

RESERVE POLICY

Purpose:

To formalize the Minnesota Counties Intergovernmental Trust's practice of reserving and designating fund balances. To maintain adequate levels of funds to mitigate current and future risks of revenue shortfalls or unanticipated expenses and prevent the need to assess members for operational shortfalls.

Policy:

It shall be the policy of the Minnesota Counties Intergovernmental Trust to maintain a satisfactory level of reserved, designated and undesignated fund balances in order to conform to legal requirements and to ensure a continued strong financial position.

MCIT's financial report shall show reserves and designations based upon generally accepted accounting principals.

Reserves, designations and undesignated fund balances shall be considered when developing the MCIT budget, determining coverage and rates, declaring dividends and considering parties for membership. Using a risk based capital formula consistent with that used by the NAIC in its monitoring of property/casualty insurers which- includes these factors, MCIT has determined that the designated fund balance in the:

- Workers' Compensation Division shall be the greater of one year's annual contribution plus **RISK BASED CAPITAL** or the annual cost of MCIT's operation for the division.
- Property/Casualty Division shall be the greater of one year's annual contribution plus **RISK BASED CAPITAL** or the annual cost of MCIT's operation for the division.

The board shall take action before the end of each year to designate its fund balance based upon estimated annual member contribution with the provision that the designated fund will be adjusted when the actual annual contribution is known.

Definitions

Fund Balance: Funds that represent the net excess of contributions over expenses. Fund balances will decrease when revenues are less than expenditures.

Reserves/Reserved Fund Balance: Funds set aside for the estimated cost of claims made and for the estimated cost of incurred but not reported claims.

Designated Fund Balance: Funds set aside for rate stability, membership retention, changes in reinsurance structure and cost, uninsured claims, adverse loss experience, legislative changes, safeguard for investment market volatility due to unanticipated changes in interest rates, safeguard for loss reserve volatility due to unanticipated changes in future inflation rates, cash flow requirements and cost containment.

Undesignated Fund Balance: Funds that are not set aside as reserved or designated and are available for operations, unexpected projects/opportunities and dividends when determined to be actuarially sound and fiscally prudent.

To ensure the continued fiscal strength of MCIT this policy, in particular the recalculation for risk based capitals shall be reviewed on a regular basis.

Revised November 16, 2012