ABAG PLAN Corporation
Funding Policy
Adopted May 22, 2002
Revised & Approved May 19, 2004

1.0 Policy

It is the policy of the ABAG PLAN Corporation (PLAN) to prudently fund its programs to maintain sufficient assets to pay all losses, avoid substantial fluctuations in assets or deposits, and provide risk management services tailored to each member. We will achieve this through the most efficient mix of insurance, self-insurance and risk management resources.

2.0 Scope

This funding policy applies to activities of the PLAN with regard to funding the financial assets of the Liability Program. Terms with special meaning are defined in the "Definitions" section of this policy.

3.0 Objectives

It is the objective of this policy to provide a system which will accurately monitor and forecast losses and funding levels so that the PLAN can maintain sufficient assets to meet its obligations. Funding of the programs will be in accordance with sound actuarial methods and management principles with the following priorities:

1. Sufficient assets to pay expected losses
2. Stability of funding to avoid substantial fluctuations in deposits or assets
3. Support risk management programs to benefit all members

3.1 Sufficient Assets

The PLAN shall utilize Expected Liabilities, projected discounted liabilities at an actuarially determined Confidence Level (CL) of approximately 50%, when reporting liabilities for purposes of audited financial statements.

The PLAN maintains a "Risk Margin Fund" with assets equal to the difference between Expected Liabilities (50% CL) and discounted liabilities at a 90% CL.

The PLAN may pay dividends only to the extent assets will remain at least equal to liabilities at a 90% CL.

The PLAN shall calculate its initial Program Year deposits at a minimum of Expected Losses (50% CL) for that year.

The initial Program Year deposit shall include amount needed, if any, to maintain total assets at least equal to Expected Liabilities.

With respect to initial Program Year deposits, assessments, or dividends, the Executive Committee is granted the authority to utilize an actuarial degree of confidence other than that noted above when it is appropriate to do so based upon evaluation of the following criteria:

- Favorable or unfavorable program funding issues that need to be addressed
- Insurance market conditions
- Legislative issues expected to impact the liability environment or pool management, and
- Risk exposures that impact the viability of the program

3.2 Stability of Funding

The PLAN maintains a Self-Insured Retention (SIR) Fund consisting of assets greater than discounted liabilities at a 90% confidence level. This fund enables the PLAN to prudently raise or lower the program's SIR &/or total deposits for a given Program Year depending on market conditions and loss experience.

The PLAN shall maintain a Fund Balance to SIR ratio of at least 3:1.

The PLAN shall consider the use of insurance to protect assets from falling below the 3:1 ratio or below expected liabilities at a 70% confidence level.

The PLAN shall maintain an SIR Fund Balance to SIR ratio of at least 2:1.

The PLAN shall maintain an Expected Liabilities to Fund Balance ratio of 1.5:1 or less.

3.3 Support Risk Management Programs

The PLAN shall allow the use of funds to provide risk management services for the pool and individual members.

4.0 Delegation of Authority

ABAG is designated as funding manager of the PLAN and is responsible for ensuring all funding activities are within the guidelines of these policies. ABAG shall develop and maintain administrative procedures for the operation of the funding program. In order to analyze and recommend a funding strategy for each Program Year, resources shall be allocated to the funding program. This commitment of resources shall include financial and staffing considerations.

5.0 Reporting

The Risk Manager will submit a yearly report which summarizes Ultimate Net Losses, funding levels, options for funding for the upcoming policy year, including cost to insure v. self-insure at various SIR levels, and how well the PLAN is achieving its funding goals and benchmarks.

6.0 Funding Program Benchmarks:

The PLAN shall seek to maintain the following benchmarks in choosing funding options:

- Yearly deposits at least equal to Expected Losses (50% CL), with goal of 70% CL
- Fund Balance to SIR ratio at least 3:1, with goal of 5:1.
- SIR Fund to SIR ratio at least 2:1, with goal of 3:1.
- Expected Liabilities to Fund Balance ratio of 1.5:1, with goal of 1:1 or less.
- Maintain Risk Margin Fund at 90% CL

7.0 Policy Adoption

The PLAN's funding policy shall be adopted by resolution of the Board of Directors. The policy shall be reviewed annually by the Actuary & Underwriting Committee and any modification made thereto must be approved by the Board.

8.0 Definitions

Claim Reserves: estimate of the funds needed to pay for known claims against a member that have been reported to the PLAN. The PLAN will establish a reserve for each open claim.

Confidence Level (CL): statistical term used to express the degree to which an actuarial projection (usually Ultimate Net Loss or IBNR) will be an accurate prediction of the dollar losses ultimately paid for a given Program Year or combination of Years. The higher a CL the greater surety the actuary has that losses will not exceed the dollar value used to attain that CL.

Deposit: the amount charged either individually or collectively to the pool members to cover the loss expenses of a given Program Year.

Dividend: amount payable either individually or collectively to pool members.

Expected Liabilities: claim reserves + IBNR, discounted, at a 50% confidence level, for all Program Years. Same as Reserves for Claims and ALAE on financial statement.

Expected Losses: actuarial projection of Ultimate Net Loss for a Program Year, discounted, at a 50% confidence level.

Fund Balance: total assets less total liabilities. Retained Earnings on Balance Sheet

Incurred But Not Reported (IBNR) Claims: estimate of the funds needed to pay for covered losses that have occurred but have not yet been reported to the member and/or PLAN. IBNR claims include (a) known loss events that are expected to become claims, (b) unknown loss events that are expected to become claims, and (c) expected future development on claims already reported.

Loss Adjustment Expenses: expenses incurred in the course of investigating and settling claims. Allocated loss adjustment expenses (ALAE) include costs or expected costs directly attributable to a specific claim, such as attorney, expert, or damage appraisal fees. Unallocated loss adjustment expenses (ULAE) include costs or expected costs that are not directly attributable to a specific claim but are related to claims settlement, such as salaries, supplies, and other costs of the PLAN's claims administrator.

Ultimate Net Loss: the sum of claims paid to date, claim reserves and IBNR, all within the program's pooled layer or SIR. Estimate of the total value of all claims that will ultimately be made against members for which the PLAN is responsible.