PACE
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Retained Earnings Policy

1. The purpose of this policy is to outline the parameters used by the Trustees in:
   a. selecting the range of retained earnings that the Trust must maintain to conservatively meet its financial obligations; and
   b. identifying when and how retained earnings that are in-excess of the range can be used by the Trust for the benefit of the membership.

2. Property and Casualty Coverage for Education (PACE) is a non-assessable Trust, which means PACE does not have the ability through its Trust Agreement to obtain additional contributions from members in the event the Trust is unable to meet its financial obligations.

3. Thus, the PACE Trust has a fiduciary responsibility to maintain a conservative level of retained earnings sufficient to meet its financial obligations under a variety of loss and risk scenarios.

Retained Earnings Requirements

4. Oregon Revised Statute 30.282(e) requires the Trust maintain a surplus equal to 25% of net contributions or $250,000, whichever is greater.

5. Net contributions are defined as the premiums collected from PACE members minus the reinsurance/excel insurance paid for by PACE.

6. To ensure that the 25% requirement is continuously met, an extra margin of retained earnings will be retained to account for:
   a. Unanticipated rapid growth in contributions or unexpected adverse development in projected claims (25% of the State requirement).
   b. A difference of interpretation by the State in determining reserve adequacy (10% of the State requirement).

Optimal Retained Earnings Goal

7. The Trustees understand the legal minimum retained earnings requirement is not the optimal amount necessary to provide for ongoing financial security. Therefore, the Trustees will establish an optimal minimum and maximum retained earnings goal using the following process:

   a. Every three years the Trust shall contract with an independent actuary to conduct or update a target fund balance study When the report is created, it should be distributed to Trustees in December or soon thereafter.

   b. The study will assess PACE's financial strength and identify a range of retained earnings the Trust should maintain to meet its short-term and projected long-term financial obligations. The study will evaluate the following risk categories:

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i. Underwriting Risk: Underwriting Risk is the largest and most volatile risk of the Trust. It evaluates if the contributions collected are sufficient to meet projected claims liabilities. Unknown claim liabilities must be modeled to measure predicted claim frequency and severity.
ii. Reserving Risk: Reserving risk measures the potential for actual claim settlement costs deviating unfavorably from the current booked reserves. The main sources of potential unfavorable reserve development includes excessive inflation, emergence of latent or new types of claims and legislative/judicial decisions affecting claim settlements.
iii. Asset and Credit Risk: Asset and credit default risks reflect the risks that value of investment and credit assets may deteriorate due to changes in macroeconomic financial conditions or decline in the financial strength of the debtors. It also measures the possibility that a reinsurer may not meet its financial obligations to the Trust due to bankruptcy.
iv. Operational Risk: Operational risk measures the impact on net assets from unplanned operational impacts such as large staff turnover, theft of Trust assets or computer system failures.
v. The study will aggregate the above risk factors to arrive at a matrix, which identifies the retained earnings required to meet the legally required minimum and the Trust's financial obligations at various probability levels.

Retained Earnings Goals

8. The Trustees will use the results of the study to set optimal minimum targeted retained earnings goal at the amount necessary to fund a 1-in-200 year event and a maximum targeted retained earnings goal at the amount necessary to fund a 2 times a 1-in-200 year event. The dollar range necessary to meet these goals is displayed in Exhibit A.

9. When the Trust's retained earnings are at least 25% into the established equity range, the Trustees at their discretion, may begin returning retained earnings to members, so long as the Trust's retained earnings do not drop below the above referenced 25% threshold .

10. Retained earnings, accumulated by the Trust, may be used for the following purposes:
    a. Distributed over time to members as dividends.
    b. Returned to the members in the way of new or subsidized programs, coverages or partnerships that enhance risk management for the benefit of members.
    c. For any other purpose identified by the Trustees to be of benefit to members.

Updates and Adjustments

11. Annually, staff will update the probability matrix provided by the actuary and provide a report back to the Trustees at their third Trust meeting of the fiscal year. The Trustees may adjust its retained earnings targets per the results of the updated matrix.

12. In addition, before making any major financial decision that have a potential impact on the identified retained earnings requirement, such as increasing the Trust's self-insured retention, staff will update the matrix and report back to the Trustees on the financial impact.

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Equity Distribution

The Trust has established funding target objectives with a lower bound of a 1-in-200 year event and an upper bound defined by a 2 times a 1-in-200 year event at current retentions. Based on these funding objectives, the estimated fund range is from $63 million to $126 million as of June 30, 2025.

