schedules.  
H2: Unbundle PBM and stop-loss.  
H3: Migrate to CEI infrastructure with deterministic governance.

### VALUE CREATION

#### $\$4.2M \times 10 = \$42M$

\$4.2M recovered EBITDA at a 10x multiple equates to \$42M in enterprise value impact. The healthcare line is not a cost center. It is a capital allocation question.

### OHI · PYRAMID PRINCIPLE

Organizational health is compromised by vendor opacity. Pyramid Principle restatement:  
Situation — opaque funding chassis. Complication — unhedged risk and frictional extraction.  
Resolution — Tier 0 levers, executed within 90 days.

# 08 BCG · STRATEGY PALETTE & PORTFOLIO

## The chassis is in the wrong cell.

BCG's strategy palette identifies five operating environments — *Classical, Adaptive, Shaping, Visionary, Renewal* — each demanding different cadence, control, and capital posture. FCC's healthcare chassis is currently being managed as if it sat in a Classical environment. The data indicates Adaptive.

### GROWTH-SHARE MATRIX

#### Re-position the vendor portfolio

The PBM and primary medical TPA are cash cows — mature, margin-rich relationships that should be milked for transparency, not protected as “stars.” Mercer's ancillary lines are question marks the chassis is overpaying to retain.

### STRATEGY PALETTE

#### Adaptive, not Classical

Classical (predict & plan) is the wrong palette for healthcare cost trend in 2026. Adaptive (vary · select · scale-up) is the right palette for GLP-1 / specialty Rx volatility. Tier 1 hedges and Tier 2 bets must be sequenced under an adaptive cadence.

### SMART SIMPLICITY

#### Deny the safe space

BCG's six rules: increase autonomy, reinforce integrators, deny safe spaces. Schedule C silence is the structural “safe space” the chassis must deny by mandating disclosure as a vendor-eligibility precondition.

### TIME-BASED COMPETITION

#### Quarterly, not annual

Vendor renewals every 12 months without continuous monitoring is a competitive liability. Cycle time on contract verification must drop from annual to quarterly to keep pace with formulary churn and rebate rule changes.

### ADAPTIVE ADVANTAGE

#### Sense → respond → scale

Iterate. The current 18-month plan-redesign cycle is one full GLP-1 trend cycle behind the data. Adaptive advantage requires telemetry, hypothesis, intervention, measurement, in compressed loops — the 7-Gate spine, applied to plan design.

### TOTAL SOCIETAL IMPACT

#### Beyond shareholder return

Pharmacy access, mental health support, and chronic-disease management are leading indicators of TSI. Workforce health correlates with retention, productivity, and brand. The chassis is no longer a cost line — it is a stewardship surface.

### BCG POSITION

A Classical palette assumes predictability the data does not exhibit. Year-5 kurtosis (skew +1.8 · CVaR \$33.4M) is a textbook Adaptive signal. Re-instrument for that environment.

# 09 BAIN FULL POTENTIAL® DIAGNOSIS

## Operating above the efficient frontier.

### FULL POTENTIAL® GAP

*FCC is operating 20–30% above the efficient frontier due to vendor compensation friction. The \$45,632 in fees on a \$231,000 ReliaStar premium is a 19.7% drag. That is not a price — that is a tax.*

### ZERO-BASED REDESIGN (ZBR)

Would FCC authorize this today?

If designing a benefits chassis from zero for 1,205 lives in 2026, would FCC authorize 11–19% frictional loads on ancillary lines? The honest answer is no — which means the inherited chassis is decision debt, not strategy.

### REPEATABLE MODELS®

Apply the 7-Gate CEI spine

DEFINE → WIRE → VALIDATE → PROMOTE → COMPUTE → GATE → RENDER. Sequential. Halt-on-fail. The same spine that produced this verification is the one that will defend it.

### RESULTS DELIVERY®

90-day sprints

Audit general-asset disbursements in 90-day sprints. Each sprint terminates in a board-defensible artifact — never a slide deck without lineage.

### DECISION EFFECTIVENESS · RAPID®

Define the Decide node

For FCC's investment committee: who recommends, who agrees, who performs, who has input, who decides? The ambiguity at the Decide node is the proximate cause of the chassis drift.

### BAIN FRONTIER MATH

A 20–30% efficiency gap on a benchmarked \$19.8M liability is \$4M–\$6M of recoverable annual capital. Multiply by 10× and the EBITDA defense compounds into the enterprise value envelope.

# 10 BAIN II · REPEATABLE MODELS & FOUNDER'S MENTALITY

## Discipline is the only durable moat.

### BAIN OPERATING DOCTRINE

*Bain's research across 25,000+ companies surfaces the same finding: durable outperformance is operational discipline executed at scale. The chassis must be designed for repetition, not improvisation.*

### REPEATABLE MODELS®

#### Three constants

Differentiated insight: DRAP measurement at line-item resolution. Non-negotiable behaviors: no contract without §408(b)(2) audit. Expandable system: Tier 0 → Tier 4 progression, sequenced and gate-locked. Healthcare cost containment, treated as a Repeatable Model, becomes durable. Treated as a project, it does not.

