

ADMINISTRATIVE POLICY AND PROCEDURE

SUBJECT: Voluntary and Involuntary Termination Process and Member Obligations

EFFECTIVE: June 22, 2015

POLICY:

It is the policy of MBASIA to allow members to terminate their membership MBASIA either voluntarily or involuntarily. And as a result, MBASIA must assure that all Members are properly protected, and that the terminating Member can comply with its obligations to MBASIA with a defined policy and procedure. Defining and calculating outstanding liabilities are key elements to insure an appropriate transition and determine final payments for the terminated member. The remaining Members cannot be negatively financially impacted by the departure of a Terminated Member.

The JPA Agreement outlines the terms of Voluntary Termination and Involuntary Termination, the financial factors impacting termination are contained in Article 19, as follows:

If withdrawal is permitted as set forth above, the Member's participation in the Authority shall terminate at the end of the fiscal year in which notice was given, provided, however, that any Member desiring to leave the Authority shall remain liable for all expenses in excess of Contribution until Claims of the withdrawing Member are settled and obligations to claimants met, the Member formally withdraws from the Authority, and the Member acknowledges that it has no interest in any of the assets of the Authority.

If additional funds are required to settle Claims or obligations of the terminating Member the Board may declare and collect the Assessments or Contributions necessary from the Member. After all Claims and obligations of the terminating Member are met the Board shall determine if any refund of Assessment or Contribution is due and refund such amount.

MBASIA currently operates as a *pay as you go*¹ pool, and on that principal, a Member that terminates participation is liable for all of that member's claims reserves, debt and other outstanding liabilities left with MBASIA for resolution.

¹ "Pay as you go" (versus accrual) means that we have been working to collect enough money in annual contributions to cover the following fiscal year's expenses. We have not fully funded the liabilities at this time.

PROCEDURE:

Types of Termination:

1. **A Member may voluntarily terminate** membership by giving proper notice as stated in the Governing documents. This “Notice” is currently required by March 1st, and will only be effective at the beginning of the new program year on July 1st.
2. **A Member may be involuntarily terminated** by the Board as stated in the JPA Agreement. A 90 day “Notice” is required and can be given at any time, subject to MBASIA Board action.

Association:

During the period of time between “Notice” and “Termination” the affected Member will continue to participate in all Programs and be involved in the process of defining costs associated with Termination. They are obligated to attend meetings with the representatives of the Board as required to effect Terminations in a manner that mutually benefits all parties to the Agreement.

Financial Responsibilities:

1. Estimates of **Outstanding Claims Liabilities** will be determined by Claims Administrators and Actuaries of the Programs based on June 30th data of the year of termination.
2. **Assessments calculations** are based on Member’s TEN YEAR Total Incurred Claims minus TEN YEAR Contributions for Claims Funding (less Operating Expenses, Loans and other costs). A sample calculation is included as Attachment A.
3. **All reserves, debt, operating expenses, penalties, Assessments and other known (and/or projected) outstanding liabilities are the responsibility of the terminated member.** These “Termination Costs” will evolve over time, and may not be fully known for many years; the obligation to pay them is not altered as a result of any change in valuation over time.

At the request of a Terminating Member, an estimate of these “Termination Costs” will be prepared for the terminating member within 60 days of any request. These “Terminating Costs” will be provided again, 30 days after “Notice” is triggered, and again within 45 days of the end of every fiscal quarter during the year following Termination, and then annually in November of the following years. Estimates will be based on the most recent data available; however the final calculation will be based on claims data as of 6/30, the final date of membership, and as of 6/30 of the following years thereafter.

Terminated Members will always maintain a positive cash balance within MBASIA, meaning that other Members or MBASIA monies will not be used for actual claims payments made on behalf of the Terminated Members. Expenses associated with both claims and administration will be calculated and included as additional charges.

The Terminated Member is also responsible for actuarially determined Outstanding Claims Liabilities. These figures will be estimated each year in conjunction with MBASIA’s regularly

scheduled actuarial reports and sent to the Terminated Member.

Payment Schedule:

The Terminated Member will be responsible for two payment schedules; (1) Termination Costs and (2) Assessment Calculations.

Termination Costs: The Termination Costs will be paid in three installments. One-third of the amount due will be payable within 30 days of July 1 of the first year after termination. The following one-third will be paid within 30 days of July 1st of the second year, and the remaining one-third will be paid within 30 days of July 1st of the third year.

Assessment Calculation: The Assessment Calculation will be paid in 4 installments. 25% of the Assessment Calculation will be due within 30 days of July 1st of the terminating year. 25% of the Assessment Calculation, or the amount of claims payments, whichever is greater, will be due on each year following, as shown in the chart below:

	Year 1	Year 2	Year 3	End of Year 3
Term:	7/1 - 6/30	7/1 - 6/30	7/1 - 6/30	6/30
Amount Due:	25% Due or Amount Paid	25% Due or Amount Paid	25% Due or Amount Paid	25% Due or "Take Claims With You"

Failure to Pay Assessments Timely:

The Terminated Member will be invoiced at beginning of each fiscal year (July 1). Failure to pay within 30 days of invoice will lead to penalties charged at the LAIF rate or 3%, whichever is greater, in effect on the date of invoice. Failure to pay after one year will result in increasing the interest rate charged to double the LAIF rate or 6%, whichever is greater, for all outstanding payments.

