Rocky Mountain Risk Insurance Group **POLICY NO. F-3**
DATE: 2/10/2016

Subject: DIVIDEND/PREMIUM REDUCTION DECLARATION AND DISTRIBUTION

The Rocky Mountain Risk Insurance Group Self-Insurance Pool receives two actuarial reviews annually. A draft report is prepared in February based on data as of December 31 of the year, which is used to for premium setting for the following fiscal year and a preliminary determination of loss reserves for the Pool as of June 30 (year end). In August or September the January draft report is finalized with actual loss data from January 1 to June 30 and issued as the final actuarial report.

The Pool relies partially on two key financial ratios in evaluating Pool surplus. These ratios are summarized below.

(Recommended) Benchmark	
Liabilities-to-Surplus	<1.5
Prospective Losses-to-Surplus	<1.5

Definitions:

Liabilities – An estimate of the Unpaid Losses and Loss Adjustment Expenses (LAE), or Loss and LAE Reserves. These are actuarially determined amounts for unpaid losses and LAE at a specific valuation date.

Surplus - This amount includes both subordinated debt and unassigned surplus.

Prospective Losses – An estimate for the forecast period losses and allocated loss adjustment expenses (ALAE). The actuarial report will provide the prospective loss and ALAE estimate.

Note: Minimum surplus level is the subordinated debt level as noted in the annual audit.

The targeted surplus level is a subjective determination by the Board and shall be a stated amount or range. If the projected surplus is in excess of the target surplus the Board may use it to reduce premiums, increase reserve confidence levels, declare a dividend, increase pool retention, or invest in loss control programs. If the surplus is below the range the Board will require contribution in addition to premium to restore surplus to the targeted level. This may be done over time, such as several years, if necessary.

If the Board chooses to use excess surplus to declare a dividend or reduce premium, it will determine the amount, the timing of its distribution and basis of allocation among the districts. The amount of dividend or premium reduction may be a portion or the entire excess surplus and will be stated in the declaration. Timing of a dividend will consider the cash flows to the Pool in setting the distribution date.

The basis of allocation shall be the same allocation as used for equity reporting by district in the annual report. This method accounts for equity allocations since the inception of the Pool. The equity reporting basis is appropriate because it is easily determined, totally objective and consistent with the "family" philosophy of the pooled sharing of risks and rewards. This approach works well only if there are no changes in participants and all participants carry all lines of insurance coverage. If this changes in the future, then the above basis of allocation must be reviewed and changed, if necessary.

Cost Stability Program:

The Rocky Mountain Risk Insurance Group Member's participate in a Cost Stability Program. Members utilize their Unassigned Surplus as a savings plan. This program caps costs for premium increases of more than 5% above their previous years program cost. A member may not utilize this program for offsetting their program cost if the Unassigned Surplus drops below $0.00.

If a member's program cost has a premium decrease of more than 5% of the previous years' premium the member will contribute to their unassigned surplus. For example if a member's program cost is -6% for the upcoming year their total program cost will be adjusted to -5% with the 1% difference being added to the member's unassigned surplus.

This program shall not violate the recommended benchmarks for the pool as proscribed in Policy F-3.