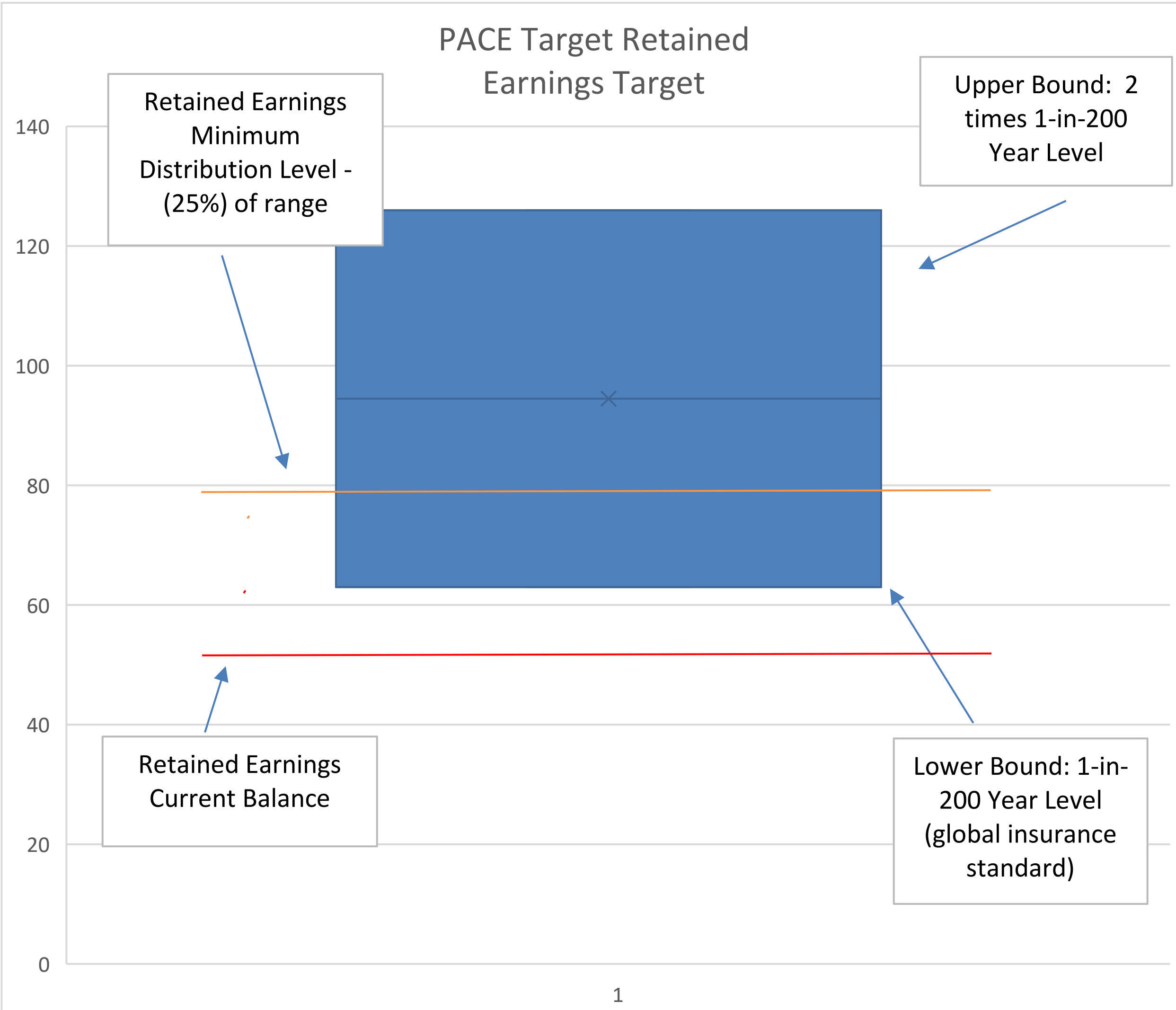
1. The purpose of this section is to outline the parameters used by the Trustees in distributing equity to current members of the Property And Casualty Coverage for Education (PACE) program.

2. Retained Earnings Requirements:
   Prior to any distribution of equity to members of the PACE program the retained earning balance must be sufficient to meet the requirements of Section 9 of this policy. .

3. Timing of Distribution:
   Annually, as the Trust reviews the budget, actuary report, capital modeling report and audited financials, the Trust may determine if an equity distribution should be made. If the Trust chooses to approve an equity distribution it will be incorporated into the subsequent budget.

4. Other Considerations:
   The Trust will determine at the time of each distribution if there will be other requirements to receive a distribution. For example, signing of a multi-year lock agreement to continue coverage in the PACE program.

Exhibit A



Based on the Target Fund Balance Review conducted in December 2024 the Trust has established funding target objectives with a lower bound of a 1-in-200 year event and an upper bound defined by a 2 times a 1-in-200 year event at current retentions. Based on these funding objectives, the estimated fund range is from $63 million to $126 million as of June 30, 2025.