

**UTAH COUNTIES INDEMNITY POOL
NET ASSET MANAGEMENT POLICY**

SECTION I. Effective Date and Frequency of Review.

- A. The Board originally adopted the Net Asset Management Policy on December 15, 2016.
- B. This policy should be reviewed annually, but not less than every three years by the Board. This policy will also be reviewed any time that changes to laws or rules are amended in a manner which would require an update to this policy.

SECTION II. Purpose.

- A. Manage Net Asset levels to assure adequate assets to protect UCIP's financial position without holding excessive public funds as Net Assets

SECTION III. Authority.

- A. The Board has authority to adopt this policy under the UCIP Interlocal Agreement.

SECTION IV. Applicability and Scope.

- A. This policy applies to all decisions regarding budget, contribution rates, reinsurance structure and dividends considered or approved by the Board.

SECTION V. Definitions.

- A. "Annual contribution" means the prior year's audited annual contribution.
- B. "Board" means the UCIP Board of Directors.
- C. "Claim Reserve Deterioration Fund" means a notional fund shown on the UCIP financial statements as restricted funds. Net Assets are reduced by the Claim Reserve Fund when calculating ratios for the purpose of determining dividends to assure adequate funds are maintained after any dividend distribution to account for deterioration of claims reserves in excess of the actuarially expected reserves.
- D. "Dividend" means distribution of UCIP Net Assets to UCIP Members.
- E. "Net Assets" means equity or surplus balances of UCIP which exceed liabilities identified on its audited financial statements.
- F. "Rate Stabilization Fund" means a notional fund shown on the UCIP financial statements as restricted funds. Net Assets are reduced by the Rate Stabilization Fund when calculating ratios for the purpose of determining dividends to assure adequate funds are maintained after any dividend distribution to account for unexpected expenses without necessity of short-term Member rate increases.

G. "UCIP" means the Utah Counties Indemnity Pool.

SECTION VI. Policy Statements.

- A. The Board shall review the audited Net Assets as part of the Member Rate setting process. The Board may use the Member Contribution Rate setting process, Claim Reserve Deterioration Fund, Rate Stabilization Fund, and the Dividend Plan to manage and control Net Assets.
- B. The Board conducts a Member Rate setting process annually in order to determine annual Member contributions in accordance with the UCIP Interlocal Agreement. In addition to the actuarial rate analysis, competitive factors and all other factors which impact the rate setting decision process, the Board shall review the audited Net Asset position in relation to this policy as part of their annual Member Contribution Rate setting process.
- C. The Claim Reserve Deterioration Fund may be used to assure designated reserves are adequate to pay all claims assumed. This fund will be shown as a restricted fund separately on the financial statements from the claim reserves, and will show the difference, if any, between the "expected" loss reserves identified by the actuary and the amount of reserves the Board approves to dedicate. The "expected" level provides a 60% confidence level that the reserves are adequate to pay all claims assumed. The Board should consider approving reserves in the 80% to 90% confidence level when UCIP performance allows.
- D. The Rate Stabilization Fund may be utilized to designate surplus to cover temporary or unexpected expenses, particularly reinsurance expense, to avoid temporary rate fluctuation. This fund will be shown as a restricted fund separately on the financial statements from budgeted expenses. As reinsurance expenses can only be estimated at the time Member Contribution Rates are developed, the primary use of this fund will be to cover costs of estimates that were low when rates were developed, as this would only affect the rates for that year. Additional amounts may be set aside to account for unexpected increases in reinsurance costs for other expenses, to allow for gradual rate change over multiple years.
- E. The Dividend Plan should be used to return excess Net Assets to Members in the manner described in the Dividend Policy.
- F. When determining if Net Assets are within the ranges identified in this policy, audited Net Assets shall be compared to the prior year's audited annual contributions.

SECTION VII. Procedures and Responsibilities.

- A. Net Assets should not exceed 250% of annual contributions unless the Board has specific needs for such surplus which may include but not be limited to the following:
 - 1. Expectation of new membership;
 - 2. Development of a new line of coverage;

3. Development of new or expanded coverage;
 4. Change or restructuring of the reinsurance program, particularly of the Pool's Self-Insured Retention; or
 5. Development of new or expanded services.
- B. Net Assets should not fall below 50% of annual contributions. If Net Assets do fall below 50%, the Board shall immediately implement a plan to increase Net Assets.

SECTION VIII. Revision History.

- A. Original Policy Adoption: December 15, 2016
- B. Revised: October 25, 2018

SECTION IX. Appendices.

- A. There are no appendices to this policy