RESOLUTION NO. 2013-02

RESOLUTION OF THE BOARD OF DIRECTORS OF THE PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA (PARSAC) ADOPTING A WORKERS' COMPENSATION PROGRAM FUNDING POLICY INCLUDING RATE STABILIZATION FUND

WHEREAS, PARSAC seeks to develop a prudently funded program utilizing an annual actuarial study to estimate the Workers' Compensation Program's ultimate losses and funding levels; and

WHEREAS, PARSAC has set a target equity goal of five times the Self-Insured Retention (SIR) to ensure financial stability and flexibility; and

WHEREAS, PARSAC will create and maintain a Rate Stabilization Fund in order to mitigate the effect of rate increases; and

WHEREAS, the Board of Directors desire to have a comprehensive review of PARSAC's financial position before deciding on an equity distribution; and

WHEREAS, PARSAC has determined that the establishment and monitoring of four benchmarks attached as Appendix A in conjunction with the Retrospective Premium Adjustment (RPA) calculation will enhance the Board's understanding of PARSAC's overall financial position.

NOW, THEREFORE, BE IT RESOLVED, by the Board of Directors of the Public Agency Risk Sharing Authority of California that the Workers' Compensation Funding Policy shall be adopted as follows:

1. Funding for each year will be at the 75% confidence level at the Board of Director's discretion.

2. The target equity goal is set at five times the $500,000 SIR or $2.5 million.

3. A Rate Stabilization Fund in an amount not to exceed $500,000 shall be maintained to off-set pool and excess rate increases as determined by the Board of Directors. The Fund will be replenished prospectively at the Board of Director's discretion when the fund falls below 50% capacity.

4. Funding in excess of the 90% confidence level excluding target equity and Rate Stabilization Fund will be available for distribution at the Board of Director's discretion.

5. If the overall confidence level falls below 70% according to actuarial projections, the Board of Directors may declare an assessment to be shared by all program participants.

6. Upon completing seven years, a program year shall be available for Retrospective Premium Adjustment (RPA).

7. RPA distributions will be made in the following percentages:

50% of equity in year 8	80% of equity in year 11
60% of equity in year 9	90% of equity in year 12
70% of equity in year 10	

8. Program years may be considered for closure 15 years after the year-end, and it has been at least one year since closure of the last claim in the proposed year(s). Once declared closed, 100% of remaining equity may be distributed to members through the RPA.

9. If a claim is reported or reopened after a year has been closed and equity returned, the Target Equity reserve will be used first to cover the deficit.

10. The four benchmarks in Appendix A will be reviewed before an RPA is issued.

Effective Date. This Resolution shall become effective upon approval by two-thirds of the Board of Directors present and voting and shall replace Resolution 2013-02.

ADOPTED this 5th day of December 2013.

Greg Franklin, President
PARSAC Board of Directors

ATTEST:

Joanne Rennie, PARSAC Board Secretary

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APPENDIX A - FINANCIAL BENCHMARKS

1. **Net Contribution to Equity**

   Calculation: (Contribution – Excess Insurance) / Equity

   Measures the impact of pricing inaccuracies on equity (a low ratio is desirable). A low ratio indicates that more equity is available to cover under-charged years. The target is less than 200%

2. **Claim Reserves and IBNR to Equity**

   Calculation: (Claim Reserves + IBNR + ULAE) / Equity

   Measures the impact of reserves inaccuracies on equity (a low ratio is desirable). A low ratio indicates more equity available to cover years with large losses. The target is less than 300%

3. **Prior Year Loss Development**

   Calculation: (Year 1 Loss reserves / Year 2 Loss reserves) / (Yr 2 / Yr 3) - 1

   Measures the change in loss reserves from one year to the prior year. A lower ratio indicates not much change in reserves between years. Target of less than 20% is desirable.

4. **Change in Equity**

   Calculation: (Year 2 Equity / Year 1 Equity) - 1

   Measures the change in equity. Any increase is desirable. The target is less than 10%.