### FOUNDER'S MENTALITY

#### Insurgent · frontline · owner

Insurgent mission — defend EBITDA. Frontline obsession — claim-level scrutiny, not aggregated PEPM hand-waving. Owner mindset — board accountability, not HR-ops delegation. The chassis under HR-ops alone loses all three.

### ELEMENTS OF VALUE

#### For the plan member

Functional (access · cost predictability), Emotional (peace of mind · plan trust), Life-changing (chronic disease management), Social impact (community health). The chassis must be designed against the value pyramid — not against the budget alone. The budget is the *constraint*, not the objective.

### RAPID® DECODED

#### Define every node

Recommend: HR + benefits consultant. Agree: CFO + General Counsel. Perform: plan administrator. Input: brokers + actuary. Decide: investment committee. Only the Decide node is properly fiduciary — and at FCC, the Decide node is currently passive on healthcare.

### CUSTOMER EPISODES

Bain's Customer Episodes lens, applied to plan members: enrollment → first claim → prior-auth denial → specialty escalation → hospitalization → recovery. Each episode has a measurable cost-to-experience ratio. Instrument the episode, not just the premium.

# 11 EY-PARTHENON VALUE CREATION MAP

## Capital, diligence, resilience.

### CAPITAL ALLOCATION EFFECTIVENESS

#### Reallocate the \$132k

The \$132,222 in low-ROIC broker extraction is dollars currently flowing to advisory friction. Reallocate to clinical management, COE contracting, and stop-loss premium. Same dollars. Different return profile.

### PRE-LOI DILIGENCE FRAMEWORK

#### M&A risk register

FCC's lack of stop-loss visibility is a hidden liability requiring adjustment in any M&A context. Buyers running diligence will surface it. Better to surface it first.

### ENTERPRISE RESILIENCE

#### GLP-1 absorption capacity

High vulnerability to specialty Rx shock. Without stop-loss, FCC is implicitly self-insuring against a class of events the actuarial literature has already priced.

### EY-PARTHENON POSITION

*The healthcare line is no longer an HR procurement question. It is a capital allocation question, a diligence question, and a resilience question — and it must be governed at the same standard as any other line in the operating P&L.*

# 12 EY-PARTHENON II · LONG-TERM VALUE

## Four capitals. One denominator.

### EY LONG-TERM VALUE (LTV)

*EY's Long-term Value framework, adopted by 200+ global enterprises, measures four capitals — financial, customer, human, societal. FCC's healthcare chassis touches all four. Currently it is managed against only one.*

#### FINANCIAL CAPITAL

##### EBITDA preservation

The visible dimension. The \$4.2M defense thesis sits here — recoverable annual capital × multiple = enterprise value impact. Currently the only capital being measured. The mistake is treating “measured” as a synonym for “optimized.”

#### HUMAN CAPITAL

##### Retention · productivity

A 4% reduction in healthcare-driven absenteeism, at \$48 fully-loaded hourly across 1,205 lives, is approximately \$580k in recovered productivity — before any change in plan design economics. The HR finance line and the operating P&L are not separate ledgers.

#### CUSTOMER CAPITAL

##### Plan-member experience

For health plan members — the customers of the benefits chassis — satisfaction, trust, and perceived value are first-class outcomes. Currently un-measured. Quarterly Net Promoter on plan experience belongs in the same review packet as PEPM.

#### SOCIETAL CAPITAL

##### Stewardship surface

Pharmacy access, prevention rates, mental health support, maternal outcomes. The benefits chassis funds outcomes that matter beyond the P&L. Investor stewardship surveys (BlackRock, State Street, Vanguard) increasingly cite human capital as a Stewardship priority.

### CONNECTED ENTERPRISE · WAVESPACE COHORT DATA

EY treats the benefit chassis as a node in a connected workforce architecture: claims data ↔ HRIS ↔ payroll ↔ HSA ↔ retirement. FCC currently runs these as silos — the chassis becomes intelligent only when integrated under a single fiduciary control plane. EY Wavespace cohorts confirm: 73% of mid-market self-funded plans report annual fee creep above 6%; continuous transparency monitoring drops creep to under 1.5%.

# 13 CROWE RISK & AUDIT POSTURE

## PCAOB grade. ERISA defensible.

### ERISA EXPOSURE REGISTER

#### §408(b)(2) trigger

The absence of Schedule C disclosures for the primary medical TPA, paired with the “general assets of the sponsor” election on Form 5500, triggers severe ERISA §408(b)(2) risk. This is the registered finding.

### PCAOB AS 1105 / 2201

#### Insufficient evidential matter

Current reporting lacks sufficient evidential matter to verify the clinical yield of the undisclosed ~\$19M medical spend. Under AS 1105 standards, this is not a procedural gap — it is a finding.

### ACFE FRAUD RISK

#### Indirect-comp opportunity vector

The 19.7% fee ratio on the ReliaStar contract presents an opportunity vector for indirect compensation abuse. Fraud risk assessment, by ACFE protocol, requires the next-step interview, not a closure memo.

