



BOARD OF DIRECTORS MANUAL

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TAB:
INTRODUCTION & HISTORY

INTRODUCTION

We are pleased to welcome you to the exciting and creative place called The Builders Group of Minnesota (TBG)!

TBG MISSION STATEMENT

"TBG is committed to promote and develop strategic workers compensation products/solutions that benefit the construction industry of Minnesota and reinforce our reputation as the provider of choice."

TBG CORE VALUES

► **Honesty and Integrity**

Ethically conducting our business and taking responsibility for our actions and policies.

► **Our People**

Hiring and promoting dedicated employees to compliment our growth goals by creating a friendly, positive, and fun environment that fosters their success while enhancing our image with our business partners.

► **Innovation and Excellence**

Create innovative programs and services to profitably attract new business while retaining desired clients by listening and understanding their challenges and developing solutions to meet their needs.

► **Stewardship**

Maintain the integrity of the Fund by developing and updating sound underwriting and investment policies to ensure a legacy for future generations.

We strive to constantly set new standards for quality, creativity and client service. We are proud of our reputation of providing the highest quality of claims management, loss control, and underwriting services to our Members. To maintain and enhance that reputation, we continually strive to offer new services to our Members and Agents.

This document has been developed to familiarize new Board Members, and keep informed existing Board Members with Board Member responsibilities. These are working documents, intended to be referred to and used on a regular basis as part of each Board Member's process to complete assigned activities.

OVERVIEW

The Board of Directors are elected from the membership of TBG. There are currently 9 Directors on the Board that exclusively represent the TBG membership. Each Board Member has a fiduciary responsibility to TBG. When a Director comes into the meeting room they are asked to conduct business on behalf of all the TBG Members. It is this perspective that guides our Board through its decision making process.

TBG HISTORY

TBG HISTORY

The Builders Group was established on May 12, 1997 as an unincorporated association to operate as a Commercial Self Insurance Group, (CSIG), workers' compensation program pursuant to applicable Minnesota statutes 79A.19 to 79A.32. A coalition of contractors from four sponsoring associations: St. Paul Builders Exchange, Builders Association of Minnesota, Builders Association Twin Cities, and Minneapolis Builders Exchange, joined together to meet the premium threshold of forming a CSIG. The purpose of TBG was to provide a competitive, long term workers compensation insurance plan at favorable rates for the members of the four associations.

TBG started small with 52 members and \$450,000 in annual premium. There were no employees and the Builders Association of Minnesota served as the marketing arm of the program. Since the beginning TBG has continued to grow in both members and premiums.

During these years, TBG went from outsourcing services such as underwriting, loss control, marketing, and audit to hiring employees to perform

these functions. TBG contracts with Meadowbrook Insurance Group as a Third Party Administrator (TPA) for their claims services under the name of TBG Claims Services. This focus has led to TBG providing loss control and claims management services that are specifically oriented to the construction industry.

Today TBG continues to meet the needs of the construction industry by constantly improving and adding services for our Members and the industry. In 2007, TBG moved to its current facility with the objective of providing state of the art loss control training areas and programs designed for our Members. This along with our aggressive claims management gives TBG the basis for continued growth into the future.

As a self-insured fund, any excess profits are given back to the Member/Owners in the form of dividends. The TBG Board determines at the July Board meeting whether it is appropriate to authorize a dividend payment or not.

TAB:
TBG CERTIFICATE OF AUTHORITY

CERTIFICATE of AUTHORITY

No. CG-2

STATE OF MINNESOTA



Department of Commerce

The Undersigned
COMMISSIONER OF COMMERCE
for the State of Minnesota
hereby certifies that

THE BUILDERS GROUP

(Including Attachment "A")

has made application, paid the fees required and in all other respects complied with the laws of the State of Minnesota and is hereby authorized to transact the business of self-insurance for liability under the Workers' Compensation Laws of Minnesota pursuant to Minnesota Statutes Sections 176.181, 79A.19-79A.32 and Minnesota Rules Chapter 2780. 570 Asbury St., Suite 301, St. Paul, MN 55104

unless this authority be suspended, revoked, or otherwise legally terminated.

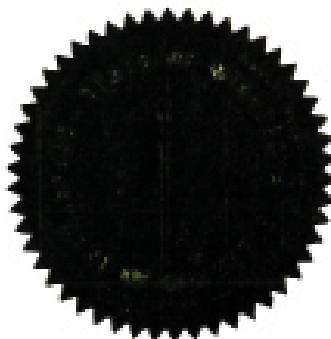
This certificate shall be in effect until further order of the Commissioner

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the official seal of the Department of Commerce, of the State of Minnesota at my office in the City of St. Paul,

Minnesota, this 12th day of

May, 19 97


Commissioner of Commerce



TAB:
BOARD VISION, PRINCIPLES AND RESPONSIBILITIES

VISION and PRINCIPLES

BOARD VISION

The Board's Objectives are to:

- ▶ Develop and periodically review TBG's Core Values and Mission Statement to ensure the organization is moving towards its mission successfully.
- ▶ Provide sufficient direction, policies, procedures, and financial resources to achieve the mission.
- ▶ Provide workers compensation coverage to its Members at the greatest possible value.
- ▶ Provide a state of the art loss control program for TBG Members and the construction industry of Minnesota.

GUIDING PRINCIPLES

Our ethical standards guide every business decision. Integrity, honesty, and equality are values that are integral to our success and business culture.

Our respect for and development of people creates a great work environment. We encourage new ideas, support innovation and risk-taking to build on the strengths and talents of every individual.

Our passion for Workers' Compensation Insurance solutions drives excellence in our services. We exceed customers' expectations by combining our industry experience with emerging trends.

Our culture of continuous improvement fosters an environment of change. We are never satisfied with the status quo. We continually review our products and practices to ensure our Members receive the best possible value.

STATEMENT OF COMMITMENT

The Board will serve by placing emphasis on:

- ▶ Outward vision rather than an internal preoccupation

- ▶ Encouragement of diversity in viewpoints
- ▶ Strategic leadership more than administrative detail
- ▶ Clear distinction of Board and Chief Executive roles
- ▶ Collective rather than individual decisions
- ▶ The future rather than the past or present
- ▶ Proactive rather than reactive
- ▶ Foster change as required to achieve our mission

The Board will cultivate a sense of group responsibility and will be responsible for excellence in governing. The Board shall not merely react to staff initiatives, but govern by following the established Bylaws and Plan of Operation. The Board will not use the expertise of individual members to substitute for the judgment of the Board, although the expertise of individual members may be used to enhance the understanding of the Board as a body.

The Board will direct, control and inspire the organization through the creation and updating of the Bylaws and Plan of Operation reflecting the Board's values and perspectives. The Board's major policy focus will be on the intended long-term impacts outside the operational organization, not on the administrative means of attaining those effects.

The Board will enforce upon itself whatever discipline is needed to govern with excellence. Discipline will apply to matters such as attendance, preparation for meetings, policymaking principles, respect of roles, and ensuring the continuance of governance capability. Although the Board can change its governance process policies at any time, it will scrupulously observe those currently in force.

Continued Board development will include orientation of new Board members in the Board's governance process and periodic Board discussions of process improvement.

The Board will allow no officer, individual or committee of the Board to hinder or be an excuse for not fulfilling group obligations.

BOARD RESPONSIBILITIES

CONFLICT OF INTEREST

TBG Board Members are prohibited from engaging in any conduct, activity, practice, or act which conflicts with or appears to conflict with the interests of TBG, its customers, or its suppliers. The Board commits itself and its members to ethical, businesslike, and lawful conduct, including proper use of authority and appropriate decorum when acting as Board Members. Board Members must have loyalty to the Members of TBG and be unaffected by loyalties to staff, other organizations, and/or any personal interest.

Board Members must avoid conflict of interest with respect to their fiduciary responsibility:

- ▶ There will be no business conducted by a Board Member with the organization except to the extent expressly permitted by law and appropriately disclosed. At the first Board meeting of each fiscal year, Board Members will disclose their involvements with other organizations, with vendors, and/or with any associations which might be or might reasonably be seen as a conflict.
- ▶ When the Board is to decide upon an issue about which a member has an unavoidable conflict of interest, that Board Member shall excuse himself/herself from the discussion and any voting.
- ▶ Board Members will not use their Board position to obtain employment in the organization for themselves, family members, or close associates. Should a Board Member apply for employment, he/she must first resign from the Board.

Board Members may not attempt to exercise individual authority over the organization:

- ▶ Board Members' interaction with the Chairman or with staff must recognize the lack of authority vested in individuals except when explicitly Board-authorized.
- ▶ Except for participation in Board deliberation, about whether the Chairman has achieved a reasonable

interpretation of Board policy, Board Members will not express individual judgments of performance of the Chairman or staff.

Members will protect confidentiality appropriate to issues of a sensitive nature including matters discussed in executive session.

CODE OF CONDUCT

TBG Board Members are not to receive or give monetary or non-monetary gifts, favors, entertainment, payments, or anything of more than limited value from, to, or for the benefit of any competitor, customer, supplier or other person seeking to do or doing business with TBG. Such gifts and the like can impair Board Members' abilities to perform their duties or exercise their judgment in a fair and unbiased manner.

There must be no unreported business relationship with any enterprise that supplies to, buys from, or competes with TBG. These relationships may include the receipt of gifts, money, or favors of more than nominal value from such an enterprise particularly in situations where business judgment may be influenced.

Payments or services considered to be payoffs, kickbacks, bribes, or otherwise illegal are unacceptable and if accepted, will lead to expulsion from the Board. These payments or services are generally substantially in excess of usual or customary charges.

Gifts, favors, or other business courtesies may be received or given only under the following conditions:

- ▶ They are of limited value and are received or given when no help or obligation is assumed. Monetary and/or non-monetary business gifts or favors with a value in excess of \$50 must be reported to the CEO. If and when the total value of business gifts or favors exceeds \$100 in a given calendar year, this must also be reported to the CEO and reported to the Board of Directors.

BOARD RESPONSIBILITIES

- ▶ They are legal, in accord with accepted business practices, and do not contradict any policies of TBG.
- ▶ Public disclosure of the receipt or giving of the gift, favor, or business courtesy would not be embarrassing to TBG.

Board Members may not use a business opportunity in which TBG has or might be expected to have an interest for an individual's personal benefit.

Board Members are prohibited from making a direct or indirect contribution from TBG funds either to or on behalf of a political party, committee, candidate, or official.

Examples of acceptable practices are as follows:

- ▶ Payment of minor gratuities for services which the company is entitled to receive such as gratuities to clerks or similar personnel to expedite paperwork, miscellaneous permits, or similar functions; the delay in performance of which could adversely affect normal business operations.
- ▶ Business oriented courtesies in the form of "tips," petty gifts, or similar favors of a usual and customary nature.
- ▶ Business courtesies such as usual and customary payments for meals or similar accommodation in connection with a business meeting.

Each Board Member is responsible for reporting any questionable activity to the CEO.

Board Members are also prohibited from accepting full-time, part-time, temporary, or contractual employment with any organization that does business with or is a competitor of TBG. This includes serving as an advisor or consultant to any such organization unless that activity is conducted as a representative of TBG or otherwise authorized by an executive of TBG.

PERFORMANCE POLICY

This policy is intended to support full contribution of all Board Members. It is essential that each and every Board Member is available to fully participate and has the prerequisite capabilities to complete the tasks of their assigned role(s). A failure to perform will be deemed to have occurred when a Board Member:

- ▶ Fails to attend the required meetings (Board, committee, project)
 - Without notifying their chairperson or CEO of anticipated absence(s); emergencies not withstanding
 - In excess of 1 unexcused Board meeting within a one year period
- ▶ Fails to complete assigned work activities in the timeframe afforded; not withstanding extenuating circumstances
- ▶ Fails to uphold the responsibilities of a Board Member and/or officer as described in The Builders Group section of this manual

Failure shall mean expulsion by a majority vote of the Board.

BOARD MEMBER COMPENSATION

The Board may establish compensation for Board activities, including board meetings, committee meetings and other meetings authorized by the Board.

DIRECTORS AND OFFICERS EMPLOYMENT PRACTICES AND FIDUCIARY LIABILITY

TBG has purchased Directors, and Officers, liability and Fiduciary Dishonesty (ERISA) policies for the TBG Board and Board Members.

TAB:
BOARD OF DIRECTORS

BOARD of DIRECTORS



Chairman
Tom Corrigan
Midwest Fence and
Manufacturing Co.



Vice Chairman
Lowell Pratt
Pratt Construction, Inc.



Secretary
Dennis Chartrand
Steel Structures



Treasurer
Craig Plekkenpol
Plekkenpol Builders



Sterling Black
LS Black Constructors



Richard Larson
Larson Construction



Tom Solberg
Marshall Concrete
Products, Inc.



Kris Scherer
Scherer Brothers Lumber



Mark Meyer
Breitbach
Construction Co.

TBG CONTACTS/VENDORS/SPONSORS

PROFESSIONAL PARTNERS:

TERM EXP.

Black, Sterling Spouse - Meghan	LS Black Constructors, Inc. - #1250 1959 Sloan Place St. Paul, MN 55117	Phone: 651-789-2900 Cell: 612-363-2929 Fax: 651-774-9695 Email: sterling@lsblack.com	2018
Chartrand, Dennis (Secretary) Spouse - Linda	Steel Structures, Inc. - #0042 821 Ninth Ave. SE Minneapolis, MN 55414	Phone: 612-623-1000 Cell: 612-845-4637 Fax: 612-623-1003 Email: dchartrand@steelstructures-mn.com	2020
Corrigan, Tom (Chairman) Spouse - Geri	Midwest Fence & Mfg. Co - #0003 525 Villaume Ave. South St. Paul, MN 55075	Phone: 651-451-2221 Cell: 651-214-7038 Fax: 651-451-6939 Email: tomc@midwestfenceco.com	2019
Larson, Richard Spouse - Sandra	Larson Construction, Inc. - #0014 405 19th St., #1 Hibbing, MN 55746	Phone: 218-262-2235 Cell: 218-966-5190 Fax: 218-262-5603 Email: richardlarson@mchsi.com	2019
Meyer, Mark Spouse - Karen	Breitbach Construction - #0414 PO Box 78 802 1st Avenue Elrosa, MN 56325	Phone: 320-697-5525 Cell: 320-241-6481 Fax: 715-808-0502 Email: mark@breitbachconstruction.com	2020
Plekkenpol, Craig (Treasurer) Spouse - Judy	Plekkenpol Builders, Inc. - #0119 401 E. 78th St. Bloomington, MN 55420	Phone: 952-888-2225 Cell: 612-581-1550 Fax: 952-888-2259 Email: craig@plekkenpol.com	2020
Pratt, Lowell (Vice Chair) Spouse - Wendy	Pratt Construction, Inc - #0364 3500 Willow Lake Blvd., Ste 100 St. Paul, MN 55110	Phone: 651-429-8032 Cell: 612-816-8650 Fax: 651-429-0255 Email: lopratt@pratthomes.com	2018
Scherer, Kris Spouse - Georgy	Scherer Brothers Lumber - #1505 9401 73rd Ave N Ste 400 Brooklyn Park, MN 55428	Phone: 612-627-0826 Cell: 612-919-2730 Fax: 612-627-0681 Email: kscherer@scherebros.com	2019
Solberg, Tom Spouse - Sue	Marshal Concrete Products, Inc - #0565 2610 Marshall Street NE Minneapolis, MN 55418	Phone: 612-706-4719 Cell: 612-616-6987 Fax: 612-789-5387 Email: tsolberg@marshallconcrete.net	2018

TAB:
BOARD POLICIES

BOARD STIPEND and REIMBURSEMENT POLICY

STIPEND SCHEDULE

Each Board Member shall be paid a stipend per the following schedule:

Chairman	\$ 25,000
Vice Chairman	\$ 17,500
Secretary	\$ 17,500
Treasurer	\$ 17,500
Board Members (per)	\$ 10,000

Payments will be made in May at the Annual Meeting. If a Board Member is not able to attend a meeting, a notice must be given to the Board Chair or CEO prior to the meeting.

In the event of a resignation of a Board member prior to the end of a full year, the stipend due the Board Member will be prorated based on the number of meetings attended to the total number scheduled. The same method will apply to a new Board Member replacing someone who has resigned mid year.

TRAVEL REIMBURSEMENT

Any Board member who travels more than 50 miles one way to attend a meeting will be reimbursed mileage at the current IRS rate as well as reasonable lodging and meal expenses.

BOARD PREMIUM PAYMENT POLICY

PREMIUM PAYMENTS

As a TBG Board Member it is expected that monthly premium payments will be made in a timely manner while serving on the TBG Board of Directors. If a TBG Board Member receives a second notice of cancellation within a 12-month period, that Board Member will be asked to resign from the TBG Board. We encourage you to communicate the importance of timely premium payments to the appropriate accounting personnel within your company.

The cancellation process is as follows:

1. Your monthly report and payment is due the 15th of each month for the preceding month. Even if you have no payroll in a given month, you must still submit your monthly payroll report.
2. A \$100 late fee is charged if not paid by the 20th of the month. TBG staff will contact the Board member if a late fee is charged, as a courtesy.
3. Notice of cancellation for non-payment is processed on, or about, the 25th of the month to be effective in 35 days.
4. The Chair and CEO will be notified when a notice of cancellation is processed for a Board Member.
5. If the Board Member refuses to resign from the Board, the Board, by majority vote, can terminate their tenure.

SIGNATURE STAMP POLICY

SIGNATURE STAMP POLICY

A signature stamp for the TBG Chair is to be used on the Indemnity Agreement required as part of the submission requirements on new Members to the Minnesota Department of Commerce.

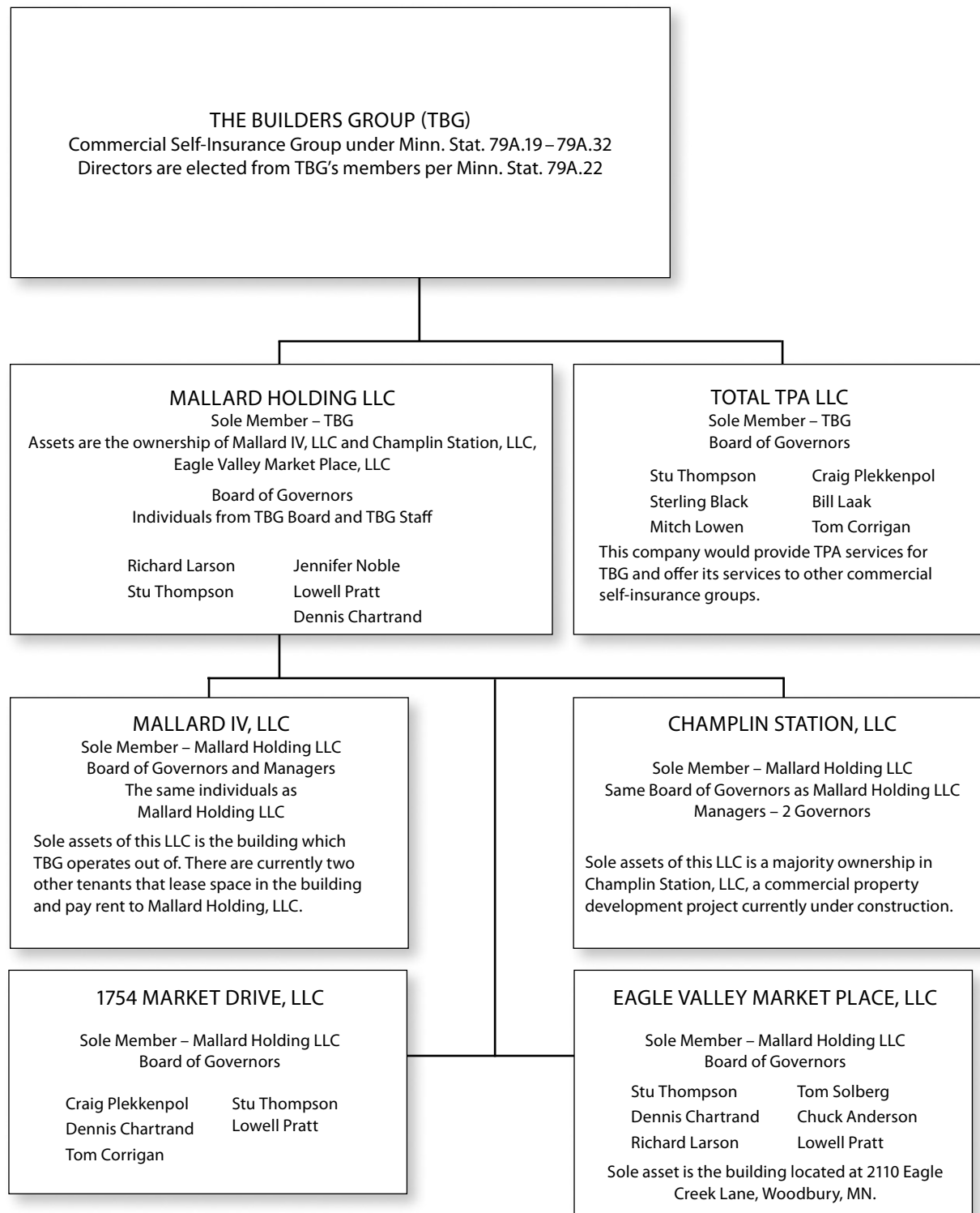
This is the only authorized use for the signature stamp and it is not to be used on financial instruments.

When not in use it is to remain locked up at all times.

TAB:
TBG STRUCTURE

TBG STRUCTURE

TBG BUSINESS STRUCTURE



TAB:
TBG STAFF

STAFF

DEPARTMENT OVERVIEW

The following positions report to the Chief Executive Officer:

- ▶ Director of Insurance
- ▶ Director of Finance
- ▶ Director of Information Services
- ▶ TBG Claims Services

DEPARTMENT REPORTS

Director of Insurance – is responsible for the insurance operations of The Builders Group. This includes the following departments:

Marketing Department – is responsible for all marketing activities for The Builders Group. Agency Marketing responsibilities include training the agents in representing TBG, the proper forms necessary to place coverage, making sales presentations with producers, conducting agency reviews with staff, and any agency related activity. Association responsibilities include attending various social and educational activities.

Underwriting Department – is responsible for determining whether a new account or an existing account is acceptable to join or continue as a member of TBG. The evaluation reviews the individual risk characteristics of a prospect or Member which include the hiring practices, loss history, whether there is a drug policy in place, are safety meetings conducted on a formal basis, and the loss control inspection report to name a few. If accepted a price is determined based on the risk characteristics.

Safety Services Department – this department is responsible is assisting the Members of The Builders Group in identifying potential hazards in their operations and helping them find ways to reduce or eliminate those hazards. This includes individual loss

assessments, development of an annual plan, job site inspections, seminars on various topics of interest, etc. Seminars that are hosted by The Builders Group not only are presented by the Safety Services staff but can be in conjunction with various sponsors, OHSA, or for individual members. TBG has the advantage of having the classroom and loss control demonstration rooms which is unique in the business.

Audit Department – this department is responsible for the annual audit function which is handled by staff and an outside service. This is the last check and balance to ensure the proper premium is collected for the proper exposure.

TBG Claims Services – this is the department that performs the claims adjusting function. Currently TBG has hired Meadowbrook Insurance Group under the name of TBG Claim Services.

Director of Finance – is responsible for all the financial aspects of TBG. This includes overseeing the accounting department, developing monthly financial data for review by the Board, developing the annual budget with the TBG management team and Finance Committee, working with our outside auditor on the annual audit and taxes, and oversees the HR activities of the company.

Director of Information Systems – is responsible for the development and management of all the information systems of TBG. This includes the operating software program, the system infrastructure and communications technology analytics, programs department specific, telecommunications systems and hardware, and coordination of the system with our TPA.

BOARD/STAFF COMMUNICATION

Common sense should be used in communication to the TBG staff. The CEO is the main contact but any

STAFF

Director on the management team can be contacted directly if it relates to their area of responsibility.

If staff contacts a Board Member directly with any allegations of improper conduct, those allegations need to be reported immediately to the Chair for proper handling. All other contact can be handled as the Board of Director see fit.

TAB:
TBG BYLAWS & PLAN OF OPERATION

TBG BYLAWS

August 15, 2014

The Builders Group Commercial Self Insurance Group Amended and Restated Bylaws

This group self-insured workers' compensation program has been created pursuant to Minnesota Statutes § 79A.19-79A.32, and is governed by Minnesota Statutes §§ 79A.19 et seq.; 176.181, Subd. 2, and Minnesota Rules Revised Chapter 2780.

ARTICLE I NAME AND EFFECTIVE DATE

1. Name. The name of this group will be:

The Builders Group, Workers' Compensation Self Insurers Group,
commonly known as The Builders Group ("TBG").

2. Commencement Date. TBG shall commence operations on May 12, 1997.

ARTICLE II PURPOSE

1. Purpose. The purpose of TBG is to establish and operate a group self-insured workers' compensation program pursuant to applicable Minnesota statutes and regulations as an unincorporated association. Said program shall be operated through:

- A. The appointment of a Fiscal Agent to receive, maintain and administer the funds of TBG and other duties as may be assigned to it by the Board of Directors, hereinafter referred to as the Board.
- B. The appointment of a Licensed Service Company to adjust and settle claims and assure compliance with all applicable laws and regulations of the State of Minnesota. Where permitted by law, employees and agents of TBG may perform any of the above-mentioned services or functions and such other duties which may be assigned to them by the Board.
- C. The language of the TBG Plan of Operation, dated January 1, 2014 as amended, is hereby incorporated into these bylaws by reference.

TBG BYLAWS

ARTICLE III DEFINITIONS

1. Manual Premium - "Manual Premium" shall mean a sum no less than the total exposure base defined in the Minnesota Workers' Compensation Insurers Association's (MWCIA) rating manual of rules and classifications multiplied by pure premium rates issued by the MWCIA and approved for use in Minnesota by the Commissioner of Commerce. These rates are multiplied by a loss cost multiplier that is approved annually by the TBG Board of Directors.
2. Member - "Member" shall mean a member that meets the Qualifications in Article IV (1).
3. Modified Premium - "Modified Premium" shall mean the total manual premium as defined in the Minnesota Workers' Compensation Insurers Association's manual of rules, classifications, and rates approved for use in Minnesota, above modified by an experience rating plan approved by the Commissioner of Commerce.
4. Net Deposit Premium - "Net Deposit Premium" shall mean the modified premium reduced by discounts which may be applied in accordance with the credit schedule based on the Member's individual risk characteristics.

ARTICLE IV MEMBERSHIP

1. Qualifications: Every Member of TBG must be in sound financial condition; and accept joint and several liability for all losses sustained by this group self insured fund. An applicant for membership shall submit a written application, consent to a safety inspection by loss control representatives, provide workers' compensation loss history consisting of information regarding its workers' compensation premium and losses for a period up to 5 years for review by TBG underwriters, and a reviewed or audited financial statement completed within the previous 12 months; or, if allowed by law, the Board may allow other alternatives.
2. Admission for Membership. Admission to membership shall be by majority vote of a Membership Committee established by the Board for that purpose. The Executive Committee shall be the Membership Committee unless the Board creates a separate Membership Committee. In the event of a tie vote, the Chairman shall cast an additional vote to decide the issue. Consideration of new Members shall be based upon information submitted by the underwriter(s) that meets the Qualifications in Article IV (1.).
3. Commencement of Coverage. Coverage shall commence on the effective date of the Member's agreement, provided, however, membership in TBG shall not be effective until the required deposit premium has been paid.

