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TBG DIVIDEND DISTRIBUTION POLICY

Original Date: 12-01-2007

Last Change: 07-26-2023

Last Review: 07-26-2023

- 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** – After dividend distribution has been approved, the payments will be made at the TBG Board's discretion and may be made at any time during a Fund Year.
 - A Member that leaves the Fund forfeits all future dividends. However, if a former Member returns to TBG after an absence, that member will be eligible to receive any remaining dividends for those Fund Years they were a Member of TBG
- 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. **Ownership Transfer of a TBG Member:** If all, or substantially all of the assets or ownership interests of a Member are sold to a third-party ("Third-Party Buyer"), and that Third-Party Buyer maintains the selling Member's FEIN and membership in TBG, that Third-Party Buyer shall be Eligible to receive dividend distributions of the Member as defined under 2(C) above. If all, or substantially all of the assets or ownership interests of a Member are sold to a Third-Party Buyer and that Third-Party Buyer does not maintain the Member's FEIN the Third Party-Buyer shall be eligible to receive dividend distribution of the Member post-sale provided that (1) the Third Party Buyer demonstrates a continuity of operations, payroll and sales of the Member as determined at the sole discretion of TBG; and (2) the Third Party Buyer agrees in writing to accept joint and several liability for all the years the dividend distribution is derived from.



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- E. **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.
- F. **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.
- G. **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.
- H. **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 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.
 - Any dividend distribution check not cashed by a Member after one year will be canceled and the funds will be returned to the Fund's Member Distribution Payable.
 - The earliest a Member is eligible for a dividend is during the third year of membership.

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 – 10% 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 the discretion of TBG Board of Directors after a Fund Year has been closed with no future claim liabilities



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- 6th year – 90% maximum of the total dividend less amounts previously paid if a Fund Year has open claims or at the discretion of TBG Board of Directors after a Fund Year has been closed with no future claim liabilities

FUND DEFICIT

- 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:
- Payment for a deficit in a Fund Year will first be made from TBG IC, a captive created for the purpose to fund a deficit which occurs in a Fund Year
 - If the payment from TBG IC is inadequate to cover the deficit 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.