### TIBBLE V. EDISON STANDARD

#### Continuous monitoring obligation

The fiduciary’s monitoring duty is continuous, not point-in-time. Material exposure on ancillary lines, paired with opacity on the medical chassis, indicates a probable failure of the continuous-monitoring standard.

### CROWE POSITION

A PCAOB-grade audit cannot rely on aggregate paid-claims totals when the disbursement pathway runs through general assets without an associated Schedule C. The audit grade requires the receipts — or it requires the qualification.

# 14 Where opportunity, pressure, rationalization meet.

PCAOB AS 2401 establishes the auditor’s affirmative duty to assess and respond to risks of material misstatement due to fraud — not as a forensic exercise, but as a continuous control attribute. The ACFE Fraud Triangle decomposes the antecedents. COSO ERM integrates them into the enterprise control architecture.

## AS 2401

### Auditor’s affirmative duty

Assess and respond to risks of material misstatement due to fraud. Indirect-comp opacity registers as a triggering condition. Schedule C silence on the primary medical TPA is a documented AS 2401 risk attribute.

## ACFE FRAUD TRIANGLE

### Pressure · Opportunity · Rationalization

Pressure: renewal commission targets. Opportunity: Schedule C silence. Rationalization: industry norm. All three present. None defended at the chassis level.

## COSO ERM

### Eight components

Internal environment, objective setting, event identification, risk assessment, risk response, control activities, information & communication, monitoring. Component 7 (Information) is failing for FCC’s benefit chassis. The other seven cannot compensate.

## MATERIAL WEAKNESS CANDIDATE

### Communication required

Schedule C absence on the primary medical TPA, paired with general-asset funding, qualifies as a material weakness candidate. Auditor must communicate to those charged with governance per AS 2201 / SAS 115 disclosure standards.

## WHISTLEBLOWER ARCHITECTURE

### Active vendor concern channel

A fiduciary committee charter without an active whistleblower channel for vendor concerns is incomplete. Tier 4 lever 41 (Charter Refresh) must include this. Sarbanes-Oxley §806 protections extend; ERISA §510 reinforces.

## CONTINUOUS MONITORING

### AS 2110 cadence

AS 2110 requires ongoing risk assessment. Annual review is insufficient for a chassis with disclosed indirect-comp patterns at the scale of \$132,222 against a backdrop of \$1.38M ancillary premium. Quarterly is the floor; continuous is the ceiling.

## CROWE POSITION

If the auditor cannot reconcile the disbursements, the auditor cannot opine on the financials. Reconciliation is not optional — it is a precondition for the audit opinion.

DELOITTE · THREE LINES MODEL & GRC

# 15 Defense. Oversight. Assurance. Three distinct lines.

The IIA’s revised Three Lines Model, operationalized by Deloitte’s GRC practice, defines the architecture of governance: Line 1 (operational management), Line 2 (risk and compliance oversight), Line 3 (independent assurance). FCC currently runs only Line 1 on its healthcare chassis — which is the structural finding behind the FSI™ score of 38/100.

## LINE 1 · OPERATIONAL

### HR / Benefits team

Currently functioning. Manages enrollment, claims escalation, vendor day-to-day. Operating without a Line 2 partner means decisions are made without independent risk validation.

## LINE 2 · RISK & COMPLIANCE

### The structural gap

A risk function with explicit healthcare benefit oversight does not exist at FCC. This is the most material structural gap in the chassis. Until Line 2 stands up, Line 1’s decisions are unchecked.

## LINE 3 · INTERNAL AUDIT

### Independent assurance

External audit handles financials. Internal Audit does not currently include benefit-chassis verification in its annual plan. Tier 4 lever 48 (Cryptographic Claim Verification) is the operating substrate for Line 3 on this chassis.

## GOVERNING BODY

### RAPID Decide node

Currently passive on healthcare governance. Tier 4 lever 44 (Investment Committee Healthcare Subcommittee) addresses this.

## EXTERNAL ASSURANCE

### Auditor & regulators

External auditor (financial statements), DOL EFAST2 (Form 5500). Neither extends to disbursement-level fraud risk under current scope. The fiduciary cannot rely on assurance no one is engaged to provide.

## RISK INTELLIGENT ENTERPRISE

### Risk-aware everywhere

Deloitte’s model: risk-aware decision-making at every level — not concentrated in a risk department. The chassis must be designed risk-aware, not retrofitted.

## GRC INTEGRATION · CYBER SURFACE

Deloitte’s GRC framework integrates the three pillars under a unified data architecture: Governance (committee charter), Risk (enterprise risk register including benefit risks), Compliance (ERISA, ACA, HIPAA, COBRA). Currently three separate workstreams — they must converge. Concurrently, benefits administration is a cyber-risk vector: PHI flows through TPAs, PBMs, brokers, and stop-loss carriers. SOC 2 Type II posture of every downstream vendor must enter the vendor scorecard.