TBG BYLAWS

4. Rights of Members: No Member shall have any right, title or interest whatsoever, either legal or equitable, in the assets of TBG except at such time as a dividend distribution has been authorized by the Board in accordance with the provisions of Minnesota Statute Chapter 79A.22 Subd. 8. Each approved Member shall have the right, with other Members of TBG having a common interest, of obtaining workers' compensation coverage through TBG, as required by Minnesota Statutes and Minnesota Rules.
5. Voting: Each Member is entitled to one vote on all matters coming before the Members at all annual or special meetings of the Members.
6. Meetings: An Annual Meeting of Members shall be held on or before the final day of May of each Fund Year, for the purpose of electing Director(s), reviewing TBG's prior years' performance, and conducting such other business as may come before the Members. Each Member shall receive 30 calendar days written notice of the time and place of such meetings. The written notice shall be effective at the time of mailing. Other meetings of the Members may be held after 7 calendar days notice. Such notice, including an agenda of the meeting shall be given to all Members.
7. Quorum and Voting: A quorum for the conduct of business at a meeting of Members shall be 10% of the total Members of the Fund. Members may appear in person, or by a written appointment of a proxy, appointing the Chairperson or Vice-chairperson to vote the proxies as directed by the Board. A majority of those present at a meeting, either in person or by proxy, is necessary to approve motions at the meeting.

ARTICLE V GOVERNANCE

1. Powers and Duties of Board of Directors: The affairs of TBG shall be managed by or under the direction of a Board of Directors consisting of at least seven (7) members (the "Board"). The Board shall have all of the powers, authority, duties and responsibilities which are necessary for general supervision and operation of TBG and are in accordance with these Bylaws. The Board, at its sole discretion, shall:
 - A. Appoint or terminate the appointment of a Fiscal Agent who shall serve for such period and shall be delegated such powers and duties as may be set forth in an Agreement signed by the Board and the Fiscal Agent.
 - B. Appoint, or terminate the appointment of a Licensed Service Company who shall serve for such period and shall be delegated such powers and duties as may be set forth in an agreement and signed by the Board and the Licensed Service Company.
 - C. The Board shall have authority to hire employees and agents of TBG. The Board may delegate to the Fiscal Agent, Licensed Service Company and TBG employees the day to day management of TBG. Directors shall not be liable for the willful and malicious acts of the Fiscal Agent, the Licensed Service Company, TBG

TBG BYLAWS

employees or other TBG agents unless and to the extent that such Director shall have actual prior knowledge of such willful and malicious acts.

- D. The Board shall have the power to elect the following standing committees: Nominating Committee, Membership Committee, Investment Committee, Bylaws Committee and such other committees as it deems appropriate. Any decision made by any committee may be reviewed by the Board and can be vacated by majority vote of the Board.
 - E. The Board shall carry out those duties imposed upon them by TBG's bylaws, except to the extent that such duties are delegated to the Fiscal Agent, the Licensed Service Company, and employees, committees and agents of TBG as set forth above.
 - F. The Board shall approve all contracts except where it has delegated that authority to others.
 - G. The Board shall be responsible for TBG's compliance with the Minnesota workers' compensation law and the related rules and regulations of the State of Minnesota.
2. Election and Termination: The Board shall consist of at least seven (7) persons. No Member may have more than one representative on the Board.
 3. Director Qualification and Term. The Board shall be made up of natural persons who are officers, Directors, partners or employees of Members in TBG. No Third Party Administrator or vendor of risk management services shall serve as a Director of TBG. A Director shall hold office for a term of three years for which he/she was elected, unless his/her holding of office terminates earlier on account of death, resignation or removal. A director shall be elected by a simple majority vote of the Members of TBG in attendance at the annual meeting.
 4. Vacancies. Any vacancy occurring before the expiration of a Director's term will be filled by a representative elected by a majority vote of the Board for the remainder of the term. If a Director becomes unqualified to continue as a Director because he or she is no longer an officer, director, partner or employee of a Member of TBG, the Director may continue as a Director until a replacement has been found or to the next annual meeting at the discretion of the Board. A Director may be removed at any time, with or without cause, by action of the Members at a special meeting called under the provisions of Article IV, 5 and 6.
 5. Meetings of the Board: An annual meeting of the Board shall be held by the last day of May of each year in conjunction with the Annual Meeting of Members. Meetings of the Board may be held at any place that the Board selects. A conference among Directors, by means of communication through which the Directors may simultaneously hear each other during the conference, constitutes a Board meeting.

TBG BYLAWS

Any two Directors may call a Board meeting with two business days' written notice to all other Directors. A majority of the Board must be present to constitute a quorum. Directors may appear in person or by a written appointment of a proxy appointing another Director to cast a vote on behalf of the non-attending Director. All Meetings of Members and/or the Board shall be conducted in accordance with Robert's Rules of Order, as revised.

6. Agenda for Meetings of the Board. The Board may review such matters as may be appropriate including but not limited to the following items for the purpose of determining whether these areas of concern are being adequately provided for:
 - A. Service company performance.
 - B. Loss control and safety engineering.
 - C. Investment policies
 - D. Collection of delinquent debts
 - E. Expulsion procedures
 - F. Initial Member review
 - G. Fiscal agent performance
 - H. Claims handling and claims reporting
 - I. Marketing plan
 - J. Excess Policies
7. Officers of The Board. The Directors shall elect a Chairperson to act in all matters of TBG and perform such other functions as the Board may determine; a Vice Chairperson to act in the absence of the Chairperson; a Secretary to record minutes of meetings, send necessary notices to Directors and Members, and keep such other records that may be required for the function of the Board; and a Treasurer who shall oversee the financial affairs of TBG. All officers shall serve for a term of one year.
8. Action Without Meeting: The Chairperson, Vice Chairperson, Secretary, and Treasurer shall constitute the Executive Committee of the Board and shall have full power to act on behalf of the Board between Board meetings. In the event of a tie vote by the Executive Committee, the side on which the Chairperson votes shall prevail. Alternatively, any action required or permitted to be taken at a Board meeting may be taken by written action signed by all of the Directors.
9. Rights and Obligations: A Director shall discharge the duties of the position of a Director in good faith, in a manner the Director reasonably believes to be in the best interests of TBG and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. A Director is entitled to rely on information, opinions, reports, or statements prepared by the Fiscal Agent, Licensed Service Company, employees and agents of TBG, counsel, public accountants and other persons as to matters that the Director reasonably believes are within the person's competence.

TBG BYLAWS

10. Indemnification: TBG shall indemnify and have a duty to defend a Director or former Director made or threatened to be made a party to a proceeding by reason of his/her former or present Directorship against liability, judgments, penalties, fines, attorney's fees, and disbursements incurred by the Director or former Director complained of in the proceeding; provided, however that the Director or former Director:

- A. acted in good faith;
- B. received no improper personal benefit;
- C. had no reasonable cause to believe that his/her conduct was unlawful; and
- D. had reason to believe that his/her conduct was in the best interest of TBG.

Indemnification shall be made only to the extent the Director or former Director has not been indemnified by another organization for the expenses with respect to the same acts or omissions. In fulfilling its duty to defend the Director, TBG has the right to appoint counsel of its own choosing and direct litigation. The Director may hire his or her own attorney in addition to that assigned by TBG but the Director is solely responsible for the costs associated with hiring said counsel.

11. Compensation and Reimbursement of Directors: The Board may establish, from time to time, compensation for Board activities, attendance at Board meetings and other meetings authorized by the Board, and also reimbursement for reasonable actual expenses incurred in connection therewith.

ARTICLE VI FISCAL AGENT

1. Appointment. The Board shall appoint a Fiscal Agent for TBG. The Fiscal Agent shall not be an owner, officer, employee or affiliate of the Licensed Service Company. Duties of the Fiscal Agent shall be:
- A. To maintain and administer under the direction of the Board, an account(s) assigned by TBG;
 - B. To receive into the accounts all funds paid to TBG from whatever source.
 - C. The Fiscal Agent shall not commingle any of the assets of the self-insurers fund with assets of any individual Member of TBG.
 - D. To make available to the Licensed Service Company or TBG, as required, a revolving fund from which the Licensed Service Company or TBG shall pay compensation benefits and other related operating expenses which may be paid by the Licensed Service Company or TBG, including, but not necessarily limited to, WCRA insurance premiums, aggregate reinsurance premiums, Special Compensation Fund assessments, commercial Self-Insurers' Security Fund

TBG BYLAWS

assessments, legal defenses costs and Fiscal Agent and Licensed Service Company fees, as set out in their contracts for service.

- E. Except to the extent not prohibited by law, to perform such additional functions as may be agreed upon by TBG and the Fiscal Agent.

ARTICLE VII SERVICE COMPANY

1. Appointment. The Board shall appoint a service company for TBG who is licensed in accordance with Minn. Stat. § 60A.23, Subd. 8 that must employ or have under contract a claims adjuster with at least three years of Minnesota specific workers' compensation claim handling experience and licensed under Minn. Stat. § 72B. The Board may assign, either in whole or in part, any or all of the duties of the Licensed Service Company to TBG employees or agents, to the extent allowed by Minn. Stat. §§ 60A and 79A.
2. Duties. Duties of the service company shall be:
 - A. To receive and investigate all claims for compensation benefits, make initial determination of compensability and set loss reserves;
 - B. To work with TBG staff to pay claims in accordance with Minn. Stat. § 176 or other related expenses of TBG from the revolving fund provided by the Fiscal Agent;
 - C. To maintain books and records in the office of the service company in the State of Minnesota and file, on behalf of TBG, reports required by the laws and regulations of the State of Minnesota. Such books and records shall be available for inspection by the Board upon reasonable notice to the service company;
 - D. To comply with all laws and regulations of the State of Minnesota, including provisions of Minnesota Statute Chapter 72A, as they relate to the licensing and duties of service companies;
 - E. All program specific data information, books and records maintained by the service company shall be the sole property of TBG; and
 - F. To perform such additional functions as may be agreed upon by TBG and the licensed service company, where not prohibited by law.

ARTICLE VIII AMENDMENT OF BYLAWS


Amendments to the bylaws, if necessary, shall be made by a vote of a simple majority of the Board at a meeting held in accordance with the provisions of Article V Subp. 5.

IN WITNESS WHEREOF, the undersigned have hereunto affixed their signatures.

TBG BYLAWS


CHUCK ANDERSON DIRECTOR

DATED: 9-18-2014


STERLING BLACK DIRECTOR

DATED: 9/18/2014


DENNIS CHARTRAND DIRECTOR

DATED: 9/18/2014


TOM CORRIGAN DIRECTOR

DATED: 9/18/2014


JIM GRAHAM DIRECTOR

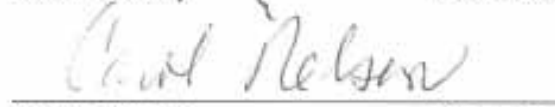
DATED: 9-18-2014


RICHARD LARSON DIRECTOR

DATED: 9-18-2014


MONTE MRAZ DIRECTOR

DATED: 9-18-2014


CAROL NELSON DIRECTOR

DATED: 9-18-2014


CRAIG PLEKKENPOL DIRECTOR

DATED: 9/18/2014


LOWELL PRATT DIRECTOR

DATED: 9/18/2014


RON SEVERSON DIRECTOR

DATED: 9/18/2014

BOARD OF DIRECTORS OF
THE BUILDERS GROUP

TBG BYLAWS

**First Amendment to
The Builders Group Commercial Self Insurance
Group Amended and Restated Bylaws
Dated August 15, 2014**

WHEREAS, on August 15, 2014, pursuant to Minnesota Statutes §§ 79A.19 et seq.; 176.181, subd. 2 and Minnesota Rules Revised, Chapter 2780, the Board of Directors of The Builders Group adopted The Builders Group Commercial Self Insurance Group Amended and Restated Bylaws (the “TBG Bylaws”); and

WHEREAS, Article VIII of the TBG Bylaws permits the amendment to said bylaws by a vote of a simple majority of the Board of Directors;

WHEREAS, on January, 26, 2016 the following members of the Board of Directors participated in a special meeting of the Board of Directors, called specifically to address the amendment of the TBG Bylaws; and

WHEREAS, the following resolution is hereby adopted as the First Amendment to The Builders Group Commercial Insurance Group Amended and Restated Bylaws, by the Board of Directors of The Builders Group.

RESOLVED, that the following language shall be substituted, in its entirety, for Article II(C):

- C. The language of the current TBG Plan of Operation is hereby incorporated into these Bylaws by reference.***

RESOLVED FURTHER, that the following language shall be substituted, in its entirety, for Article V(3):

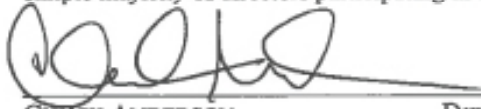
- 3. Director Qualification and Term. The Board shall be made up of natural persons who are owners or employees of a Member of TBG. The Member must have been in the Fund at least five (5) years, be in good standing, and have ongoing payroll and sales. No Third Party Administrator or vendor of risk management services shall serve as a Director of TBG. A Director shall hold office for a term of three (3) years for which he/she was elected, unless his/her holding of office terminates earlier on account of death, resignation, disqualification or removal. A director shall be elected by a simple majority vote of the Members of TBG in attendance at the annual meeting.***

RESOLVED FURTHER, that the following language shall be substituted, in its entirety, for Article V(4):

- 4. Vacancies. Any vacancy occurring before the expiration of a Director’s term will be filled by a representative elected by a majority vote of the Board for the remainder of the term. If a Director becomes unqualified to continue as a Director, the Director may continue as a Director until a replacement has been found or until the next annual meeting at the discretion of the Board. A Director may be removed at any time, with or without cause, by action of the Members at a special meeting called under the provisions of Article IV (5) and (6).***

TBG BYLAWS

IN WITNESS WHEREOF, the undersigned have hereunto affixed their signature, constituting a simple majority of directors participating in the aforementioned special meeting of the Board of Directors.


CHUCK ANDERSON DIRECTOR

DATED: 1/26/16

STERLING BLACK DIRECTOR

DENNIS CHARTRAND DIRECTOR

DATED: _____

DATED: 1/26/16


TOM CORRIGAN DIRECTOR

DATED: 1/26/16

1/ Richard Larson (via telephone)
RICHARD LARSON DIRECTOR


DATED: 1/26/2016

1/ Carol Nelson (via telephone)
CAROL NELSON DIRECTOR

DATED: 1/26/2016


CRAIG PIEKKENPOL DIRECTOR

DATED: 1/26/2016


LOWELL PRATT DIRECTOR

DATED: 1/26/16


RON SEVERSON DIRECTOR

DATED: 1/26/16

TBG PLAN of OPERATION

The Builders Group Plan of Operation – Effective Date January 1, 2016

1. DEPOSIT, PREMIUM PAYMENTS AND FINANCIAL REQUIREMENTS

A. Deposit: At the inception of a new Member's coverage, that Member shall pay a deposit to TBG in an amount equal to 20% of the Member's annualized premium for workers' compensation liability coverage. The deposit shall be adjusted periodically by TBG to maintain the deposit at approximately 20% of the annual premium level during the entire period of membership. The deposit shall not be interest-bearing.

The other options are prepaying 25% of the annualized premium of each agreement year which will be applied to the final three months of the agreement, or provide an irrevocable letter of credit.

B. Premium: The premium shall be reported and paid monthly based on actual payroll from the preceding month and is due on the 15th day of each month of the agreement year. If there is no payroll to report in a given month, the Member must still submit a monthly report indicating zero payroll in order to avoid a late fee.

A Member (the "Guarantor") who is a parent, subsidiary or affiliate of another Member serves as a guarantor of such other Member's obligations to make any payment due TBG hereunder on a joint and several basis with the parent, subsidiary or affiliate. Any such parent, subsidiary or affiliate's failure to comply with any term or condition of this Plan of Operation shall be considered a breach thereof by the Guarantor.

- **Experience Modification Factor:** In determining the annual modified premium of each Member, TBG shall calculate an experience modification factor according to the methods and rules used by the Minnesota Workers' Compensation Insurance Association (MWCIA).
- **Audit:** Following the expiration of each agreement period, we will conduct an audit, which is a review of your records and operations to ensure that the coverage and reported payroll information is correct. The audit may result in an additional or return premium.
- **Minimum Premium:** All coverage is subject to an initial policy written minimum premium of \$5,000 effective 7-1-2012.

C. Additional Requirements: Minnesota Statutes for commercial self-insurance groups require TBG to file a financial compilation report with the Minnesota Department of Commerce. To prepare this report and file it timely, we will request that you forward a copy of your most recent financial statements (compiled, reviewed or audited financial statements, including the signed CPA letter, or most recent federal income tax returns with schedules filed by your company). If, in any Fund Year, any TBG Member comprises over 25 percent of the total premiums paid by all TBG Members, that Member's financial statement must be reviewed or independently audited. The statement

TBG PLAN of OPERATION

must be submitted to the Commissioner of the Minnesota Department of Commerce by May 1st of the following year.

D. Non-Renewal of Coverage: If a Member does not renew its workers' compensation liability coverage with TBG or if the coverage is canceled or terminated by either TBG or the Member, an audit shall be performed and the final annualized premium for the Member shall be determined. After an audit, any overpayment of premium shall be refunded to the Member. Any balance owed by the Member to TBG shall be first deducted from the deposit with any remaining balance of the deposit refunded to the Member. If there remains a balance owed to TBG, the Member shall make full payment to TBG within 30 days of receiving notice of the deficiency.

2. **TBG DIVIDEND DISTRIBUTION POLICY**

Original Date: 12-01-2007
Last Change: 01-01-2016
Last Review: 01-01-2016

A. Dividend Distribution Policy Background: The objective of this policy is to develop a method based on solid insurance principles, is fiscally responsible, and returns the dividends to the Members on a basis that minimizes the chance of an assessment. It is intended that all surplus funds be returned to the Members. The surplus funds that arise during a Fund Year should be recorded on the income statement with the unpaid portion of these amounts added to the liabilities on the balance sheet. The Board believes that these are binding, enforceable, and unconditional obligations to return the monies to the policyholders. The applicable dividend policy is the policy in place when a dividend is paid, not the dividend policy which was in place during the Fund Year from which the dividend is being calculated and paid.

B. General: Dividend distributions are paid from Member Distribution Payable (MDP) which consists of investment income and excess underwriting income. The policy was developed based on the following considerations:

- **The WC Claim Tail** – Dividend distributions will be paid on a basis that coincides with the timeframe the majority of the WC claims are paid. Once an initial distribution of a Fund year has been dispersed the balance of the distribution payout will occur approximately over a 7 year time frame.
- **Timing of Dividend Distribution Payment** – Dividend distribution payments will be made at the TBG Board's discretion and may be made at any time during a Fund Year.

C. Eligibility: A TBG Member is eligible to receive a dividend distribution if they were a TBG Member during the Fund year designated by TBG's Board of Directors for dividend distribution and are still a Member of TBG on the date(s) when the authorized dividend distribution is paid or credited to the Eligible Member.

D. Dividend Distribution and Eligibility Determination: The TBG Board of Directors will determine if a dividend distribution is warranted, the amount of the dividend distribution if any, and the Fund Years' that are eligible at the first Board meeting conducted after July first of each Fund Year.

TBG PLAN of OPERATION

E. Dividend Distribution Approval: Any dividend distribution from Member Distribution Payable must be approved by the TBG Board of Directors and the Minnesota Department of Commerce.

F. Member Distribution Payable to Premium Ratio: The goal is to have approximately \$1 of MDP for every \$2 of premium after a dividend distribution is paid.

G. Dividend Distribution Payment: If a dividend distribution is authorized, the payment to the Eligible Members will be made on a date determined by the TBG Board of Directors. The dividend distribution payment(s) are based on the following criteria:

- The amount of profit an individual Member has contributed to the Fund in a Fund Year.
- The Expense Ratio of each Fund Year will be calculated to determine the breakeven loss ratio of that Fund Year. The Expense Ratio is the result of totaling all of the expenses for that Fund Year (except reinsurance) and dividing that number by the net premium (audited premium less reinsurance expense). The Expense Ratio is subtracted from 1.00 and the result is the break even loss ratio.
- The profit for a Fund Year(s) is the total MDP for that Fund Year(s).
- Once the breakeven loss ratio and profit amount are known the individual Member distribution is calculated based on the Member's loss ratio in comparison to the breakeven loss ratio of the Fund. Members with a loss ratio greater than the breakeven loss ratio will not be eligible for a distribution. Members with a loss ratio less than the breakeven loss ratio will be eligible to receive a dividend in proportion to the amount of their contribution to profit.
- After an initial dividend has been paid out for a Fund year, the results are recalculated annually to take into account any future change in the claim development of that Fund Year, either positive or negative. The annual recalculation protects the Fund against any adverse claim development that may occur.

Annual Dividend Payout

Once a dividend distribution has been authorized, there will be a maximum percentage payout each year until the total amount available for distribution of that Fund Year has been paid. Distributions will be made on the following schedule:

- 1st Year – 20% of the total authorized dividend
- 2nd Year – 10% of the total authorized dividend
- 3rd Year – 10% of the total authorized dividend
- 4th Year – 15% of the total authorized dividend
- 5th Year – 15% of the total authorized dividend
- 6th Year – 15% of the total authorized dividend
- 7th Year – 15% of the total authorized dividend

3. FUND DEFICIT

TBG PLAN of OPERATION

A. Assessment of Deficit: When, in accordance with applicable laws and regulations of the State of Minnesota, a deficit for any Fund Year exists, the TBG Board of Directors may make up such deficit as follows:

- The Board may order an assessment of every Member from the deficit Fund Year, whether or not the Member continues to be a Member at the time of the assessment. Such assessment will be pro-rata in the ratio of the Audited Premium of each Member bears to the total Audited Premium of all the Members during the deficit Fund Year. Additional assessments may be made as necessary.

4. PENALTIES: In the event that any additional compensation pursuant to M.S. Chap. 176.225, or similar statute, or damages pursuant to M.S. Chap. 176.82, or similar statute, or any similar damages are assessed against TBG, the Board, after authorizing payment of such penalty or damages, shall pursue recovery in full from the Members, former Members, person and/or persons whose actions gave rise to the assessment of such penalty or judgment.

5. DISCIPLINE OF MEMBERS

A. Expulsion of Members: The Board may expel Members from TBG for the following reasons:

- **Non-payment of Premium or Assessments:** In the event that the monthly payroll report and premium payment due to the program by a Member are not paid by the 15th of the month, a late fee penalty of \$100 will be charged after five (5) days of delinquency. A written notice of termination shall be sent via U.S. Mail to said Member after ten (10) days of delinquency. If after thirty (30) days from the date of notice, all past due amounts are not paid, its membership in TBG shall terminate, effective at twelve o'clock midnight on the thirtieth day from the date notice of the termination was given. Additional liability may exist after the termination date which would be determined by an audit. Any payments received from a former Member after the termination of workers' compensation coverage shall not result in an automatic reinstatement or continuation of workers' compensation coverage. The payment will be applied to any outstanding liability owed by the former Member to TBG and any additional liability that may exist as may be determined by audit. The balance of the payments will then be returned to the former Member.

At the discretion of TBG, a Member may be reinstated if all premium has been paid to date, if the member has no past due obligations owed to TBG, if the Member has had no known losses since the time coverage was cancelled, and if the Member pays a \$100 reinstatement fee and complies with any other TBG requirements for reinstatement.

- **Adverse Loss Experience:** If in any two year period of TBG, a Member incurs losses in excess of his/her premium for that two year period; a detailed analysis of that Member's losses shall be undertaken by the TBG

TBG PLAN of OPERATION

underwriting staff. After reviewing this analysis, TBG underwriting may terminate the Member's membership in TBG upon thirty (30) days written notice.

- **Noncompliance with Safety Recommendations:** If in the opinion of the TBG Staff, any Member has failed to comply with the safety and loss control recommendations provided by TBG Loss Control, its membership in TBG may be terminated upon thirty (30) days written notice.
- **Failure to Submit Financials:** Failure to submit the latest financial statement by August 15th of each year when asked. The information is necessary in order to complete a required Department of Commerce report. Non-compliance with this requirement may result in expulsion from the Fund.
- **Other Reasons:** Membership in this Group may be terminated upon thirty (30) days written notice for any of the following reasons:
 - i. Failure to report losses promptly.
 - ii. Failure to cooperate in an investigation and/or defense of claims.
 - iii. Failure to maintain, on a continuing basis, the membership qualifications outlined in Article IV Paragraph 1 of TBG's bylaws.
 - iv. Misrepresentation or fraud made by or with the knowledge of the Member in obtaining or continuing membership.
 - v. Substantial change in the risk assumed.
 - vi. Refusal of the Member to eliminate known conditions that increase the potential for loss after notification by TBG Loss Control, that the condition must be removed.
 - vii. Based upon a recommendation of the Commerce Commissioner,
 - viii. Any other regulatory basis permitted by the applicable law and rule of the State of Minnesota.
 - ix. Failure to provide the TBG Audit Department, its agents or employees, with requested information to perform the annual audit.
 - x. Failure to maintain, on a continuing basis, the payroll requirements that produce the minimum premium.

6. WITHDRAWAL FROM MEMBERSHIP: Once accepted for membership, a Member must belong to TBG for at least one year. If a Member voluntarily terminates its membership in TBG during the second or third year of their annual membership, TBG shall assess the Member the following penalties: 25% of the previous year's annual audited premium due from that Member if termination occurs within the second year of membership, and 15% of the previous year's annual audited premium due from that Member if termination occurs within the third year.

No penalty shall be required if an employer's withdrawal is due to merger, dissolution, sale of the company, or change in the type of business so that it is no longer engaged in the same industry as the rest of the employers of TBG. Any additional deficit determined after withdrawal to be attributable to the withdrawn Member shall be paid to TBG by the withdrawn Member upon demand by TBG.

TBG PLAN of OPERATION

7. **MEMBER DISPUTES:** Any dispute between Members regarding any matter concerning TBG shall be resolved by the determination of a simple majority from the Board.
8. **MEMBER RIGHT OF SUBROGATION:** Each Member shall assign to TBG its right to subrogation under Minn. Stat. § 176.061 in connection with any injury occurring during its period of membership.
9. **COSTS AND FEES:** If a Member owes money to TBG due to non-payment of premiums, assessments, withdrawal from membership or any other reason, and the Member fails to promptly pay those fees, the Member must reimburse TBG for any and all costs, disbursements and fees, including attorney's fees, expended by TBG in its efforts to collect the money owed by the Member.
10. **INVESTMENTS OF THE FUND:** The investments of the Fund must comply with Minnesota statute 79A.22. The Investment Committee shall choose an Investment Advisor to develop an Investment Policy Statement subject to Investment Committee approval. The Investment Advisor will oversee the investments of the Fund and make recommendations to the Investment Committee. The Investment Committee will meet with the Investment Advisor(s) on a periodic basis to ensure the IPS is being followed and to make any changes as needed.
11. **LOSS CONTROL SERVICES:** Loss control services will be provided to the Members of the Fund on an as needed basis and be available to all Members of the Fund.

