Rocky Mountain Risk Insurance Group

POLICY NO. F-3
Date: November 11, 2020

Subject: DIVIDEND/PREMIUM REDUCTION DECLARATION AND DISTRIBUTION

The Rocky Mountain Risk Insurance Group Self-Insurance Pool receives regular actuarial reviews.

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 - 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: No member shall carry a negative balance in unassigned surplus.

The targeted surplus level is a subjective determination by the Board and shall be a stated amount or range. If the projected surplus is more than 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 with the approval from the Division of Insurance. 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.