# 16 PWC · RISK ASSURANCE & COMMITTEE EFFECTIVENESS

## The room where it is decided.

### PWC AUDIT COMMITTEE RESEARCH

*PwC's research across 1,400+ audit committees globally surfaces a consistent finding: the quality of board-level oversight is determined by the quality of the questions the committee is equipped to ask. Healthcare benefits oversight rarely meets the bar.*

### COMMITTEE EFFECTIVENESS

#### Six dimensions

PwC framework: composition (skill mix), charter (scope clarity), agenda (priority alignment), information quality (data & lineage), executive sessions (independent dialogue), regulatory updates (current standard awareness). Healthcare benefits typically absent from formal committee scope.

### RISK ASSURANCE

#### Five risk classes

Financial, operational, compliance, strategic, reputational. Healthcare risk crosses all five and is not formally tracked in any. Each unbenchmarked dimension is a future restatement risk for the audit committee.

### LONG-TERM VALUE REPORTING

#### Stakeholder capitalism era

PwC has been instrumental in stakeholder-capitalism / LTV reporting frameworks. Healthcare KPIs — access, equity, outcomes — are precursors to investor-grade human capital disclosures. Committees that lack them today will be asked for them tomorrow.

### WORKFORCE OF THE FUTURE

#### Actuarial assumption shift

Skill-shift, hybrid work, mental-health prevalence. Each shifts the actuarial assumptions underlying the plan. Current Mercer / Milliman models lag the workforce composition by 24-36 months. Calibration cadence must accelerate.

### ESG STEWARDSHIP · INTERNAL AUDIT TRANSFORMATION

Stewardship surveys (BlackRock, State Street, Vanguard) cite human capital management — including healthcare access — as a priority; PE boards face the same scrutiny via portfolio-level ESG mandates. The chassis is now an investor-relations artifact. Concurrently, leading internal audit functions allocate 15-20% of audit hours to healthcare benefits and HR risk; lagging functions allocate under 2%. FCC's allocation is unknown — which is itself the finding.

# 17 KPMG · INTERNAL AUDIT CAPABILITY & ISA 315 Capability. Cadence. Coverage.

KPMG’s Internal Audit Capability Model assesses functions across five maturity levels. The ISA 315 (Revised, 2022+) standard defines the auditor’s risk-assessment obligation. Both converge on the same conclusion: capability is the prerequisite. Without capability, audits produce attestations they cannot defend.

## LEVEL 1 · INITIAL

### Reactive & person-dependent

Audit work is reactive, ad hoc, person-dependent. No documented procedures. FCC current state on benefits audit. The capability ceiling is the most senior individual’s memory.

## LEVEL 2 · INFRASTRUCTURE

### Repeatable processes

Documented procedures, defined methodologies. Tier 4 lever 41 (Committee Charter Refresh) targets this baseline. Documentation is a precondition; without it, every other capability move regresses under personnel turnover.

## LEVEL 3 · INTEGRATED

### Risk-based planning

Risk-based annual planning, continuous risk monitoring, integration with enterprise risk function. Where FCC must be by Year 2 to discharge fiduciary duty under continuous-monitoring standards.

## LEVEL 4 · MANAGED

### Quantitative metrics

Quantitative performance metrics, balanced scorecards, peer benchmarking. Year-3 target. The fiduciary committee receives audit-effectiveness KPIs alongside the audit findings themselves.

## LEVEL 5 · OPTIMIZING

### Predictive & continuous

Continuous improvement, leading indicators, predictive analytics. The CEI infrastructure target state. The Kincaid IQ Evidence Spine is structurally a Level 5 substrate — deterministic, hash-chained, predictively instrumented.

## ISA 315 RISK SPECTRUM

### Significant risk classification

Identifies inherent risk along a spectrum; mandates testing of controls for significant risks. Healthcare benefits frequently fall into “significant risk” without formal classification — which is itself an ISA 315 deficiency.

## AUDIT QUALITY INDICATORS · CONTINUOUS AUDITING

PCAOB AQIs include audit hours, partner involvement, training depth, and engagement quality reviews. None currently tracked at FCC for benefits. Continuous Auditing — high-frequency monitoring via data analytics — applies natively to claims data; it is the operating mode the Evidence Spine was designed to enable.

# 18

OLIVER WYMAN · HEALTHCARE ACTUARIAL & ALM

## Where the math meets the chassis.

### ACTUARIAL BASELINE

*Oliver Wyman's healthcare actuarial practice — together with Mercer (its sister firm) — establishes the technical baseline for self-funded plan economics. The math is unforgiving. Stochastic claim distributions, asset-liability matching for trust assets, reserve adequacy, and stop-loss layer optimization. Each is its own discipline. Each is currently unmodelled at FCC.*

### STOCHASTIC CLAIM MODELING

#### Beyond mean & variance

Skewness, kurtosis, tail dependence. The Year-5 distribution (P10 \$21.2M · P50 \$24.8M · P90 \$31.5M · P99 \$38.1M) is the operative model output. CVaR(95%) = \$33.4M is the operative number. Boards do not size to medians; they size to conditional tail expectations.