TAB:
TBG STRATEGIC PLAN

TBG STRATEGIC PLAN

TBG MISSION STATEMENT

"TBG is committed to promote and develop strategic workers compensation products/solutions that benefit the construction industry of Minnesota and reinforce our reputation as the provider of choice."

TBG CORE VALUES

► Honesty and Integrity

Ethically conducting our business and taking responsibility for our actions and policies.

► Teamwork

Hiring and promoting dedicated employees to compliment our growth goals by creating a friendly and positive environment that fosters their success and personal growth while enhancing our image with our business partners.

► Innovation and Excellence

Create innovative programs and services to profitably attract new business while retaining desired clients by listening and understanding their challenges and developing solutions to meet their needs.

► Stewardship

Maintain the integrity of the Fund by developing and updating sound underwriting and investment policies to ensure a legacy for future generations.

SWOT ANALYSIS FOR STRATEGIC PLAN

STRENGTHS

- Industry experienced management team
- Strong Board of Directors with Commercial and Residential Construction Backgrounds
- Diverse Membership within the construction and related industries
- Exposure to national issues and contacts through SIIA, Multistate, and WC conferences
- Relationship with our Regulator
- Experienced lobbyist and lobbying efforts
- MAP Meetings
- Strong Industry Reputation
- Cross Border Program for Members who have exposures in other states
- Claims Management
 - An adjuster case load that facilitates early intervention and proactive claims management
 - Experienced, knowledgeable staff
 - Strong relationship with our outside claims TPA
 - Analytics scoring/analysis of claims, trends, and adjusters
 - Claims data is integrated with TBG's operating systems
 - Claim vendors/partners who agree with our "close the claim" philosophy
 - TBG Nurse Care Line
- Safety Services
 - Construction specialization
 - Individual Member need focus
 - Viewed by Members as a trusted partner
 - Experienced and cross trained staff promotes flexibility
 - OSHA grant assistance
 - Classroom and Training Facilities at TBG

TBG STRATEGIC PLAN

- On-site Member training availability
- Joint seminars with construction associations
- Online training resources
- ▶ Underwriting
 - Use of Analytics for risk assessment and suggested pricing
 - Strong underwriting guidelines
 - Excellent knowledge and understanding of construction exposures
 - Strong agency relationships
 - Experienced, knowledgeable staff
- ▶ Marketing
 - Strong Agency Relationships
 - One Industry concentration allows TBG to be viewed as the “Expert”
 - Positive industry reputation
 - Relationship with Industry Associations
 - MIIAB Company Award of Excellence
 - Cross Border Program for retention and new business
 - Outside ad consultant and new branding image
 - Experienced Business Development Coordinator
- ▶ Operations
 - Enterprise Software System - upgrade to “Breeze”
 - Data Analysis Technologies/Predictive Analytics
 - Pay As You Go
 - On-line ACH premium payment
 - Banking relationship with Alliance Bank
- ▶ Financial Safeguards
 - Use of outside actuary that specializes in self-insurance
 - Annual financial audit by outside CPA that specializes in self-insurance
 - Posting requirement - 110% of total estimated claim liabilities
 - Annual Rate Adequacy Review
 - Specific reinsurance coverage
- Outside investment advisor oversees investment portfolio
- TBG’s Debt Free Status
- ▶ Audit
 - Back up outside auditor
 - Experienced and customer friendly staff
 - Verifies accuracy of class codes, payroll, and subcontracted work which is shared with the other departments
 - Contributes to the accuracy of our statistics

WEAKNESSES

- ▶ Perception of analytics by claims department
- ▶ TBG Care Line Member penetration to date
- ▶ Inability of Agents to obtain a premium indication via the website
- ▶ Lack of metrics to measure performance in claims and underwriting
- ▶ Internal documentation of files by underwriting
- ▶ Streamline of audit process
- ▶ Assessment Potential
- ▶ Overcoming the perception of Joint and Several liability
- ▶ Negative publicity of other SIG assessments
- ▶ Agents not fully understanding self-insurance
- ▶ Perception of divided payment schedule
- ▶ Lack of good agency on line reports
- ▶ No agency principal contingency plan
- ▶ Poor claim description on FROI’s - leads to less accurate analytics
- ▶ Lack of coordinated marketing plan
- ▶ Security Deposit requirement
- ▶ Lack of a Best’s rating
- ▶ Necessity of two policies for Cross Border exposures
- ▶ Communication software for Marketing & Safety Services to Members, Agents, and Staff

TBG STRATEGIC PLAN

- ▶ Lack of agency contacts - phone or in person
- ▶ Vulnerable to companies leveraging other lines of business
- ▶ Aging internal workforce - loss of knowledge
- ▶ Statutory requirements
 - Enrollment process
 - Posting requirements
 - Combined Financial Report

OPPORTUNITIES

- ▶ Business Intelligence Module/Data Analysis/Dashboards
- ▶ Aging internal workforce
- ▶ Pursue Safety Services Partnerships/Strategies
- ▶ Other SIG's merge with TBG
- ▶ Additional MDP using Predictive Analytics for Underwriting and Claims
- ▶ Scholarship Program with TBG Education Foundation
- ▶ Explore WC Safety Services on a fee basis
- ▶ Identify and develop benchmarks for comparison to the industry
- ▶ Upcoming staff retirements brings fresh perspective
- ▶ Develop a lead generation program for our agents
- ▶ Agency Sales/Mergers - new business from Agency/Merger fallout
- ▶ New business proposals presented to prospects at TBG
- ▶ Health Insurance program
- ▶ Total TPA
 - Fee income from agency captive
 - Fee income from administration of other SIG's
 - Fee income from another states program
 - Purchase Formula Corporation

THREATS

- ▶ Legislature expanding WC benefits
- ▶ Insurance Cycle - soft market
- ▶ Competition Leveraging Other Lines of Business
- ▶ Reduction in Investment Income/Low Interest Rates
- ▶ Data breach
- ▶ Future Downturn in the Construction Industry
- ▶ Regulatory Overreach
- ▶ Misinformation about SIGs
- ▶ Potential deception of information by Members or Agents
- ▶ New silica guidelines and exposures
- ▶ Unknown occupational disease
- ▶ Technological dependency
- ▶ Medical inflation and new medical devices/procedures
- ▶ Finding qualified employees to fill future vacancies
- ▶ Agency sale/mergers
- ▶ Aging workforce
- ▶ National Brokers buying local agencies
- ▶ Carriers not willing to have their umbrella go over TBG EL policy
- ▶ PEO's more aggressive writing WC
- ▶ Lack of Safety Services for Cross Border Program
- ▶ Development of an analytics based alternative WC program
- ▶ Pure premium rate reduction from the MWCIA

STRATEGIC PLAN

FINANCIAL OBJECTIVES

- ▶ Achieve an accident year loss ratio of 35% or less and an expense ratio (expenses except reinsurance

TBG STRATEGIC PLAN

- ▶ Attain a 4% minimum annual rate of return on investments following TBG's investment policy
- ▶ Add a minimum of 10% of Net Premium to Member Distribution Payable on an annual basis
- ▶ Maintain Member Distribution Payable as a ratio to net premium of at least \$1 of MDP for every \$2 of premium
- ▶ Work on attaining a 1 to 1 ratio by 2023
- ▶ Maintain sufficient Member Distribution Payable to continue dividend payments to Members

BUSINESS OBJECTIVES

- ▶ Continue to seek other revenue opportunities that compliment the TBG Mission Statement
- ▶ Cultivate and develop a strong Board of Directors that represents all sectors of the construction industry
- ▶ Continue to seek and develop new benefits that add value for Members
- ▶ Monitor and update the Investment Policy
- ▶ Monitor and analyze real estate investments for profitability
- ▶ Provide support for the TBG Education Foundation
- ▶ Enhance and maintain the relationship with our regulators
- ▶ Enhance existing association relationships both locally and nationally

OPERATIONAL OBJECTIVES

- ▶ Improve utilization of operating systems to help maintain the expense ratio at 20% or less
- ▶ Continue to seek procedure refinements that improve efficiencies
- ▶ Work with Millimanmax to develop/enhance

reports that identify issues and opportunities and increase MDP

- ▶ Cultivate and develop employees
- ▶ Review HR manual/procedures annually to ensure compliance
- ▶ Continue to update the Succession Plan to ensure future employee retirements are known and replacements are hired on a timely basis
- ▶ Maintain and revise the Strategic Plan annually
- ▶ Further identify and develop financial and operational controls to ensure financial integrity
- ▶ Develop benchmarks for comparisons
- ▶ Develop and implement an annual marketing plan to support the marketing goals:
 - Delineates the TBG message frequently and clearly
 - Promotes the added value of TBG's low adjuster case load and Safety Services and facilities
 - Identifies the advantages of TBG over the competition
 - Continually promotes the Safety Services on-line training library to the membership
 - Continues to promote the TBG Nurse Care Line
- ▶ Continue to promote and expand Safety Services capabilities and facilities to the benefit of our Members
- ▶ Monitor the adjuster case load to maintain an average of 100 open indemnity claims or less
- ▶ Develop annual and quarterly goals by department

LEGISLATIVE OBJECTIVES

- ▶ Work with the Minnesota Self Insurance Group and other entities on legislative issues

TBG STRATEGIC PLAN

regarding Workers Compensation and Workers Compensation self insurance

- ▶ Educate legislators on Workers Compensation issues and Workers Compensation self insurance issues
- ▶ Educate Members, Industry Associations, and Agents on legislative issues concerning workers' compensation
- ▶ Partner with industry associations for the use of their legislative alert groups to contact legislative representatives when needed

2018 GOALS

- ▶ Develop and monitor the Marketing Program to include:
 - Develop \$1,000,000 of Cross Border Premium
 - Create a pilot program allowing an agent to generate quote indications
 - Develop Earned Premium of \$40,000,000
 - Analyze the effectiveness of the Agents Advisory Council and determine if changes are necessary
- ▶ Information Services
 - Conduct Breeze reviews at least monthly by department and provide additional training as needed
 - When available, train appropriate staff on Smartview dashboards in Tropics
 - Work the various departments developing reports in Breeze and look outside of Breeze if necessary
- ▶ Audit
 - Explore the development of a virtual audit, determine personnel needs and implement if feasible

▶ Safety Services

- Review the training room equipment and update where needed
 - Research and implement a software program for Safety Services that will improve/reduce the time necessary for report writing
- ▶ Attain a 35% penetration with MedCor

2019 GOALS

- ▶ Develop earned premium of \$42,000,000
- ▶ Refine the marketing plan for the 2019 year
- ▶ Grow the Cross Border program to \$1.5 million in premium
- ▶ Increase MedCor penetration to 50%
- ▶ Plan for a recession

2020 GOALS

- ▶ Develop earned premium of \$44,000,000
- ▶ Relock at an LPT for feasibility
- ▶ Develop \$2,000,000 for Cross Border Premium

2021 GOALS

- ▶ Discuss time frame for Stu's retirement and successor
- ▶ Develop \$46,000,000 of Earned Premium

2022 GOALS

- ▶ Begin search for Stu's replacement
- ▶ Develop \$48,000,000 of Earned Premium

TAB:
TBG INVESTMENT POLICY STATEMENT

TBG INVESTMENT POLICY STATEMENT

SCHEDULE OF REVIEWS AND REVISIONS

Investment Policy Statement Reviews and Revisions

Oct. 2008	
Dec. 2009	Reviewed & Revised
Feb. 2010	Revised
May 2012	Revised
Nov. 2013	Reviewed
Nov. 2015	Reviewed & Revised
Nov. 2016	Reviewed & Revised

I. EXECUTIVE SUMMARY

Client Name: The Builders Group

Client Type: Workers Compensation Commercial
Self-Insurance Group Fund

Fiduciary Standard of Care: Minn. Statutes
176.181, 79A.19 – 32 and MNPIA 501B.151

State of Domicile: Minnesota

Tax Id: 41-1873328

This Investment Policy Statement should be reviewed and as appropriate updated at least annually by an expert knowledgeable in this specific area of the law. Any change to this policy should be communicated in writing and on a timely basis to all interested parties. If any term or condition of this Investment Policy Statement is in conflict with any statute, plan document, and/or member agreement, those documents shall control, as long as such terms or conditions are consistent with the law and public policy.

II. PURPOSE

The purpose of this Investment Policy Statement (IPS) is to assist The Builders Group Board of Directors (Directors) in effectively exercising their statutory duty

to supervise, monitor, and evaluate the management of The Builders Group members' assets including Restricted Assets, Operating assets, Non-Operating Assets and Unrestricted Assets as defined in Section IV – Definitions.

The investment program is defined in the various sections of this IPS by:

- ▶ Stating in a written document the Directors' attitudes, expectations, objectives and guidelines for the investment/management of all of the fund's assets.
- ▶ Encouraging effective communications between the Directors and all parties involved with the investment management decisions.
- ▶ Establishing formal criteria to select, monitor, evaluate and compare the investment performance results on a regular basis.
- ▶ Complying with all applicable fiduciary and due diligence requirements as referenced in Section I: Fiduciary Standard of Care.

III. BACKGROUND

The IPS takes into consideration all assets owned by The Builders Group including those assets pledged to secure a letter of credit in order to meet annual maximum posting requirements under Minn. Stat. 79A.24.

This IPS has been developed after careful consideration, by the Directors, of those statutes which govern our business as previously noted within Section I. The IPS describes the prudent investment process the Directors feel is appropriate given our situation. This process includes offering various asset classes and investment management styles that, in total, are expected to offer the opportunity to diversify the portfolio in a manner consistent with the specified risk and return requirements of the portfolio.

TBG INVESTMENT POLICY STATEMENT

IV. DEFINITIONS

Assets

All general assets of The Builders Group including real estate.

Restricted Assets – Amount up to 110 percent of annual maximum posting requirement. This represents all assets that are used to secure the annual maximum posting requirement plus a reserve of an additional 10 percent. The restricted assets are comprised of the following sub-categories:

1. Operating Assets – Those assets used to run day to day operations.
2. Non-Operating Assets – Remaining assets above operating assets to reach the minimum total of 75 percent of the annual maximum posting requirement.
3. Restricted Investments – Assets in excess of operating and non-operating assets up to 110 percent of annual maximum posting requirement.

Unrestricted Assets – Assets in excess of 110 percent of annual maximum posting requirement. These assets may be invested in any acceptable means allowed by law and our policies, but also may be included in the same portfolio accounts as the Restricted Investments.

Pledged Assets

All investment securities and certificates of deposit owned by The Builders Group used to secure a Letter of Credit in order to meet annual maximum posting requirements under Minn. Stat. 79A.24; currently includes operating assets, non-operating assets as well as restricted investment portfolio as required by current LOC issuer.

Investment Securities

All securities owned by The Builders Group (ex: stocks, bonds, etc.)

Real Estate

Buildings or real estate currently owned all or in part by The Builders Group or any subsidiary

V. STATEMENT OF OBJECTIVES

The Builders Group primary investment objective is to preserve and protect its assets, by earning a total return for each category of assets which is appropriate for each category's time horizon, distribution requirements and risk tolerance. These policies apply to all TBG assets, although the specific objectives, risk parameters and asset allocation will vary, as appropriate, from category to category.

Restricted Assets

Operating Assets:

- ▶ Purpose: Daily liquidity necessary to run day to day operations of the organization
- ▶ Time Horizon: Daily
- ▶ Investment Objective: Liquidity
- ▶ Risk Tolerance: Very low
- ▶ Performance Benchmark: N/A

Non-operating Assets:

- ▶ Purpose: Liquidity to cover potential workers compensation claims as they arise.
- ▶ Investment Objective: Capital Preservation
- ▶ Time Horizon: 1 to 3 years
- ▶ Risk Tolerance: Low
- ▶ Performance Benchmark: ML Short-term Gov't Bond Index

Restricted Investments Portfolio:

- ▶ Purpose: Long term capital appreciation sufficient to offset normal inflation
- ▶ Time Horizon: 5 years
- ▶ Risk Tolerance: Moderate risk tolerance
- ▶ Performance Benchmark:
 - ML Intermediate Corporate/ Gov't Bond Index
 - S&P 500 Index

TBG INVESTMENT POLICY STATEMENT

- Allocation of the indices will be equal to that of the allocation of the portfolio

Unrestricted Assets:

- ▶ Purpose: Long term capital appreciation sufficient to offset normal inflation
- ▶ Time Horizon: 5 years+
- ▶ Risk Tolerance: Moderate risk tolerance
- ▶ Performance Benchmark:
 - S&P 500 Index
 - ML Corporate and Gov't Bond Index
 - Allocation of the indices will be equal to that of the allocation of the portfolio
- ▶ Targeted Rate of Return: 5–7%

Follow general “safe harbor” rules:

- ▶ Use prudent experts to make the investment decisions
- ▶ Demonstrate that the prudent expert was selected by following a due diligence process
- ▶ Give the prudent expert discretion over the assets
- ▶ Have the prudent expert acknowledge their co-fiduciary status (mutual funds are exempt from this requirement – the prospectus is deemed to serve as the fund’s fiduciary)
- ▶ Monitor the activities of the prudent expert to ensure that the expert is performing the agreed upon tasks.

VI. INVESTMENT ASSET CLASS GUIDELINES AND STRATEGIC ALLOCATION

The Directors believe long-term investment performance is primarily a function of asset class mix. Historically while interest-generating investments, such as bonds, have the advantage of relative stability of principal value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation.

On the other hand, equity investments, such as common stocks, have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return. From an investment decision-making point of view, this year-by-year variability may be worth accepting given the Fund’s long-term horizon.

Focusing on balancing the risks and rewards of each broad asset class, the following sub-asset classes were selected and ranked in ascending order of “risk” (least to most) according to the most recent quarter’s median 3-year Standard Deviation values. The risk ranking is as follows:

- ▶ Short-Term Bond
- ▶ Intermediate Government
- ▶ U.S. Corporate Investment Grade Bonds
- ▶ Municipal Bonds
- ▶ Long-Term Government Bonds
- ▶ High Yield Bonds
- ▶ World Bond
- ▶ U.S. Preferred Stocks
- ▶ U.S. Large Capitalization Companies
- ▶ U.S. Mid Capitalization Companies
- ▶ Foreign Large Capitalization Companies
- ▶ Small Capitalization Companies
- ▶ Specialty-Real Estate
- ▶ Diversified Emerging Markets

Asset Allocation

Actual asset allocation for each asset category will be established and maintained by TBG on the advice of its Advisors within the ranges provided in the tables listed below.

Operating Assets – Asset Allocation Guidelines:

AssetClasses	Strategic Allocation	Range
EQUITIES	0%	0-20%
FIXED	0%	0-100%
CASH	100%	0-100%

TBG INVESTMENT POLICY STATEMENT

Non-Operating Assets – Asset Allocation Guidelines:

AssetClasses	Strategic Allocation	Range
EQUITIES	0%	0-40%
FIXED	100%	60-100%
CASH	0%	0-100%

Restricted Investment Portfolio – Asset Allocation Guidelines and Rebalancing:

The Restricted Investment Portfolio comprises approximately 35 percent of The Builders Group's Restricted Assets.

The percentage allocation to each asset class within the Restricted Investment Portfolio may vary depending upon overall near term and long term market conditions. Thus, the allocation below is designed to provide considerable rebalancing flexibility with the primary goal of prudent asset management weighted against the current market environment. Refer to the allocation table below for the designated ranges for each asset class.

The portfolio will be reviewed quarterly and rebalanced when appropriate.

Restricted Investment Portfolio:

AssetClasses	Strategic Allocation	Range
EQUITIES	50%	0-65%
FIXED	50%	35-100%
CASH	0%	0-100%

Unrestricted Investment Portfolio – Asset Allocation Guidelines & Rebalancing:

The Unrestricted Investment Portfolio comprises TBG accumulated assets in excess of 110 percent of TBG annual maximum posting requirement.

The percentage allocation to each asset class within the Unrestricted Investment Portfolio may vary depending

upon overall near term and long term market conditions. Thus, the allocation below is designed to provide considerable rebalancing flexibility with the primary goal of prudent asset management weighted against the current market environment. Refer to the allocation table below for the designated ranges for each asset class.

If TBG Restricted Assets fall below the 110 percent of the annual maximum posting requirement target, assets may be moved from the Unrestricted Investment Portfolio. When necessary, cash inflows/outflows will be deployed/distributed in a manner consistent with the strategic asset allocation and allocation ranges of the portfolio.

The portfolio will be reviewed quarterly and rebalanced as appropriate.

Unrestricted Investment Portfolio:

AssetClasses	Strategic Allocation	Range
EQUITIES	50%	0-80%
FIXED	50%	20-100%
CASH	0%	0-100%

VII. DUTIES AND RESPONSIBILITIES

Directors

As a fiduciary to the Fund, the primary investment responsibilities of the Directors are:

- ▶ Prepare and maintain this investment policy statement.
- ▶ Selecting sufficient asset classes with different and distinct risk/return profiles so that the Portfolio can be prudently diversified.
- ▶ Prudently select investment options.
- ▶ Control and account for all investment, record keeping and administrative expenses associated with the fund.

TBG INVESTMENT POLICY STATEMENT

- ▶ Monitor and supervise all service vendors and investment options.
- ▶ Avoid prohibited transactions and conflicts of interest.

Custodian

Custodians are responsible for the safekeeping of the fund's assets. The specific duties and responsibilities of the custodian are:

- ▶ Hold investment securities for safekeeping in the name of The Builders Group.
- ▶ Value the holdings.
- ▶ Collect all income and dividends owed to the fund.
- ▶ Settle all transactions (buy-sell orders).
- ▶ Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall investment funds since the previous report.

Investment Advisor

The Investment Advisor serves as an objective, third-party professional retained to assist the Directors in managing the overall investment process. The Advisor is responsible for guiding the Directors through a disciplined and rigorous investment process to enable the Directors to meet the fiduciary responsibilities outlined above. Duties:

- ▶ Prepare and maintain this investment policy statement.
- ▶ Provide sufficient asset classes with different and distinct risk/return profiles so that the client can prudently diversify the Portfolio.
- ▶ Prudently select investment options.
- ▶ Control and account for all investment expenses.
- ▶ Monitor and supervise all investment service vendors and investment options.
- ▶ Avoid prohibited transactions and conflicts of interest.

Investment Managers

As differentiated from the Directors and Investment Advisor, who are responsible for managing the investment process, investment managers are responsible for making investment decisions (security selection and price decisions). The specific duties and responsibilities of each investment manager are:

- ▶ Manage the assets under their supervision in accordance with the guidelines and objectives outlined in their respective Service Agreements, Prospectus or Member Agreement and in accordance with statutory limitations.
- ▶ Exercise full investment discretion with regards to buying, managing, and selling assets held in the Portfolio.
- ▶ Vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the Portfolio as described in this IPS. Each investment manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.
- ▶ Communicate to the Investment Advisor and Directors all significant changes pertaining to the fund it manages or the firm itself. Changes in ownership, organizational structure, financial condition, and professional staff are examples of changes to the firm in which the Directors are interested.
- ▶ Transact for the Portfolio subject to "Best price and execution."
- ▶ Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like portfolios with like aims in accordance and compliance with the Minnesota Prudent Investor Act, and all other applicable laws, rules and regulations.

TBG INVESTMENT POLICY STATEMENT

VIII. INVESTMENT MANAGER SELECTION

Investment Manager Selection

A suggested minimum due diligence process would include the following:

- ▶ Regulatory oversight: Each investment option should be managed by a (a) bank, (b) insurance company, (c) a registered investment company (mutual fund), or a (d) registered investment advisor.
- ▶ Minimum track record: Each investment option should have at least three years of history so that performance statistics can be properly calculated.
- ▶ Stability of the organization: The same portfolio management team should be in place for at least two years.
- ▶ Holdings consistent with style: At least 80 percent of the underlying securities should be consistent with the broad asset class.
- ▶ Correlation to style or peer group: Each investment option should be highly correlated to the asset class being implemented.
- ▶ Expense ratio/fees: Fees should not be in the bottom quartile (most expensive) of the peer group.
- ▶ Performance relative to assumed risk: The investment option's risk-adjusted performance (Alpha) should be evaluated against the peer group median manager's risk-adjusted performance.
- ▶ Performance relative to peer group: Each investment option's performance should be evaluated against the peer group's median manager return, for 1-, 3-, and 5-year cumulative periods.

IX. CONTROL PROCEDURES

Performance Objectives

The Directors acknowledge fluctuating rates of return characterize the securities markets, particularly during

short-term periods. Recognizing that short-term fluctuations may cause variations in performance, the Directors intend to evaluate manager's performance from a long-term perspective.

The Directors are aware that the ongoing review and analysis of the Investment Managers is just as important as the due diligence implemented during the manager selection process. The performance of the Investment Managers will be monitored on an ongoing basis and it is at the Directors' discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

On a timely basis, but not less than quarterly, the Directors will meet with the Investment Advisor to review whether each manager continues to conform to, but not limited to the following criteria:

- ▶ The manager's adherence to the fund's investment guidelines;
- ▶ Material changes in the manager's organization, investment philosophy and/or personnel;
- ▶ Any legal, SEC and/or other regulatory agency proceedings affecting the manager.

The Directors have determined in its best interest that performance objective be established for each investment manager. Manager performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large-cap domestic equity manager) and the relevant peer group (e.g. the large-cap growth mutual fund universe for large-cap growth mutual fund).

A manager may be placed on several manager monitoring lists:

Notice

The manager has underperformed its benchmark (and/or peers) for the trailing one-year period by a significant amount AND there is not a reasonable explanation related to style specific market conditions. The Investment Advisor begins a

TBG INVESTMENT POLICY STATEMENT

heightened level of monitoring. OK to place new investments.

Alert

The manager has underperformed its benchmark (and/or peers) for the trailing two-year period by a significant amount AND there is not a reasonable explanation related to style specific market conditions. Do not place new investments.

Hold

The Investment Advisor has identified major qualitative concerns (i.e. non-performance related) about the manager. Do not place new investments.

Termination

The Investment Advisor and Directors have lost confidence in the manager's ability to execute the strategy and/or outperform its benchmark. Sell investments and re-allocate to another manager.

A manager evaluation may include the following steps:

1. A letter to the manager asking for an analysis of their underperformance.
2. An analysis if recent transactions, holdings, and portfolio characteristics to determine the cause of underperformance or to check for a change in style.
3. A meeting with the manager, which may be conducted on-site, to gain insight into organizational changes and any changes in strategy or discipline.

The decision to retain or terminate a manager cannot be made by a formula. It is the Directors confidence in the manager's ability to perform in the future that ultimately determines the retention of the manager.

Measuring Costs:

The Directors will review at least annually all costs associated with the management of The Builders Group investment portfolio, including:

- ▶ Fees or expense ratios of each investment option against the appropriate peer group.
- ▶ Investment Advisor and Custodial Fees.
- ▶ Whether the manager is demonstrating attention to "best execution" in trading securities.

