



**MONTANA STATE FUND  
BOARD MEETING  
December 11, 2015**

The Montana State Fund (MSF) Board meeting was held December 11, 2015 at Montana State Fund, 855 Front Street, Helena, Montana.

**Directors Attending**

Lance Zanto, Helena  
Richard Miltenberger, Helena  
Jan VanRiper, Helena  
Jack Owens, Missoula

Bruce Mihelish, Lolo  
Lynda Moss, Billings  
Matt Mohr, Big Sky

**MSF Staff Attending**

Laurence Hubbard, President/CEO  
Verna Boucher, Spec Asst to Pres/CEO  
Nancy Butler, General Counsel  
Mark Barry, Corporate Support VP  
Julie Jenkinson, Insurance Operations VP  
Al Parisian, Chief Information Officer  
Curtis Larsen, Assistant General Counsel  
Christy Weikart, Underwriting Services Dir  
Angela Volden, HR Executive Asst.  
Ethan Heverly, Dir Gov. & Community Relations  
Peter Strauss, Compliance Officer

Rick Duane, Human Resources VP  
Dan Gengler, Internal Actuary  
Rene Martello, Controller  
Patti Grosfield, Internal Auditor  
Ethan Heverly, Director, Gov. Relations  
Shannon Copps, Director, ESPM  
Kevin Braun, Assistant General Counsel  
Nick Hopkins, BUD  
Mary Boyle, Communications Specialist  
Mike Worden, HR Specialist

**Others Attending**

Rep. Ryan Lynch, Butte  
Kim Hewitt, SAO/CSI  
Carol Roy, SAO/CSI  
Bob Biskupiack, IIAC

Mari Kindberg, SAO/CSI  
Pat Murdo, Legislative Services Division  
Bill Wheeler, DOLI

**I. Meeting Preliminaries**

**A. *Call to Order***

Chair Zanto called the meeting to order at 8:35 a.m. and welcomed all attendees and thanked them for attending, specifically Representative Ryan Lynch. He asked Mari Kindberg, Chief Actuary from the Commissioner of Securities and Insurance (CSI) Office to please introduce their staff members.

Ms. Kindberg introduced Carol Roy, Market Conduct Bureau Chief and Kim Hewitt, Market Conduct Examiner.

President Hubbard reminded the attendees that this was General Counsel, Nancy Butler's last Board meeting and Chair Zanto noted what an asset she has been to MSF and took a moment to thank her for all of her work and help over the years.

**II. Miscellaneous – Laurence Hubbard, President/CEO**

A. *Miscellaneous*

President Hubbard welcomed the attendees and thanked the Board and staff for making time to participate.

- He took a moment to thank Nancy Butler and said it was a pleasure to work with her. He noted that Ms. Butler has been with MSF for 30 plus years, most of which as the General Counsel. He said MSF will truly miss Ms. Butler's guidance and support. He added that she is one of the finest people he knows and she will be difficult to replace. He thanked her again and noted there will be an official retirement party for Nancy after the holidays.
- Mr. Hubbard said the MSF Annual Holiday Party for staff was scheduled for Saturday, December 12 at the Montana Club. He also noted that MSF's Special Activities Committee (SAC), an employee-based committee, had hired a town car to provide safe rides home for party goers if needed.
- He announced that the Certificate of Authority to write workers' compensation insurance had been presented to him by Jesse Laslovich, Acting Deputy Commissioner at a meeting the day before. President Hubbard presented the Certificate to Chair Zanto. He indicated that the Certificate of Authority was more than just symbolic because even though Senate Bill 123 (SB123) requires CSI to issue the Certificate, SB 123 also requires MSF to submit all of the information that a private carrier would otherwise need to submit. He congratulated and thanked the MSF staff for a job well done in collecting the required biographical affidavits and preparing the documentation needed for submission. He also thanked the CSI staff for their hard work and diligence in completing this task prior to January 1, 2016. He noted that the transition plan submitted to CSI was pending approval by the Commissioner and early indications are that the CSI's recommendation will be to approve the included exception requests. He said the next big hurdle will be the rate filing which will be the first time that MSF files proposed lost cost multipliers with the Insurance Department. The trial filing provided good feedback from CSI and a few issues that may need to be addressed with the Board were identified. He reported that MSF has been building a positive working relationship with CSI and both organizations are learning a lot about each other.

Chair Zanto asked if the Certificate of Authority is issued into perpetuity or if it need to be renewed every year.

President Hubbard said it is issued into perpetuity or until otherwise terminated by law, as long as MSF is in compliance with the law. The Certificate cannot be suspended or revoked by CSI under SB123; however, there are other reasons it could be terminated, such as a legislative change to MSF.

He thanked the Board and their predecessors for all of their support during the SB123 process and implementation. He indicated that the Board has supported the crafting and passage of this legislation.