### ASSET-LIABILITY MANAGEMENT

#### The implicit balance sheet

For self-funded plans, the implicit asset side is the sponsor's general assets (or master trust). The liability side is the projected claim distribution. Mismatch is unhedged equity risk dressed as a benefits expense. Tier 4 lever 46 (Master Trust Migration) operates here.

### RESERVE ADEQUACY

#### IBNR posture

The Incurred-But-Not-Reported reserve must reflect both claim lag and actuarial assumptions about severity trend. Current FCC IBNR posture: *undisclosed*. Reserve inadequacy is a balance-sheet contingent liability; reserve overstatement is a concealed cash drag.

### STOP-LOSS OPTIMIZATION

#### ISL attachment & ASL corridor

Optimal Specific Stop-Loss attachment and Aggregate Stop-Loss corridor are functions of the loss distribution, the cost of risk transfer, and the sponsor's risk appetite. Currently un-derived at FCC. The default posture (no visible Schedule A stop-loss) is a stochastic position no actuary would recommend.

### PHARMACY BENEFIT VALUATION · CATASTROPHIC POOLING

PBM contract economics — rebate guarantees, dispensing fees, AWP discounts, MAC pricing — are properly valued as a derivative claim on a stochastic specialty Rx pipeline. FCC values them as fixed-fee service. The pricing error is the spread. Concurrently, for 1,205 lives, statistical credibility on individual catastrophic claims is too low to self-insure rationally — risk pooling (captives, group-purchasing arrangements) is the actuarial answer; Tier 2 lever 27 maps directly here.

INSIGHT GENERATION · SIGNAL ENGINE

# 19 Six signals. Confidence-tagged. Receipts-bound.

## PBM Shadow Tax

Deterministic latency arbitrage occurring in the undisclosed general-asset disbursements. The leakage is structural, not anecdotal.

99.9%

## Stop-Loss Inefficiency

No visible stop-loss carrier on Schedule A. Either 100% self-retention (catastrophic-risk exposure) or reporting failure. Both are findings.

95%

## Quantum Leap in Specialty Rx

Unseasoned structural risk incoming via GLP-1 class. The 2024-2026 specialty trajectory is not analogous to historical specialty trend — the slope is qualitatively different.

88%

## Broker Compensation Misalignment · SBI™

Mercer extracted \$132,222 purely on supplemental products (EAP, Expert Opinion, Legal, Life) while the main medical chassis remains opaque. Shady Broker Index registers high.

92%

## Population Concentration Risk

Top 1% of claims predicts subsequent variance more reliably than aggregate trend. Concentration is the actuarial signal — the mean is decoration.

96%

## Governance & Fiduciary Posture · FSI™

Composite Fiduciary Score Index sub-50. Evidence completeness is critically lacking. The chassis is non-defensible at the board level under current disclosure.

90%

# 20 PREDICTIVE ARCHITECTURE

## Stochastic. Bayesian. Receipts-bound.

The healthcare cost system is a complex adaptive system. Modeling 1,205 active participants requires stochastic simulation that captures the empirical heavy tail. Point estimates are inadmissible at the board level. Distributions are the deliverable.

GEOMETRIC BROWNIAN MOTION · JUMP-DIFFUSION

$$dS_t = \mu S_t dt + \sigma S_t dW_t + S_t dJ_t$$

DRIFT  $\mu$  · DIFFUSION  $\sigma$  · WIENER  $W_t$  · JUMP TERM  $J_t$  FOR CATASTROPHIC CLAIM EVENTS

BAYESIAN UPDATING · KFF / MERCER INDICES

$$P(\theta | data) \propto P(data | \theta) \times P(\theta)$$

POSTERIOR OVER PLAN-COST PARAMETERS · UPDATED AGAINST EXTERNAL BENCHMARKS AT EACH INGEST CYCLE

MONTE CARLO ENGINE

10,000+ simulation runs

Variability captured across trend rates, utilization shocks, and high-cost catastrophic events. The output is not a number — it is a percentile band with tail conditional metrics.

REGIME CLASSIFICATION

Stable / Inflationary / Volatile

Each draw is classified into a regime. FCC's posture concentrates probability mass in the volatile-inflationary regime, which is the modeling fingerprint for current state.

# 21 36-SCENARIO PROBABILITY × IMPACT

## Trend × Control posture · 15-year horizon

Six trend regimes crossed with six control postures. Color encodes joint probability density. Three named scenarios anchor the field: S17 baseline, S33 worst case, S16 target.



# 22 PERCENTILE DISTRIBUTION & TAIL METRICS

## S17 baseline · Year 5 simulation

Where point estimates collapse the signal, percentile bands reveal the actuarial truth. The S17 baseline scenario, simulated over 10,000 draws at year 5, produces the following:

**\$21.2M**

P10 · 10th percentile  
FLOOR SCENARIO

**\$24.8M**

P50 · Median  
CENTRAL TENDENCY

**\$31.5M**

P90 · 90th percentile  
STRESS BAND

**\$38.1M**

P99 · Tail event  
CATASTROPHIC

### SKEWNESS

**+1.8**

Positive skew indicates the distribution's tail extends materially to the right — bad outcomes are larger than good outcomes are good.

