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TBG DIVIDEND DISTRIBUTION POLICY

Original Date: 12-01-2007
Last Change: 04-04-2019
Last Review: 02-14-2019

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 per the payout schedule and TBG Board approval.
- **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.

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: The goal is to maintain MDP in an amount that reduces the possibility of an assessment to the Members and complies with MN Statute 79A.22 Subd.11.

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



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reinsurance expense). The Expense Ratio is subtracted from 1.00 and the result is the breakeven 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.

Dividend Payment Schedule

Once a dividend distribution has been authorized, the TBG Board of Directors will determine the amount of the annual dividend paid subject to the following maximum percentage payout each year.

- 1st Year – 20% of the total authorized dividend
- 2nd Year – 40% of the total authorized dividend less amounts previously paid
- 3rd Year – 60% of the total authorized dividend less amounts previously paid
- 4th Year – 80% of the total authorized dividend less amounts previously paid
- 5th Year – At discretion of TBG Board of Directors after a Fund Year has been closed with no future claim liabilities