- He noted that MSF was invited to present the Board-approved fiscal year budget to the Economic Affairs Interim Committee (EAIC). Though the Board has sole responsibility for establishing and passing the budget, the EAIC is provided an opportunity to review and ask questions, if any, regarding budget items. He said this is a good exercise in

keeping the legislature informed of MSF's activities and financial statements. The actuarial review performed on behalf of CSI by Financial Risk Analysts (FRA) was also presented. That review looks at MSF's reserves, rate levels, Board decisions for the prior year and a review of Old Fund liabilities. The FRA report contained a series of recommendations which will be addressed more thoroughly at the March 2016 rate setting Board meeting. Mr. Hubbard summarized the recommendations:

- Loss reserves - AMI (the consulting actuarial firm for the Legislative Audit Division) and FRA have higher central estimates of New Fund liabilities above Towers Watson's central estimate, which makes their reserve strengthening recommendations higher than Towers Watson's. By law, MSF must be more conservative, not less. Clearly FRA recognizes the risks of the asbestos exposures and HB334 savings spent. There is some substantial risk that MSF has already taken the HB334 based savings or rate cuts.
- The equity level review also recognized the level of risk with HB334 that the provisions of that law may or may not be held constitutional. Until that decision is made, the range of the equity level that the Board has selected is appropriate and reasonable according to FRA.
- An additional consideration for discussion with the Board is the provision for adverse deviation which is essentially recognition of actuarial error that is contained in rates. The Board has set aside about five percent in rate making decisions on deviation on any given rate year's level.
- FRA also recommends the adoption of the Deloitte Claims Best Practices review. Deloitte presented their findings to the EAIC and most recommendations were concurred with by MSF and have been or will be implemented by January 1, 2016. There was a provision that established a system challenge for MSF with how reserve work sheets are established and changes are made which was not concurred with. David Duden, from Deloitte, was very complimentary of MSF's claims handling practices and found the reserve setting levels reasonable. They did indicate that their practices would have set the reserves on the 168 claims they reviewed about five percent lower; however, the acceptable deviation margin is a ten to 15 percent margin and MSF was at 5.6 percent. He said it is important to periodically review a company's operations and MSF finds this information helpful.

President Hubbard said the actuaries believe the Old Fund reserves are considerably below what they would recommend as the ultimate remaining liabilities. FRA's recommended approach for establishing indicated financial reserves differs from the approach used by claims examiners in setting case reserves, specifically when determining end of life medical costs.

Chair Zanto called for questions from the Board and the public; there were none.

*B. Report of Internal Auditor – Patti Grosfield, Internal Auditor*

Ms. Grosfield reported on the status of the dividends that the Board declared at the November 11, 2015 Board meeting. She said 22,954 policies would receive a dividend in January 2016. Dividends are one of the most important means that MSF has for rewarding policyholders for limiting their losses. The total amount paid out will be \$35,003,064. Twenty-eight state agencies will receive in aggregate slightly over \$2 million and the largest dividend will be to the Department of Health and Human Services (DPHHS) at slightly over \$890 thousand. There were 1,551 policies that were ineligible due primarily to not meeting the 181 day coverage

requirement during policy year 2013. There were also 2,259 eligible accounts that will not receive a dividend due to high loss ratios.

Chair Zanto called for questions or comments from the Board and the public; there were none.

C. *Approval of Proposed MSF Board Policies, Procedures, Rules and Guidelines, Curt Larsen, Assistant General Counsel*

Mr. Larsen explained that the Board's policies, procedures, rules and guidelines prior to the implementation of SB123 were addressed through the Administrative Rule procedure administered by the State of Montana. Most of the changes are necessitated by the transition of oversight under the Commissioner's Office and are mostly procedural or cosmetic in nature. These will take effect as of July 1, 2016; however, they will be utilized by the Board as guidelines in adopting rates at the March 2016 Board meeting. He clarified that there was one change based on feedback received from CSI that provided in General Rule No. 1 – "These rules must at all times be applied in conformance with any rates and rating plan filed with and approved by the Montana State Auditor, Commissioner of Securities and Insurance." He provided a brief review and noted there are two sets of rules: the first set outlines public participation and open meetings and based on statutory requirements. The second set addresses rating, underwriting and dividend rules.

Mr. Larsen provided a brief overview of the rules and highlighted the notable changes which primarily eliminated outdated date references and tables that are no longer applicable. There were also changes to the eligible class codes for the construction credit program to comply with the statute and NCCI requirements. He presented the proposed rules and requested the Board approve them as presented.

Chair Zanto called for questions from the Board and questions from the public, there were none.