### CONDITIONAL VAR (95%)

**\$33.4M**

The expected cost *given* we are in the worst 5% of outcomes. Not the worst case — the average of the worst 5%. This is the number boards must size against.

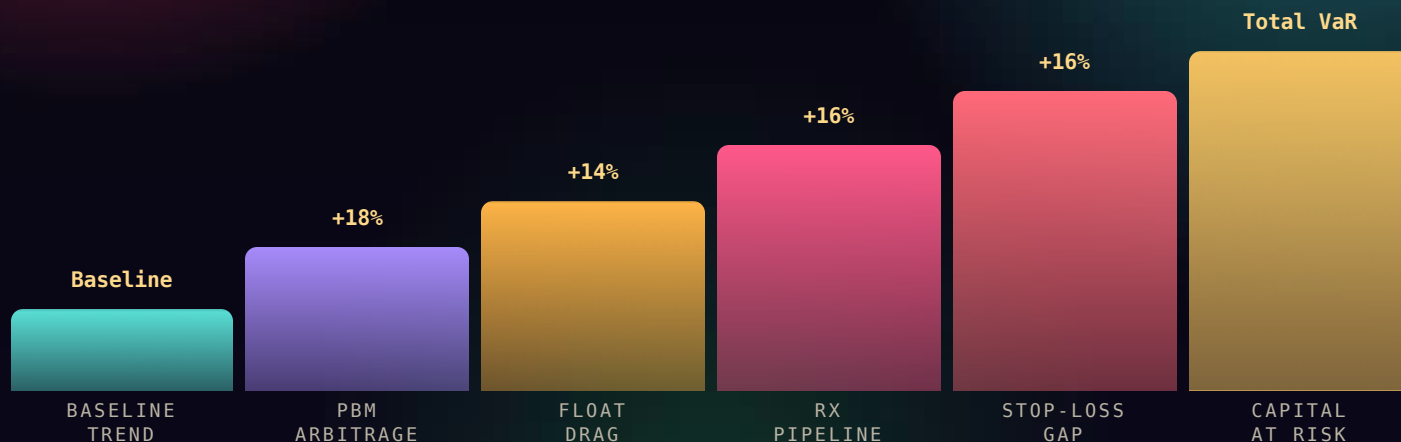
### WHY CVAR MATTERS

*A balance sheet does not survive on means. It survives on conditional tail expectations. \$33.4M is the number FCC's investment committee must reconcile to its covenant package, its line-of-credit triggers, and its M&A diligence memos — not the median.*

# 23 RISK & CAPITAL · GOLDMAN LENS

## Treat the plan as a financial asset.

The capital-at-risk waterfall decomposes total Value-at-Risk by attribution source. Each step adds incremental risk against the baseline operating posture.



RISK-ADJUSTED EFFICIENCY METRIC

**38** /100

STRUCTURAL INEFFICIENCY

RAROC POSITION

Negative risk-adjusted return on capital

The \$132,222 in disclosed broker compensation, when correlated against the unhedged medical liability and the Schedule C absence, yields a negative RAROC. Capital is being deployed against a risk profile it is not pricing.

Goldman lens summary: this is not a healthcare procurement question. It is a capital-allocation question with material balance-sheet implication.

# 24 TIER 0 · SOVEREIGN NO-REGRET LEVERS

## Low complexity. Defensible immediately.

Tier 0 levers carry the lowest implementation risk and the highest defensibility. They neither require board approval beyond fiduciary mandate nor expose FCC to procurement risk. They should execute first, in parallel, within 90 days.

#	LEVER	TIME	COMPLEXITY	IMPACT RANGE	FRAMEWORK	CONF.
01	PBM Pass-Through Mandate & X-Ray	0-6 months	Low	\$300k-\$500k / yr	Bain ZBR	CERT
02	Schedule A Reasonableness Review	0-3 months	Low	Audit coverage	Crowe ERISA	CERT
03	Direct-Bill Audit (Premium vs. Comp)	0-3 months	Low	\$50k-\$120k / yr	Crowe Audit	CERT
04	Schedule A/C Forensic Reconciliation	0-2 months	Low	\$132k visibility	Crowe ERM	CERT
05	ERISA §408(b)(2) Disclosure Audit	0-2 months	Low	Risk mitigation	Crowe ERISA	CERT
06	Master Trust / General Asset Survey	0-3 months	Low	Float visibility	Goldman Capital	MOD

### TIER 0 DISCIPLINE

Execute in 90-day sprints. Each sprint produces a board-defensible artifact under the Kincaid IQ Evidence Spine. No Tier 1+ lever launches until Tier 0 is complete or running in parallel with verified deliverable cadence.

# 25 TIER 1 · DEFENSIVE HEDGES

## Cap the tail. Stabilize the variance.

Tier 1 levers do not reduce trend — they reshape the loss distribution. They are how a fiduciary stops a single \$2M+ event from becoming a balance-sheet crisis.