X. PROHIBITED INVESTMENTS

Investment activities in the following activities are prohibited unless directed, otherwise by the Board:

- ▶ Margin Purchases
- ▶ Private Placements or other restricted securities
- ▶ Commodities. Investment in commodity mutual funds and ETF's is permitted
- ▶ Foreign issues, unless traded on U.S. Exchanges. Foreign issue mutual funds investment is permitted

TAB:
TBG FINANCIALS

FINANCIALS

MONTHLY FINANCIAL STATEMENTS

The Finance Committee will review with the CEO and Director of Finance monthly financial information consisting of a minimum of an income statement, balance sheet, and variance report with explanations for any item significantly over or under budget. Once the Finance Committee approves the monthly financial report they will be posted on the Board website for the entire Board's review.

ANNUAL FINANCIAL AUDIT

Every year TBG is required by Minnesota statute to have a financial audit of the previous year's financial activity. TBG has hired the CPA firm of Shores, Tagman, & Company, P.A. that specializes in group self-insurance funds. They audit all of the financial aspects of TBG and also develop a Management Report to the Board. The audit is conducted in accordance with generally accepted auditing standards.

ACTUARIAL SERVICES

Casualty Actuarial Advisors is the firm hired by TBG to provide actuarial services. These services include the following:

- ▶ The Year-end Actuarial Opinion with Posting Requirements
- ▶ Mid-Year Reserving and Ratemaking Analysis
- ▶ Dividend Calculations
- ▶ Special Comp Fund (SCF) Estimates

RATE DEVELOPMENT

One of the goals of TBG is to provide adequate rates for our members to cover the expected losses. The actuary begins with the Minnesota Workers' Compensation Insurers Association (MWCIA) pure premium base rates and suggests a multiplier to apply to these rates.

The MWCIA is the data gathering service for workers compensation in Minnesota.

A pure premium is basically the rate needed to cover the losses for the total payroll in Minnesota for a particular class code. The TBG staff with actuary input will recommend a multiplier to the TBG Board for approval that is expected to cover expenses and create additional Member Distribution Payable.

REINSURANCE

TBG purchases specific reinsurance through the Workers' Compensation Reinsurance Association (WCRA). The WCRA is a nonprofit organization that reinsures all workers' compensation insurers and self-insured groups and employers in Minnesota. The WCRA was created by state law in 1979 but is not a state agency and has never received any state appropriations to fund its operations.

Workers' compensation reinsurance is designed to protect an insurer or self-insurer against catastrophic losses from work-related injuries. The insurer or self-insurer is responsible for the indemnity and medical benefits up to a selected deductible or "retention limit". Once the limit is reached, the WCRA reimburses the insurer or self-insurer for all the statutory benefits above that limit.

The WCRA offers three retention limits from which the member may select. The three retention choices are low retention level, high retention level and super retention level. TBG must determine by December first of each year which retention limit to choose for the coming year. The decision is based on claims experience and current cost of the retention options. TBG has elected the high retention limit.

ANNUAL BUDGET

The annual budget process begins each year in

FINANCIALS

September. The staff develops the budget which is reviewed by the Finance Committee and approved by the full Board at the December meeting.

INVESTMENT POLICY STATEMENT

Stonebridge Capital Advisors has been hired as the Investment Manager for the bond and equity investments of TBG. The individual Investment Advisors are approved by Stonebridge and the Investment Committee and report to Stonebridge. Stonebridge has the responsibility of overseeing the advisors and reviewing their performance annually. The Investment Policy Statement is reviewed annually by Stonebridge and presented to the Investment Committee for approval. The Investment Committee then presents the IPS for approval if any changes are made.

FINANCIALS

**CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**THE BUILDERS GROUP,
WORKERS' COMPENSATION
SELF INSURERS GROUP
AND SUBSIDIARIES**

DECEMBER 31, 2016

FINANCIALS

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Shores, Tagman, Butler & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors

**The Builders Group, Workers' Compensation
Self Insurers Group and Subsidiaries**

We have audited the accompanying consolidated financial statements of The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries (the "Group"), which comprise the Consolidated Statement of Financial Position as of December 31, 2016, and the related Consolidated Statement of Operations and Comprehensive Earnings, of Changes in Policyholders' Surplus, and of Cash Flows for the year then ended, and the related Notes to Consolidated Financial Statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INDEPENDENT AUDITORS' REPORT - CONTINUED

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries as of December 31, 2016, and the results of its operations, its changes in policyholders' surplus and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the Notes to Consolidated Financial Statements, the reserve for unpaid losses and allocated loss adjustment expenses in the accompanying consolidated financial statements is based upon an evaluation by the Group's independent actuary. Management believes that this estimate is reasonable. However, this estimate is subject to change and the changes can be material in relation to the consolidated financial statements taken as a whole. No assurance can be given that the actual losses will not be more or less than the current estimate. Our opinion is not modified with respect to this matter.

As discussed in the Notes to Consolidated Financial Statements, the terms of the Group's service contract do not provide for claims adjusting services subsequent to the termination of the contract on those claims that arose during the contract period. In the event the contract is terminated for any reason, the Group will be liable for the additional expenses related to servicing those claims until all such claims are concluded. The ultimate outcome of this uncertainty cannot presently be determined. Accordingly, the accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

March 27, 2017

Shores, Torgman, Butler & Company, P.A.

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2016

ASSETS

Cash and cash equivalents	\$ 18,398,528
Certificates of deposit	23,085,543
Investment securities available-for-sale	16,432,736
Investment in real estate	8,735,000
Total cash and invested assets	<u>66,651,807</u>
Premiums receivable, less allowance for doubtful accounts of \$163,203	3,925,231
Other receivables	347,094
Accrued interest receivable	41,298
Reinsurance recoverable on paid losses and loss adjustment expenses	114,219
Reinsurance recoverable on unpaid losses and loss adjustment expenses	1,212,980
Deferred income taxes	888,578
Fixed assets, at cost net of accumulated depreciation of \$3,083,173	3,575,877
Prepaid expenses and other assets	1,182,394
	<u>\$ 77,939,478</u>

LIABILITIES AND POLICYHOLDERS' SURPLUS

Unpaid losses and loss adjustment expenses	\$ 35,453,821
Member distribution payable	27,767,792
Security deposits	8,664,222
Special Compensation Fund reserve	4,578,526
WCRA deficiency assessment payable	454,668
Reinsurance premiums payable	26,753
Premiums payable to members	28,121
Accounts payable and accrued liabilities	965,575
	<u>77,939,478</u>
Policyholders' surplus before accumulated other comprehensive income	--
Accumulated other comprehensive earnings net of taxes of \$-0-	--
	<u>\$ 77,939,478</u>

The accompanying notes are an integral part of this statement.

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE EARNINGS

For the Year Ended December 31, 2016

REVENUES	
Premiums	\$ 43,236,561
Investment income	918,316
Realized gains on investments	441,338
Other income	183,859
	<u>44,780,074</u>
EXPENSES	
Losses and loss adjustment expenses	26,385,836
Special compensation fund	3,087,573
Commissions	3,215,865
Bad debt expense	23,212
Depreciation	133,630
Other administrative expenses	1,925,089
Professional fees	446,945
Reinsurance	2,179,977
Salaries	1,864,317
Service fees	941,150
	<u>40,203,594</u>
NET INCOME BEFORE MEMBER DISTRIBUTION AND PROVISION FOR INCOME TAXES	4,576,480
MEMBER DISTRIBUTION	(4,707,209)
PROVISION FOR INCOME TAXES	
Current income tax benefit	--
Deferred income tax benefit	130,729
	<u>130,729</u>
NET INCOME	<u>--</u>

The accompanying notes are an integral part of this statement.

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE EARNINGS - CONTINUED

For the Year Ended December 31, 2016

OTHER COMPREHENSIVE EARNINGS, NET OF TAX:

Unrealized gains on investments:

Unrealized holding gains arising during the period;
net of taxes of \$ 609,477

1,056,880

Reclassification adjustment for gains included in
net income, net of taxes of \$(150,055)

(291,283)

Increase in the accrual of excess earnings
as distributable to participants

(765,597)

OTHER COMPREHENSIVE EARNINGS

—

COMPREHENSIVE EARNINGS

\$ —

The accompanying notes are an integral part of this statement.

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN POLICYHOLDERS' SURPLUS
For the Year Ended December 31, 2016

	Policyholders' Surplus (Before Accumulated Other Comprehensive Earnings)	Accumulated Other Comprehensive Earnings	Total
Balance at December 31, 2015	\$ --	\$ --	\$ --
Net earnings	--	--	--
Other comprehensive earnings net of deferred taxes of \$-0-	--	--	--
Comprehensive earnings	--	--	--
Balance at December 31, 2016	\$ --	\$ --	\$ --

The accompanying notes are an integral part of this statement.

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Comprehensive earnings	\$	--
Adjustment to reconcile comprehensive earnings to net cash provided by operating activities:		
Depreciation		326,359
Realized gains on sales of investment securities	(	441,338)
Amortization	(	11,086)
Write off of bad debt		21,602
Provision for uncollectible premiums receivable		1,610
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Premiums receivable		15,772
Other receivables	(	155,985)
Accrued interest receivable	(	140)
Reinsurance recoverable on paid losses and loss adjustment expenses		106,040
Reinsurance recoverable on unpaid losses and loss adjustment expenses		685,217
Deferred income taxes	(	130,729)
Prepaid expenses and other assets	(	341,247)
Increase (decrease) in liabilities:		
Unpaid losses and loss adjustment expenses	(	3,685,383)
Member distribution payable		4,707,209
Security deposits	(	306,779)
Special Compensation Fund reserve		1,366,260
Premiums payable to members		14,856
Reinsurance premiums payable	(	429,687)
WCRA deficiency assessment payable		20,205
Accounts payable and accrued liabilities	(	169,621)
NET CASH PROVIDED BY OPERATING ACTIVITIES		<u>1,593,135</u>

The accompanying notes are an integral part of this statement.

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS - CONTINUED

For the Year Ended December 31, 2016

CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of certificates of deposit	(13,085,542)
Purchases of investment securities available-for-sale	(4,009,892)
Purchase of real estate	(1,853,951)
Purchase of fixed assets	(294,239)
Maturities of certificates of deposit	14,184,233
Sales and maturities of investment securities available-for-sale	<u>3,107,377</u>
NET CASH USED IN INVESTING ACTIVITIES	(1,952,014)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on commercial debt	(4,316,732)
NET CASH USED IN FINANCING ACTIVITIES	(4,316,732)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,675,611)
Cash and cash equivalents - beginning of year	<u>23,074,139</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ <u>18,398,528</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the year for:	
Income taxes	\$ <u>--</u>
Interest	\$ <u>63,461</u>
Non-cash increase in investment securities available-for-sale and member distribution payable as a result of adjusting the basis of investment securities available-for-sale to their estimated fair market value, net of taxes of \$459,422	\$ <u>765,597</u>

The accompanying notes are an integral part of this statement.

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016

NOTE 1 - ACCOUNTING POLICIES

A summary of the Group's significant accounting policies consistently applied in the preparation of the consolidated financial statements follows. Other significant accounting policies are disclosed elsewhere in the consolidated financial statements and the notes thereto.

Basis of Presentation

The consolidated financial statements of the Group include the financial statements of The Builders Group, Workers' Compensation Self Insurers Group and its wholly-owned subsidiaries, Mallard IV, LLC, Total TPA, LLC, Champlin Station, LLC, Eagle Valley Market Place, LLC and 1754 Market Drive, LLC after elimination of intercompany accounts and transactions.

The accounting and reporting policies of the Group conform to accounting principles generally accepted in the United States of America and prevailing practices within the insurance industry. Except as otherwise noted, the Group carries its assets and liabilities principally on the historical cost basis and follows the accrual method of accounting.

Premiums

Premiums, as reflected herein, are based on actual payrolls as determined by independent payroll auditors (for those accounts with completed audits) and reported payrolls based upon information supplied by the insureds (for those accounts who have not had their payroll audits completed).

Security Deposits

Each policyholder is required to maintain on deposit with the Group an amount equal to approximately 20% of their estimated annual premium. This deposit is rolled forward from year to year.

Depreciation

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives utilizing certain accelerated methods.

Earnings of the Group

Earnings of the Group are used to provide for potentially uncollectible receivables, any uninsured deficits of any of the claims funds and other expenses. During the year ended December 31, 2016, the Board of Directors declared all earnings payable to the policyholders as a policyholder dividend. These earnings will be distributed subject to any limitations imposed by applicable law and the discretion of the Directors.

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 1 - ACCOUNTING POLICIES - CONTINUED

Income Taxes

Under the provisions of the Internal Revenue Code, the Group is liable for income tax on the earnings not distributed by the Directors as well as certain other temporary differences. The Group files with the Internal Revenue Service as a property and casualty insurance company.

Fair Value Measurements

U.S. Generally Accepted Accounting Principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs in valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs are unadjusted quoted prices for identical assets in active markets.

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in active markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 - Inputs are unobservable and based on management estimate.

Cash and Cash Equivalents

With respect to the Consolidated Statement of Cash Flows, cash equivalents include only cash in checking, savings or money market accounts, certificates of deposit and other depository instruments with maturities of three months or less at the time of acquisition.

Reinsurance

In the normal course of business, the Group seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk with other insurance enterprises. Receivables from these reinsurers, if any (including amounts related to unpaid claims), are reported as assets in the Consolidated Statement of Financial Position.

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 1 - ACCOUNTING POLICIES - CONTINUED

Management Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment Securities Available-for-Sale

Investment securities available-for-sale are stated at their estimated fair market value. Available-for-sale securities consist of debt and equity securities not classified as trading securities or as held-to-maturity securities. Any unrealized gains and losses on investment securities available-for-sale are reported as accumulated other comprehensive income and changes therein are reported as other comprehensive income.

Investment in Real Estate

The Group owns three commercial real estate companies, Champlin Station, LLC, Eagle Valley Market Place, LLC, and 1754 Market Drive, LLC. The financial statements of these companies have been included in the accompanying consolidated financial statements. The commercial real estate owned by these companies has been recorded at its estimated fair market value based on management estimate at December 31, 2016. The net earnings of these companies has been included in net investment income in the Consolidated Statement of Operations and Comprehensive Earnings.

Comprehensive Earnings

The Group reports and displays comprehensive earnings and its components in the accompanying consolidated financial statements in accordance with FASB ASC 220 "Comprehensive Income". Other comprehensive earnings and accumulated other comprehensive earnings in the accompanying consolidated financial statements are fully attributable to the effects of unrealized holding gains and losses on investments in debt and equity securities available-for-sale, net of tax effects.

Reclassification

Certain amounts reported in the prior year financial statements have been reclassified to conform with the current year classification.

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 2 - OPERATIONS

The purpose of this self insurers group, which was established May 12, 1997 in accordance with applicable Minnesota laws, is to meet and fulfill its members' obligations and liabilities under the Minnesota Workers' Compensation Law through the effective use of cost efficient claims service, loss control and safety programs.

During 2007, the Group formed a subsidiary, Mallard IV, LLC. The Group is the sole member of this subsidiary. During 2007, Mallard IV, LLC purchased, renovated and furnished the building where the Group is now located. Mallard IV, LLC's transactions are related entirely to maintaining the building.

During 2010, the Group formed another subsidiary, Total TPA, LLC. The Group is the sole member of this subsidiary. During 2010, most of the Group's employees and some fixed assets were transferred to Total TPA, LLC. Total TPA, LLC's transactions are related entirely to the administration of the Group.

In addition, the Group owns three commercial real estate companies, Champlin Station, LLC, Eagle Valley Market Place, LLC and 1754 Market Drive, LLC.

NOTE 3 - PREMIUMS RECEIVABLE

Premiums receivable represent amounts due as a result of final payroll audits as well as any unpaid balances from any previously due reporting periods. The allowance for doubtful accounts at December 31, 2016 of approximately \$163,000 represents management's best estimate of the uncollectible premiums that exist on December 31, 2016. This estimate has been made utilizing previous collection history. Further, management anticipates holding dividend payments to the extent that the members have any outstanding obligations to the Group.

NOTE 4 - REINSURANCE

The Fund has purchased aggregate excess and specific excess reinsurance for protection against losses in excess of the applicable retentions.

The Fund carries the following excess coverage:

Aggregate Excess Reinsurance

When losses exceed the greater of the established retention or the minimum retention as required by the applicable contract, the following maximum coverage takes effect:

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 4 - REINSURANCE - CONTINUED

<u>Fund Year</u>	<u>Maximum Coverage</u>
05/12/97 to 05/11/98	\$ 2,000,000
05/12/98 to 12/31/98	2,000,000
01/01/99 to 12/31/99	2,000,000
01/01/00 to 12/31/00	2,000,000
01/01/01 to 12/31/01	2,000,000
01/01/02 to 12/31/02	2,000,000

The Group did not purchase aggregate excess reinsurance for the 2003 or subsequent policy years.

Specific Excess Reinsurance

For each and every accident that is in excess of the stated amount, the following maximum coverage takes effect:

<u>Fund Year</u>	<u>Retention</u>	<u>Maximum Coverage</u>
05/12/97 to 05/11/98	\$270,000	Statutory
05/12/98 to 12/31/98	280,000	Statutory
01/01/99 to 12/31/99	290,000	Statutory
01/01/00 to 12/31/00	310,000	Statutory
01/01/01 to 12/31/01	200,000	Statutory
01/01/02 to 12/31/02	350,000	Statutory
01/01/03 to 12/31/03	360,000	Statutory
01/01/04 to 12/31/04	360,000	Statutory
01/01/05 to 12/31/05	380,000	Statutory
01/01/06 to 12/31/06	390,000	Statutory
01/01/07 to 12/31/07	400,000	Statutory
01/01/08 to 12/31/08	410,000	Statutory
01/01/09 to 12/31/09	430,000	Statutory
01/01/10 to 12/31/10	450,000	Statutory
01/01/11 to 12/31/11	900,000	Statutory
01/01/12 to 12/31/12	920,000	Statutory
01/01/13 to 12/31/13	940,000	Statutory
01/01/14 to 12/31/14	960,000	Statutory
01/01/15 to 12/31/15	980,000	Statutory
01/01/16 to 12/31/16	1,000,000	Statutory

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 4 - REINSURANCE - CONTINUED

Reinsurance contracts do not relieve the Group from its obligations to members. Failure of reinsurers to honor their obligations could result in losses to the Group. Accordingly, the Group evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency. At December 31, 2016, reinsurance recoverable on paid losses and loss adjustment expenses of approximately \$114,000, is associated with a single insurance carrier. At December 31, 2016, reinsurance recoverable on unpaid losses and loss adjustment expenses of approximately \$1,213,000, is associated with a single insurance carrier.

The Group entered into a loss portfolio transfer agreement with Safety National Casualty Corporation. Under the terms of agreement, effective October 31, 2016, the Group's obligations to policyholders were replaced by Safety National Casualty Corporation for any and all claims incurred on or after January 1, 2011, but no later than December 31, 2013, without limitation other than for the specific excess contracts noted above. The premium for this agreement was \$6,729,169 and the Group recorded a gain on the transfer of liabilities of \$31,584. The gain was recorded as a decrease to losses and loss adjustment expenses during the year ended December 31, 2016.

The Group entered into a loss portfolio transfer agreement with Safety National Casualty Corporation. Under the terms of agreement, effective August 31, 2014, the Group's obligations to policyholders were replaced by Safety National Casualty Corporation for any and all claims incurred on or after January 1, 2010, but no later than December 31, 2010, without limitation other than for the specific excess contracts noted above.

The Group entered into a loss portfolio transfer agreement with Safety National Casualty Corporation. Under the terms of agreement, effective March 31, 2014, Group's obligations to policyholders were replaced by Safety National Casualty Corporation for any and all claims incurred on or after January 1, 2009, but no later than December 31, 2009, without limitation other than for the specific excess contracts noted above.

The Group entered into a loss portfolio transfer agreement with Safety National Casualty Corporation. Under the terms of agreement, effective December 31, 2012, the Group's obligations to policyholders were replaced by Safety National Casualty Corporation for any and all claims incurred on or after January 1, 2008, but no later than December 31, 2008, without limitation other than for the specific excess contracts noted above.

The Group entered into a loss portfolio transfer agreement with Star Insurance Company. Under the terms of the agreement, effective October 1, 2011, the Group's obligations to policyholders were replaced by Star Insurance Company for any and all claims incurred on or after January 1, 2000, but no later than December 31, 2007, without limitation other than for the specific excess contracts noted above.

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 5 - FAIR VALUE MEASUREMENTS

The following table sets forth, by level within the fair value hierarchy, the Group's assets at estimated fair market value as of:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Debt securities	\$ --	\$ 3,393,264	\$ --	\$ 3,393,264
Equity securities	13,039,472	--	--	13,039,472
Real estate	--	--	8,735,000	8,735,000
	<u>\$ 13,039,472</u>	<u>\$ 3,393,264</u>	<u>\$ 8,735,000</u>	<u>\$ 25,167,736</u>

The Group did not transfer any assets in or out of any category during the year ended December 31, 2016.

NOTE 6 - INVESTMENT IN REAL ESTATE

The Group owns three commercial real estate companies, Champlin Station, LLC, Eagle Valley Market Place, LLC, and 1754 Market Drive, LLC. The commercial real estate owned by these companies has been recorded at its estimated fair market value based on management estimates at December 31, 2016. These management estimates were based on independent appraisals of the properties obtained by the Group.

Description	Book Value	Estimated Market Value	Unrealized Gain/Loss
Champlin Station	\$ 3,535,588	\$ 3,455,000	\$ (80,588)
Eagle Valley Market Place	2,800,956	3,400,000	599,044
1754 Market Drive	1,780,661	1,880,000	99,339
	<u>\$ 8,117,205</u>	<u>\$ 8,735,000</u>	<u>\$ 617,795</u>

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 7 - INVESTMENT SECURITIES AVAILABLE-FOR-SALE

Investment securities available-for-sale are stated at their estimated fair market value and consist of the following at:

	December 31, 2016			
	Amortized Cost	Estimated Market Value	Gross Unrealized Gains	Gross Unrealized Losses
Corporate bonds	\$ 2,683,779	\$ 2,689,253	\$ 17,642	\$ (12,168)
Municipal bonds	767,088	704,011	7,219	(70,296)
Common stocks	9,997,714	10,756,934	1,334,717	(575,497)
Mutual Funds	2,403,408	2,271,158	--	(132,250)
Preferred stocks	12,525	11,380	--	(1,145)
	<u>\$ 15,864,514</u>	<u>\$ 16,432,736</u>	<u>\$ 1,359,578</u>	<u>\$ (791,356)</u>

The amortized cost and estimated fair market value of investment securities available-for-sale as of December 31, 2016, by contractual maturity are shown below. In some instances, actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2016			
	Amortized Cost	Estimated Market Value	Gross Unrealized Gains	Gross Unrealized Losses
Due less than one year	\$ 580,223	\$ 580,499	\$ 370	\$ (94)
Due after one year through five years	2,296,760	2,310,098	17,856	(4,518)
Due after five years through ten years	494,862	492,914	6,635	(8,583)
Due after ten years	79,022	9,753	--	(69,269)
Total bonds	<u>\$ 3,450,867</u>	<u>\$ 3,393,264</u>	<u>\$ 24,861</u>	<u>\$ (82,464)</u>

Proceeds from the sales of investment securities available-for-sale for the year ended December 31, 2016 were approximately \$2,747,000. Gross gains of approximately \$566,000 and gross losses of approximately \$(125,000) were realized on these sales, respectively.

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 8 - FIXED ASSETS

Fixed assets are stated at cost and consist of the following:

Land and buildings	\$ 3,994,289
Office furniture, equipment and software	<u>2,664,761</u>
	6,659,050
Accumulated depreciation	<u>3,083,173</u>
	<u>\$ 3,575,877</u>

Depreciation expense was approximately \$134,000 for the year ended December 31, 2016. The fair value of the land and buildings is unknown.

NOTE 9 - INCOME TAXES

The Group uses the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities. Deferred income taxes resulting from such differences are recorded based on the tax rates that are currently expected to be in effect when the differences are expected to reverse. These differences generally represent expenses recognized for financial reporting purposes in advance of recognition as deductions against taxable income or income recognized for tax purposes in advance of recognition as income for financial reporting purposes. The circumstances creating net deferred tax assets of approximately \$889,000 at December 31, 2016 are summarized below:

Reserve discounting	\$ 90,000
Allowance for doubtful accounts	56,000
Net operating loss carryforward	1,202,000
Unrealized gains	<u>(459,000)</u>
	<u>\$ 889,000</u>

The Group has a net operating loss of approximately \$3,537,000 which is available to be carried forward to future years. Such carryforward will begin to expire in 2034.

As of December 31, 2016, tax years subsequent to December 31, 2012 remain subject to examination by the Internal Revenue Service. Tax years prior to January 1, 2013 are no longer subject to examination as they are beyond the statute of limitations.

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 9 - INCOME TAXES - CONTINUED

The Group has recorded no provision related to uncertain tax positions as of December 31, 2016, as the Group believes more likely than not that all tax positions will be sustained.

NOTE 10 - RESERVE FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The reserve for unpaid losses and loss adjustment expenses is based upon an evaluation of the Group's losses as prepared by the Group's independent actuary. The evaluation of the Group's losses as prepared by the Group's independent actuary is a significant estimate which is subject to change and the change can be material in relation to the consolidated financial statements taken as a whole. The evaluation includes an estimated provision for incurred but not reported losses (IBNR) as well as reported losses. The IBNR provision, on an undiscounted basis, totaled approximately \$25,838,000 at December 31, 2016.

The Group's loss reserves have been discounted at December 31, 2016 in the amount of approximately \$2,779,000. The reserves were discounted utilizing loss payout patterns provided by the independent actuary at an interest rates of 3%, which management expects to approximate the interest earnings over the payout periods.

Any increase or decrease in the ultimate incurred losses and allocated loss adjustment expenses compared to the prior year will result in a direct increase or decrease in the current year's net earnings. During the year ended December 31, 2016, the Group experienced an increase in the previous estimate of ultimate incurred losses and allocated loss adjustment expenses applicable to prior fund years of approximately \$903,000. This amount has increased losses and allocated loss adjustment expenses incurred during the year ended December 31, 2016.

The Group has purchased specific excess reinsurance for protection against large losses. The incurred losses of the Group are net of the effect of recoveries recognized under the reinsurance contracts referred to in Note 4. During the year ended December 31, 2016, the Group experienced a decrease in the anticipated recoveries recognized under these reinsurance contracts which totaled approximately \$1,030,000. This amount has been charged to losses and loss adjustment expenses during the respective years.

As stated in Note 4, as of October 31, 2016, the Group's obligations to policyholders were replaced by Safety National Casualty Corporation for any and all claims incurred on or after January 1, 2011, but no later than December 31, 2013, without limitation other than for the specific excess contracts referred to in Note 4. Therefore, there are no amounts recorded for unpaid losses and loss adjustment expenses as of December 31, 2016, for the period noted above. The Group paid a premium of \$6,729,169 and recorded a gain on the transfer of liabilities of \$31,584. The gain was recorded as a decrease to losses and loss adjustment expenses during the year ended December 31, 2016.

