

UTAH COUNTIES INDEMNITY POOL NET ASSET MANAGEMENT POLICY

SECTION A EFFECTIVE DATE AND FREQUENCY OF REVIEW

1. The effective date of this policy is December 15, 2016.
2. This policy should be reviewed annually, but not less than every five years by the Board of Directors.
3. This policy should also be reviewed any time that changes to laws or rules governing the management of net assets are amended or recommendations are made by the UCIP CEO, which would require review and update to this policy.
4. Failure to review this policy in the frequency stated shall not nullify, void, limit or waive this policy or any action taken under this policy.
5. This policy is considered to be amended at the time any new federal or state law becomes effective which conflicts with this policy, but only to the extent necessary to come into compliance with new law.

SECTION B PURPOSE

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

SECTION C AUTHORITY

1. The Board has authority to adopt this policy under the UCIP Interlocal Agreement and Bylaws.

SECTION D APPLICABILITY AND SCOPE

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

SECTION E DEFINITIONS

1. Annual Contribution: the prior year's audited annual contribution.
2. Board: Board of Directors of the Utah Counties Indemnity Pool.
3. CEO: the Chief Executive Officer of the Utah Counties Indemnity Pool.

4. Change in Net Annual Contributions: the change in the Net Annual Contributions of the most recent budget from the prior year Net Annual Contributions.
5. Claim Reserve Deterioration Fund: 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.
6. Combined Ratio: the total member contributions divided by the total operating expenses shown in the audited financial statements of any financial year.
7. Dividend: distribution of UCIP Net Assets to UCIP members.
8. Gross Change in Net Assets: the change in the Net Assets of the most recent audited financial statements from the prior year audited net assets.
9. Management Ratios: targeted ratios adopted under this policy to manage UCIP's Net Assets in a range that is adequate but not excessive.
10. Net Annual Contribution to Net Assets Ratio: total member contributions approved on the most recent budget, minus budgeted reinsurance premiums, divided by net assets.
11. Net Assets: equity or surplus balances, identified as net position, on UCIP's most recent audited financial statements, reduced by amounts designated as the Claims Reserve Deterioration Fund and Rate Stabilization Fund.
12. Net Assets to Gross Annual Contributions Ratio: Net Assets divided by the total member contributions approved on the most recent budget.
13. Rate Stabilization Fund: 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.
14. Reserves to Net Assets Ratio: the total reserves for losses and loss adjustment expenses on the most recent audited financial statements divided by the net assets.
15. Retention to Net Assets Ratio: the liability self-insured retention divided by the net assets.
16. UCIP: means the Utah Counties Indemnity Pool.

SECTION F POLICY STATEMENTS

1. 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.
2. 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.
3. 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.
4. 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.
5. 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.
6. The Dividend Plan should be used to return excess Net Assets to members.
7. If Net Assets exceed 200% of annual contributions, the Board may issue dividends.
8. If Net Assets exceed 250% of annual contributions, the Board shall issue dividends unless the Board has specific needs for such surplus as described in the Net Asset Management Policy.
9. The Board shall not issue dividends in an amount that would cause any of the Management Ratios outside the targeted range. decrease the Net Assets to Gross Annual Contributions Ratio below 150% or increase the Net Annual Contribution to Net Assets

Ratio above 300%, the Retention to Net Assets Ratio above 10% or the Reserves to Net Assets Ratio above 300%.

10. Dividends may be issued as experience dividends, equity dividends and/or member in good standing dividends.
 - a. Experience dividend. Members with loss ratios significantly below the average member loss ratio would be eligible for an experience dividend. Average member loss ratio would be calculated on the year in which the dividend is issued and on a multi-year basis, at the Board's discretion.

To receive an experience dividend a member must.

- (i) Continue membership in UCIP for the prospective year;
 - (ii) Maintain a loss ratio significantly below the average member loss ratio; and
 - (iii) Comply with specified Best Practices Program requirements as determined by the Board.
- b. Equity Dividend. If after the Experience Dividend is provided, Net Assets remain in excess of 200%, the Board may issue an Equity Dividend to the membership. If after the Experience Dividend is provided, Net Assets remain in excess of 250%, the Board shall issue an Equity Dividend to the membership unless the Board has specific needs for such surplus as described in the Net Asset Management Policy. For purposes of the Equity Dividend, equity will be calculated in accordance with the equity calculation in the Interlocal Agreement.

To receive an Equity Dividend a Member must:

- (i) Continue membership in the Pool for the prospective year; and
 - (ii) Have an individual equity to annual contribution ratio of at least 100%.
- c. Member in Good Standing Dividend. At the time the Board issues an Experience and/or Equity Dividend the Board may also issue a Member in Good Standing Dividend to Members who are not eligible for an Experience Dividend or Equity Dividend at the time of issuance of other dividends. A Member in Good Standing Dividend may not exceed \$1,000 per Member.

To receive a Member in Good Standing Dividend a Member must:

- (i) Continue membership in the Pool for the prospective year.
11. Limitations on Dividends. The total of Experience Dividends, Equity Dividends and Member in Good Standing Dividends shall not deplete the Pool's total Net Assets below 100% of annual contributions.

12. When determining if Net Assets are within ranges identified in this policy, audited Net Assets shall be compared to the prior year's audited annual contribution.

SECTION G PROCEDURES AND RESPONSIBILITIES

1. The Board has adopted the following Management Ratios and targeted ranges:
 - a. Change in Net Annual Contribution ($>-33\%$ & $<33\%$);
 - b. Combined Ratio ($<100\%$);
 - c. Gross Change in Net Assets ($>-10\%$ & $<50\%$)
 - d. Net Annual Contribution to Net Assets Ratio ($< 300\%$);
 - e. Net Assets to Gross Annual Contribution Ratio ($>50\%$ & $<250\%$);
 - f. Reserves to Net Assets ($<300\%$); and
 - g. Retention to Net Assets ($<10\%$)
2. The Board shall review Net Assets to Annual Contribution ratios annually following acceptance by the Board of audited financial statements, and prior to the calendar year end after acceptance of the audited financial statements.
3. 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:
 - a. Expectation of new membership;
 - b. Development of a new line of coverage;
 - c. Development of new or expanded coverage;
 - d. Change or restructuring of the reinsurance program, particularly of UCIP's self-insured retention; or
 - e. Development of new or expanded services.
3. 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 H REVISION HISTORY

2. Adopted: December 15, 2016

3. Revised: October 25, 2018
4. Revised: June 18, 2021
5. Revised: February 15, 2024

SECTION I APPENDICES

2. There are no appendices to this policy