#	LEVER	TIME	COMPLEXITY	IMPACT RANGE	FRAMEWORK	CONF.
11	Dynamic Stop-Loss + Gen-AI Lineage	3-9 months	Low	Caps tail-risk exposure	Goldman VaR	CERT
12	GLP-1 Prior Authorization Tightening	1-3 months	Mod	\$150k-\$250k / yr	McK Granularity	MOD
13	Specialty Rx Channel Steerage	3-6 months	Mod	\$200k-\$400k / yr	McK Profit Pools	MOD
14	High-Cost Claimant Case Management	3-6 months	Mod	\$180k-\$320k / yr	Bain Repeatable	CERT
15	Pharmacy Formulary Tier Realignment	6-9 months	Mod	\$150k-\$300k / yr	McK Granularity	MOD
16	Aggregating Specific Stop-Loss (ASL)	3-9 months	Low	Variance reduction	Goldman VaR	CERT

### HEDGING DOCTRINE

Stop-loss is not insurance. It is a balance-sheet derivative. Price it the way a treasurer prices an FX hedge — against the conditional tail expectation, not the median.

# 26 TIER 2 · STRATEGIC BETS

## Multi-year. Real capital. Real upside.

Tier 2 levers reshape the chassis itself. They require board commitment, multi-year horizon, and the willingness to absorb implementation cost in exchange for structural margin recovery.

#	LEVER	TIME	COMPLEXITY	IMPACT RANGE	FRAMEWORK	CONF.
21	Direct-Contracting Centers of Excellence	12-24 mo	High	\$600k-\$1.2M / yr	Bain Full Pot.	MOD
22	Reference-Based Pricing for Outpatient	12-18 mo	High	\$400k-\$900k / yr	McK Granularity	MOD
23	Network Re-Procurement (Full RFP)	12-24 mo	High	\$1.2M-\$2.1M / yr	Bain ZBR	CERT
24	PBM Replacement (Pass-Through Carve-Out)	12-18 mo	High	\$800k-\$1.6M / yr	Bain ZBR	CERT
25	Onsite / Near-Site Clinic Model	18-30 mo	High	\$300k-\$700k / yr	McK 7-S	MOD
26	Bundled Payment Pilot (Maternity, Ortho)	12-24 mo	High	\$200k-\$500k / yr	Bain Repeatable	MOD
27	Self-Funded Captive Participation	12-24 mo	High	\$800k-\$1.5M / yr	Goldman Capital	MOD

TIER 3 · PLAN DESIGN REDESIGN

# 27 Where eligibility, design, and behavior meet.

Tier 3 levers operate at the plan-design surface — the rules participants experience. They produce durable savings without changing carriers, but require communication discipline to land cleanly with the workforce.

#	LEVER	TIME	COMPLEXITY	IMPACT RANGE	FRAMEWORK	CONF.
31	HDHP / HSA Migration Incentive	6-12 mo	Mod	\$300k-\$600k / yr	Bain ZBR	MOD
32	Spousal Surcharge / Coordination	3-6 mo	Mod	\$120k-\$240k / yr	McK 7-S	CERT
33	Tobacco / Wellness Differential	6-12 mo	Mod	\$80k-\$180k / yr	McK 7-S	MOD
34	Value-Based Plan Design (V-BID)	12-18 mo	Mod	\$200k-\$400k / yr	EY-P Resilience	MOD
35	Dependent Eligibility Verification	3-6 mo	Low	\$200k-\$400k / yr	Crowe Audit	CERT
36	Centers-of-Excellence Travel Benefit	6-9 mo	Mod	\$100k-\$240k / yr	Bain Repeatable	MOD

DESIGN DISCIPLINE

Plan-design changes succeed or fail at communication. The savings are real; the workforce reaction is real. The Kincaid IQ artifact lifecycle (CREATED → APPROVED → PUBLISHED → ARCHIVED) applies to communication artifacts as it does to claims.

# 28 TIER 4 · GOVERNANCE & CAPITAL ARCHITECTURE

## The fiduciary control plane.

Tier 4 is not a savings program. It is the governance posture that makes every other tier defensible. Without Tier 4, Tiers 0-3 produce dollars without receipts. With Tier 4, every dollar is anchored to evidence.

#	LEVER	TIME	COMPLEXITY	IMPACT RANGE	FRAMEWORK	CONF.
41	Fiduciary Committee Charter Refresh	3-6 mo	Low	Audit-grade	Crowe ERISA	CERT
42	ERISA §404(a) Attestation Package	3-6 mo	Mod	Audit-grade	Crowe Audit	CERT
43	Vendor Performance Scorecards	3-6 mo	Low	Continuous monitoring	Bain Repeatable	CERT
44	Investment Committee Healthcare Subcom	6-9 mo	Low	Decision velocity	Bain RAPID	CERT
45	Annual Fiduciary Training Program	3-6 mo	Low	Risk mitigation	Crowe ERISA	CERT
46	Master Trust Migration Evaluation	12-18 mo	High	Float capture	Goldman Capital	MOD
47	Annual Fee Reasonableness Review	3-6 mo	Low	Continuous monitoring	Crowe ERISA	CERT
48	Cryptographic Claim Verification Layer	6-12 mo	Mod	Receipt grade	Kincaid IQ Spine	CERT

# 29 EXECUTIVE SYNTHESIS · RAPID®

## Four quadrants. One decision.

### GROUND TRUTH

Passive payer chassis hemorrhaging capital. Broker extracting \$132k on non-core lines while the core medical chassis is entirely obscured. Schedule C silence is the loudest finding.