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 10 - RESERVE FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES - CONTINUED

As stated in Note 4, as of August 31, 2014, the Group's obligations to policyholders were replaced by Safety National Casualty Corporation for any and all claims incurred on or after January 1, 2010, but no later than December 31, 2010, without limitation other than for the specific excess contracts referred to in Note 4. Therefore, there are no amounts recorded for unpaid losses and loss adjustment expenses as of December 31, 2016, for the period noted above.

As stated in Note 4, as of March 31, 2014, the Group's obligations to policyholders were replaced by Safety National Casualty Corporation for any and all claims incurred on or after January 1, 2009, but no later than December 31, 2009, without limitation other than for the specific excess contracts referred to in Note 4. Therefore, there are no amounts recorded for unpaid losses and loss adjustment expenses as of December 31, 2016, for the period noted above.

As stated in Note 4, as of December 31, 2012, the Group's obligations to policyholders were replaced by Safety National Casualty Corporation for any and all claims incurred on or after January 1, 2008, but no later than December 31, 2008, without limitation other than for the specific excess contracts referred to in Note 4. Therefore, there are no amounts recorded for unpaid losses and loss adjustment expenses as of December 31, 2016, for the period noted above.

As stated in Note 4, as of October 1, 2011, the Group's obligations to policyholders were replaced by Star Insurance Company for any and all claims incurred on or after January 1, 2000, but no later than December 31, 2007, without limitation other than for the specific excess contracts referred to in Note 4. Therefore, there are no amounts recorded for unpaid losses and loss adjustment expenses as of December 31, 2016, for the period noted above.

Activity in unpaid losses and allocated loss adjustment expenses is summarized as follows:

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 10 - RESERVE FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES - CONTINUED

Balance - beginning of period	\$ 39,139,204
Less: reinsurance recoverable	<u>1,898,197</u>
Net balance - beginning of period	<u>37,241,007</u>
Incurred related to:	
Current year	25,482,970
Prior years	<u>902,866</u>
Total incurred	<u>26,385,836</u>
Paid related to:	
Current year	7,743,111
Prior years	<u>21,642,891</u>
Total paid	<u>29,386,002</u>
Net balance - end of period	34,240,841
Plus: reinsurance recoverable	<u>1,212,980</u>
Balance - end of period	\$ <u>35,453,821</u>

NOTE 11 - RESTRICTED ASSETS

The Group is required by the Minnesota Department of Commerce to maintain a security deposit equal to the minimum of 110% of the discounted net loss liabilities for the upcoming year. This requirement has been met by providing a letter of credit. This letter of credit is secured by certificates of deposit and investments owned by the Group. The restricted certificates of deposit and investments totaled approximately \$43,506,000 at December 31, 2016.

FINANCIALS

The Builders Group, Workers' Compensation Self Insurers Group and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2016

NOTE 12 - CONCENTRATIONS/UNCERTAINTY

The insured members who participate in the Group are in the construction industry exclusively in the State of Minnesota. The Group does not insure any other members outside of Minnesota.

The Group maintains cash in demand deposit accounts with federally insured banks. The balances in these accounts are in excess of federally insured limits. The Group has certificates of deposit insured through the Certificate of Deposit Account Registry Service (CDARS) Program. Under this program, deposits in excess of FDIC limits are insured, thus reducing exposure to banking institution failure.

The Group's investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the consolidated financial statements of the Group.

NOTE 13 - MEMBER INDEMNIFICATION

Under applicable Minnesota statutes, members of the Group are jointly and severally liable for all obligations of the Group. Accordingly, any claims or other expenses of the Group after available reinsurance and reserves have been exhausted shall be the financial responsibility of the members.

NOTE 14 - CONTINGENCY

The terms of the Group's service contract do not provide for claims adjusting services subsequent to the termination of the contract on those claims that arose during the contract period. In the event the contract is terminated for any reason, the Group will be liable for the additional expenses related to servicing those claims until all such claims are concluded. The ultimate outcome of this uncertainty cannot presently be determined. Accordingly, the accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 15 - SUBSEQUENT EVENTS

Management considered subsequent events through March 27, 2017, the date the consolidated financial statements were available to be issued.

TAB:
TBG BUDGET

TBG BUDGET

THE BUILDERS GROUP CONSOLIDATED INCOME STATEMENT

2015 Budget, 2015 Year-end, and 2016 Budget (Revised)

	2015 Budget	2015 Year-End	2016 Budget - BOD Review	Revisions	2016 Budget - Revised	YTD Mix			
						2015 Budget	2015 Year- End	2016 Budget - BOD Review	2016 Budget - Revised
Revenue									
Premium Revenue	45,000,000	46,996,489	48,000,000	(6,000,000)	42,000,000	100.0%	100.0%	100.0%	100.0%
Reinstatement & Late Fee Revenue	66,000	63,106	66,000	-	66,000	0.1%	0.1%	0.1%	0.2%
Total Member Revenue	45,066,000	47,059,595	48,066,000	(6,000,000)	42,066,000	100.1%	100.1%	100.1%	100.2%
Other Income									
Earnings on Investments, net	370,370	710,441	370,670	-	370,670	0.8%	1.5%	0.8%	0.9%
Other Income	149,504	96,200	152,642	1,200	153,842	0.3%	0.2%	0.3%	0.4%
Total Revenue	45,585,874	47,866,235	48,589,312	(5,998,800)	42,590,512	101.3%	101.9%	101.2%	101.4%
Claims Expense									
Claims Paid, Reserved & IBNR	29,250,000	24,720,759	30,240,000	(4,620,000)	25,620,000	65.0%	52.6%	63.0%	61.0%
Reinsurance & Employer Liability	2,651,387	2,583,492	2,717,736	(233,708)	2,484,028	5.9%	5.5%	5.7%	5.9%
Special Comp Fund	2,254,638	985,605	2,205,460	(276,508)	1,928,952	5.0%	2.1%	4.6%	4.6%
Claims Administration	927,300	946,880	1,015,007	9,200	1,024,207	2.1%	2.0%	2.1%	2.4%
Total Claims Expense	35,083,325	29,236,736	36,178,204	(5,121,017)	31,057,187	78.0%	62.2%	75.4%	73.9%
Administrative Expenses									
Agent Commission Expense	3,330,000	3,572,137	3,552,000	(394,000)	3,158,000	7.4%	7.6%	7.4%	7.5%
Salary & Benefits Expense	2,079,444	2,225,879	2,269,487	(84,713)	2,184,774	4.6%	4.7%	4.7%	5.2%
General & Administrative Expenses	1,964,139	1,924,082	2,095,566	(1,073)	2,094,493	4.4%	4.1%	4.4%	5.0%
Depreciation Expense	139,691	228,409	133,211	1	133,212	0.3%	0.5%	0.3%	0.3%
Total Administrative Expenses	7,513,274	7,950,507	8,050,263	(479,785)	7,570,478	16.7%	16.9%	16.8%	18.0%
Total Expenses	42,596,598	37,187,243	44,228,467	(5,600,801)	38,627,665	94.7%	79.1%	92.1%	92.0%
Net Income (Loss) Before Taxes	2,989,275	10,678,993	4,360,845	(397,999)	3,962,847	6.6%	22.7%	9.1%	9.4%
Admin. Expense, % of Premium	16.7%	16.9%	16.8%		18.0%				
Claims Expense, % of Premium	78.0%	62.2%	75.4%		73.9%				
Combined Ratio	94.7%	79.1%	92.1%		92.0%				

TBG BUDGET

THE BUILDERS GROUP 2016 PAYROLL BUDGET

Annual Employer Expense

	Total TPA	TBG	Consolidated
	<u>Annual</u>	<u>Annual</u>	<u>Annual</u>
Annual Salaries	1,151,557	476,083	1,627,640
Payroll Taxes (FICA, FUTA, SUTA)	87,344	30,447	117,791
<u>Benefits</u>			
Health & Dental Insurance	100,082	50,036	150,117
Life & Disability, LTC Insurance	13,379	4,338	17,717
401k Match	58,122	23,184	81,306
Total Benefits	171,583	77,558	249,141
Incentive/Equity Pool	59,000	61,000	120,000
Payroll Taxes	4,440	5,761	10,201
	63,440	66,761	130,201
WTB	1,473,924	650,849	2,124,773
Outsourcing	25,000	28,421	53,421
Payroll Expense (PCS, etc.)	2,830	3,255	6,085
Total Payroll Expense	1,501,754	682,525	2,184,279
<u>Staffing:</u>			
Corporate	0	1 CEO	1
Marketing	3 Dir, consult, new	0	3
Associations	0	0	0
Underwriting	2 Mgr, 1 UW	0	2
Audit	2 Mgr, 1 asst	0	2
Loss Control	4 Mgr, 2 Sr. reps, 1 rep	0	4
IT	2 Dir IT, 1 asst	0	2
Accounting	0	3 Dir Fin, HR, asst (PT)	3
# of Employees	13	4	17

<u>% of Salaries</u>	<u>Benchmark</u>
22.5%	31.5%

TAB:
TBG DATA BREACH POLICY

TBG DATA BREACH POLICY

DATA SECURITY BREACH POLICY GUIDE

In this computer and inter-connected world, companies hold and exchange vast amounts of personal data on employees and clients. It has become very evident that companies that collect, maintain, or use personal information have a serious responsibility to protect the security and integrity of that information.

The potential exposure from breaches is great and data security is becoming a major risk management priority. The following is a security breach response plan that provides a guideline in the event of a data breach. This is in addition to the other security measures we have in place with IVDesk, our firewalls, etc., because even with reasonable protections in place, data breaches occur.

The data breach response policy is designed to facilitate compliance with legal obligations and to address reputational issues. TBG also has a Cyber Security insurance policy in the event of a data breach.

1. PURPOSE

The purpose of this Information Security Incident and Notification Policy ("Policy") is to establish minimum requirements and provide guidance to The Builder's Group ("TBG") in the event there is a breach of TBG's records, particularly records regarding an individual's protected information. This Policy applies to all incidents, including breaches of protected health information and identifying information, whether or not such breach is suspected or confirmed.

2. DEFINITIONS

A. **Breach**: A "Breach" means unauthorized acquisition of computerized data that compromises the security, confidentiality, or integrity of Personal Information or Protected Health Information maintained by TBG.

B. **Incident**: An "Incident" means a situation that presents a significant or imminent threat to the security of system information, it includes, but is not limited to: (i) a Breach or suspected Breach; (ii) unauthorized access or compromise of information with perceived malicious intent; (iii) a significant threat of actual loss of data; or (iv) a reasonable basis to believe that system information and/or resources are being used for unauthorized or illegal activity.

C. **Incident Response Team**: The "Incident Response Team" means the individuals appointed by TBG to carry-out the Incident Response Plan under this Policy. The Incident Response Team will be managed by the Director of Information Systems or another manager as appointed by TBG and may be comprised of TBG's Information Systems ("IS") Department.

D. **Personal Information**: "Personal Information" means an individual's first name or first initial and last name in combination with any one or more of the following unencrypted data elements: (i) Social Security Number; (ii) driver's license number; (iii) Minnesota identification card number; or (iv) account number or credit/debit card number (in combination with any security code, access code, or password that would permit access to an individual's financial account).

E. **Protected Health Information**: "Protected Health Information" means individually identifiable health information that is transmitted by electronic media, maintained in electronic media, or transmitted by any other form or medium.

F. **Unsecured**: "Unsecured" means any information which is not unusable, unreadable, or indecipherable

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to unauthorized persons through the use of technology or methodology, such as encryption or destruction.

3. INFORMATION SECURITY INCIDENT

TBG takes the security of its data and the Personal Information and Protected Health Information of others very seriously. All information security Incidents must be immediately investigated and appropriate steps to mitigate any damage must be taken. After the Incident has been investigated and contained, the Incident must be analyzed so as to prevent future recurrences.

A. **Electronic Data Breach:** Upon discovery or suspicion of an Incident related to electronic data, the individual who identifies the issue must immediately notify his or her supervisor and TBG's Director of IS. At a minimum the individual should inform his or her supervisor and TBG's Director of IS of the time and place of discovery and circumstances surrounding the discovery and reason for suspecting that an Incident occurred. Additionally, the individual discovering the issue should take any remedial steps he or she is capable of to contain the issue and mitigate any further damage.

B. **Physical Data Breach:** In addition to the applicable actions outlined in the Incident Response Plan, in the event of a physical Incident the Incident Response Team must: (i) immediately secure the physical area (change locks, access codes or cards, if necessary); (ii) determine whether it is appropriate to involve law enforcement; and (iii) limit access into the affected area until corporate security and/or law enforcement have investigated the Incident, if appropriate. who identifies the issue must immediately notify his or her supervisor and TBG's Director of IS. At a minimum the individual should inform his or her supervisor and TBG's Director of IS of the time and place of discovery and circumstances

surrounding the discovery and reason for suspecting that an Incident occurred. Additionally, the individual discovering the issue should take any remedial steps he or she is capable of to contain the issue and mitigate any further damage.

C. **Breach Discovery:** Following the discovery of a potential Breach, TBG shall begin an investigation, conduct a risk assessment, and, based on the results of the risk assessment, begin the process of notifying each individual whose Personal Information and/or Protected Health Information has been, or is reasonably believed by TBG to have been, accessed, acquired, used, or disclosed as a result of the Breach. TBG shall also begin the process of determining what notifications are required or should be made, if any, to the Secretary of the Department of Health and Human Services (HHS), media outlets, or law enforcement officials.

4. INCIDENT RESPONSE PLAN

A. **DETECTION AND ANALYSIS:** Often Incidents are detected by systems and network administrator identifying activities that are outside the normal activities defined by the system leads or management. The following are common indicators of an Incident:

- ▶ An alarm or other indication from TBG's intrusion detection system
- ▶ Repeated unsuccessful login attempts
- ▶ Unexplained, new user accounts
- ▶ Unfamiliar, new file names
- ▶ Unexplained modifications to file lengths or dates
- ▶ Denial of service or inability of one or more users to login
- ▶ System Crashes
- ▶ System slowdown
- ▶ Unusual time of user usage

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- ▶ Unusual user usage patterns (compiling of programs by a user who does not know how to program)

1. Incident Prioritization and Categorization:

The prioritization and categorization of Incidents are critical in effectively dealing with them, especially in a situation where multiple Incidents are occurring at the same time. The manner of assigning priority to an Incident is based on a number of factors that must be considered and re-prioritization may occur when new information on a given Incident is learned. Incidents will be categorized into one of three severity levels. These levels are based on the impact to TBG and can be expressed in terms of financial impact, reputation risk or impact to individuals.

The following are some of the factors that should be considered when assigning priority to an Incident:

- ▶ Resources required to resolve the Incident
- ▶ Type and amount of information affected

- ▶ Impact on individuals and number of individuals affected

- ▶ Impact on TBG
- ▶ Type of Incident
- ▶ Type and extent of damage
- ▶ Target and source of attack

2. Incident Documentation: Incidents should be documented beginning with the initial discovery of the Incident and notification to the Incident Response Team. The Incident Response Team is responsible for gathering and documenting information related to any Incident and TBG employees must cooperate with the Incident Response Team with their investigation.

Incident documentation should reflect an accurate and complete record of events that occurred from start to finish. The Incident Notification Checklist and Sample Security Incident Response Report form attached to this Policy include information that should be collected at the start of the Incident Response Plan. The Incident Handling Checklist and

Low-Level Incident	Mid-Level Incident	High-Level Incident
Least severe and should be resolved within 1 working day after the Incident occurs	More serious and should be handled the same day the Incident occurs (within 1-4 hours)	Most serious due to the gravity of the situation and likelihood of damage resulting to TBG and individuals, these Incidents should be handled immediately
<ul style="list-style-type: none"> • Loss of passwords • Suspected unauthorized sharing of accounts • Misuse of computer actions • Unintentional computer actions • Unintentional scans or probes 	<ul style="list-style-type: none"> • Property destruction • Unauthorized or illegal download • Unauthorized software • Unauthorized use of system for processing or storing data • Unauthorized building access • Personal theft related to a computer 	<ul style="list-style-type: none"> • Breach or Suspected Breach (threatening Personal Information and/or Protected Health Information) • Suspected electronic or physical break-in • Violation of law related to TBG and/or individual information • Corporate or high value personal theft related to a computer and/or electronic systems • Denial of service attacks • Unauthorized use of system for processing, storing or accessing prohibited and/or protected data • Unauthorized changes to system hardware, firmware, or software

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Data Breach Investigation and Mitigation Checklist are also helpful references in implementing and documenting the Incident Response Plan and actions taken as part of the Incident Response Plan. In addition to this information, the Incident Response Team should create a logbook detailing observations and actions taken throughout the process of resolving the Incident. All log entries should include the name of the system, system time and other details related to the observations. The Incident Response Team should also record the names of those with whom the Incident or suspected Incident was discussed. The logbook must be maintained in a secure manner and preserved for future reference. Multiple Incidents are occurring at the same time. The manner of assigning priority to an Incident is based on a number of factors that must be considered and re-prioritization may occur when new information on a given Incident is learned. Incidents will be categorized into one of three severity levels. These levels are based on the impact to TBG and can be expressed in terms of financial impact, reputation risk or impact to individuals.

Incident Analytics: Once an Incident has been identified and reported, the Incident Response Team will analyze the Incident to determine whether the suspicious Incident was caused by benign or malicious action and evaluate the threat the Incident presents to TBG, individuals and their information. Once the severity and scope of the Incident are known, it is the responsibility of the Incident Response Team to communicate these findings to the appropriate management personnel. If it is confirmed that a Breach has occurred, the Incident Response Team will inform the Director of IS and TBG management will provide the appropriate notice, if any, under this Policy or as otherwise required by state, federal or local law.

B. CONTAINMENT, ERADICATION & RECOVERY

1. Containment Strategy: As dictated by the categorization and priority of the Incident, the Incident Response Team will decide steps to contain the Incident and if necessary when to escalate it. It is very important that the Director of IS be kept informed of all actions, measures or steps taken to contain and resolve the Incident. Depending on the nature of the Incident, the Incident Response Team may request the assistance of different departments to perform certain actions to limit the impact of the Incident. Depending on the type of Incident, support personnel may instruct users to take any of the steps described below to assist in containing the Incident and preserving evidence.

- a. **System Users:** Users are often the first line of defense in a successful containment effort because of their access to the device or system that is experiencing an attack. If a user notices an unusual event, he or she should immediately contact the Director of IS. Depending on the type of Incident, users may need to be instructed to take steps necessary to assist in containing the Incident and preserving evidence, for example, immediately disconnecting a wireless device, workstation, laptop, or other device and having an assessment done on it. In determining the risk of continuing to operate the affected systems, system administrators and/or users are responsible for assisting as needed.
- b. **Incident Response Team:** All actions taken during the response process should be recorded and reported. Containment activities carried out by the Incident Response Team include the following:
 - Documenting all actions performed during the response.
 - Keeping all Incident Response Team members informed of progress and advise the appropriate parties of actions to be taken to

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contain the Incident.

- Ensuring that effective measures have been taken to stop an ongoing Incident (ex. firewall rule set modifications, email filtering, and system disconnection).
- Gathering and reviewing network, system and application logs
- Changing passwords on compromised systems and systems that interact with the compromised systems.

2. Evidence Gathering and Handling: Once it is determined that the Incident warrants an investigation, the Incident Response Team must notify the Director of IS who will determine how the investigation should proceed. Regardless of the severity or priority assigned to an Incident, all documentation of investigations of a suspected Breach must be turned over to the Director of IS.

3. Eradication: Eradication is the process of identifying the cause of the Incident and mitigating that cause, as well as removing components of an Incident. It is important to note that eradication may destroy evidence of the Incident; therefore, any steps taken in the eradication process must be documented. Any eradication process utilized must adhere strictly to the procedure defined for handling the Incident that occurred.

4. Recovery: Once the system appears to be performing normally, it must be tested and validated. Every effort must be made not to keep or restore backdoors or malicious code during recovery. For example, if a root kit installation is suspected, the system should be reformatted, and the operating system should be rebuilt, including all patches and fixes, prior to redeployment. Users may need to verify that the system is functioning properly before it resumes operations. Applications and data may also need to be reloaded on the fresh operating system. Recovery steps are to be recorded by the Incident Response Team and

reported to the Director of IS.

C. POST-INCIDENT ACTIVITY: Performing follow-up activity is one of the most critical activities in the Incident Response Plan. This follow-up can support any efforts to prosecute those who have broken the law and providing notifications as required by law. It may also assist in preventing future attacks or similar Incidents.

1. Record Retention: Records and documentation of the investigation made by the Incident Response Team must be stored in a secure area for at least one year or as directed by the Director of IS. For Incidents resulting in criminal investigations, the evidence must be retained for as long as it is needed and up to three years after the matter is resolved. In the event that a record request, subpoena, warrant, or other official request is issued for data, the Director of IS must be notified and the request must be reviewed prior to responding. Evidence from Incidents that involve an immediate threat to property or life may be provided to law enforcement in advance of a public records request, subpoena or warrant, but legal counsel should be contacted if time allows.

Incident Response Review: The final step in the Incident Response Plan is to review and evaluate. Every Incident that requires a response effort should be reviewed and analyzed by the Incident Response Team. The review should focus on the steps taken and address any concerns or problems encountered along the way and steps to mitigate risks in the future. The Incident Response Review Report form and/or Sample Security Incident Response Report form should be used to document this step.

5. INFORMATION SECURITY BREACH NOTIFICATION

TBG maintains records which may include Personal

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Information and Protected Health Information which are given greater protection under state and federal law. When there is a Breach or Incident compromising an individuals' unsecured Protected Health Information, notification must be given pursuant to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"). Additionally, in the event a Breach compromises Personal Information, Minnesota law requires notification be given to the affected individuals.

- A. **Risk Assessment:** For Breach response and notification purposes, a Breach is presumed to have occurred unless TBG can demonstrate that Personal Information and Protected Health Information have not been compromised based on the Incident Response Prioritization and Categorization analysis. Additional factors to consider include:
- The nature and extent of Personal Information and/or Protected Health Information involved
 - The cause of the Breach and/or to whom disclosure was made?
 - Was the Personal Information and/or Protected Health Information Unsecured?
 - Does the investigation demonstrate that Personal Information and/or Protected health Information were not actually accessed?

- B. **Notification to Individuals Affected:** If it is determined that Breach Notification must be sent to affected individuals, a Breach Notification Letter will be sent out to all affected individuals. A sample of a Breach Notification Letter is attached to this Policy.

1. **Breach Notice:** The Breach Notification letter sent to affected individuals shall be written in plain language and contain at a minimum the following information:

- A brief description of what happened, including the date of the Breach and the

date of the discovery of the Breach, if known.

- A description of the types of Personal Information and/or Protected Health Information that were involved in the Breach (such as whether the information was Unsecured, whether full name, social security number, date of birth, home address, account number, diagnosis, disability code, or other types of information were involved).
- Any steps the individuals should take to protect themselves from potential harm resulting from the Breach.
- A brief description of what TBG is doing to investigate the Breach, to mitigate harm to individuals, and to protect against further Breaches.
- Contact procedures for individuals to ask questions or learn additional information.

2. **Notice:** The Breach Notification letter must be sent as soon as practicable after the discovery of the Breach. If TBG and/or the Incident Response Team determine that notification requires urgency because of possible imminent misuse of Unsecured Protected Health Information, notification may be provided by telephone or other means as appropriate in addition the following methods. A copy of all Breach Notification Letters and related correspondence must be retained as part of the Incident Response Plan documentation and retained with such records. The Breach Notification Letter must be sent in one of the following ways:

- a. ***By First-Class Mail*** to the most recent address in TBG's records.
- b. ***By Electronic Mail*** if TBG's primary method of communication with the individual is by electronic means, and/or if

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the notice provided is consistent with state and federal law.

c. ***By Notice to Next of Kin for Breach of Protected Health Information Only***

If TBG knows that the individual is deceased and has the address of the next of kin or personal representative of the individual, written notification by first-class mail to the next of kin or person representative shall be carried out.

- d. ***By Substitute Notice for Breach of Protected Health Information Only*** if there is insufficient or out-of-date contact information for ***fewer than ten individuals***, then the substitute notice may be provided by an alternative form of written notice, by telephone, or by other means. If there is insufficient or out-of-date contact information for ***ten or more individuals***, then the substitute notice shall be in the form of either (i) a conspicuous posting for a period of ninety days on TBG's website, or a conspicuous notice in major print or broadcast media where the individuals affected by the Breach likely reside. This substitute notice shall include a toll-free number that remains active for at least ninety days where an individual can learn whether his or her Protected Health Information may be included in the Breach.

- e. ***By Substitute Notice for Breach of Personal Information Only*** if the cost to TBG to notify the affected individuals exceeds \$250,000, or the affected class of individuals is more than 500,000, or TBG does not have sufficient contact information, notice must be provided consist of all of the following (i) e-mail notice; (ii) conspicuous posting of the notice on TBG's website; and (iii) notification to a major statewide media outlet, or as otherwise provided by state, federal, or local law.

C. **Notification to Health and Human Services:**

In the event a Breach of Unsecured Protected Health Information affects ***500 or more individuals***, HHS will be notified at the same time notice is made to the affected individuals, in the manner specified on the HHS website. If ***fewer than 500 individuals*** are affected, TBG will maintain a log of the Breaches to be submitted annually to the HHS as required by applicable law.

- D. **Notification to Media:** In the event a Breach of Unsecured Protected Health Information affects ***more than 500 individuals***, prominent media outlets serving the state and regional area will be notified without unreasonable delay and in no case later than sixty calendar days after the discovery of such a Breach. The notice may be provided in the form of a press release.

- E. **Notification to Credit Reporting Agencies:** If the circumstances of the Breach require notification of ***more than 500 individuals*** with regard to their Personal Information, TBG must also notify all consumer reporting agencies that compile and maintain files on consumers on a nationwide basis of the timing, distribution, and content of the notices, or as otherwise required by state, federal, and local law.

- F. **Delayed Notice for Law Enforcement Purposes:** If a law enforcement official informs TBG that a notification, notice, or posting would impede a criminal investigation or cause damage to national security, TBG shall:

- If the statement is in writing and specifies the time for which a delay is required, delay such notification, notice, or posting for the time period specified by the official; or
- If the statement is made orally, document the statement, including the identity of the official making the statement, and delay the notification, notice, or posting temporarily and no longer than thirty days from the date of the oral statement, unless a written statement as described above is submitted during that time.

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G. **Maintenance of Notification Records:** In addition to the documentation maintained as part of the normal Incident Response Plan, TBG shall maintain a record of all Breaches which shall include (i) the number of individuals affected, (ii) a description of the types of information involved including whether or not there was any Unsecured Protected Health Information involved in the Breach; (iii) a description of the action taken with regard to notification of individuals; (iv) copies of all notices sent and correspondence received in response, if any; and (v) specific steps taken to mitigate the Breach.

TAB:
TBG EDUCATION FOUNDATION, INC.

