Board File: DFB-R

**RESERVING POLICY FOR DOUGLAS COUNTY SCHOOL DISTRICT
MEDICAL FUND REGULATION**

CALCULATION OF RESERVES

I. IBNR Valuations (See Exhibit A in *Board File: DFB* for five year history of IBNR valuations)

A valuation of the IBNR shall be performed annually by a qualified actuary. The actuary will use methods that conform to the relevant Standards of Practice as promulgated by the Actuarial Standards Board. The calculation of the IBNR shall be based on the expectations that this Reserve amount will cover run-out claims 65% of the time. This 65% threshold is actuarially sound. The IBNR at this level shall be 100% funded at all times.

II. Contingency Reserve (See Exhibit B in *Board File: DFB* for reserving levels at a low, medium and high threshold)

Calculate the Contingency Reserve yearly by the following formula and the actuarial standards using a predictive modeling distribution.

$$[[A + B + C] \times D \times 12] + [E \times F]] \times G$$

Where:

$A =$	Specific Stop Loss Premium per employee per month for the next year
$B =$	Administrative Expenses per employee per month for the next year
$C =$	Expected claims cost per employee per month for the next year
$D =$	Number of employees covered under the self-funded plan for the next year
$E =$	Kaiser per Employee per Year premium cost
$F =$	Number of employees covered under Kaiser plan for the next year
$G =$	Margin as defined below,

Low = Factor of 1
Funds one year of cost at the 85th percentile of the expected cost. Also funds one year additional premium of Kaiser, which will offset premium increase if above our expected increase of 8%.

Medium = Factor of 3
Funds 3 years of cost at the 85th percentile of the expected cost. Also funds 3 years additional premium of Kaiser, which will offset premium increase if above our expected increase of 8%.

High = Factor of 5

Funds 5 years of cost at the 85th percentile of the expected cost. Also funds 5 years additional premium of Kaiser, which will offset premium increase if above our expected increase of 8%.

The Contingency Reserve shall be managed at the medium factor of 3 and shall be maintained at a minimum margin at the low factor and a maximum margin at the high factor.

Approved: December 12, 2013