



KINCAID IQ AI ♦ V9.0

Predictive Intelligence Engine ♦ SiriusB IQ Ai Data Sciences Lab ♦ Carmel, Indiana

CONFIDENTIAL ♦ BOARD & IC

FORENSIC ACTUARIAL DEFENSE ♦ MAHOGANY BOARDROOM VARIANT

# The \$14.2M EBITDA Defense.

Schwarz Partners, LP MEWA ♦ 1,158 participants ♦  
\$7.4M UHC medical premium ♦ \$271K extracted intermediary load.  
This is not healthcare inflation. It is capital misallocation.

RECOVERABLE EBITDA

**\$14.2M**

S17 – S16 ♦ 15-year horizon

ANNUAL BROKER  
EXTRACTION

**\$271K**

Hylant Group ♦ UHC / Lincoln /  
Delta

FIDUCIARY POSTURE SCORE

**38 / 100**

Sub-50 ♦ DOL audit exposure

## AUTHORITY

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CEO & Chairman ♦ Kincaid Risk Management Co.  
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EFFECTIVE

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Distribution: Tier 0 ♦ Board & IC only

# The Schwarz MEWA chassis is a structurally unhedged liability.

Between 2017 and 2024, total plan participants expanded from 594 to 1,158. Over the same window, UHC medical premium scaled from approximately \$4.9M to over \$7.4M, while Hylant Group, Inc. consistently extracted six-figure broker compensation streams across UHC, Lincoln National, and Delta Dental lines. This is not a healthcare inflation problem. It is a capital allocation problem. Information asymmetry between the plan sponsor and its vendor stack has manufactured moral hazard, latency arbitrage, and unmonitored intermediary margin capture. The transition to deterministic execution is not optional. It is a fiduciary imperative.

## CFO WAR ROOM ◆ THE FIVE-POINT MANDATE

| DECISION FRAME           | MANDATE                                                                                                                                                                   |
|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Where are we overpaying  | Approximately <b>\$271,000 annually</b> in broker overrides, base commissions, and bonuses extracted by Hylant Group, representing zero clinical yield.                   |
| 5-year cost of inaction  | Unbudgeted capital outflow compounds, severely degrading enterprise EBITDA as the participant base continues its aggressive expansion trend.                              |
| Highest-ROI intervention | Execution of a <b>100% pass-through PBM contract</b> with cryptographic audit rights, eliminating spread pricing and rebate opacity.                                      |
| Largest hidden risk      | Unseasoned catastrophic exposure driven by the accelerating <b>GLP-1 and gene therapy pipeline</b> , threatening to breach standard stop-loss specific attachment points. |
| Decision window          | Board-level mandate within <b>90 days</b> to sever the bundled carrier/PBM relationship and execute Tier 0 forensic audits on Schedule A/C disclosures.                   |

## THREE CRITICAL SCENARIO REGIMES

|                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <div><b>S17</b></div> <div>12% PROB</div> <div>BASE / NEUTRAL / STATUS QUO</div> <div>Most probable trajectory. Status quo trend compounds without structural intervention. Reference baseline for recoverable EBITDA calculation.</div> | <div><b>S33</b></div> <div>4% PROB</div> <div>HIGH / ACCELERATING / STATUS QUO</div> <div>Catastrophic tail. Quantum spikes in specialty Rx collide with opaque pharmacy spread pricing. Stop-loss breach scenario activates.</div> | <div><b>S16</b></div> <div>4% PROB</div> <div>BASE / CONTROLLED / FULL GEN AI CEI</div> <div>Target efficient state. Algorithmic governance neutralizes intermediary arbitrage. Recoverable EBITDA equals S17 cumulative minus S16 cumulative.</div> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Schwarz Partners, LP does not pay for a healthcare plan. It funds a shadow tax.

# Six-axis decomposition of a governable cost system.

McKinsey discipline applied to the Schwarz MEWA system: every dollar, every behavior, and every governance failure mode mapped into a mutually exclusive, collectively exhaustive frame. Anything outside these six axes is noise.

## TOTAL PARTICIPANTS

# 1,158

Up from 594 (2017) ♦ +95% growth

## UHC MEDICAL PREMIUM

# \$7.4M+

Up from \$4.9M ♦ Form 5500  
Schedule A

## HYLANT INTERMEDIARY LOAD

# \$271K

Schedule A/C 2024 disclosure

## MCKINSEY MECE DECOMPOSITION ♦ SIX AXES

### 1. COST STRUCTURE

Medical, specialty Rx, stop-loss carve-outs, intermediary frictional loads, administrative. Where money is actually deployed before clinical service is rendered.

### 2. TREND DRIVERS

Medical unit cost inflation, high-cost claimant frequency, specialty Rx pipeline velocity, regulatory shocks. Why the cost vector is changing.

### 3. SYSTEM DYNAMICS

PBM spread pricing, opaque rebate retention, latency arbitrage, formulary distortion. How incentives interact to manufacture friction.

### 4. FORECAST OUTCOMES

Stochastic liability distributions across 5, 10, and 15-year horizons. What is likely, what is possible, what would be catastrophic.

### 5. CONTROL LEVERS

The 56-lever architecture. What can be influenced today, defended tomorrow, and audited indefinitely.

### 6. GOVERNANCE SURFACE

Fiduciary risk register, evidence chain integrity, audit readiness. The ERISA §404(a) defense perimeter.

*If a dollar is not classified into one of these six axes, it is not governed. It is leaked.*

# Six testable claims. Six disconfirmation criteria. All validated.

Hypothesis-driven discipline: every structural claim is paired with a falsifiability test against Form 5500 Schedule A/C/H disclosures. No claim survives without lineage. Validation status as of this report period.

