

REPORTING

Note X – Solvency

A. Financial Solvency Property and Liability Pool (Joint Pools)

Washington Administrative Code (WAC) 200-100 requires (Pool) to maintain certain levels of primary and secondary assets to meet solvency standards. As defined in WAC 200-100-03001 total primary assets, cash and cash equivalents less non-claim liabilities, must be at least equal to the unpaid claims estimate at the expected level as determined by the actuary. Additionally, total primary and secondary assets must be at least equal to the unpaid claims estimate at the 70 percent confidence level as determined by the actuary. Secondary assets are defined as insurance receivables, real estate or other assets (less any non-claim liabilities) the value of which can be independently verified by the state risk manager.

Solvency test for program:

| Primary Asset Test | | Secondary Asset Test | |
|--|--------------------|--|--------------------|
| Cash and cash equivalents | | Cash and cash equivalents | |
| Investments | | Investments | |
| Total | | Receivables, member contributions | |
| Less: Non-claims liabilities | | Prepaid expenses | |
| Accounts payable/Tax liability | | Less: Non-claims liabilities | |
| Less: Unearned member contributions in excess of member contribution receivables | | Accounts payable/Tax liability | |
| Total Primary Assets | | Less: Unearned member contributions | |
| <i>compared to:</i> | | Total Secondary Assets | |
| Claim liabilities at expected level per actuary (sum of all claims liabilities) | | <i>compared to:</i> | |
| | | Claim liabilities at 70 percent confidence level per actuary (from actuarial study) | |
| Test #1 - Primary Asset Test | MET/NOT MET | Test #2 - Secondary Asset Test | MET/NOT MET |

B. For Health and Welfare Pools (Joint Pools)[1]

Washington Administrative Code 200-110-040 requires all joint health and welfare programs self-insuring medical, vision, dental or prescription drug benefit programs or any combination of programs to establish program reserves in an amount not less than eight weeks of program expenses for each program offered. In addition maintain an aggregate stop-loss insurance policy with an attachment point set at or below one hundred twenty-five percent of annual expected claim costs; and establish by ordinance or resolution of the governing body, an additional contingency reserve for a joint program is the amount equal to at least eight weeks of program expenses.

Solvency test for program:

| Eight Weeks Claims Test | | Additional Contingency Reserve | |
|--|------------------------|---|------------------------|
| <u>Program expenses</u> | | <u>Program expenses</u> | |
| Medical claims paid | | Medical claims paid | |
| Prescription claims paid | | Other operating expenses related to medical claims | |
| Other operating expenses (total) | | TOTAL | |
| TOTAL | | TOTAL | |
| | | | |
| <u>Minimum program reserves</u> | | <u>Minimum program reserves</u> | |
| Total program expenses | | Total program expenses | |
| Divided by 52 | | Divided by 52 | |
| Multiplied by 8 | | Multiplied by 8 | |
| Total expected program reserves | | Total expected program reserves | |
| | | | |
| <u>Actual program reserves</u> | | <u>Reserves after meeting 8 weeks test</u> | |
| Net position | | Net position - 8 weeks of claims | |
| | | | |
| Eight Weeks Claims Test | MET/NOT MET | Additional Contingency Reserve | MET/NOT MET |

[INSTRUCTIONS TO PREPARER](#)

[1] This note should be customized specifically to the risk pool's circumstances particularly if programs in existence less than one year have established reserves according to the initial plan submitted and approved by the state risk manager, if different than the required eight week reserve, OR if reserve is determined by obtaining an independent actuary estimate.