TBG EDUCATION FOUNDATION, INC.

MISSION

Encourage students to pursue a career in the construction industry.

VISION

Minnesota's construction industry is facing a long-term decline in recruiting enough workers to fill open jobs. TBG Education Foundation seeks to address Minnesota's construction industry labor shortage head-on. We will do this in a variety of ways, such as increasing awareness of skilled trade career opportunities, promoting long-term career viability, and providing financial support through grants and scholarships.

TBG Education Foundation, Inc. was established in 2015 by The Builders Group Self Insurance Group, a Minnesota self-insured workers' compensation program servicing the construction industry in Minnesota. TBG Education Foundation was created to help its Member Companies find and recruit the next generation of workers to Minnesota's construction industry.

The purpose of the TBG Education Foundation is the advancement of education in construction-related industries, and the enhancement of people's exposure and access to education and training in the construction-related industries.

TAB:
MN CSIG STATUTES AND RULES

MN CSIG STATUTES

79A.19 COMMERCIAL SELF-INSURANCE GROUPS; DEFINITIONS

Subdivision 1. Scope

For the purposes of sections 79A.19 to 79A.32, the terms defined in this section have the meanings given them. If there is any inconsistency between this section and section 79A.01, the provisions of this section shall govern.

Subd. 2. Accountant

"Accountant" means a certified public accountant who is not an employee of any member of the commercial self-insurance group and is not affiliated with any individual or organization providing services other than accounting services to the group.

Subd. 3. Actuary

"Actuary" means an individual who has attained the status of associate or fellow of the Casualty Actuarial Society who is not an employee of any member of the commercial self-insurance group and is not affiliated with any individual or organization providing services other than actuarial services to the group.

Subd. 4. Common Claims Fund

"Common claims fund" means the cash, cash equivalents, or investment accounts maintained by the commercial self-insurance group to pay its workers' compensation liabilities.

Subd. 5. Member

"Member" means an employer that participates in a commercial self-insurance group.

Subd. 6. Commercial Self-Insurance Group

"Commercial self-insurance group" means a group of employers that are self-insured for workers' compensation under chapter 176 and elects to operate under sections 79A.19 to 79A.32 rather than sections 79A.01 to 79A.18.

Subd. 7. Commercial Self-Insurance Group

Security Fund

"Commercial self-insurance group security fund" means the commercial self-insurance group security fund established pursuant to this chapter.

Subd. 8. Trustees

"Trustees" means the board of trustees of the commercial self-insurance group security fund.

History: 1995 c 231 art 2 s 28

79A.20 ELIGIBILITY REQUIREMENTS FOR COMMERCIAL SELF-INSURANCE GROUPS

Subdivision 1. Group Eligibility.

A commercial self-insurance group consists of two or more employers in similar industries. The commercial self-insurance group shall not incorporate or form a business trust pursuant to chapter 318.

Subd. 2. Membership Eligibility

A commercial self-insurance group may only admit employers who meet the eligibility requirements established by the group including financial criteria, underwriting guidelines, risk profile, and any other requirements stated in the commercial self-insurance group's bylaws or plan of operation.

History: 1995 c 231 art 2 s 29

79A.21 COMMERCIAL SELF-INSURANCE GROUP APPLICATION

Subdivision 1. Procedure

(a) Groups proposing to become licensed as commercial self-insurance groups must complete and submit an application on a form or forms prescribed by the commissioner.

(b) The commissioner shall grant or deny the group's

MN CSIG STATUTES

application to self-insure within 60 days after a complete application has been filed, provided that the time may be extended for an additional 30 days upon 15 days' prior notice to the applicant.

Subd. 2. Required Documents

All first-year applications must be accompanied by the following:

(a) A detailed business plan including the risk profile of the proposed membership, underwriting guidelines, marketing plan, minimum financial criteria for each member, and financial projections for the first year of operation.

(b) A plan describing the method in which premiums are to be charged to the employer members. The plan shall be accompanied by copies of the member's workers' compensation insurance policies in force at the time of application. In developing the premium for the group, the commercial self-insurance group shall base its premium on the Minnesota Workers' Compensation Insurers Association's manual of rules, loss costs, and classifications approved for use in Minnesota by the commissioner. Each member applicant shall, on a form approved by the commissioner, complete estimated payrolls for the first 12-month period that the applicant will be self-insured. Premium volume discounts per the plan will be permitted if they can be shown to be consistent with actuarial standards.

(c) A schedule indicating actual or anticipated operational expenses of the commercial self-insurance group. No authority to self-insure will be granted unless, over the term of the policy year, at least 65 percent of total revenues from all sources for the year are available for the payment of its claim and assessment obligations. For purposes of this calculation, claim and assessment obligations include the cost of allocated loss expenses as well as special compensation fund and commercial self-insurance group security fund assessments but exclude the cost

of unallocated loss expenses.

(d) An indemnity agreement from each member who will participate in the commercial self-insurance group, signed by an officer of each member, providing for joint and several liability for all claims and expenses of all of the members of the commercial self-insurance group arising in any fund year in which the member was a participant on a form approved by the commissioner. The indemnity agreement shall provide for assessments according to the group's bylaws on an individual and proportionate basis.

(e) A copy of the commercial self-insurance group bylaws.

(f) Evidence of the security deposit required under section 79A.24, accompanied by the actuarial certification study for the minimum security deposit as required under section 79A.24.

(g) Each initial member of the commercial self-insurance group shall submit to the commercial self-insurance group accountant its most recent annual financial statement. Financial statements for a period ending more than six months prior to the date of the application must be accompanied by an affidavit, signed by a company officer under oath, stating that there has been no material lessening of the net worth nor other adverse changes in its financial condition since the end of the period. Individual group members constituting at least 50 percent of the group's annual premium shall submit reviewed or audited financial statements. The remaining members must submit compilation level statements. Statements for a period ending more than 12 months prior to the date of application cannot be accepted.

(h) A compiled combined financial statement of all group members prepared by the commercial self-insurance group's accountant and a list of members included in such statements. An "Agreed-Upon Procedures" report, as determined by the commissioner, indicating combined net worth,

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total assets, cash flow, and net income of the group members may be filed in lieu of the compiled combined financial statement.

(i) A copy of each member's accountant's report letter from the reports used in compiling the combined financial statements.

(j) A list of all members and the percentage of premium each represents to the total group's annual premium for the policy year.

Subd. 3. Approval

The commissioner shall approve an application for self-insurance upon a determination that all of the following conditions are met:

(1) a completed application and all required documents have been submitted to the commissioner;

(2) the financial ability of the commercial self-insurance group is sufficient to fulfill all obligations that may arise under this chapter or chapter 176;

(3) the annual premium of the commercial self-insurance group to be charged to initial members is at least 150 percent of the WCRA minimum retention in effect at the time of the application;

(4) the commercial self-insurance group has contracted with a service company to administer its program; and

(5) the required securities or surety bond shall be on deposit prior to the effective date of coverage for the commercial self-insurance group.

History: 1995 c 231 art 2 s 30; 1999 c 168 s 1,2; 1999 c 177 s 84; 2010 c 384 s 43

79A.22 COMMERCIAL SELF-INSURANCE GROUP OPERATING REQUIREMENTS

Subdivision 1. Board of Directors

(a) A commercial self-insurance group shall elect a

board of directors who shall have complete authority over and control of the assets of the commercial self-insurance group. The board of directors will also be responsible for all of the operations of the commercial self-insurance group.

(b) The majority of the board of directors shall be owners, officers, directors, partners, or employees of members of the commercial self-insurance group. No third-party administrator or vendor of risk management services shall serve as a director of the commercial self-insurance group.

(c) The directors shall approve applications for membership in the commercial self-insurance group.

Subd. 2. Financial Standards

Commercial self-insurance groups shall have and maintain:

(1) combined net worth of all of the members in an amount at least equal to ten times the group's selected retention level of the Workers' Compensation Reinsurance Association. For purposes of this clause, the amount of any retained surplus by the group is considered part of the combined net worth of all the members;

(2) sufficient assets and liquidity in the group's common claims fund to promptly and completely meet all obligations of its members under this chapter and chapter 176.

Subd. 3. New Membership

The commercial self-insurance group shall file with the commissioner the name of any new employer that has been accepted in the group within five business days of the initiation date of membership along with the member's signed indemnity agreement and evidence the member has deposited sufficient premiums with the group as required by the commercial self-insurance group's bylaws or plan of operation. The security deposit of the group shall be increased quarterly to an amount equal to 50 percent of the new members'

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premiums for that quarter. If the total increase of new members' premiums for the first quarter is less than five percent of the total annual premium of the group, no quarterly increase is necessary until the cumulative quarterly increases for that calendar year exceed five percent of the total premium of the group. The commissioner may, at the commissioner's option, review the financial statement of any applicant whose premium equals 25 percent or more of the group's total premium.

Subd. 4. Commercial Self-Insurance Group Common Claims Fund.

(a) Each commercial self-insurance group shall establish a common claims fund.

(b) Each commercial self-insurance group shall, not less than ten days prior to the proposed effective date of the group, collect cash premiums from each member equal to not less than 20 percent of the member's annual workers' compensation premium to be paid into a common claims fund, maintained by the group in a designated depository. The remaining balance of the member's premium shall be paid to the group in a reasonable manner over the remainder of the year. Payments in subsequent years shall be made according to the business plan.

(c) Each commercial self-insurance group shall initiate proceedings against a member when that member becomes more than 30 days delinquent in any payment of premium to the fund.

(d) There shall be no commingling of any assets of the common claims fund with the assets of any individual member or with any other account of the service company or fiscal agent unrelated to the payment of workers' compensation liabilities incurred by the group.

Subd. 5. Joint and Several Liability

Each member of a commercial self-insurance group shall be jointly and severally liable for the obligations incurred by any member of the same group under

chapter 176 for any fund year in which the member was a participant of the commercial self-insurance group.

Subd. 6. Annual Audit

The accounts and records of the common claims fund shall be audited in the manner required under section 79A.03, subdivision 10.

Subd. 7. Investments

(a) Any securities purchased by the common claims fund shall be in such denominations and with dates of maturity to ensure securities may be redeemable at sufficient time and in sufficient amounts to meet the fund's current and long-term liabilities.

(b) Cash assets of the self-insurers' fund may be invested as provided in section 60A.11 for a casualty insurance company, provided that investment in real estate of or indebtedness from a member company or affiliates is prohibited. In addition, investment in the following is allowed:

(1) savings accounts or certificates of deposit in a duly chartered commercial bank located within the state of Minnesota and insured through the Federal Deposit Insurance Corporation;

(2) share accounts or savings certificates in a duly chartered savings association or savings bank located within the state of Minnesota and insured through the Federal Deposit Insurance Corporation;

(3) direct obligations of the United States Treasury, such as notes, bonds, or bills;

(4) a bond or security issued by the state of Minnesota and backed by the full faith and credit of the state;

(5) a credit union where the employees of the self-insurer are members if the credit union is located in Minnesota and insured through the National Credit Union Administration; or

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(6) real estate, common stock, preferred stock, or corporate bonds listed on the New York, American Stock Exchange or NASDAQ Stock Market, so long as these investments are not issued by any member company or affiliate and the total in all other allowable categories make up at least 75 percent of the total required in the common claims fund.

Subd. 8. Administration

(a) The commercial self-insurance group shall be required to secure administrative services through a service company which maintains an office in the state of Minnesota. Services provided by the service company or its subcontractor should at a minimum include claim handling, safety and loss control, and submission of all required regulatory reports.

(b) The service company must demonstrate it has the capability to provide, through its employees or by contract, services which are necessary to administer the self-insurance group and it must employ or have under contract a claims adjuster with at least three years of Minnesota specific workers' compensation claim handling experience.

(c) The service company retained by a commercial self-insurance group to administer workers' compensation claims shall estimate the total accrued liability of the group for the payment of compensation for the commercial self-insurance group's annual report to the commissioner and shall make the estimate both in good faith and with the exercise of a reasonable degree of care.

Subd. 9. Marketing and Communications

A commercial self-insurance group's applications, coverage documents, quotations, and all marketing materials must prominently display information indicating that the commercial self-insurance group is a self-insured program, that members are jointly and severally liable for the obligations of the commercial self-insurance group, and that members will be

assessed on an individual and proportionate basis for any deficits created by the commercial self-insurance group.

Subd. 10. Reinsurance

(a) A commercial self-insurance group shall be required to purchase specific excess coverage with the Workers' Compensation Reinsurance Association at the lower retention level for its first three years of operation. After that time it may select the higher or super retention level with prior notice given to and approval of the commissioner.

(b) The commissioner may require a commercial self-insurance group to purchase aggregate excess coverage. Any reinsurance or excess coverage purchased other than that of the Workers' Compensation Reinsurance Association must be secured with an insurance company or reinsurer licensed to underwrite such coverage in Minnesota and maintains at least an "A" rating with the A.M. Best rating organization.

Subd. 11. Disbursement of Fund Surplus

(a) Except as otherwise provided in paragraphs (b) and (c), 100 percent of any surplus money for a fund year in excess of 125 percent of the amount necessary to fulfill all obligations under the Workers' Compensation Act, chapter 176, for that fund year may be declared refundable to eligible members at any time.

(b) Except as otherwise provided in paragraph (c), for groups that have been in existence for five years or more, 100 percent of any surplus money for a fund year in excess of 110 percent of the amount necessary to fulfill all obligations under the Workers' Compensation Act, chapter 176, for that fund year may be declared refundable to eligible members at any time.

(c) Excess surplus distributions under paragraphs (a) and (b) may not be greater than the combined surplus of the group at the time of the distribution.

(d) When all the claims of any one fund year have been

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fully paid, as certified by an actuary, all surplus money from that fund year may be declared refundable.

(e) The commercial self-insurance group shall give ten days' prior notice to the commissioner of any refund. The notice must be accompanied by a statement from the commercial self-insurer group's certified public accountant certifying that the proposed refund is in compliance with this subdivision.

Subd. 12. Satisfaction of Fund Deficit

In the event of a deficit in any fund year, such deficit shall be paid up immediately, either from surplus from a fund year other than the current fund year, or by assessment of the membership. The commissioner shall be notified within ten days of any transfer of surplus funds. The commissioner, upon finding that a deficit in a fund year has not been satisfied by a transfer of surplus from another fund year, shall order an assessment to be levied on a proportionate basis against the members of the commercial self-insurance group during that fund year sufficient to make up any deficit.

Subd. 13. Common Claims Fund; Five-Year Exception

For commercial group self-insurers who have been in existence for five years or more, a level of funding in the common claims fund must be maintained at not less than the greater of either:

- (1) one year's claim losses paid in the most recent year; or
- (2) one-third of the security deposit posted with the Department of Commerce according to section 79A.24, subdivision 2.

This provision supersedes any requirements under subdivisions 11 and 12 and Minnesota Rules, part 2780.5000.

Subd. 14. All States Coverage

Policies issued by commercial self-insurance groups pursuant to this chapter may also provide workers'

compensation coverage required under the laws of states other than Minnesota, commonly known as "all states coverage." The coverage must be provided to members of the group which are temporarily performing work in another state.

History: 1995 c 231 art 2 s 31; 1998 c 339 s 3,4; 1999 c 168 s 3; 2000 c 483 s 30-32; 2005 c 132 s 34,35; 2008 c 344 s 50,51

79A.23 COMMERCIAL SELF-INSURANCE GROUP REPORTING REQUIREMENTS

Subdivision 1. Required Reports to Commissioner

Each commercial self-insurance group shall submit the following documents to the commissioner.

- (a) An annual report shall be submitted by April 1 showing the incurred losses, paid and unpaid, specifying indemnity and medical losses by classification, payroll by classification, and current estimated outstanding liability for workers' compensation on a calendar year basis, in a manner and on forms available from the commissioner. In addition each group will submit a quarterly interim loss report showing incurred losses for all its membership.
- (b) Each commercial self-insurance group shall submit within 45 days of the end of each quarter:
 - (1) a schedule showing all the members who participate in the group, their date of inception, and date of withdrawal, if applicable;
 - (2) a separate section identifying which members were added or withdrawn during that quarter; and
 - (3) an internal financial statement and copies of the fiscal agent's statements supporting the balances in the common claims fund.

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(c) The commercial self-insurance group shall submit an annual certified financial audit report of the commercial self-insurance group fund by April 1 of the following year. The report must be accompanied by an expense schedule showing the commercial self-insurance group's operational costs for the same year including service company charges, accounting and actuarial fees, fund administration charges, reinsurance premiums, commissions, and any other costs associated with the administration of the group program.

(d) An officer of the commercial self-insurance group shall, under oath, attest to the accuracy of each report submitted under paragraphs (a), (b), and (c). Upon sufficient cause, the commissioner shall require the commercial self-insurance group to submit a certified audit of payroll and claim records conducted by an independent auditor approved by the commissioner, based on generally accepted accounting principles and generally accepted auditing standards, and supported by an actuarial review and opinion of the future contingent liabilities. The basis for sufficient cause shall include the following factors:

- (1) where the losses reported appear significantly different from similar types of groups;
- (2) where major changes in the reports exist from year to year, which are not solely attributable to economic factors; or
- (3) where the commissioner has reason to believe that the losses and payroll in the report do not accurately reflect the losses and payroll of the commercial self-insurance group.

If any discrepancy is found, the commissioner shall require changes in the commercial self-insurance group's business plan or service company record-keeping practices.

(e) Each commercial self-insurance group shall submit by September 15 a copy of the group's annual federal

and state income tax returns or provide proof that it has received an exemption from these filings.

(f) With the annual loss report each commercial self-insurance group shall report to the commissioner any worker's compensation claim where the full, undiscounted value is estimated to exceed \$50,000, in a manner and on forms prescribed by the commissioner.

(g) Each commercial self-insurance group shall submit by May 1 a list of all members and the percentage of premium each represents to the total group's premium for the previous calendar year.

(h) Each commercial self-insurance group shall submit by October 15 the following documents prepared by the group's certified public accountant:

- (1) a compiled combined financial statement of group members and a list of members included in this statement. An "Agreed-Upon Procedures" report, as determined by the commissioner, indicating combined net worth, total assets, and net income of the group members may be filed in lieu of the compiled combined financial statement; and

- (2) a report that the statements which were combined have met the requirements of subdivision 2.

(i) If any group member comprises over 25 percent of total group premium, that member's financial statement must be reviewed or audited, and, at the commissioner's option, must be filed with the commissioner by October 15 of the following year.

(j) Each commercial self-insurance group shall submit a copy of each member's accountant's report letter from the reports used in compiling the combined financial statements. This requirement does not apply to any group that has been in existence for at least three years.

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Subd. 2. Required Reports from Members to Group

(a) Each member of the commercial self-insurance group shall, by September 15, submit to the group its most recent annual financial statement, together with other financial information the group may require. These financial statements submitted must not have a fiscal year end date older than January 15 of the group's calendar year end. Individual group members constituting at least 25 percent of the group's annual premium shall submit to the group reviewed or audited financial statements. The remaining members must submit compilation level statements.

(b) For groups that have been in existence for at least three years, individual group members may satisfy the requirements of paragraph (a) by submitting compiled, reviewed, or audited statements or the most recent federal income tax return filed by the member.

(c) Groups that have been in existence for at least five years may satisfy the requirement of paragraph (a) through submissions from members representing at least 50 percent of the group's total earned premium. Of those submissions, those from members representing at least 25 percent of the entire group's total earned premium must be audited or reviewed financial statements. The remainder of the submissions may be compiled, reviewed, or audited financial statements or the most recent tax return filed by the members.

Subd. 3. Operational Audit

(a) The commissioner may conduct an operational audit of the commercial self-insurance group's claim handling and reserve practices as well as its underwriting procedures to determine if they adhere to the group's business plan and sound business practices. The commissioner may select outside consultants to assist in conducting the audit. After completion of the audit, the commissioner shall either renew or revoke the commercial self-insurance group's authority to self-insure. The commissioner

may also order any changes deemed necessary in the claims handling, reserving practices, or underwriting procedures of the group.

(b) The cost of the operational audit shall be borne by the commercial self-insurance group.

Subd. 4. Unit Statistical Report

Each commercial self-insurance group will annually file a unit statistical report to the Minnesota Workers' Compensation Insurers Association.

History: 1995 c 231 art 2 s 32; 1998 c 339 s 5,6; 1999 c 168 s 4; 1999 c 177 s 85,86; 2000 c 483 s 33-35; 2006 c 255 s 70; 2008 c 344 s 52

79A.24 COMMERCIAL SELF-INSURANCE GROUP SECURITY DEPOSIT

Subdivision 1. Annual Securing of Liability

Each year every commercial self-insurance group shall secure its estimated future liability for the payment of compensation and the performance of the obligations of its membership imposed under chapter 176. A new deposit must be posted in the following manner: within 30 days of the filing of the annual report, the security posting for all prior years plus one-third of the posting for the current year; by July 31, one-third of the posting for the current year; by October 31, the final one-third of the posting for the current year.

Subd. 2. Minimum Deposit

The minimum deposit is 125 percent of the commercial self-insurance group's estimated future liability for the payment of compensation as determined by an actuary. If the group has been in existence for three years, this minimum deposit shall be 110 percent of the commercial self-insurance group's estimated future liability for the payment of workers' compensation as determined by an actuary. Each actuarial study shall include a projection of future losses during a one-year period until the next

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scheduled actuarial study, less payments anticipated to be made during that time. Deduction should be made for the total amount which is estimated to be returned to the commercial self-insurance group from any specific excess insurance coverage, aggregate excess insurance coverage, and any supplementary benefits which are estimated to be reimbursed by the special compensation fund. Supplementary benefits will not be reimbursed by the special compensation fund unless the special compensation fund assessment pursuant to section 176.129 is paid and the required reports are filed with the special compensation fund. In the case of surety bonds, bonds shall secure administrative and legal costs in addition to the liability for payment of compensation reflected on the face of the bond. In no event shall the security be less than the group's selected retention limit of the Workers' Compensation Reinsurance Association. The posting or depositing of security under this section shall release all previously posted or deposited security from any obligations under the posting or depositing and any surety bond so released shall be returned to the surety. Any other security shall be returned to the depositor or the person posting the bond.

Subd. 2a. Exceptions

Notwithstanding the requirements of subdivisions 1 and 2, the commissioner may, until the next annual securing of liability, adjust this required security deposit for the portion attributable to the current year only, if, in the commissioner's judgment, the self-insurer will be able to meet its obligations under this chapter until the next annual securing of liability.

Subd. 3. Type of Acceptable Security

The commissioner may only accept as security, and the commercial self-insurance group shall deposit as security, cash, approved government securities as set forth in section 79A.04, subdivision 3a, surety bonds or irrevocable letters of credit in any combination in accordance with the requirements under section 79A.04, subdivision 3.

Subd. 4. Custodial Accounts

(a) All surety bonds, irrevocable letters of credit, and documents showing issuance of any irrevocable letter of credit shall be deposited in accordance with the provisions of section 79A.071.

(b) Upon the commissioner sending a request to renew, request to post, or request to increase a security deposit, a perfected security interest is created in the commercial self-insurance group's and member's assets in favor of the commissioner to the extent of any then unsecured portion of the commercial self-insurance group's incurred liabilities. The perfected security interest is transferred to any cash or securities thereafter posted by the commercial self-insurance group with the commissioner of management and budget and is released only upon either of the following:

(1) the acceptance by the commissioner of a surety bond or irrevocable letter of credit for the full amount of the incurred liabilities for the payment of compensation; or

(2) the return of cash or securities by the commissioner. The commercial self-insurance group loses all right, title, and interest in and any right to control all assets or obligations posted or left on deposit as security. In the event of a declaration of bankruptcy or insolvency by a court of competent jurisdiction, or in the event of the issuance of a certificate of default by the commissioner, the commissioner shall liquidate the deposit as provided in this chapter, and transfer it to the commercial self-insurance group security fund for application to the commercial self-insurance group's incurred liability.

(c) No securities in physical form on deposit with the commissioner of management and budget or the commissioner or custodial accounts assigned to the state shall be released or exchanged without an order from the commissioner. No security can be exchanged more than once every 90 days.

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(d) Any securities deposited with the commissioner of management and budget or with a custodial account assigned to the commissioner of management and budget or letters of credit or surety bonds held by the commissioner may be exchanged or replaced by the depositor with any other acceptable securities or letters of credit or surety bond of like amount so long as the market value of the securities or amount of the surety bonds or letter of credit equals or exceeds the amount of the deposit required. If securities are replaced by surety bond, the commercial self-insurance group must maintain securities on deposit in an amount sufficient to meet all outstanding workers' compensation liability arising during the period covered by the deposit of the replaced securities.

Subd. 5. Purchase of Insurance Policy from an Authorized Insurer

A commercial self-insurance group may purchase an insurance policy from an insurer authorized to transact workers' compensation insurance in this state which provides coverage of all claims for compensation arising out of injuries occurring during the entire period or during a portion of the period of time in which the commercial self-insurance group has been in existence. While the insurance policy remains in effect, it discharges the obligation of the commercial self-insurance group to maintain a security deposit for the claims covered under the policy. A policy described in this subdivision may not be issued by an insurer unless it has previously been approved as to the insurer, form, and substance by the commissioner.

Subd. 6. Insolvency of a Commercial Self-Insurance Group Insurer

In the event of the insolvency of the insurer that issued a policy under subdivision 5 to a commercial self-insurance group, eligibility for chapter 60C coverage under the policy is determined by applying the requirements of section 60C.09, subdivision 2, clause (3), to each commercial self-insurance group member separately, rather than to the net worth of the

commercial self-insurance group entity or aggregate net worth of all members of the commercial self-insurance group.

History: 1995 c 231 art 2 s 33; 1998 c 339 s 7-9; 1999 c 168 s 5; 2000 c 483 s 36; 2003 c 112 art 2 s 50; 2008 c 250 s 17; 2009 c 101 art 2 s 109; 2009 c 178 art 1 s 47,48; 2011 c 108 s 42,43

79A.25 DEFAULT OF A COMMERCIAL SELF-INSURANCE GROUP

Subdivision 1. Notice of Insolvency, Bankruptcy, or Default

The commissioner of labor and industry shall notify the commissioner and the commercial self-insurance group security fund if the commissioner of labor and industry has knowledge that any commercial self-insurance group has failed to pay workers' compensation benefits as required by chapter 176. If the commissioner determines that a court of competent jurisdiction has declared the commercial self-insurance group to be bankrupt or insolvent and the commercial self-insurance group has failed to pay workers' compensation as required by chapter 176 or if the commissioner issues a certificate of default against a commercial self-insurance group for failure to pay workers' compensation as required by chapter 176, then the security deposit posted by the commercial self-insurance group shall be utilized to administer and pay the commercial self-insurance group's workers' compensation obligation.

Subd. 2. Revocation of Certificate to Self-Insure

(a) The commissioner shall revoke the commercial self-insurance group's certificate to self-insure once notified of the commercial self-insurance group's bankruptcy, insolvency, or upon issuance of a certificate of default. The revocation shall be completed

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as soon as practicable, but no later than 30 days after the commercial self-insurance group's security has been called.