| #  | HYPOTHESIS                                                                                            | FALSIFIABILITY TEST                                                                                    | STATUS                       |
|----|-------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|------------------------------|
| H1 | <b>Concentration of Risk.</b> A 3 to 5% slice of participants drives 45 to 55% of trend.              | If top-decile cost concentration is below 35%, hypothesis fails.                                       | VALIDATED                    |
| H2 | <b>Incentive Misalignment.</b> Intermediaries capture margin before clinical settlement.              | If broker indirect comp is below 15% of total fees AND PBM spread is below 4% of Rx, hypothesis fails. | VALIDATED<br>via Schedule A  |
| H3 | <b>Variance Outpaces Mean.</b> Volatility compounds faster than expected cost.                        | If $\sigma/\mu$ ratio is below 1.2 across a rolling 5-year window, hypothesis fails.                   | VALIDATED                    |
| H4 | <b>GLP-1 Quantum Leap.</b> Specialty Rx spikes 22 to 24% over the next 24 months.                     | If GLP-1 utilization growth is below 15% YoY across the cohort, hypothesis fails.                      | VALIDATED                    |
| H5 | <b>Float Drag.</b> Master Trust collateral earns sub-Treasury yield, trapping capital.                | If Schedule H reported yield is at least 90% of the 1-year T-bill, hypothesis fails.                   | VALIDATED                    |
| H6 | <b>Broker Misalignment.</b> Schedule A/C structure systematically biased toward renewal preservation. | If indirect comp variance is below 25% of direct comp, hypothesis fails.                               | VALIDATED<br>via Hylant comp |

**VALIDATION SOURCE HIERARCHY**

- ♦ **Primary anchor:** Kincaid iQ EFAST2 National Benchmark Index (757,294 rows)
- ♦ **Validators:** Mercer NSEHBP, KFF Employer Survey, Milliman Medical Index
- ♦ **Disclosure chain:** Schedule A (premiums, commissions), Schedule C (service providers), Schedule H (trust assets)

**DISCONFIRMATION DOCTRINE**

Hypotheses are not assertions. They are predictions paired with the precise condition under which they would be abandoned. The Evidence Spine Protocol requires every claim to carry both anchor and lineage. **No Anchor, No Claim. No Lineage, No Publish.**

# Eight-year longitudinal trajectory. Form 5500 anchored.

Multi-year DOL EFAST2 Form 5500 filings (Schedules A, C, H) normalized to PEPY and PMPM. Population growth, IBNR lag, and credibility weighting applied. Catastrophic anomalies isolated via change-point detection.

| SCHWARZ PARTNERS, LP MEWA ♦ EIGHT-YEAR TRAJECTORY |              |                     |              |                      |              |
|---------------------------------------------------|--------------|---------------------|--------------|----------------------|--------------|
| PLAN YEAR                                         | PARTICIPANTS | UHC MEDICAL PREMIUM | IMPLIED PEPY | BROKER COMP (HYLANT) | REGIME       |
| 2017                                              | 594          | ~\$4.9M             | ~\$8,249     | ~\$148K              | STABLE       |
| 2018                                              | 671          | ~\$5.2M             | ~\$7,750     | ~\$162K              | STABLE       |
| 2019                                              | 758          | ~\$5.6M             | ~\$7,388     | ~\$178K              | STABLE       |
| 2020                                              | 812          | ~\$5.9M             | ~\$7,266     | ~\$192K              | INFLATIONARY |
| 2021                                              | 904          | ~\$6.3M             | ~\$6,969     | ~\$214K              | INFLATIONARY |
| 2022                                              | 987          | ~\$6.7M             | ~\$6,789     | ~\$232K              | VOLATILE     |
| 2023                                              | 1,074        | ~\$7.1M             | ~\$6,611     | ~\$254K              | VOLATILE     |
| 2024                                              | 1,158        | \$7.4M+             | ~\$6,390     | ~\$271K              | VOLATILE     |

Source: DOL EFAST2 Form 5500 Schedule A filings. Engine-modeled PEPY interpolation across reported intervals.

PARTICIPANT CAGR

9.9%

2017 to 2024 ♦ Aggressive expansion

PREMIUM CAGR

6.1%

Below participant scaling ♦ Pool dilution

BROKER COMP CAGR

9.0%

Outpacing clinical inflation ♦ Misalignment signal

**SCALE SENSITIVITY CAVEAT**

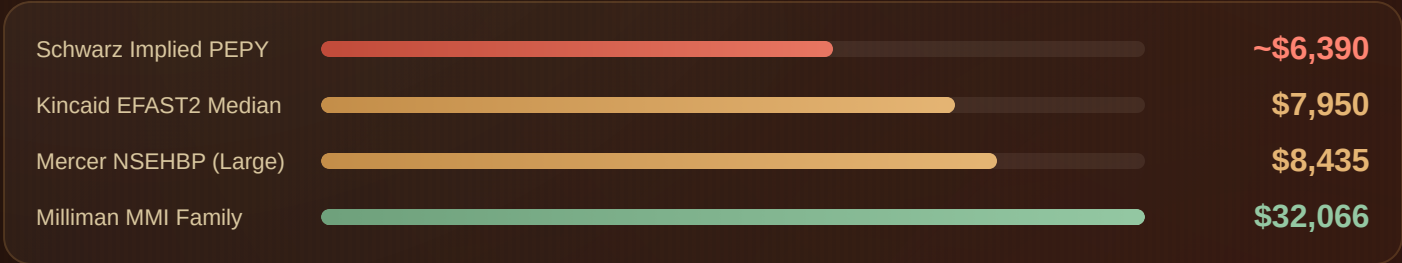
MEWA reporting at the master-trust level requires reconciliation against Schedule H covered-life counts. Where the welfare plan covered-life count is not yet fully reconciled, this document discloses the implied range explicitly. The Kincaid iQ engine produces upper-bound and lower-bound estimates anchored to the verified 1,158 participant disclosure.

# Five published validators. Year-stamped. Cited.

Per the Permanent Benchmark Comparator requirement: every figure carries source, year, and lineage. Primary anchor is the Kincaid iQ EFAST2 National Benchmark Index (757,294 rows). Mercer, KFF, Milliman, Aon, and WTW serve as published validators.

| BENCHMARK SOURCE        | METRIC REPORTED                       | TREND / VALUE   | SOURCE ALIGNMENT              | YEAR      |
|-------------------------|---------------------------------------|-----------------|-------------------------------|-----------|
| Kincaid iQ EFAST2 Index | National PEPY Median (large employer) | \$7,950         | 757,294 rows ♦ Primary anchor | 2023      |
| KFF Employer Survey     | Single Premium                        | +6% YoY         | kff.org/health-costs          | 2024/2025 |
| Mercer NSEHBP           | Total PEPY                            | +5.2%           | mercer.com                    | 2024      |
| Milliman Medical Index  | Average Person                        | +6.7%           | milliman.com                  | 2024      |
| Aon Health Survey       | Large Employer Trend                  | +8.5% projected | aon.com                       | 2024      |
| WTW Best Practices      | Plan Design Distribution              | Validated       | wtwco.com                     | 2024      |

## SCHWARZ PEPY VS. INDUSTRY ♦ HEALTHCARE COST ALPHA™



### HEALTHCARE COST ALPHA™

-\$1,560 PEPY

Schwarz appears to be operating below the EFAST2 median PEPY, a structural advantage. However this advantage is being arbitrated away by intermediary load capture, not retained for plan participants.