Final Settlement of Liabilities:

Thirty Six (36) months following termination, a final calculation will be performed. A withdrawing member will (1) pay off all remaining liabilities, or (2) take full responsibility of all Outstanding Claims Liabilities².

² This would be "Take your claims with you," meaning that the Terminated Member would be responsible for the payment of all outstanding claims, the hiring of a third party administrator, the management of all claims payment guidelines, and any regulatory reporting and payments due.

ATTACHMENT A
SAMPLE ASSESSMENT CALCULATION

STEP 1: Ten Year Contributions for Claims Expense

The Program Administrators will review the Member Contributions to MBASIA for claims expense. This will be the portion of deposits allocated to the payment of claims, not including deposits made for Operating Expenses. The following chart is an example of ten years of contributions for claims expense:

Workers Compensation Contributions											
	1	2	3	4	5	6	7	8	9	Final Year	Total
Member A	\$ 36,727	\$ 25,942	\$ 25,371	\$ 31,685	\$ 116,663	\$ 184,727	\$ 105,319	\$ 140,536	\$ 129,110	\$ 114,607	\$ 910,687
Member B	\$ 27,052	\$ 3,729	\$ 77,397	\$ 168,674	\$ 142,957	\$ 99,383	\$ 215,151	\$ 178,903	\$ 218,933	\$ 153,299	\$ 1,285,478
Member C	\$ 637,330	\$ 505,443	\$ 664,602	\$ 707,407	\$ 615,288	\$ 768,821	\$ 897,915	\$ 836,012	\$ 683,797	\$ 741,030	\$ 7,057,645
Liability Contributions											
	1	2	3	4	5	6	7	8	9	Final Year	Total
Member A	\$ 7,700	\$ 6,425	\$ 6,604	\$ 8,654	\$ 10,175	\$ 8,198	\$ 34,003	\$ 7,256	\$ 22,087	\$ 22,585	\$ 133,687
Member B	\$ 37,057	\$ 28,099	\$ 32,401	\$ 39,751	\$ 31,408	\$ 31,316	\$ 28,580	\$ 27,739	\$ 62,221	\$ 91,694	\$ 410,265
Member C	\$ 89,558	\$ 112,618	\$ 131,411	\$ 143,005	\$ 168,132	\$ 164,803	\$ 185,996	\$ 208,009	\$ 232,753	\$ 245,552	\$ 1,681,836
Total Contributions											
	1	2	3	4	5	6	7	8	9	Final Year	Total
Member A	\$ 44,427	\$ 32,367	\$ 31,975	\$ 40,339	\$ 126,838	\$ 192,925	\$ 139,322	\$ 147,792	\$ 151,197	\$ 137,192	\$ 1,044,374
Member B	\$ 64,109	\$ 31,828	\$ 109,798	\$ 208,425	\$ 174,365	\$ 130,699	\$ 243,731	\$ 206,642	\$ 281,154	\$ 244,993	\$ 1,695,743
Member C	\$ 726,888	\$ 618,061	\$ 796,013	\$ 850,412	\$ 783,420	\$ 933,624	\$ 1,083,911	\$ 1,044,021	\$ 916,550	\$ 986,582	\$ 8,739,481

STEP 2: Outstanding Claims Liability

The Program Administrators will review the 10 year claims history for Total Incurred Claims determined by the Third Party Administrators of MBASIA. For Workers Compensation 4850 payments will not be included. For Liability, Total Incurred net of deductible is used.

Liability Claims (net of deductible)											
Member	1	2	3	4	5	6	7	8	9	Final Year	Total
Member A		\$64,595				\$57,650					\$122,245
Member B						\$27,000	\$846,590	\$365,500	\$17,500	\$990,000	\$2,246,589
Member C	\$117,259	\$66,554	\$36,592	\$249,282	\$79,854	\$53,846	\$95,779	\$170,668	\$15,718		\$885,551
Grand Total	\$117,259	\$131,149	\$36,592	\$249,282	\$79,854	\$138,495	\$942,369	\$536,168	\$33,218	\$990,000	\$3,254,385
Workers Compensation Total Incurred Claims (no 4850)											
	1	2	3	4	5	6	7	8	9	Final Year	Total
Member A	\$ 15,867	\$ 33,519	\$ 113,848	\$ 75,397	\$ 4,200	\$ 479,330	\$ 3,865	\$ 127,046	\$ 1,594	\$ 10,000	\$ 864,666
Member B	\$ 155,982	\$ 602,667	\$ 5,203	\$ 162,895	\$ 446,193	\$ 176,682	\$ 74,773	\$ 120,543	\$ 318,972	\$ 468	\$ 2,064,379
Member C	\$ 341,018	\$ 654,824	\$ 301,508	\$ 431,494	\$ 3,357,367	\$ 1,021,566	\$ 230,306	\$ 779,187	\$ 123,625	\$ 16,024	\$ 7,256,919
Total Claims Cost											
	1	2	3	4	5	6	7	8	9	Final Year	Total
Member A	\$15,867	\$98,114	\$113,848	\$75,397	\$4,200	\$536,979	\$3,865	\$127,046	\$1,594	\$10,000	\$986,910
Member B	\$155,982	\$602,667	\$5,203	\$162,895	\$446,193	\$203,682	\$921,363	\$486,043	\$336,472	\$990,468	\$4,310,968
Member C	\$458,276	\$721,377	\$338,100	\$680,776	\$3,437,221	\$1,075,412	\$326,085	\$949,855	\$139,343	\$16,024	\$8,142,469