(b) The commissioner shall also revoke a commercial self-insurance group's authority to self-insure on the following grounds:

- (1) failure to comply with any lawful order of the commissioner;
- (2) failure to comply with any provision of chapter 176;
- (3) a deterioration of the commercial self-insurance group's financial condition affecting its ability to pay obligations in chapter 176;
- (4) committing an unfair or deceptive act or practice as defined in section 72A.20; or
- (5) failure to abide by the plan of operation of the Workers' Compensation Reinsurance Association.

Subd. 3. Notice by Commissioner

In the event of bankruptcy, insolvency, or certificate of default, the commissioner shall immediately notify by certified mail the commissioner of management and budget, the surety, the issuer of an irrevocable letter of credit, and any custodian of the security. At the time of notification, the commissioner shall also call the security and transfer and assign it to the commercial self-insurance group security fund. The commissioner shall also notify by certified mail the commercial self-insurance group's security fund and order the commercial security fund to assume the insolvent commercial self-insurance group's obligations for which it is liable under chapter 176.

History: 1995 c 231 art 2 s 34; 2003 c 112 art 2 s 50; 2009 c 101 art 2 s 109

79A.26 COMMERCIAL SELF-INSURANCE GROUP SECURITY

FUND

Subdivision 1. Creation

The commercial self-insurance group security fund is established as a nonprofit corporation pursuant to the Minnesota Nonprofit Corporation Act, sections 317A.001 to 317A.909. If any provision of the Minnesota Nonprofit Corporation Act conflicts with any provision of this chapter, the provisions of this chapter apply. Each commercial self-insurance group that elects to be subject to the terms of sections 79A.19 to 79A.32 rather than sections 79A.01 to 79A.18 shall participate in the commercial self-insurance group security fund. This participation shall be a condition of maintaining its certificate to self-insure.

Subd. 2. Board of Trustees

The commercial security fund shall be governed by a board consisting of a minimum of three and maximum of five trustees. The trustees shall be representatives of commercial self-insurance groups who shall be elected by the participants of the commercial security fund, each group having one vote. The trustees initially elected by the participants shall serve staggered terms of either two or three years. Thereafter, trustees shall be elected to three-year terms and shall serve until their successors are elected and assume office pursuant to the bylaws of the commercial security fund. Two additional trustees shall be appointed by the commissioner. Initially, one of these trustees shall serve a two-year term. Thereafter, the trustees shall be appointed to four-year terms, and shall serve until their successors are appointed and assume office according to the bylaws of the commercial security fund. In addition to the trustees elected by the participants or appointed by the commissioner, the commissioner of labor and industry or the commissioner's designee shall be an ex officio, nonvoting member of the board of trustees. A member of the board of trustees may designate another person to act in the member's place as though the member were acting and the designee's actions shall be deemed those of the member.

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Subd. 3. Bylaws

The commercial security fund shall establish bylaws and a plan of operation, subject to the prior approval of the commissioner, necessary to the purposes of this chapter and to carry out the responsibilities of the commercial security fund. The commercial security fund may carry out its responsibilities directly or by contract, and may purchase services and insurance and borrow funds it deems necessary for the protection of the commercial self-insurance group participants and their employees.

Subd. 4. Confidential Information

The commercial security fund may receive private data concerning the financial condition of commercial self-insurance groups whose liabilities to pay compensation have become its responsibility and shall adopt bylaws to prevent dissemination of that information.

Subd. 5. Employees

Commercial security fund employees are not state employees and are not subject to any state civil service regulations.

Subd. 6. Assumption of Obligations

Upon order of the commissioner under section 79A.25, subdivision 3, the commercial security fund shall assume the workers' compensation obligations of an insolvent commercial self-insurance group. The commissioner shall further order the commercial self-insurance group security fund to commence payment of these obligations within 14 days of the receipt of this notification and order.

Subd. 7. Act or Omissions; Penalties

Notwithstanding subdivision 6, the commercial security fund shall not be liable for the payment of any penalties assessed for any act or omission on the part of any person other than the commercial security fund or its appointed administrator, including, but not limited to, the penalties provided in chapter 176 unless the commercial security fund or its appointed administrator would be subject to penalties

under chapter 176 as the result of the actions of the commercial security fund or its administrator.

Subd. 8. Party in Interest

The commercial security fund shall be a party in interest in all proceedings involving compensation claims against an insolvent commercial self-insurance group whose compensation obligations have been paid or assumed by the commercial security fund. The commercial security fund shall have the same rights and defenses as the insolvent commercial self-insurance group, including, but not limited to, all of the following:

- (1) to appear, defend, and appeal claims;
- (2) to receive notice of, investigate, adjust, compromise, settle, and pay claims; and
- (3) to investigate, handle, and deny claims.

Subd. 9. Payments to Commercial Security Fund

Notwithstanding sections 79A.19 to 79A.32 or chapter 176 to the contrary, in the event that the commercial self-insurance group security fund assumes the obligations of any bankrupt or insolvent commercial self-insurance group pursuant to this section, then the proceeds of any surety bond, Workers' Compensation Reinsurance Association, specific excess insurance or aggregate excess insurance policy, and any special compensation fund payment or supplementary benefit reimbursements shall be paid to the commercial self-insurance group security fund instead of the bankrupt or insolvent commercial self-insurance group or its successor in interest. No special compensation fund reimbursements shall be made to the commercial security fund unless the special compensation fund assessments under section 176.129 are paid and the required reports are made to the special compensation fund.

Subd. 10. Insolvent Commercial Self-Insurance Group

The commercial security fund shall have the right and

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obligation to obtain reimbursement from an insolvent commercial self-insurance group up to the amount of the commercial self-insurance group's workers' compensation obligations paid and assumed by the commercial security fund, including reasonable administrative and legal costs. This right includes, but is not limited to, a right to claim for wages and other necessities of life advanced to claimants as subrogee of the claimants in any action to collect against the commercial self-insurance group as debtor.

Subd. 11. Security Deposits

The commercial security fund shall have the right and obligation to obtain from the security deposit of an insolvent commercial self-insurance group the amount of the commercial self-insurance group's compensation obligations, including reasonable administrative and legal costs, paid or assumed by the commercial security fund. Reimbursement of administrative costs, including legal costs, shall be subject to approval by a majority of the commercial security fund's voting trustees. The commercial security fund shall be a party in interest in any action to obtain the security deposit for the payment of compensation obligations of an insolvent commercial self-insurance group.

Subd. 12. Legal Actions

The commercial security fund shall have the right to bring an action against any person or entity to recover compensation paid and liability assumed by the commercial security fund, including, but not limited to, any excess insurance carrier of the insolvent commercial self-insurance group and any person or entity whose negligence or breach of an obligation contributed to any underestimation of the commercial self-insurance group's accrued liability as reported to the commissioner.

Subd. 13. Party in Interest

The commercial security fund may be a party in interest in any action brought by any other person seeking damages resulting from the failure of an insolvent commercial self-insurance group to

pay workers' compensation required under this subdivision.

Subd. 14. Assets Maintained

The commercial security fund shall maintain cash, readily marketable securities, or other assets, or a line of credit, approved by the commissioner, sufficient to immediately continue the payment of the compensation obligations of an insolvent commercial self-insurance group pending receipt of the security deposit, surety bond proceeds, irrevocable letter of credit, or, if necessary, assessment of the participants. The commissioner may establish the minimum amount to be maintained by, or immediately available to, the commercial security fund for this purpose.

Subd. 15. Assessment

The commercial security fund may assess each of its participants a pro rata share of the funding necessary to carry out its obligation and the purposes of sections 79A.19 to 79A.32. Total annual assessments in any calendar year shall be a percentage of the workers' compensation benefits paid under sections 176.101 and 176.111 during the previous calendar year. The annual assessment calculation shall not include supplementary benefits paid which will be reimbursed by the special compensation fund. Funds obtained by assessments under this subdivision may only be used for the purposes of sections 79A.19 to 79A.32. The trustees shall certify to the commissioner the collection and receipt of all money from assessments, noting any delinquencies. The trustees shall take any action deemed appropriate to collect any delinquent assessments.

Subd. 16. Audit of Fund

The trustees shall annually contract for an independent certified audit of the financial activities of the fund. An annual report on the financial status of the commercial self-insurance group security fund shall be submitted to the commissioner and to each commercial group participant.

History: 1995 c 231 art 2 s 35; 1998 c 339 s 10

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79A.27 INDEMNITY AGREEMENT FORM

INDIVIDUAL AND PROPORTIONATE INDEMNITY AGREEMENT

WHEREAS, (name of company) has agreed to be and has been accepted as a member of (name of commercial self-insurance group).

WHEREAS, (name of company) has agreed to be bound by all of the provisions of the Minnesota Workers' Compensation Act and all rules promulgated thereunder.

WHEREAS, that (name of company) has agreed to be bound by bylaws or plan of operation and all amendments thereto of (name of commercial self-insurance group);

NOW THEREFORE, IT IS AGREED that:

1. (Name of company) shall be jointly and severally liable for all claims and expenses of all the members of (name of commercial self-insurance group) arising in any fund year in which (name of company) is a member of the commercial self-insurance group.
2. (Name of commercial self-insurance group) shall assess (name of company) on an individual and proportionate basis for its share of the total liability of the commercial self-insurance group.
3. In the event that (name of company) is not a member for the full year, it shall be only liable for a pro rata share of that liability.

IN WITNESS WHEREOF, the (name of company) and (name of commercial self-insurance group) have caused this indemnity agreement to be executed by its authorized officers:

Commercial Self-Insurance Group Name

Company Name

By: _____

By: _____

Date: _____

Date: _____

History: 1995 c 231 art 2 s 36

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79A.28 OPEN MEETING; ADMINISTRATIVE PROCEDURE ACT

The commercial self-insurance group security fund and its board of trustees shall not be subject to:

- (1) the Open Meeting Law, chapter 13D;
- (2) the Open Appointments Law;
- (3) the Minnesota Government Data Practices Act, chapter 13; and
- (4) except where specifically set forth, the Administrative Procedure Act.

History: 1995 c 231 art 2 s 37; 2012 c 290 s 68

79A.29 RULES

The commissioner may adopt, amend, and repeal rules reasonably necessary to carry out the purposes of this chapter. Minnesota Rules, chapter 2780, shall apply to commercial self-insurance groups unless otherwise specified by rule.

History: 1995 c 231 art 2 s 38

79A.30 GOVERNING LAW

If there is any inconsistency between sections 79A.19 to 79A.32 and any other statute or rule, the provisions of sections 79A.19 to 79A.32 shall govern with respect to commercial self-insurance groups.

History: 1995 c 231 art 2 s 39

79A.31 COMMERCIAL SELF- INSURANCE GROUP SECURITY FUND MEMBERSHIP; WITHDRAWAL FROM SELF-INSURERS' SECURITY FUND

Subdivision 1. Withdrawal

Any group self-insurer that is a member of the self-insurers' security fund established under section 79A.09, may elect to withdraw from that fund and become a member of the commercial self-insurance group security fund established under section 79A.26. The transferring group shall be subject to the provisions and requirements of sections 79A.19 to 79A.32 as of the date of transfer. Additional security may be required pursuant to section 79A.24. Group self-insurers electing to transfer to the commercial self-insurance group fund shall not be subject to the provisions of section 79A.06, subdivision 5, including, but not limited to, assessments by the self-insurers' security fund. Notice of transfer must be filed by November 1 for all transfers that must be effective at midnight on December 31.

Subd. 2. Transfer; Notice to Commissioner

A group self-insurer shall provide to the commissioner written notice of its intent to transfer membership to the commercial self-insurance group security fund. The notice shall be sent at least 30 days prior to the date the group self-insurer requests membership in the commercial self-insurance group security fund.

Subd. 3. Transfer of Potential and Contingent Liabilities

Upon transfer pursuant to subdivision 1, the

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commercial self-insurance group security fund shall assume all of the past, present, and future potential and contingent workers' compensation liabilities of the transferring group in the event of any bankruptcy or insolvency of that group or its failure to meet its obligations under this chapter and chapter 176.

Subd. 4. Election

A group self-insurer established after August 1, 1995, may elect to become a member of either the self-insurers' security fund or the commercial self-insurance group security fund. However, once the election is made, a group may not transfer to the other security fund.

History: 1995 c 231 art 2 s 40; 1996 c 305 art 1 s 26; 1998 c 339 s 11

TAB:
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2780.0500 FILING REPORTS

Filing Reports:

A. Incurred losses, paid and unpaid, specifying indemnity and medical losses by classification, payroll by classification, and current estimated outstanding liability for workers' compensation shall be reported to the commissioner by each self-insurer on a calendar year basis, in a manner and on forms available from the commissioner. Payroll information must be filed by April 1 of the following year, and loss information and total workers' compensation liability must be filed by August 1 of the following year.

B. Each self-insurer shall, under oath, attest to the accuracy of each report submitted pursuant to item A. Upon sufficient cause, the commissioner shall require the self-insurer to submit a certified audit of payroll and claim records conducted by an independent auditor approved by the commissioner, based on generally accepted accounting principles and generally accepted auditing standards, and supported by an actuarial review and opinion of the future contingent liabilities. The basis for sufficient cause shall include the following factors: where the losses reported appear significantly different from similar type businesses; where major changes in the reports exist from year to year, which are not solely attributable to economic factors; or where the commissioner has reason to believe that the losses and payroll in the report do not accurately reflect the losses and payroll of that employer. If any discrepancy is found, the commissioner shall require changes in the self-insurer's or workers' compensation service company record keeping practices.

C. [Repealed, L 1999 c 177 s 88]

D. Each individual self-insurer shall, within four months after the end of its fiscal year, annually file with the commissioner its latest 10K report required by the Securities and Exchange Commission. If an individual self-insurer does not prepare a 10K report,

it shall file an annual certified financial statement, together with such other financial information as the commissioner may require to substantiate data in the financial statement.

E. Each group self-insurer shall, within four months after the end of the fiscal year for that group, annually file a statement showing the combined net worth of its members based upon an accounting review performed by a certified public accountant, together with such other financial information the commissioner may require to substantiate data in the group's summary statement. This item shall not apply if the applicable financial requirements have been waived pursuant to part 2780.2300.

F. In addition to the financial statements required by items D and E, interim financial statements or 10Q reports required by the Securities and Exchange Commission may be required by the commissioner upon an indication that there has been deterioration in the self-insurer's financial condition, including a worsening of current ratio, lessening of net worth, net loss of income, the downgrading of the company's bond rating, or any other significant change that may adversely affect the self-insurer's ability to pay expected losses. Any self-insurer that files an 8K report with the Securities and Exchange Commission shall also file a copy of the report with the commissioner within 30 days of the filing with the Securities and Exchange Commission.

Statutory Authority: MS s 176.181

History: L 1999 c 177 s 88

Published Electronically: Sept. 14, 2007

2780.0600 GROUNDS FOR REVOCATION OF SELF-INSURANCE AUTHORITY

The following shall constitute grounds for revocation of the authority to self-insure:

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A. failure to comply with parts 2780.0100 to 2780.5000;

B. failure to comply with any lawful order of the commissioner;

C. failure to comply with any provision of the Workers' Compensation Act;

D. a deterioration of financial condition adversely affecting the self-insurer's ability to pay expected losses, including a worsening of the current ratio, a lessening of net worth, a net loss of income, or the failure of the self-insurer to meet the net worth standards of part 2780.1200, subpart 1, or 2780.2200;

E. committing an unfair or deceptive act or practice as defined in Minnesota Statutes, section 72A.20; or

F. failure to abide by the plan of operation of the WCRA.

Statutory Authority: MS s 176.181
Published Electronically: Sept. 14, 2007

2780.2100 APPLICATIONS FOR GROUP SELF-INSURANCE

Applications for group self-insurance:

A. Two or more employers in the same industry may apply to the commissioner for the authority to self-insure as a group on forms available from the commissioner. This initial application shall be accompanied by a copy of the bylaws or plan of operation adopted by the group. Such bylaws or plan of operation shall conform to the conditions prescribed by parts 2780.2100 to 2780.5000. The commissioner shall approve or disapprove the bylaws within 30 days unless a question as to the legality of a specific bylaw or plan provision has been referred to the Attorney General's Office. The commissioner shall make a determination as to the application within 15 days after receipt of the requested response from the

Attorney General's Office.

B. After the initial application and the bylaws or plan of operation have been approved by the commissioner or at the time of the initial application, the group shall submit the names of employers that will be members of the group; an indemnity agreement providing for joint and several liability for all group members for any and all workers' compensation claims incurred by any member of the group, as set forth in part 2780.9920, signed by an officer of each member; and an accounting review performed by a certified public accountant. A certified financial audit may be filed in lieu of an accounting review.

Statutory Authority: MS s 176.181
Published Electronically: Sept. 14, 2007

2780.2200 FINANCIAL STANDARDS

A group proposing to self-insure shall have and maintain:

A. A combined net worth of all of the members of at least equal to the greater of ten times the retention selected with the WCRA or one-third of the current annual modified premium of the members. The requirements of this item shall be modified if the self-insurer can demonstrate that through excess insurance, other than coverage provided by the WCRA, that it can pay expected losses.

B. Sufficient assets, net worth, and liquidity to promptly and completely meet all obligations of its members under the Workers' Compensation Act. In determining whether a group is in sound financial condition, consideration shall be given to the combined net worth of the member companies; the consolidated long-term and short-term debt to equity ratios of the member companies; the particular industry that the member companies are engaged in; any excess insurance other than reinsurance with the WCRA, purchased by the group from an insurer

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licensed in Minnesota or from an authorized surplus line carrier; other financial data requested by the commissioner or submitted by the group; and the combined workers' compensation experience of the group for the last four years.

Statutory Authority: MS s 176.181
Published Electronically: Sept. 14, 2007

2780.2300 WAIVER OF FINANCIAL REQUIREMENTS

The financial requirements of parts 2780.2100, item B, and 2780.2200 shall be waived if the group self-insurer has purchased aggregate excess insurance from an insurer licensed to do business in the state of Minnesota, and that excess insurance indemnifies all losses of the group self-insurer, other than those reimbursable by the Workers' Compensation Reinsurance Association, in excess of the annual premiums collected by the group less the sum of annual administrative costs, premiums payable to the Workers' Compensation Reinsurance Association, and premiums payable to the excess insurer. If aggregate excess insurance is terminated, the service company shall inform the commissioner within two days after receipt of notice of cancellation.

Statutory Authority: MS s 176.181
Published Electronically: Sept. 14, 2007

2780.2400 PROCESSING APPLICATION

The commissioner shall grant or deny the group's application to self-insure within 30 days after a complete application has been filed, provided that such time may be extended for an additional 30 days upon 15 days prior notice to the applicant. The commissioner shall grant approval for self-insurance upon a determination that the financial ability of the

self-insurer's group is sufficient to fulfill all joint and several obligations of the member companies that may arise under the Workers' Compensation Act; the gross annual premium of the group members is at least \$300,000; the group has established a fund pursuant to parts 2780.4100 to 2780.5000; the group has contracted with a licensed workers' compensation service company to administer its program; the required securities or surety bond shall be on deposit prior to the effective date of coverage for any member; and all of the member companies are engaged in the same industry. Such approval shall be effective until revoked by order of the commissioner or until the employer members of the group become insured.

Statutory Authority: MS s 176.181
Published Electronically: Sept. 14, 2007

2780.2500 ADMINISTRATION OF PROGRAM

Each group self-insurer shall contract with a workers' compensation service company licensed pursuant to parts 2780.6100 to 2780.6900 to administer its program, or employ such personnel that will qualify the group as a licensed workers' compensation service company. The service company shall have the sole authority to make claim and reserve determinations regarding injured workers of the member employers.

Statutory Authority: MS s 176.181
Published Electronically: Sept. 14, 2007

2780.2600 GROUP SELF-INSURER'S FUND

Each group self-insurer shall establish a group self-insurer's fund pursuant to parts 2780.4100 to 2780.5000, which shall be administered by the board of directors of the group.

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Statutory Authority: MS s 176.181
Published Electronically: Sept. 14, 2007

2780.2800 GROUP MEMBERSHIP

Subpart 1. Period.

An employer must belong to the group for at least one year. If a member voluntarily terminates its membership in a group during the second or third year of membership, the group self-insurer shall assess the following member at least the following penalties: 25 percent of the premium due from that member for that year if termination occurs within the second year of membership, and 15 percent of the premium due from that member for that year if termination occurs within the third year. No penalty shall be required if an employer's withdrawal is due to merger, dissolution, sale of the company, or change in the type of business so that it is no longer engaged in the same industry as the rest of the employers of the group. Following the completion of three consecutive years of membership in the group, withdrawal from the group shall be allowed without penalty, provided that 90 days' advance written notice is given to the board of directors of the group, and the group's plan of operation or bylaws allow such withdrawal without a penalty. Any penalty assessed pursuant to this subpart shall be paid to the group's self-insurer's fund.

Subp. 2. Withdrawal or Expulsion

Upon receipt of any notice of a member to withdraw or a decision by the board of directors to expel a member, the group self-insurer shall give immediate notice to the commissioner and then, as soon as practicable, reevaluate its net worth and financial condition. If the consolidated net worth or financial condition of the group, excluding the terminating or expelled member, fails to meet the requirements specified in part 2780.2200, the group shall so notify the commissioner within 15 days and advise the commissioner of its plan for bringing the group into compliance with part

2780.2200.

Subp. 3. Filing of Membership

The group self-insurer shall file with the commissioner the name of all employer members accepted into the group. The group shall not accept any liability for a new member until a signed indemnity agreement in the form set forth in part 2780.9920 has been completed by that new member and filed with the commissioner.

Subp. 4. Prohibited Members

Each group self-insurer shall be prohibited from accepting as a member any employer that owes an outstanding debt to a previous group self-insurer. A judgment obtained under the laws of Minnesota shall be required as proof of such debt. If a group has such an employer member, upon receipt of the required proof the fund administrator shall issue 30 days' notice of cancellation to the member.

Statutory Authority: MS s 176.181
Published Electronically: Sept. 14, 2007

2780.2900 BYLAWS AND PLANS OF OPERATION

Subpart 1. Adopting

The directors of each group self-insurer shall cause to be adopted a set of bylaws or plan of operation that shall govern the operation of the group. All bylaws or plans of operation or amendments thereto shall be subject to prior approval by the commissioner, pursuant to part 2780.2100, item A.

Subp. 2. Content

These bylaws or plans of operation shall contain the following subjects:

- A. qualifications for group self-insurer membership, including underwriting considerations;
- B. the method for selecting the board of directors,

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including the directors' terms of office;

C. the procedure for amending the bylaws or plan of operation;

D. investment of all assets of the fund;

E. frequency and extent of loss control or safety engineering services provided to members;

F. a schedule for payment and collection of premiums;

G. expulsion procedures, including expulsion for nonpayment of premiums and expulsion for excessive losses;

H. delineation of authority granted to the administrator;

I. delineation of authority granted to the service company;

J. basis for determining premium contributions by members, including any experience rating program;

K. procedures for resolving disputes between members of the group, which shall not include submitting them to the commissioner; and

L. basis for determining distribution of any surplus to the members, or assessing the membership to make up any deficit.

Subp. 3. Annual Review

The directors shall review at least annually the following items for the purpose of determining whether these areas of concern are being adequately provided for:

A. service company performance;

B. loss control and safety engineering;

C. investment policies;

D. collection of delinquent debts;

E. expulsion procedures;

F. initial member review;

G. administrator performance; and

H. claims handling and claims reporting.

Subp. 4. Mandatory Filing

All group self-insurers shall file copies of its current bylaws or plan of operation with the commissioner. Any changes in the bylaws or plan of operation shall be filed with the commissioner no later than 30 days prior to their taking effect. The commissioner reserves the right to order the group self-insurers to rescind or revoke any bylaw or plan of operation if it is in violation of parts 2780.0100 to 2780.9920.

Statutory Authority: MS s 176.181

Published Electronically: Sept. 14, 2007

2780.3000 RECORDS

All group self-insurers shall maintain at a location within the state of Minnesota such records as are necessary to verify the accuracy and completeness of all reports submitted to the commissioner pursuant to this chapter. However, the group self-insurers shall be authorized to transfer their financial records to the offices of the certified public accountant for the group self-insurers upon the written permission of the commissioner. In addition, if the group self-insurer has contracted with a service company for claims handling, then the claims files and related records may be located at the offices of the service company. The location of these records shall be designated with the application for self-insurance authority and thereafter shall be provided to the commissioner through written notice of any change in its location within 30 days of any such change.

Statutory Authority: MS s 176.181

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2780.3100 NONCOMPLIANCE.

Failure of any employer to maintain membership in any group while not otherwise procuring insurance for its workers' compensation liability may subject the employer to the penalties provided in Minnesota Statutes, sections 176.181 and 176.183.

Statutory Authority: MS s 176.181
Published Electronically: Sept. 14, 2007

2780.3200 WCRA MEMBERSHIP

The group self-insurer shall be considered a single entity for the purposes of membership in the WCRA and for the purposes of any assessment levied upon self-insurers pursuant to the Workers' Compensation Act.

Statutory Authority: MS s 176.181
Published Electronically: Sept. 14, 2007

2780.3300 BUSINESS TRUST OR INCORPORATION PROHIBITED

The group self-insurer shall not incorporate or form a business trust pursuant to Minnesota Statutes, chapter 318.

Statutory Authority: MS s 176.181
Published Electronically: Sept. 14, 2007

2780.3400 NOTICE OF VOLUNTARY TERMINATION

Any group self-insurer that voluntarily terminates its self-insurance authority shall give notice to the commissioner not less than 30 days before the termination is to occur.

Statutory Authority: MS s 176.181
Published Electronically: Sept. 14, 2007

2780.4100 PAYMENT TO FUND

Each group self-insurer shall, not less than ten days prior to the proposed effective date of the group, submit evidence that cash premiums equal to not less than 20 percent of the current year's modified workers' compensation insurance premium reduced by an appropriate premium discount for each employer has been paid into a common claims fund, maintained by the group in a designated depository. The remaining balance of the member's premium, which shall be at least the current year's modified workers' compensation insurance premium reduced by any appropriate premium discount less the initial cash premium, shall be paid to the group in a reasonable manner over the remainder of the year. Payments in subsequent years shall be made according to the schedule in the manual of rules, classifications, and rates approved for use in Minnesota; provided that a reduction in the manual premium shall be allowed if based on bona fide savings in the expenses of the group, or an actuary who is a member of the Casualty Actuarial Society certifies that a reduction should be permitted based on the losses of the group and that a deficit has not occurred in any of the last three years. Each group self-insurer shall initiate proceedings against a member when that member becomes more than 15 days delinquent in any payment of premium to the fund.

Statutory Authority: MS s 176.181
Published Electronically: Sept. 14, 2007

2780.4200 COMMINGLING OF ASSETS

There shall be no commingling of any assets of the group self-insurer's fund with the assets of any individual member employer or with any other account of the group unrelated to payment of workers'

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compensation liability incurred by the group.