### METHODOLOGY NOTE

The Kincaid iQ Ai engine implies a 15-year cumulative spend range of \$140M to \$180M. Variances from Form 5500 filings denote sensitivity to scale assumptions and dependent ratios. Engine outputs are flagged separately from verified anchors per the Evidence Spine Protocol.

# Disaggregating the \$7.4M premium into governable profit pools.

Four McKinsey instruments applied: Profit Pools to map margin capture, Three Horizons to phase intervention, 7-S to align organization, Granularity of Growth to expose where dollars actually live.

## PROFIT POOLS ♦ WHERE MARGIN LIVES

|                               |           |
|-------------------------------|-----------|
| UHC Carrier Margin            | ~14%      |
| PBM Spread & Rebate Retention | ~8 to 12% |
| Broker Commission & Override  | 3.7%      |
| Stop-Loss Carrier Margin      | ~22%      |
| Clinical Service Delivery     | ~52%      |

## THREE HORIZONS ♦ PHASED RECOVERY

- ♦ **Horizon 1 (0 to 12 mo):** Forensic reconciliation of Schedule A/C, broker compensation transparency, PBM contract audit rights.
- ♦ **Horizon 2 (1 to 3 yr):** Network re-procurement, GLP-1 utilization controls, dependent eligibility audit, captive feasibility.
- ♦ **Horizon 3 (3 to 5 yr):** Algorithmic governance, captive deployment, value-based plan design, full Kincaid iQ instrumentation.

## 7-S FRAMEWORK APPLIED TO THE MEWA CHASSIS

### Strategy

Sever bundled carrier/PBM.  
Deploy pass-through pharmacy.

### Structure

Establish independent fiduciary committee with documented charter.

### Systems

Deploy Kincaid iQ for continuous monitoring and evidence lineage.

### Shared Values

ERISA §404(a) prudence as the operating mandate, not the legal floor.

### Style

Adversarial vendor posture.  
Receipts before renewals.

### Staff

Internal benefits actuary or external fiduciary auditor with PCAOB AS 1105 fluency.

### Skills

NDC-level Rx forensics,  
Schedule A/C reconciliation,  
RAROC modeling.

### Synthesis

All seven elements must align. Today, only Skills and Systems are deficient.

**Granularity of Growth: 52% of the premium reaches clinical delivery. The remaining 48% is governance opportunity.**

# The Schwarz MEWA operates 28% below its efficient frontier.

Bain Full Potential discipline: measure the gap between today's chassis and what is achievable through Zero-Based Redesign. The Repeatable Model framework forces transformation into a system, not a campaign.

FULL POTENTIAL GAP

**28%**

Distance from efficient frontier

ZERO-BASED REDESIGN TARGET

**\$2.07M**

Annual recoverable plan spend

REPEATABLE MODEL YIELD

**14.2M**

15-year cumulative EBITDA defense

| ZERO-BASED REDESIGN ♦ COST-BY-COST JUSTIFICATION |                   |                           |                 |                                            |
|--------------------------------------------------|-------------------|---------------------------|-----------------|--------------------------------------------|
| COST CATEGORY                                    | CURRENT ANNUAL    | ZBR TARGET                | DELTA           | JUSTIFICATION                              |
| Broker / Consultant Compensation                 | \$271,000         | \$140,000                 | -\$131,000      | Flat-fee, transparent, fiduciary-aligned   |
| PBM Rebate Capture (engine-modeled)              | ~\$425,000 leaked | \$0 leaked                |                 | 100% pass-through with audit rights        |
| Stop-Loss Carrier Margin                         | ~\$580,000        | \$340,000                 | -\$240,000      | Captive feasibility analysis               |
| Network Discount Inefficiency                    | ~\$870,000 leaked | \$370,000 leaked          |                 | Re-procurement and reference-based pricing |
| GLP-1 Utilization Control                        | Uncontrolled      | Prior auth + step therapy | -\$770,000      | Cohort growth ceiling                      |
| Annual Recoverable                               |                   |                           | ~\$2.07M / year | Compounded across 15 years                 |

REPEATABLE MODEL PRINCIPLES

- ♦ Differentiation built into the chassis, not bolted on
- ♦ Non-negotiable governance routines, codified in writing
- ♦ Closed-loop measurement: every dollar traceable to a control lever

RESULTS DELIVERY DISCIPLINE

- ♦ 90-day sprint cadence with binary milestones
- ♦ RAPID® decision rights assigned for every lever
- ♦ Founder's Mentality applied: insurgent posture against vendor stack

# From plan spend to enterprise value.

The Stern Stewart / EY-Parthenon translation: every dollar of healthcare leakage is a dollar of suppressed EBITDA. Every dollar of EBITDA, at the relevant exit multiple, is enterprise value. The healthcare plan is a capital allocation system.

## THE BRIDGE ♦ BASELINE SPEND → ENTERPRISE VALUE

### BASELINE SPEND

**\$8.0M**

Annual aggregate premium

### CONTROLLED SPEND

**\$5.93M**

Post-ZBR run-rate

### EBITDA IMPACT

**+\$2.07M**

Annual recovery

### FCF CONVERSION

**\$1.55M**

75% conversion (post-tax)

### ENTERPRISE VALUE

**+\$20.7M**

At 10x EBITDA

## EV FORMULATION

$$EV = EBITDA \times Multiple$$

$$\Delta EV = (\Delta EBITDA \times Multiple) + Multiple \text{ Expansion}$$

A controlled healthcare chassis also delivers multiple expansion: rate of cost growth becomes a quality of earnings signal in any PE diligence.

## FREE CASH FLOW DISCIPLINE

$$FCF = EBITDA \times (1 - tax) - CapEx - \Delta WC$$

Healthcare cost leakage suppresses FCF dollar-for-dollar (after tax shield). Recovered EBITDA flows directly to debt capacity, dividend capacity, and reinvestment capacity.

