

Berkshire Health Group

Fund Balance Guideline

Revised 8/21/12

The Berkshire Health Group (“BHG” or “the Group”) manages its financial obligations under the following guiding principles:

1. Assure an adequate cash flow to meet all foreseeable exigencies, paying all claims charges and other bills of the Group in a prompt and timely manner;
2. Maintain an uncommitted fund balance, after allowance for all incurred but not yet processed claim charges, equal to ten to 15 percent (10-15%) of total annual claims expenses based on claims from the prior 12 months in order to meet unusually high claims activity and to preclude the need for emergency assessments on BHG participating governmental units and/or surcharges on annual rates for both the employers and the employees; and
3. Strive to cover at least 100% of the projected costs for the coming year through the rate setting process.

Prudent fiscal management dictates that the Group protects participants from the wide fluctuations possible in the cost of health services for health plan members. A few cases of cancer or a series of accidents can quickly deplete financial reserves. Past experience has shown that, even with reinsurance policies in place, a group of our size can run through a \$2 million reserve in less than a year in dealing with a rash of high cost claims.

In adopting these guiding principles, the BHG recognizes that stability and predictability are important to its participants. The annual rate setting process is the appropriate time to consider unreserved fund balance levels. When setting rates, claims trends and the economic environment will influence the Group’s decision to add to or draw from the fund balance. In times of escalating health care costs and/or difficult economic times, the Group may not be able to add to the fund balance when it is below the target level. At such times a multi-year approach may be required to build the fund balance to within the target range.

While the target for the unreserved fund balance is 10% to 15% of total annual claims expenses, these guidelines do not preclude the BHG Board from maintaining an uncommitted fund balance that it considers to be in the best interest of the Group at the time that causes a variance from this target.