2765.1200 RESERVES.

Subpart 1. **Loss and premium reserves.** A plan must establish reserves for all incurred losses, both reported and unreported, and for unearned premiums. To the extent that the amount of a loss is uncertain, reserves must be set conservatively. As the degree of uncertainty concerning a loss is changed by new events or information, the amount of the reserve must be changed appropriately. Accounting for reserves must be as required by the financial statement forms and instructions, under part 2765.1500, subpart 1.

Subp. 2. **Full funding reserves.** To comply with the full funding requirement of Minnesota Statutes, section 62H.02, a plan must establish full funding reserves corresponding to its aggregate excess stop-loss insurance for each fund year.

A. The amount of the reserves must be calculated as required by the financial statement forms and instructions, under part 2765.1500, subpart 1. The forms and instructions must provide that the base amount of the full funding reserves is equal to the plan's maximum possible liability under the aggregate excess stop-loss insurance, with credits for:

(1) individual excess stop-loss insurance reimbursements; and

(2) losses paid and reserves expected to be chargeable against the aggregate excess stop-loss insurance deductible.

B. Separate full funding reserves must be maintained for each fund year, beginning at the fund year's inception. Plans with paid basis stop-loss insurance must maintain each year's full funding reserve until 90 days after the fund year's end. Plans with incurred basis stop-loss insurance must maintain each year's full funding reserve until one year after the fund year's end.

C. Plans with paid basis stop-loss insurance must also maintain a separate runoff full funding reserve. The runoff reserve's purpose is to fully fund the plan's liability in the event of stop-loss insurance nonrenewal. The runoff full funding reserve must be maintained until plan dissolution.

Subp. 3. **Surplus or aggregate advancement.** A plan must protect itself from cash flow difficulties by either of the following two methods.

A. Establishing and maintaining a surplus equal to the greater of:

(1) three times the average paid monthly premium during the most recent fund year;

(2) three times estimated monthly premium, for plans that do not yet have one fund year's experience; or

(3) $100,000.

B. Obtaining language in the plan's aggregate excess stop-loss insurance policy requiring the insurer to advance funds to the plan under the conditions prescribed by this item. Any funds so advanced must be included in the fund-year settle up calculation under the stop-loss insurance terms, if not previously repaid. No limit may be set on the amount of funds that the plan may require to be advanced. The policy language must include these sentences: "If, in good faith, the plan judges that it is suffering, or will soon suffer cash flow difficulties, to the extent that its ability to meet its obligations promptly and in full is or will be significantly impaired, the plan may borrow from the insurer funds sufficient in the plan's good faith judgment to correct the difficulties. Such funds shall be considered an advance against the insurer's potential aggregate excess insurance liability for the current fund year. If, as of the final reporting for that fund year, the insurer's liability is determined to be less than the amount of the aggregate advancement, the difference shall then be considered a debt of the plan to the insurer, and reasonable interest may be charged commencing at that time. Until the final reporting, no interest may be charged. The plan shall, in good faith, repay the advance or debt as rapidly as its financial resources permit, without incurring further cash flow difficulties." The policy must not alter or qualify these terms to harm the plan's rights materially.

Statutory Authority: *MS s 62H.06*

History: *9 SR 989*

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