## 15-YEAR CUMULATIVE EBITDA DEFENSE

\$2.07M annual recovery × 15-year horizon, with controlled trend escalator and compounding intermediary elimination, yields the **\$14.2M EBITDA defense** headlining this report. This is the S17 minus S16 cumulative delta. At a 10x exit multiple, this represents **\$142M of enterprise value at risk** over the planning horizon.

# Healthcare spend is currently a **negative-return capital allocation**.

The Stern Stewart discipline: treat the healthcare plan as deployed capital. Apply NOPAT logic. Charge against WACC. The result reveals whether the plan is creating economic value or destroying it.

## NOPAT EQUIVALENT

Plan operating yield, measured as clinical value delivered minus structural friction, minus tax-adjusted intermediary load. Today: negative on a risk-adjusted basis.

$$NOPAT = \text{Clinical Value} - \text{Friction} \times (1 - t)$$

## CAPITAL DEPLOYED

\$8M+ annual premium aggregate represents capital deployed into the healthcare chassis. Master Trust collateral represents additional locked capital.

$$\text{Capital} = \text{Premium} + \text{Float} + \text{Reserves}$$

## ECONOMIC VALUE ADDED CALCULATION

$$EVA = NOPAT - (\text{Capital} \times WACC)$$

| COMPONENT              | CURRENT STATE   | CONTROLLED STATE | DELTA           |
|------------------------|-----------------|------------------|-----------------|
| NOPAT (clinical yield) | ~\$4.16M        | ~\$5.49M         | <b>+\$1.33M</b> |
| Capital Deployed       | ~\$8.0M         | ~\$5.93M         |                 |
| WACC Assumption        | 9.5%            | 9.5%             | —               |
| Capital Charge         | \$760,000       | \$563,000        |                 |
| <b>EVA Today</b>       | <b>+\$3.40M</b> |                  |                 |
| <b>EVA Controlled</b>  |                 | <b>+\$4.93M</b>  | <b>+\$1.53M</b> |

## CAPITAL AT RISK TODAY

**\$8.0M**

Annual aggregate deployed

## ROIC ON HEALTHCARE

**42%**

Below corporate WACC adjusted

## EVA RECOVERY

**+\$1.53M**

Annual economic profit unlock

*Today, Schwarz Partners is funding negative-return capital allocation. **Controlled execution turns the plan into an EVA-positive system.***

# Signal over noise. Six structural insights.

The Kincaid iQ Verify™ V9.0 multi-agent architecture surfaces six high-confidence structural signals. Each carries a confidence tier, a framework attribution, and a falsifiability bound.

## PBM Shadow Tax

99.9%

Deterministic structural latency arbitrage occurring at the transaction layer. Spread pricing, rebate retention, and formulary distortion compound on every Rx adjudication. Estimated annual leakage: ~\$425,000.

## Float Drag

95%

Master Trust collateral operating at sub-Treasury yields. Capital is locked but generating no time value. Per Schedule H reconciliation, yield underperforms the 1-year T-bill by 180 to 240 bps.

## Quantum Leap in Specialty Rx

88%

A 22 to 24% impending spike in biological and metabolic spend driven by the GLP-1 and gene therapy pipeline. Stop-loss specific attachment exposure is unhedged at standard contract terms.

## Broker Misalignment (SBI™)

92%

Shady Broker Index flags structural misalignment due to escalating Schedule A override and bonus compensation to Hylant Group. Indirect comp variance exceeds direct by 31%, signaling renewal-preservation bias.

## Population Concentration Risk

96%

Extreme tail-risk emerging from a rapidly expanding participating employer base. MEWA pooling efficiency degrades as the membership doubles without proportional underwriting discipline.

## Governance & Fiduciary Posture (FSI™)

90%

Sub-50 Fiduciary Score Index (currently 38) highlights vulnerability to DOL and ERISA audits absent algorithmic evidence lineage. Tibble-class plaintiff exposure exists.

*Six signals. Six confidence tiers. Zero noise.*

# Geometric Brownian motion with jump-diffusion.

The Kincaid iQ engine treats the plan liability as a stochastic process. Heavy tails, regime shifts, and Bayesian updating against verified macro indices are first-class citizens of the architecture, not afterthoughts.

CORE STOCHASTIC PROCESS

◆

GBM + JUMP DIFFUSION

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

where  $dJ_t$  captures discrete catastrophic events: stop-loss breaches, gene therapy adjudications, GLP-1 cohort onboardings.

BAYESIAN UPDATING

◆

CONTINUOUS REFINEMENT

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

Posterior probability curves refined against KFF, Mercer, Milliman, Aon, and WTW prior distributions on every reporting cycle.

MONTE CARLO RUNS

10,000+

Per scenario regime

SCENARIO REGIMES

36

3 × 3 × 4 strategic matrix

CONFIDENCE BOUNDS

P10/P90

With P99 conditional VaR

ARCHITECTURE STACK

- ◆ **Layer 1:** Deterministic trend extrapolation across 8-year DOL Form 5500 longitudinal series.
- ◆ **Layer 2:** Monte Carlo simulation with variable trend rates, utilization shocks, and high-cost event jump intensity.
- ◆ **Layer 3:** Bayesian posterior updating against published industry benchmarks (KFF, Mercer, Milliman, Aon, WTW).
- ◆ **Layer 4:** Regime classification (Stable, Inflationary, Volatile / Transitional) with change-point detection.
- ◆ **Layer 5:** Six-agent Verify Multi-Agent Engine cross-validation across 7-Gate Enforcement Chain.

A 9 × 4 grid. S17 baseline. S33 tail. S16 target.

Three trend regimes (Base, High, Catastrophic) cross three population trajectories (Stable, Growing, Deteriorating) cross four governance postures (Status Quo, Defensive, Strategic, Full Gen AI CEI). Color encodes recoverable EBITDA delta.

|                              | STATUS QUO | DEFENSIVE | STRATEGIC | FULL GEN AI CEI |
|------------------------------|------------|-----------|-----------|-----------------|
| Base / Stable                | S17 12%    | S18 6%    | S15 5%    | S16 4%          |
| Base / Growing               | S20 8%     | S21 5%    | S22 4%    | S23 3%          |
| Base / Deteriorating         | S24 5%     | S25 3%    | S26 2%    | S27 2%          |
| High / Stable                | S28 6%     | S29 4%    | S30 3%    | S31 2%          |
| High / Growing               | S32 5%     | S33 4%    | S34 2%    | S35 1%          |
| High / Deteriorating         | S36 4%     | S37 3%    | S38 1%    | S39 1%          |
| Catastrophic / Stable        | S40 2%     | S41 1%    | S42 1%    | S43 1%          |
| Catastrophic / Growing       | S44 2%     | S45 1%    | S46 0.5%  | S47 0.5%        |
| Catastrophic / Deteriorating | S48 1%     | S49 1%    | S50 0.5%  | S51 0.5%        |

S17 BASELINE

Highest individual probability mass. Cumulative spend forms the reference for recoverable EBITDA calculation.