Statutory Authority: MS s 176.181

Published Electronically: Sept. 14, 2007

2780.4300 ADMINISTRATORS, DIRECTORS, AND FISCAL AGENTS

Subpart 1. Designation

The group self-insurer shall designate a fiscal agent and/or administrator to administer the financial affairs of the fund. Such fiscal agent or administrator shall furnish a fidelity bond with the self-insurer as obligee, in an amount sufficient to protect the fund against the misappropriation or misuse of any money or securities. Such fiscal agent or administrator shall not be an owner, officer, or employee of the service company or any affiliate of the service company.

Subp. 2. Control of Funds

All funds shall remain in the control of the group self-insurer or its authorized administrator. One or more revolving funds for payment of compensation benefits due may be established for the use of the authorized service company. The service company shall furnish a fidelity bond covering its employees, with the self-insurer as obligee, in an amount sufficient to protect all money placed in such revolving fund. Should the fidelity bond of the fiscal agent and/or administrator also cover the money in the revolving fund, the service company shall not be required to furnish a fidelity bond.

Subp. 3. Use of Funds

No director, fiscal agent, or administrator of a group self-insurer shall utilize any of the money collected as premiums for any purpose unrelated to workers' compensation insurance. No director, fiscal agent, or administrator shall borrow any money from the self-insurer's fund or in the name of the self-insurer's fund.

Statutory Authority: MS s 176.181

Published Electronically: Sept. 14, 2007

2780.4400 ANNUAL AUDIT

The accounts and records of the group self-insurer's fund shall be audited annually. Audits shall be made by certified public accountants, based on generally accepted accounting principles and generally accepted auditing standards, and supported by actuarial review and opinion of the future contingent liabilities, in order to determine the solvency of the self-insurer's fund. All audits required by this part shall be filed with the commissioner 90 days after the close of the fiscal year for the group self-insurer. The commissioner may require a special audit to be made at other times if the financial stability of the fund or the adequacy of its monetary reserves is in question.

Statutory Authority: MS s 176.181

Published Electronically: Sept. 14, 2007

2780.4500 INVESTMENTS

Cash assets of the self-insurer's fund may be invested as provided in Minnesota Statutes, section 60A.11 for a casualty insurance company, provided that investment in common stock, real estate, or indebtedness from any member company is prohibited. In addition, investment in the following is allowed:

- A. savings accounts or certificates of deposit in a duly chartered commercial bank located within the state of Minnesota and insured through the Federal Deposit Insurance Corporation;
- B. share accounts or savings certificates in a duly chartered savings association located within the state of Minnesota and insured through the Federal Savings and Loan Insurance Corporation;
- C. direct obligations of the United States Treasury, such as notes, bonds, or bills;
- D. any bond or security issued by the state of

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Minnesota and backed by the full faith and credit of the state; or

E. any credit union where the employees of the self-insurer are members, provided that such credit union is located in Minnesota, licensed by the state of Minnesota, and insured through the Federal Deposit Insurance Corporation.

Statutory Authority: MS s 176.181

History: L 1995 c 202 art 1 s 25

Published Electronically: Sept. 14, 2007

2780.4600 PURCHASE OF SECURITIES

Any securities purchased by the group self-insurer's fund shall be in such denominations and with dates of maturity to insure that securities may be redeemable at sufficient time and in sufficient amounts to meet the fund's current and long-term liabilities.

Statutory Authority: MS s 176.181

Published Electronically: Sept. 14, 2007

2780.4700 ANNUAL REPORT

The self-insurer shall report annually, as part of its financial statement, a schedule showing the disposition of all investment income earned during the immediately preceding year.

Statutory Authority: MS s 176.181

Published Electronically: Sept. 14, 2007

2780.4900 NOTICE OF REFUND

The group self-insurer shall give notice to the commissioner of any refund. Said notice shall be

accompanied by a statement from the self-insurer's certified public accountant certifying that the proposed refund is in compliance with part 2780.4800.

Statutory Authority: MS s 176.181

Published Electronically: Sept. 14, 2007

2780.5000 DEFICITS

Subpart 1. Payment

In the event of a deficit in any fund year, such deficit shall be paid up immediately, either from surplus from a fund year other than the current fund year or by assessment of the membership. The commissioner shall be notified within ten days of any transfer of surplus funds.

Subp. 2. Assessment

If the commissioner finds that any deficit has not been paid up, the commissioner shall order an assessment to be levied against the members of a group self-insurer sufficient to make up any deficit.

Statutory Authority: MS s 176.181

History: 17 SR 1279

Published Electronically: Sept. 14, 2007

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INSURANCE TERMS

Accident Year Experience – The matching of all losses occurring (regardless of when the losses are reported) during a given twelve-month period of time, beginning January 1, with all premium earned (regardless of when the premium was written) during the same time period. The trigger is the loss date, not when the losses are ultimately paid. In other words, the total value of all losses occurring during the defined twelve-month time period is divided by the earned premium for this same exposure period.

Actuary – An individual, often holding a professional designation, e.g., Fellow of the Casualty Actuarial Society (FCAS), who computes statistics relating to insurance, typically estimating loss reserves and developing premium rates.

Admitted Company – An insurer of another state or country that is licensed under the law of a state to do business in that state.

Advisory Organization – The new designation for what were formerly known as Rating Bureaus (such as the NCCI). This new term, recently coined by the National Association of Insurance Commissioners, is meant to reflect more accurately the role of NCCI and other such organizations (like Insurance Services Office) which compile rating data and file policy forms for use by member insurance companies.

Aggregate Stop-Loss Reinsurance – A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the ceding company for the amount by which all of the ceding company's losses (either incurred or paid) during a specific period (usually 12 months) exceed either 1) a predetermined dollar amount or 2) a percentage of the company's subject premiums (loss ratio) for the specific period.

Allocated Loss Adjustment expense (ALAE) – Loss adjustment expenses that are assignable or allocable to specific claims. Fees paid to outside

attorneys, experts, and investigators used to defend claims are examples of ALAE.

Assessment – The additional monies collected from members of a self-insured group to make up a deficit of the group

Assigned Risk Plan – A method of providing insurance required by state insurance codes for those risks that are unacceptable in the normal insurance market. Every state with the exception of those which are monopolistic has a workers compensation assigned risk plan which is either a stand-alone entity or part of the competitive state fund. All insurers writing workers compensation coverage in the voluntary insurance market must also participate in the plan.

Audit – A verification or determination of actual exposures for the purpose of computing actual premiums. An interim audit is an audit that occurs prior to the termination of the policy period. A final audit is an audit that occurs after the end of the policy period.

Audit Workpapers – Prepared by the premium auditor which shows how the auditor arrived at the payroll numbers that are used to determine the audited premium.

Audited Premium – The final premium for the policy term, produced by auditing actual payroll exposures.

Average Weekly Wage (AWW) – An employee's pre-injury earning capacity, based on earnings in the period directly preceding a work-related injury or illness. The formula for calculating average weekly wage varies by state.

Calendar Year Experience – The matching of all losses incurred (paid and reserves not necessarily occurred) within a given twelve month period, beginning January 1, with all premium earned within

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the same period of time. The trigger here is the date the claim is paid, not when the claim occurred.

Captive – A limited-purpose insurance company established with the specific objective of financing risks emanating from its parent group(s), or risks emanating from the parent company's customers. Alternatively, a company whose charter permits it to offer insurance to its parent or sister subsidiaries in return for premiums. In most cases, captives are started because of general dissatisfaction with existing insurance coverage and/or costs.

Claims Frequency – Number of claims per unit of exposure. It is obtained by dividing the number of claims by the exposures.

Claims Reserve – An estimated amount of loss payment.

Claims Severity – The loss amount per claim during a specified period of time.

Collected Premium – The actual premium received from a member of TBG on a monthly basis during a particular fund year

Commercial Self-Insurance Groups (CSIG) – Minnesota Statutes 79A.19–79.32 that allow businesses in “similar” industries to form a CSIG to cover their statutory workers compensation obligations.

Contracted Agents – Independent Insurance Agencies who are contracted with TBG to sell TBG's Workers Compensation product

Direct Writer – An insurance company that does not work through independent insurance agents. The largest direct writer of workers' compensation insurance is Liberty Mutual. Agents for direct writers are employees of the insurance company.

Dispute Resolution Examination (DRE) – Neutral examination performed by a doctor from the approved list of the Union Construction Workers Compensation Program. This determination is binding under this

program. This exam is to assist with a treatment plan and clarification of MMI and PPD issues.

Dividend – A return of premium, calculated after policy expiration, based on the overall performance of the insurance company or a group of insureds. Dividends are not guaranteed.

Drug Free Credit – Additional credits given to a TBG member who has a drug testing program that consists of pre-hire and post accident testing.

Earned Premium – That portion of a policy's premium that applies to the expired portion of the policy. Although insurance premiums are often paid in advance, insurers typically “earn” the premium at an even rate throughout the policy term. The unearned portion of the premium that has been paid is kept in the “unearned premium reserve.”

Employers Liability – This coverage is provided by Coverage B of the basic workers compensation policy and pays on behalf of the insured (employer) all sums that the insured shall become legally obligated to pay as damages because of bodily injury by accident or disease sustained by any employee of the insured arising out of and in the course of his employment by the insured.

Estimated Premium – A preliminary figure that may be adjusted to reflect the extent of coverage provided under a given contract.

Experience Modification Factor – An adjustment to manual premium calculated by an advisory organization (also known as a rating bureau) such as NCCI or the MWCIA and based on historic loss and payroll data of a particular insured.

Experience Period – The window of time from which loss and payroll data is used to calculate an experience modification factor for an employer. Normally this window is a three-year period, starting four years prior to the effective date of the experience modifier.

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First Report of Injury (FROI) – A form (report) that must be completed by an employer and submit it to the employers worker’s compensation insurance carrier or third party claim administrator within seven (7) days after the date of a work-related injury which causes permanent or temporary disability resulting in compensation for lost time. The employers insurance carrier or the third-party claims administrator may request that this form also be used to immediately report any injury requiring medical treatment, even though it does not involve lost work time. For any work injury resulting in a fatality the employer must also submit this form directly to the Department of Workforce Development with 24 hours of the fatality.

Fronting – An arrangement between two insurance companies to produce an insurance policy (usually workers’ compensation) for a third party wherein one insurance company produces the official policy (for a fee) but cedes all losses from that policy to the other insurer. This kind of arrangement is used in situations where the insurer writing the risk is not an admitted company in a particular state and the coverage needs to be written by an admitted carrier. In order to meet the statutory requirements, the first insurer pays the second (admitted) insurer to “front” the policy, even though the first insurer remains responsible for paying all losses arising from the policy. This kind of arrangement is often used by captive insurers when they are not admitted carriers in a particular state.

Governing Classification – The classification code on an employer’s workers’ compensation insurance policy that generates the most payroll aside from standard exception classifications such as clerical or outside sales (unless there is no other workplace classification applicable other than a standard exception).

Guaranteed Cost – A workers’ compensation insurance policy that is not subject to adjustment due to losses that occur during the policy term. In

a guaranteed cost policy, the only variable affecting premium that should change between policy inception and audit is payroll. This is in contrast to the various kinds of loss sensitive plans such as retrospective rating, retention plans, or sliding scale dividend plans, where there is a premium adjustment made based on losses incurred during the policy term.

Incurred But Not Reported (IBNR) – An estimate of the amount of an insurer’s (or self-insurer’s) liability for claim-generating events that have taken place but have not yet been reported to the insurer or self-insurer. The sum of IBNR losses plus incurred losses provide an estimate of the insurer’s eventual liabilities for losses during a given period.

Incurred Losses – Paid losses plus loss reserves for estimated future claim costs.

Indemnity – To make compensation to an entity, person, or insured for incurred injury, loss, or damage.

Independent Medical Evaluation (IME) – A medical or psychiatric evaluation to determine the current status of an employee’s medical condition or to determine if the condition is related to employment.

Interstate Rating – An experience modification factor that applies across more than one state. Interstate ratings are calculated by NCCI for employers whose past workers’ compensation insurance policies show payroll in more than one state. Most, but not all, states participate in the interstate rating system. A few states such as Michigan, Pennsylvania, and Delaware do not participate in interstate rating but instead continue to calculate separate experience ratings for employers who operate in their jurisdictions even if those employers also qualify for interstate rating. Those employers have one experience modifier applying to their operations in most states but a separate modifier calculated by the stand-alone state rating bureau. The separate stand-alone modifier would apply only to workers’ compensation insurance premiums developed

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for the employer's operations in that stand-alone state.

Joint and Several Liability – A legal doctrine that makes each of the parties who are responsible for an injury liable for all of the damages awarded in a lawsuit if the other parties responsible cannot pay. Under a self-insured group, members are liable for one another and for the group. If one group member goes bankrupt, the rest of the group must cover any outstanding unreserved claims and uncollateralized liabilities.

Letter of Credit (LOC) – A legal commitment issued by a bank or other entity stating that, upon receipt of certain documents, the bank will pay against drafts meeting the terms of the letter of credit. Letters of credit are frequently used for risk financing purposes to collateralize monies owed by an insured under various cash flow programs such as: incurred but not paid losses in paid loss retrospective rating programs, a means of meeting the capitalization requirements of captives, and to satisfy the security requirements of the excess insurer in "fronted" deductible or retention programs. For captives, LOCs serve two possible purposes: they may be used in lieu of or in addition to cash or other securities as capital, and/or to securitize the fronting insurer's reinsurance receivable created by a non-admitted reinsurer (i.e., the captive).

Light Duty – A policy to encourage your injured employees to return to work as soon as medically possible. Temporary light duty assignments in many cases provide the appropriate transition back to full duty. Light duty assignments accommodate medical limitations. Assignments may or may not be within the employee's regular department. They are arranged on a temporary basis.

Loss Portfolio Transfer (LPT) – A financial reinsurance transaction in which loss obligations that are already incurred and will ultimately be paid are ceded to a reinsurer. The cedant's statutory surplus increases by the difference between the premium and the

amount that had been reserved. An insurer seeking to withdraw from writing workers compensation coverage in a given state could, for example, use a loss portfolio transfer to meet its obligations under policies it has written, without the need to continue the day-to-day management of the claims resolution function.

Loss Ratio – A percentage arrived at by dividing the amount of the losses by the amount of the earned premium.

Managing General Agency (MGA) – A wholesale insurance intermediary with the authority to accept placements from (and often to appoint) retail agents on behalf of an insurer. Managing general agents generally provide underwriting and administrative services, such as policy issuance, on behalf of the insurers they represent. These arrangements are most common in the surplus lines marketplace. Typically, MGAs market more unusual coverage, such as professional liability, for which specialized expertise is required to underwrite policies. MGAs benefit insurers because such expertise is not always available within the company and would be more costly to develop on an in-house basis.

Managing General Underwriter (MGU) – Used in life and health companies instead of managing general agent. The terms have been used interchangeably, and there is little real distinction.

Manual Premium – Workers' compensation premium calculated by multiplying payrolls by appropriate rates, before application of Experience Modifier, Schedule Credit, or Premium Discount.

Maximum Medical Improvement (MMI) – Term used in Minnesota worker's compensation law to indicate that the injured employee has reached his/her maximum healing as it relates to the injury and its treatment thereof.

Medical-Only Claims – Claims for which the only

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cost is medical care without any lost-time benefits being paid.

Member Distribution Payable – The account of the TBG Financial Statement that contains potential future dividends payable to TBG member subject to the TBG dividend policy, TBG Board approval and MN Department of Commerce approval.

Merit Rating – A premium adjustment used in some NCCI states for employers too small to qualify for an experience modification factor. It provides either a premium credit or debit for such employers based on prior claims (or lack of them).

Minnesota Contractors Premium Adjustment Program (MCPAP) – Provides for a premium credit for up to one year for a policy that contains one or more contracting classifications. Employers who paid the qualifying average hourly wage in at least one contracting classification during the calendar year are eligible.

Minnesota Department of Commerce – The responsibility of this department is to ensure equitable commercial and financial transactions and reliable utility services by: regulating and licensing business activity in more than twenty industries, including insurance, investigating and resolving consumer complaints, advocating the public's interest before the Public Utilities Commission, and administering various state programs. The Workers' Compensation Self-Insurance unit grants the authority for private companies or groups of companies to self-insure their workers' compensation obligations in the State of Minnesota, subject to the requirements in Minnesota Stat. §79A .01 –.18 or the CSIG Stat. 79A.19–.32. The process includes, but is not limited to, review of the application, financial position, actuarial study, and loss history of the applicant(s) to ensure they are in compliance with the law. The section also monitors and regulates existing individual and group self-insurers on an ongoing basis to assure that

requirements are maintained. This department also has the authority to deny applications and to revoke the existing authority to self-insure according to the provisions in the law.

Minnesota Department of Labor and Industry – It is the responsibility of the Department of Labor and Industry to ensure widespread compliance with state workplace-safety laws. This department is responsible for: workers' compensation administration, occupational safety and health enforcement and consultations, apprenticeship registration and program development, labor standards enforcement, boiler and high-pressure-piping code, and boats-for-hire services and licensing. The mission of the Department of Labor and Industry is to promote a safe and productive environment for Minnesota's workplaces. The department serves employees and employers by regulating workplaces through education and enforcement. The department's Workers' Compensation Division administers Minnesota's workers' compensation law. The division units maintain all records necessary to monitor the handling of workers' claims, audit claims to ensure compliance with the law, provide legal and judicial assistance, monitor rehabilitation and medical services, resolve workers' compensation disputes both informally and formally, and provide for a number of special types of workers' compensation benefits.

MWCIA – The Minnesota Workers' Compensation Insurers Association is a non-profit corporation licensed by the State of Minnesota as a Data Service Organization. Minnesota law requires that insurers doing business in the state belong to a Data Service Organization. MWCIA collects policy, claims, and financial data from all member insurers licensed to sell workers' compensation insurance in Minnesota. This information is used to develop MWCIA's Annual Ratemaking Report, calculate employer experience modifications, and perform other duties under its license. MWCIA also provides underwriting and

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related services on behalf of the Minnesota Assigned Risk Plan.

Modified Premium – Workers’ compensation premium calculated after application of Experience Modification Factor. Similar to Standard Premium, but does not reflect any schedule credits or debits.

NCCI – The National Council on Compensation Insurance is the organization responsible in many states for determining proper workers’ compensation classifications and Experience Modification Factors and collecting data used for ratemaking. NCCI also writes the manuals used in many states to calculate workers’ compensation premiums and administers the Assigned Risk Plan in many jurisdictions. NCCI is a private organization, not connected with government, although it is often mistakenly thought to be a governmental agency.

North American Industry Classification System (NAICS) – A system for classifying entities (including businesses, governmental entities, and private households), by type of economic activity.

Occupational Disease – Any abnormal condition or disorder, other than one resulting from an occupational injury, that is caused by, or alleged to be caused by, exposure to environmental factors associated with employment, including acute and chronic illnesses or diseases that may be caused by inhalation, absorption, ingestion, or direct contact.

Occurrence – An individual accident occurring at one identifiable time and place. Use interchangeably with the term “accident”.

Permanent Partial Disability (PPD) – A workers compensation disability level in which the injured employee is still able to work but not with the skill and efficiency demonstrated prior to the injury. As a result, the earning capability of the worker is affected. Most workers compensation statutes provide for scheduled benefits based on the percentage of disability.

Permanent Total Disability (PTD) – A class of workers compensation disability in which the injured employee is incapable of ever working again at any employment. Under most statutes, the employee will receive weekly wages for life.

Policy Limits – The maximum amount of loss dollars that a particular policy will cover as designated in the policy limits.

Posting – The methods – bond, irrevocable letter of credit, cash, approved government securities or any combination to secure a CSIGS obligation of the total estimated claim liabilities with the MN Department of Commerce. For any CSIG in existence over 3 years the requirement is 110 percent of total estimated future claim liabilities.

Premium Auditor – The premium auditor determines actual exposure (remuneration) for a policy period, in order to determine the final audited premium.

Premium Discount – A premium credit based on the size of the premium paid. It is normally given automatically on voluntary market policies, although Retrospective Rating or Sliding Scale Dividend policies usually do not have a premium discount. The TBG policy does not offer a premium discount.

Primary Losses – In the Experienced Modification Factor, the first \$15,000 of any single loss.

Pure Premium – Also called “loss cost,” the actual or expected cost to an insurer of indemnity payments and allocated loss adjustment expenses. Loss costs do not include overhead costs or profit loadings. Historical loss costs reflect only the costs and allocated loss adjustment expenses associated with past claims. Prospective loss costs are estimates of future loss costs, which are derived by trending and developing historical loss costs. The organizations that used to be called rating bureaus now develop and publish loss costs instead of insurance rates. Insurers add their

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own expense and profit loadings to these loss costs to develop rates which are then filed with regulators.

Qualified Rehabilitation Consultant (QRC) – This person assists with medical case management, modified return-to-work, and job retraining/ placement. This person is required by statute if the injured employee is going to be off work more than 10 weeks.

Reinsurance – An agreement between insurance companies under which one accepts all or part of the risk or loss of the other.

Remuneration – Primarily payroll but may also include other forms of employee compensation. Workers' compensation premium is computed by applying varying rates for different classifications (per hundred dollars of remuneration).

Residual Market – Workers' compensation written through an Assigned Risk Plan.

Retention Plan – Similar to retrospective rating, this is a workers' compensation policy format that adjusts the premium, up or down, based on losses (and associated costs) that occur during the policy period.

Retrospective Rating – A workers' compensation insurance policy that makes a subsequent adjustment to premium, after policy expiration, based on losses generated during the policy period. The adjustment can go up or down, within set parameters, based on the losses generated during the policy period.

Return-To-Work Program (RTW) – One of the best ways to control the amount paid out on a claim is to implement a return-to-work (RTW) program. This involves light-duty work in the field or office. This has proven to be directly related to the time that an injured person needs to recover from an injury. The claims payments for injured employees approved for light-duty work are reduced by the wages paid for light-duty. It also reduces the TPD that is paid.

Risk Retention Group – A corporation or other limited liability association functioning as a captive insurance company and organized for the primary purpose of assuming and spreading the liability risk exposures of its group members. (Presently workers' compensation can not be written in a risk retention group.) It must be chartered and licensed as a liability insurance company in one of the fifty states or the District of Columbia; the structuring of the organization must conform to the laws of the chartering state. The legislation establishing risk retention groups was the Liability Risk Retention Act of 1986. Members of a risk retention group must be engaged in businesses and activities which are similar or related in regards to the liability exposures created by virtue of common business or trade practices, products, services, premises, or operations. Owners of a risk retention group must be both members of and insured by the group. The ownership interests of a risk retention group are exempt from the filing registration statements under Federal Securities Law and State Blue Sky Laws.

Schedule Credit/Debit – A discretionary premium adjustment which is based on an underwriter's evaluation of special characteristics of a risk not reflected in the Experience Modifier.

Scopes Manual – Manual produced by NCCI which details what kinds of workplace exposures belong in particular workers' compensation classification codes.

Self-Insurance Group – A fund created by a group of similar employers that remains in the group's control and exists to protect those members against workers' compensation claims. Any funds not spent to cover claims or operation costs are retained by the group's members.

Short Rate Penalty – A penalty applied by insurers when a workers' compensation insurance policy is cancelled by the insured before the expiration date of the policy. This penalty is steep in the early days of the

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policy, and gradually tapers off the closer the policy gets to the expiration date.

Sliding Scale Dividend – A return of premium based on the actual loss experience of the insured business paid at some determined period after the policy expiration. The size of the dividend varies with the actual loss ratio of the insured business.

Special Compensation Fund – The fund created by MN statute that pays for work related injuries of employees of an employer who did not purchase WC insurance. All writers of Workers Compensation insurance in MN contribute to this fund. See MN Statutes 176.129 Creation of Special Compensation Fund

Specific Reinsurance (Facultative Reinsurance) – A form of reinsurance whereby each exposure which the ceding company wishes to reinsure is offered to the reinsurer and is contained in a single transaction. The submission, acceptance, and resulting agreement is required on each individual risk that the ceding company seeks to reinsure. That is, the ceding company negotiates an individual reinsurance agreement for every policy it will reinsure. However, the reinsurer is not obliged to accept every or any submission.

Standard Exception – Classifications which are normally not included in the governing classification. These are clerical, outside sales, and often (but not always) drivers.

Standard Industrial Classification (SIC) – An obsolete system for classifying entities by type of economic activity. See North American Industry Classification System (NAICS).

Standard Premium – Premium after application of experience modifier and schedule credit or debit, but before premium discount

Subrogation – Upon payment of a loss to the

insured, the insurance company is entitled to the insured's legal and equitable rights against third parties. These rights are only those related to the loss and the resulting damages

Surplus – The amount by which an insurer's assets exceed its liabilities. It is the equivalent of "owners' equity" in standard accounting terms. The ratio of an insurer's premiums written to its surplus is one of the key measures of its solvency.

Temporary Partial Disability (TPD) – A workers compensation disability level in which the injured worker is temporarily precluded from performing a certain set of job skills but who can still work at a reduced level. Since the condition is temporary, compensation is based on the difference between the two earning levels.

Temporary Total Disability (TTD) – One of the four divisions of disability compensable under workers compensation. This level of disability reflects an injury that has rendered the employee completely unable to perform any job functions on a temporary basis. The employee is expected to make a full recovery and return to work. In the interim, compensation paid is usually a percentage of weekly wages until the worker returns to the job.

Third Party Administrator (TPA) – A firm that handles various types of administrative responsibilities, on a fee-for-services basis, for organizations involved in cash flow programs. These responsibilities typically include claims administration, loss control, risk management information systems, and risk management consulting.

Unallocated Loss Adjustment Expense (ULAE) – All external, internal, and administrative claims handling expenses, including determination of coverage, that are not included in allocated loss adjustment expenses (ALAE).

Union Construction Workers Compensation Program

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(UCWCP) – This program was created to allow unions and signatory employers to administer their own workers' compensation benefits. This alternative provided by the Union program is a facilitation, mediation, and arbitration style that brings closure to workers' compensation issues much quicker than the traditional method. The program offers an Exclusive Provider Organization (EPO) for Doctors, QRC's, chiropractors, etc.

Voluntary Compensation – An endorsement to the standard workers' compensation insurance policy which extends coverage to employees not required to be covered under the state's statutory workers' compensation provisions.

Voluntary Market – Workers' compensation insurance written outside of the Assigned Risk Plan.

WCRA – The Minnesota Workers' Compensation Reinsurance Association (WCRA) was created by the State Legislature in 1979. The WCRA is a nonprofit organization that reinsures all workers' compensation insurers and self-insured employers in Minnesota. Minnesota law requires all insurers and self-insurers to purchase workers' compensation reinsurance through the WCRA. Workers' compensation reinsurance is designed to protect an insurer or self-insurer against catastrophic losses from work-related injuries. The insurer or self-insurer is responsible for indemnity and medical benefits up to a selected deductible level or "retention limit." Once the retention limit is reached, the WCRA reimburses the insurer or self-insurer for all statutory benefits above that limit. WCRA coverage applies only to Minnesota jurisdiction claims, and claim costs are covered on a per occurrence basis. The exception is occupational disease claims which are covered on a per employee basis.

Written Premium – This is the premium registered on the books of an insurer or a reinsurer at the time a policy is issued and paid for.