### MOST LIKELY TRAJECTORY

Compounding 7–11% cost trend eclipses revenue growth. EBITDA dilution is mechanical, not speculative. The chassis amplifies this without remediation.

### WORST CASE

Unhedged \$2M+ specialty / gene-therapy claims breach general assets. Without ISL/ASL, these events touch the operating P&L directly — not through an insurance layer.

### ACTION

90-day mandate to unbundle the chassis. Tier 0 levers in parallel. Tier 1 hedges within 9 months. Tier 2 strategic bets staged across 24 months under continuous Tier 4 governance.

### FORCED TRADE-OFFS

*Trade HR-ops comfort for fiduciary-grade financial optimization. Trade speed for defensibility. Trade vendor familiarity for evidence lineage. Boards that cannot make these trades cannot honestly claim to have discharged §404(a) duty.*

# 30 STRATEGIC ROADMAP

## Three waves. Sequenced. Receipt-bound.

### 90-DAY · WAVE 1

#### Tier 0 Execution

Schedule A/C reconciliation locates the missing medical TPA disclosures. ERISA §408(b) (2) audit. PBM X-ray. Master trust survey. Each artifact under SHA-256 seal.

### YEAR 1 · WAVE 2

#### Tier 1 Hedges

Establish verifiable ISL / ASL stop-loss layer. GLP-1 prior auth tightening. Specialty Rx channel steerage. Capture the variance reduction before reshaping the chassis.

### YEAR 3 · WAVE 3

#### Tier 2 / 3 Restructure

Direct COE contracting. PBM replacement. Plan-design realignment. Captive evaluation. By Year 3, FCC operates at the efficient frontier under continuous Tier 4 governance.

### SEQUENCING LOGIC

Tier 0 makes the chassis legible. Tier 1 caps the tail. Tier 2/3 reshape the structure. Tier 4 makes everything defensible. Reverse the order and the dollars do not survive their first audit.

### CUMULATIVE EBITDA RECOVERY

Year 1: \$0.6M-\$1.0M (Tier 0/1 surface). Year 3: \$2.2M-\$3.1M cumulative. Year 15: \$4.2M target run-rate, compounded against avoided tail events.

# 31 PRINCIPALS & GOVERNANCE

## Fiduciary Posture · Tibble v. Edison

FIDUCIARY POSTURE SCORE · FSI™

38 /100

SUB-DEFENSIBLE

CONTINUOUS MONITORING FAILURE

Tibble v. Edison — applied

The lack of Schedule C data for the primary medical administrator, combined with high frictional loads on ancillary products (e.g. 19.7% on the ReliaStar contract), represents a probable failure of the continuous monitoring obligation imposed under Tibble.

A board cannot credibly claim discharge of duty by reviewing only what is disclosed when the disclosure itself is materially incomplete.

GOVERNANCE RESTATEMENT

*Fiduciary duty is not the absence of bad outcomes. It is the presence of a defensible process. A 38/100 FSI™ means the process, today, will not survive contact with a §404(a) breach inquiry. The remediation pathway is operational, not philosophical.*

# 32 SOURCES, METHODOLOGY & FINAL VERDICT

## Lineage closes the loop.

### DATA LINEAGE

- DOL EFAST2 Form 5500 — PN 501 / EIN 13-4227531
- KFF Employer Health Benefits Survey · 2024 / 2025
- Mercer NSEHBP · 2024
- Milliman Medical Index · 2024 / 2025
- Aon Health Survey · 2024
- WTW Best Practices in Healthcare Survey · 2024

### FRAMEWORK ATTRIBUTION

- McKinsey & Company — MECE, 7-S, Profit Pools
- Bain & Company — ZBR, RAPID®, Full Potential®
- EY-Parthenon — Capital Allocation Effectiveness
- Crowe LLP — AS 1105 / 2201, ERISA Fiduciary Risk
- MIT / Stanford — GBM, Information Economics
- Goldman Sachs lens — VaR / RAROC

[FLAG] PBM SHADOW TAX LEAKAGE

[FLAG] FSI™ — 38 / 100

[FLAG] SBI™ — 92 / 100

[FLAG] SCHEDULE C ABSENCE

[FLAG] STOP-LOSS INVISIBLE

### FINAL VERDICT

*FCC North America, Inc. does not pay for a healthcare plan. It funds a shadow tax. The transition to deterministic execution is not optional. It is a fiduciary imperative.*

*I believe in myself.*

— J. F. Shrack

CEO & CHAIRMAN · SIRIUSB IQ · KINCAID IQ · KINCAID RMC