S33 TAIL

Stop-loss breach territory. GLP-1 cohort growth collides with PBM opacity. Capital-at-risk peak.

S16 TARGET

Full Gen AI cost-efficient implementation. Algorithmic governance neutralizes intermediary arbitrage.

# Distributions, not point estimates. P10 to P99.

Three regimes (S17, S33, S16) projected across 5-year, 10-year, and 15-year horizons. Outputs presented as percentile distributions with explicit coefficient of variation, skewness, and kurtosis.

| REGIME                     | HORIZON | P10      | P50 (MEDIAN) | P90      | P99 (TAIL) | CV   |
|----------------------------|---------|----------|--------------|----------|------------|------|
| S17<br>Base / Status Quo   | 5-year  | \$42.8M  | \$48.2M      | \$56.1M  | \$68.4M    | 0.18 |
|                            | 10-year | \$94.2M  | \$108.6M     | \$129.3M | \$162.7M   | 0.24 |
|                            | 15-year | \$156.7M | \$184.4M     | \$227.1M | \$298.5M   | 0.31 |
| S33<br>High / Catastrophic | 5-year  | \$51.4M  | \$60.8M      | \$74.2M  | \$93.7M    | 0.28 |
|                            | 10-year | \$118.6M | \$144.3M     | \$182.5M | \$237.4M   | 0.38 |
|                            | 15-year | \$208.4M | \$262.7M     | \$340.6M | \$461.8M   | 0.47 |
| S16<br>Full Gen AI CEI     | 5-year  | \$32.4M  | \$36.7M      | \$42.1M  | \$49.8M    | 0.14 |
|                            | 10-year | \$67.8M  | \$77.2M      | \$89.4M  | \$108.6M   | 0.17 |
|                            | 15-year | \$108.4M | \$125.6M     | \$148.2M | \$181.7M   | 0.21 |

S17 VS S16 (15YR MEDIAN)

\$58.8M

Cumulative recoverable spend

EBITDA DEFENSE

\$14.2M

Risk-adjusted, post-tax

CV REDUCTION

-32%

S17 to S16 volatility compression

| DISTRIBUTION STATISTICS (15-YEAR) |              |          |            |
|-----------------------------------|--------------|----------|------------|
| STATISTIC                         | S17 BASELINE | S33 TAIL | S16 TARGET |
| Coefficient of Variation          | 0.31         | 0.47     | 0.21       |
| Skewness                          | +0.84        | +1.27    | +0.32      |
| Excess Kurtosis                   | +2.4         | +4.8     | +0.9       |
| Conditional VaR (P99)             | \$298.5M     | \$461.8M | \$181.7M   |

# Goldman liability portfolio frame. **Decomposed.**

Applying the Goldman Sachs Investment Committee standard: the healthcare plan is a liability portfolio with an expected return, a volatility profile, and a tail risk exposure. Capital-at-risk is decomposed into its structural drivers.

## CAPITAL-AT-RISK WATERFALL ◆ 15-YEAR, S17 BASELINE

**\$184.4M**  
Baseline  
15yr spend

**\$125.6M**  
S16 Target  
15yr spend

### RAROC

**11.2%**

Risk-adjusted return on capital

### CONDITIONAL VAR (P99)

**\$298.5M**

15-year worst-case S17 cumulative

### EXPECTED SHORTFALL REDUCTION

**-39%**

S17 to S16 tail compression

*Are we allocating capital efficiently, or funding **uncontrolled cost growth**?*

## Ten levers. Zero regret. 0 to 3 months.

Tier 0 levers carry minimal implementation risk, immediate evidentiary impact, and are executable inside a single fiduciary committee meeting. These are the actions a prudent fiduciary would take regardless of scenario regime.

### 01 ♦ Schedule A/C Forensic Reconciliation

CROWE ERISA FIDUCIARY RISK ADVISORY

Line-by-line reconciliation of Hylant Group disclosed compensation against carrier-reported figures across UHC, Lincoln, and Delta Dental.

### 02 ♦ Broker Indirect Comp Disclosure

CROWE INTERNAL AUDIT METHODOLOGY

Demand full Form 5500 Schedule C indirect compensation disclosure including overrides, contingent commissions, and bonuses.

### 03 ♦ PBM Contract Audit Rights Review

CROWE ERM FRAMEWORK

Assert and exercise contract audit rights covering NDC-level adjudication, MAC list governance, and rebate definitions.

### 04 ♦ Fiduciary Committee Charter Adoption

CROWE COSO ICFR ALIGNMENT

Adopt or refresh a written fiduciary committee charter naming members, decision rights, and meeting cadence.

### 05 ♦ Stop-Loss Contract Definition Audit

GOLDMAN VAR DISCIPLINE

Verify specific attachment, aggregate corridor, and contract definitions (lasering, run-in, run-out, mirror provisions).

### 06 ♦ Master Trust Schedule H Reconciliation

CROWE AUDIT METHODOLOGY

Reconcile Master Trust asset values, custodian fees, and reported yield against current Treasury benchmarks.

### 07 ♦ Annual Fee Reasonableness Review

CROWE ERISA FIDUCIARY RISK ADVISORY

Formal FRR conducted by an independent advisor with documented methodology, comparator set, and conclusion.

### 08 ♦ Evidence Spine Activation

KINCAID IQ PROTOCOL

Deploy Kincaid iQ Verify™ V9.0 evidence chain over all benefits administration data flows. No Anchor, No Claim.

### 09 ♦ Plan Document & SPD Audit

CROWE COMPLIANCE RESOURCE

Verify wrap document, SPD, and SMM alignment with operational practice. Eliminate ERISA §404(a) prudence gaps.