STEP 3: Claims Assessment

Each year the calculation in Section A & B will be reevaluated with current claims data, and the following methodology will be used to calculate the amount due:

Total Contributions											
	1	2	3	4	5	6	7	8	9	Final Year	Total
Member A	\$ 44,427	\$ 32,367	\$ 31,975	\$ 40,339	\$ 126,838	\$ 192,925	\$ 139,322	\$ 147,792	\$ 151,197	\$ 137,192	\$ 1,044,374
Member B	\$ 64,109	\$ 31,828	\$ 109,798	\$ 208,425	\$ 174,365	\$ 130,699	\$ 243,731	\$ 206,642	\$ 281,154	\$ 244,993	\$ 1,695,743
Member C	\$ 726,888	\$ 618,061	\$ 796,013	\$ 850,412	\$ 783,420	\$ 933,624	\$ 1,083,911	\$ 1,044,021	\$ 916,550	\$ 986,582	\$ 8,739,481

Total Claims Cost											
	1	2	3	4	5	6	7	8	9	Final Year	Total
Member A	\$ 15,867	\$ 98,114	\$ 113,848	\$ 75,397	\$ 4,200	\$ 536,979	\$ 3,865	\$ 127,046	\$ 1,594	\$ 10,000	\$ 986,910
Member B	\$ 155,982	\$ 602,667	\$ 5,203	\$ 162,895	\$ 446,193	\$ 203,682	\$ 921,363	\$ 486,043	\$ 336,472	\$ 990,468	\$ 4,310,968
Member C	\$ 458,276	\$ 721,377	\$ 338,100	\$ 680,776	\$ 3,437,221	\$ 1,075,412	\$ 326,085	\$ 949,855	\$ 139,343	\$ 16,024	\$ 8,142,469

Contributions Minus Claims Cost											
	1	2	3	4	5	6	7	8	9	Final Year	Total
Member A	\$ 28,560	\$ (65,747)	\$ (81,873)	\$ (35,057)	\$ 122,638	\$ (344,055)	\$ 135,457	\$ 20,746	\$ 149,603	\$ 127,192	\$ 57,464
Member B	\$ (91,874)	\$ (570,839)	\$ 104,595	\$ 45,529	\$ (271,828)	\$ (72,983)	\$ (677,631)	\$ (279,401)	\$ (55,319)	\$ (745,475)	\$ (2,615,225)
Member C	\$ 268,612	\$ (103,316)	\$ 457,913	\$ 169,636	\$ (2,653,802)	\$ (141,788)	\$ 757,826	\$ 94,165	\$ 777,207	\$ 970,559	\$ 597,012

In the example above, Member A and Member C have no assessment, while Member B has a Claims Assessment of \$2,615,225.

STEP 4: Termination Costs

The Program Administrators, working with the Executive Committee, will determine the final Termination Costs. The Termination Costs will include, but are not limited to:

		Member A	Member B	Member C
Line Item	Total	2.19%	5.97%	26.22%
Liability TPA (3 Year)	\$ 165,000	\$ 3,618	\$ 9,857	\$ 43,259
Program Admin (33% of 3 Year)	\$ 240,000	\$ 5,262	\$ 14,337	\$ 62,923
WC TPA (3 Year)	\$ 499,317	\$ 10,948	\$ 29,828	\$ 130,910
Member Debt	Per Member	\$ -	\$ -	\$ -
JPA Debt	Per Member	\$ 87,615	\$ 16,225	\$ 1,077,340
Actuarial Services (3 Year)	\$ 36,924	\$ 810	\$ 2,206	\$ 9,681
3 Year Cost		\$ 108,253	\$ 72,452	\$ 1,324,112
Annually Due		\$ 36,084	\$ 24,151	\$ 441,371

Payment:

The Program Administrators will calculate the Allocation Assessments, which will be reviewed and approved by the Executive Committee. One third of The Termination Costs calculated in STEP 4 will be due and payable to MBASIA within 30 days of July 1, and the additional one-third will be due for years two and three.

The claims assessment calculated in STEP 3 will be deposited in a trust account maintained by MBASIA and MBASIA’s Third Party Administrators. 25% of the amount due in STEP 3 will be deposited annually within 30 days of July 1 of the terminating year, with an additional 25% due each of the following years.