

Montana Municipal Interlocal Authority

Policy Manual

Document Name:	Employee Benefits Program Financial Targets Policy		
Policy #:	2010-012	Pages:	1 of 2
Content Review:	Annual	Date Adopted:	February 25, 2010
Compliance Review:	Annual	Revisions Approved:	March 25, 2011
Location:	O:\Administration - MMIA\Board & Staff Policies Procedures Resolutions\Board Policies and Procedures\EB FINAL Policies\2010-012 2011March EB Targets Policy FINAL.docx		

Policy Statement

The MMIA Board of Directors hereby adopts the following MMIA Employee Benefits Program Financial Targets and Reserves Surplus Management Policy for purposes of establishing a financial target for the Employee Benefit Program reserves and guidelines on how any surplus reserves are to be utilized.

Financial Target

As a self-funded plan, it is necessary to maintain some claim fluctuation margin reserved in the event that claims plus expenses exceed premiums for a given year. The target goal for this reserve level is set at a 95% confidence level, above and beyond projected claims expenses and IBNR (incurred but not reported claims) allocations. This means that the reserve margin held would be 95% certain that claims for a given year would not exceed the expected annual premium plus the margin.

The 95% confidence level incorporates both a Random Claim Fluctuation Factor and an Economic and Demographic Factor:

- The Random Claim Fluctuation Factor is based on simulation and modeling of random claim variation. This is the most common reason for establishing margin.
- The Economic and Demographic Factor reflects other potential fluctuation that is not random in nature, but may be unanticipated. Such considerations include industry trend changes, enrollment shifts among groups, unexpected enrollment patterns of new members joining the program, data reporting errors, retiree eligibility changes and any other unforeseen circumstances.

Total risk margin to be reserved in order to maintain a 95% confidence level will be reviewed on an annual basis by the program actuary. Actuarial analysis will be performed based on statistical models to consider changes in headcount that affect margin requirements in order to meet a 95% confidence level.

Any amount reserved in excess of this established risk margin is considered Unrestricted Surplus.

Management of Unrestricted Surplus

Unrestricted Surplus above and beyond the reserved risk margin set as the program's financial target may be maintained for any given year. However, with discretion, the Board may utilize unrestricted surplus under the following guidelines:

- Only 50% of the unrestricted surplus may be allocated or distributed in a given year.
- Any amount of unrestricted surplus utilized in a given year should follow these considerations:
 - ✓ Initiatives or investments that should result in a cost-savings to the program.
 - a. Wellness programs
 - b. Operational resource investments that improve efficiency or quality of services
 - ✓ Program or benefit expansion.
 - a. More coverage for existing benefits
 - b. New benefits
 - c. Different plan options
 - ✓ Rate stabilization.
 - ✓ Capital asset acquisition

Financial Targets

The establishment of target financial ratios will assist in ensuring the EB Risk Retention Program remains financially strong by allowing the Board and staff to compare past financial performance with current and

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estimated future financial performance. Additionally, these ratios are to be considered the ends desired

by the MMIA Board and place limitations on the CEO's authority in carrying out his/her responsibilities. It is also important to establish guidelines for the Board and CEO on utilization of funds in excess of targeted reserve surplus if that situation occurs.

After conferring with other Risk Retention Pools, actuaries, the Association of Government Risk Insurance Pools, and Board deliberation to determine appropriate targets, the following ratios are being defined and established as targets for the MMIA Employee Benefits Program:

Profitability Ratios

Loss Ratio (Claims to Net Premium)	<89%
Expense Ratio (Operating Expense to Net Premium)	<11%
Combined Ratio (Claims + Opr Exp to Net Premium)	<100%
Operating Ratio (Total Expense to Total Income)	<100%