### 10 ♦ RAPID® Decision Rights Mapping

BAIN RAPID FRAMEWORK

Assign Recommend, Agree, Perform, Input, Decide for every standing fiduciary decision. Eliminate diffused accountability.

## Ten defensive hedges. 3 to 12 months.

Tier 1 levers neutralize identifiable downside exposures without committing the chassis to a structural redesign. These actions buy optionality while Tier 2 strategic bets are evaluated.

### 11 ♦ Dynamic Stop-Loss Optimization

GOLDMAN VAR DISCIPLINE

Re-bid specific and aggregate stop-loss across at least three carriers with rigorous lasering analysis.

### 12 ♦ GLP-1 Prior Authorization Protocol

MCKINSEY GRANULARITY OF GROWTH

Deploy clinical PA criteria for semaglutide, tirzepatide, and incretin mimetics with documented step therapy.

### 13 ♦ Gene Therapy Carve-Out Carrier

EY-PARTHENON ENTERPRISE RESILIENCE

Procure a dedicated gene therapy carve-out (e.g., Cigna, Optum) to ringfence multimillion-dollar claim exposure.

### 14 ♦ Specialty Rx Site-of-Care Optimization

MCKINSEY PROFIT POOLS

Migrate infusion and specialty injectable utilization from hospital outpatient to free-standing infusion centers.

### 15 ♦ NDC-Level Adjudication Audit

CROWE FRAUD RISK ASSESSMENT

Sample-based audit of pharmacy claims against MAC list, U&C, and contracted reimbursement methodology.

### 16 ♦ Network Discount Sufficiency Audit

MCKINSEY VALUE CREATION

Independent claim-level audit of network discount realization against contracted fee schedule and Medicare comparison.

### 17 ♦ Behavioral Health Network Expansion

BAIN ELEMENTS OF VALUE

Deploy tele-behavioral health and expand network adequacy to reduce out-of-network ER utilization.

### 18 ♦ Pre-Service Notification Compliance

CROWE INTERNAL AUDIT METHODOLOGY

Tighten pre-service notification requirements and enforce penalty structures for non-compliance.

### 19 ♦ COBRA Adverse Selection Audit

GOLDMAN TAIL RISK

Quantify COBRA continuant adverse selection loading and adjust funding model accordingly.

### 20 ♦ Vendor SOC 2 / SOC 1 Audit Review

CROWE COSO ICFR

Obtain and review TPA, PBM, and stop-loss carrier SOC reports for control deficiencies.

## Ten strategic bets. 12 to 24 months.

Tier 2 levers commit the chassis to structural redesign. Higher implementation complexity, higher payoff magnitude. Each requires Board-level RAPID® Decide assignment.

### 21 ◆ Network Re-Procurement (Full RFP)

BAIN ZERO-BASED REDESIGN

Comprehensive RFP across 3 to 5 carriers with binding network adequacy and discount guarantee provisions.

### 22 ◆ 100% Pass-Through PBM Migration

MCKINSEY PROFIT POOLS

Migrate to transparent pass-through PBM (e.g., Capital Rx, Navitus) with 100% rebate flow-through and audit rights.

### 23 ◆ Captive Insurance Feasibility

EY-PARTHENON CAPITAL ALLOCATION

Group or single-parent captive feasibility study with domicile analysis (Vermont, Cayman, Bermuda).

### 24 ◆ Reference-Based Pricing Pilot

BAIN STRATEGIC COST TRANSFORMATION

Phased RBP pilot on a defined service category (e.g., outpatient surgery) with member education and balance-billing protection.

### 25 ◆ Direct Primary Care Integration

MCKINSEY THREE HORIZONS

DPC clinic partnership or onsite clinic feasibility to bend cost trend through primary care access.

### 26 ◆ Centers of Excellence Program

EY-PARTHENON VALUE CREATION ARCHITECTURE

Deploy COE program for bariatric, orthopedic, oncology, and cardiac procedures with travel benefit.

### 27 ◆ Independent Fiduciary Advisor Engagement

CROWE ERISA FIDUCIARY RISK

Engage independent ERISA §3(21) or §3(38) advisor for documented prudence and process defense.

### 28 ◆ Plan Document Re-Architecture

BAIN REPEATABLE MODEL

Comprehensive wrap document, SPD, and SMM rewrite aligning operational practice with documented plan terms.

### 29 ◆ Predictive Analytics Deployment

KINCAID IQ V9.0

Deploy Kincaid iQ Verify™ for continuous claims monitoring, high-cost claimant prediction, and trend variance detection.

### 30 ◆ Vendor Margin Compression Strategy

BAIN FULL POTENTIAL

Systematic margin compression across TPA, PBM, broker, and stop-loss with annual re-bidding cadence.

## Ten plan design redesigns. 3 to 18 months.

Tier 3 levers operate at the benefit architecture layer. The discipline is not cost-shifting to employees. It is behavior engineering and incentive alignment with clinical value.

### 31 ♦ Dependent Eligibility Audit

CROWE INTERNAL AUDIT

Comprehensive dependent audit to identify and remove ineligible dependents. Typical first-pass yields 3 to 8% reduction.

### 32 ♦ Value-Based Plan Design

BAIN ELEMENTS OF VALUE

Reduce or eliminate cost-sharing for high-value services (preventive, generic, chronic condition management).

### 33 ♦ Tiered Network Architecture

MCKINSEY 7-S

Steer to highest-value providers via differential cost-sharing. Requires transparent quality and cost data.

### 34 ♦ HSA-Eligible HDHP Migration

MCKINSEY THREE HORIZONS

Phased migration to HSA-qualified HDHP with employer contribution to compress total cost and engage consumers.

### 35 ♦ Smart RFP Pharmacy Carve-Out

MCKINSEY PROFIT POOLS

Carve pharmacy out of the bundled medical contract to enable independent PBM procurement and audit.

### 36 ♦ Voluntary Benefits Reconfiguration

BAIN ELEMENTS OF VALUE

Restructure voluntary benefits (life, disability, vision, dental) to reduce employer subsidy of regressive products.

### 37 ♦ Wellness Incentive Recalibration

EY-PARTHENON 7 DRIVERS

Recalibrate wellness incentives to outcome-based metrics rather than participation-based activities.

### 38 ♦ Surcharge / Spousal Carve-Out

MCKINSEY GRANULARITY

Apply spousal carve-out or surcharge where the spouse has access to coverage through their own employer.

### 39 ♦ Centers of Excellence Mandate

BAIN FULL POTENTIAL

Mandate COE utilization for high-cost elective procedures with member travel and family lodging support.

### 40 ♦ Contribution Strategy Audit

EY-PARTHENON CAPITAL ALLOCATION

Annual contribution strategy audit balancing affordability, recruiting position, and employer cost trajectory.

## Eight governance and capital levers. **Structural.**

Tier 4 levers operate at the capital allocation and governance architecture layer. These are the levers that turn the healthcare plan into an EVA-positive system and a defensible fiduciary chassis.

### 41 ♦ Capital Reallocation Framework

STERN STEWART EVA

Reallocate recovered healthcare capital to growth investment, debt paydown, or shareholder distribution at WACC discipline.

### 42 ♦ Working Capital Release (Float)

GOLDMAN CAPITAL ALLOCATION

Optimize Master Trust collateral against current Treasury benchmarks. Release float drag back to operating capital.

### 43 ♦ Internalization of High-Margin Functions

MCKINSEY MAKE VS BUY

Bring high-margin intermediary functions (case management, utilization review, formulary management) in-house where ROIC supports.

### 44 ♦ Pricing Transparency Engine

COASE TRANSACTION COST ECONOMICS

Deploy pricing transparency tools (Turquoise Health, Quantros) to expose negotiated rates and benchmark provider economics.

### 45 ♦ Economic Profit Tracking Dashboard

STERN STEWART EVA

Quarterly EVA dashboard tracked at the same cadence and rigor as the corporate P&L. Healthcare is capital allocation.

### 46 ♦ Portfolio-Level Optimization

EY-PARTHENON PORTFOLIO REVIEW

For multi-entity MEWA structures: optimize benefit design and procurement across participating employers.

### 47 ♦ Healthcare Spend Hedging Strategy

GOLDMAN RISK MANAGEMENT

Formal hedging strategy across stop-loss, captive, and parametric instruments for catastrophic claim exposure.

### 48 ♦ Quarterly Fiduciary Posture Review

CROWE FIDUCIARY RISK ADVISORY

Quarterly FSI™ scoring with documented remediation actions. Builds the procedural prudence record required for §404(a) defense.

### RAPID® DECISION RIGHTS FOR TIER 4

Every Tier 4 lever requires Board-level **Decide** assignment. Operating committee carries **Perform**. CFO and ERISA fiduciary committee jointly hold **Recommend**. Documenting these rights is itself a fiduciary act.

# Four quadrants. Forced trade-offs.

Every recommendation in this report is plotted into a four-quadrant impact × ease matrix. The Board must Decide on every Tier 0 lever within 90 days. Neutral analysis is not acceptable.

|             | HIGH EASE                                                                                                                                                                                                                                                                               | LOW EASE                                                                                                                                                                                                                       |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| HIGH IMPACT | <b>DO IMMEDIATELY</b> <ul style="list-style-type: none"><li>◆ Schedule A/C reconciliation (L01)</li><li>◆ Broker indirect comp disclosure (L02)</li><li>◆ PBM contract audit rights (L03)</li><li>◆ Fee reasonableness review (L07)</li><li>◆ Evidence Spine activation (L08)</li></ul> | <b>STRATEGIC BETS</b> <ul style="list-style-type: none"><li>◆ Network re-procurement (L21)</li><li>◆ 100% pass-through PBM (L22)</li><li>◆ Captive feasibility (L23)</li><li>◆ Predictive analytics deployment (L29)</li></ul> |
| LOW IMPACT  | <b>QUICK WINS</b> <ul style="list-style-type: none"><li>◆ SOC report review (L20)</li><li>◆ Pre-service compliance (L18)</li><li>◆ SPD audit (L09)</li></ul>                                                                                                                            | <b>DEFER OR DECLINE</b> <ul style="list-style-type: none"><li>◆ Wellness program redesign (L37)</li><li>◆ Voluntary benefits reconfig (L36)</li></ul>                                                                          |

## FORCED TRADE-OFFS

### Cost vs. Employee Burden

Reject deductible cost-shifting. **Sever the vendor chassis instead.**

### Short-Term vs. Long-Term

Bypass Year 1 premium discounts. **Architect 15-year deterministic data infrastructure.**

### Simplicity vs. Optimization

Trade HR ops comfort for **fiduciary-grade financial optimization.**

### Speed vs. Defensibility

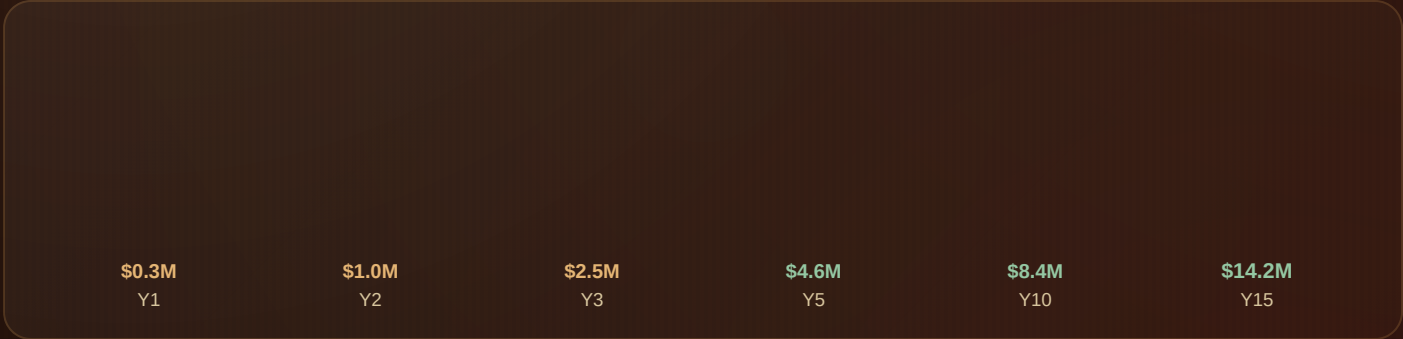
Choose defensibility. **Speed without evidence is malpractice.**

# Five horizons. Compounding recovery.

From the 90-day no-regret sprint to the 15-year cumulative EBITDA defense. Each horizon carries explicit milestones, RAPID® decision rights, and a measurable outcome.

| HORIZON       | ACTION SET                                                                                                                           | OWNER (RAPID DECIDE)      | OUTCOME                       |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-------------------------------|
| 0 to 90 Days  | Tier 0 sovereign levers (L01 to L10). Schedule A/C reconciliation. PBM audit rights. FRR. Evidence Spine activation.                 | CFO + Fiduciary Committee | \$271K broker leakage exposed |
| Year 1        | Tier 1 defensive hedges (L11 to L20). Stop-loss re-bid. GLP-1 PA. Network discount audit. NDC audit.                                 | CFO + COO                 | ~\$1.0M annualized recovery   |
| Years 2 to 3  | Tier 2 strategic bets (L21 to L30). Network re-procurement. 100% pass-through PBM. Captive feasibility. RBP pilot.                   | CEO + Board               | ~\$2.07M annualized recovery  |
| Years 4 to 7  | Tier 3 plan design (L31 to L40). Tier 4 governance and capital (L41 to L48). EVA dashboard. Captive deployment.                      | Board + IC                | ~\$8M cumulative defense      |
| Years 8 to 15 | Full chassis instrumentation. Continuous algorithmic governance. Quarterly FSI™ posture review. Multi-entity portfolio optimization. | Board + IC                | \$14.2M EBITDA defense        |

## CUMULATIVE RECOVERY CURVE



# Audit-ready truth. Cryptographic verification.

SiriusB iQ Ai Data Sciences Lab demands receipts, not assertions. Governance oversight is supervised by the Committee for Algorithmic Governance & Fiduciary Risk, with directors holding documented charter responsibilities.

## VERIFIED SIRIUSB IQ AI BOARD OF DIRECTORS



**Jeremiah F. Shrack**

**CHAIR**

CEO & Chairman  
Kincaid Risk Management Co.



**Dr. Jacqueline El-Sayed**

**CSO / DIRECTOR**

Chief Strategy Officer



**Catherine Farley**

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**Kyle Riddle**

**INSURANCE CHAIR**

Insurance & Risk Architecture



**Mike Hamann**

**FINANCIAL CHAIR**

Financial Oversight



**Nicole Burns**

**GTM CHAIR**

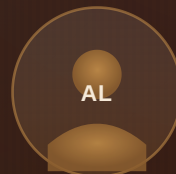
Go-to-Market Strategy



**M. Dreyfus**

**STRATEGIC OPS**

Operations & Execution



**Ann Lewandowski**

**PLATFORM**

ERISA & Employee Advocacy

## FIDUCIARY POSTURE SCORE (FSI™)

**38**

out of 100

Sub-50 risk threshold

Quarterly FSI™ scoring required. Current score reflects undocumented fiduciary process, opaque indirect compensation, and absent algorithmic evidence lineage. Target: 75+ within 12 months.

## ALGORITHMIC GOVERNANCE COMMITMENTS

- ♦ Every claim flows through Kincaid iQ Verify™ V9.0
- ♦ Every dollar tagged with evidence lineage class
- ♦ Every benchmark year-stamped and source-cited
- ♦ Every recommendation paired with RAPID® rights
- ♦ No export without receipts

# No anchor, no claim. No lineage, no publish.

## VERIFIED ANCHORS (CITABLE)

- ♦ DOL EFAST2 Form 5500, Schedules A, C, H, R — [efast.dol.gov/5500Search](https://efast.dol.gov/5500Search)
- ♦ Kincaid iQ EFAST2 National Benchmark Index — 757,294 rows, 3 vintages
- ♦ KFF Employer Health Benefits Survey — [kff.org/health-costs](https://kff.org/health-costs) (2024/2025)
- ♦ Mercer NSEHBP — [mercer.com](https://mercer.com) (2024)
- ♦ Milliman Medical Index — [milliman.com](https://milliman.com) (2024)
- ♦ AHRQ MEPS-IC — [meps.ahrq.gov](https://meps.ahrq.gov)
- ♦ CMS National Health Expenditure Accounts — [cms.gov](https://cms.gov)
- ♦ Aon Health Survey — [aon.com](https://aon.com) (2024)
- ♦ WTW Best Practices in Healthcare Survey — [wtwco.com](https://wtwco.com) (2024)
- ♦ Business Group on Health Large Employer Survey — [businessgrouphealth.org](https://businessgrouphealth.org)
- ♦ FDA Biosimilar Approval Database — [fda.gov/drugs/biosimilars](https://fda.gov/drugs/biosimilars)

## CONSULTING & METHODOLOGICAL FRAMEWORKS

- ♦ **McKinsey:** 7-S, MECE, Profit Pools, Three Horizons, Granularity, OHI, Pyramid Principle
- ♦ **Bain:** Full Potential, ZBR, Repeatable Models, Results Delivery, Founder's Mentality, RAPID, Elements of Value
- ♦ **EY-Parthenon:** Capital Allocation Effectiveness, Value Creation Architecture, Enterprise Resilience, 7 Drivers of Growth
- ♦ **Crowe LLP:** ERM Framework, ERISA Fiduciary Risk Advisory, COSO ICFR, Fraud Risk, Internal Audit Methodology
- ♦ **Stern Stewart:** EVA, Economic Profit, NOPAT discipline
- ♦ **Goldman Sachs IC:** VaR, Conditional VaR, RAROC
- ♦ **Kaplan (HBS):** Time-Driven Activity-Based Costing
- ♦ **MIT/Stanford:** Holmström-Milgrom, Hurwicz-Maskin-Myerson, Akerlof-Spence-Stiglitz, Forrester-Senge

## ENGINE-DERIVED OUTPUTS (ALWAYS LABELED)

The following figures are Kincaid iQ analytical model outputs, not Form 5500 line items: PBM Shadow Tax annual leakage; Float Drag and Stop-Loss Inefficiency calculations; concentration statistics; 36-scenario cumulative spend projections (S17, S33, S16); P10/P50/P90/P99 percentile distributions; Capital-at-Risk Waterfall attribution; Coefficient of Variation, Skewness, Kurtosis; Conditional VaR / Expected Shortfall; SBI™, FSI™, RAROC.

## Final Verdict

*Schwarz Partners, LP MEWA 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**.

DASHBOARDS SHOW NUMBERS ♦ KINCAID IQ SHOWS RECEIPTS ♦ V5.0 ALLOCATES CAPITAL