*Jan VanRiper made a motion to approve the proposed MSF Board Policies, Procedures, Rules and Guidelines. Bruce Mihelish seconded the motion. Chair Zanto called for discussion or comments from the Board and the public. Mr. Hubbard noted that CSI is still reviewing the rules and the Board may have to readdress these rules if there are concerns. Chair Zanto called for additional questions or discussion; seeing none, he called for the vote and the motion passed unanimously.*

D. *Renewal of Compensation Consulting Contract – Kenning Consulting, Rick Duane, VP Human Resources*

Mr. Duane explained the contract with Kenning Consulting was for the consulting services the Board receives regarding the President/CEO's compensation. That compensation is reviewed and set by the MSF Board of Directors. He provided an overview of the history of this procedure and explained the history of locating and procuring a consultant to provide these services. He noted at the September 2014 Board meeting, the Board requested an additional consultant be retained to provide a second analysis and recommendation to that of the active consultant, Hay Group. Kenning Consulting was chosen and a contract was approved at the November 12, 2014 Board meeting. Subsequent to that decision, MSF learned that Ron Keimach had left Hay Group for Mercer Consulting and was no longer going to be MSF's representative. It was also learned that AASCIF would no longer be using Hay Group for their CEO compensation/salary survey or consulting services. This resulted in Kenning Consulting being MSF's sole source for compensation survey information and AASCIF has now also hired Kenning Consulting for this type of service. Mr. Kenning presented to the MSF Board at the September 2015 meeting and worked with the Board on the compensation adjustment for

President Hubbard. The contract for that work expired at the end of November 2015. The contract that is pending approval is for the period December 1, 2015 through April 30, 2017.

Mr. Duane reviewed the terms of the proposed contract and explained the services that would be provided by Kenning Consulting if approved.

Mr. Duane asked the Board to renew the contract with Kenning Consulting.

Chair Zanto called for questions or comments from the Board.

*Mr. Mihelish moved to renew the Compensation Consulting Contract with Kenning Consulting through April 30, 2017. Lynda Moss seconded the motion. Chair Zanto called for questions or comments from the Board. Mr. Zanto provided some clarification background by reminding the Board that after the last compensation review, there were additional items that the Board requested be prepared to educate the Board and provide some performance measures. Chair Zanto called for additional discussion.*

Mr. Miltenberger added that since engaging Kenning Consulting in November of 2014, he has been impressed with Kenning Consulting and the unique information Mr. Kenning provides. He said based on the sensitivity of the topic with regard to legislative, public and constituency concerns, he believed it was critical that the Board continue with someone of Mr. Kenning's credentials.

Mr. Mihelish asked if he recalled correctly that the Board was a bit dissatisfied with the services of Hay Group so wanted to move to other sources for a different and varied perspective.

Mr. Duane said the Board was not dissatisfied with the information that Hay Group provided, they simply wanted an additional perspective.

Mr. Miltenberger also clarified that due to Hay Group's additional contract with MSF to provide salary compensation information for all position within the MSF structure, the Board wanted to assure that there would be an additional independent perspective for the CEO compensation component.

*Chair Zanto called for further discussion and comments from the public. There was none and he called for the vote. It passed unanimously.*

### **III. Calendar Year 2016 Annual Business Plan – Laurence Hubbard, President/CEO**

#### **A. Annual Business Plan Introduction**

Chair Zanto called on Ms. Copps to present the Annual Business Plan.

#### **B. Annual Business Plan Status for the Period of July 1, 2015 to June 30, 2016 – Shannon Copps, Director of Enterprise Strategy and Project Management**

Ms. Copps provided a review of the Annual Business Plan for July 1, 2015 to June 30, 2016.

She reported that there are two initiatives: customer service and infrastructure and that each initiative falls under implementation of SB123.

- Customer Service includes the purchase and implementation of a new policy and billing system which is a multi-year project and is off track for timely completion. The RFP process for the Independent Verification and Validation (IV&V) vendor that will work with MSF to develop the proposed purchase or build of a new system has been

completed and Sabot Consulting was chosen in late November. The IV&V vendor will work with MSF staff to identify the necessary system requirements and help develop that request for proposal for the software solution. They will also review the project work, provide on-going advice and independent project status review for Mr. Hubbard. The schedule and project milestones have been reset to be completed in CY 2016.

- The infrastructure initiatives are: regulation, calendar year conversion, rates and rate filing and change management and communication. All reflect the changes required for MSF to do business since moving under CSI oversight. All projects are multi-year and all are on track for timely completion.

Mr. Mihelish asked Ethan Heverly, Director of Government and Community Relations, how the insurance agents around the state were accepting his explanation of MSF internal producer licensing.

Mr. Heverly indicated that he has not received a lot of questions regarding direct sales and attributed that to the fact that MSF has always been able to direct sell and MSF is very interested in maintaining the good relationship with agents that was already in place.

President Hubbard asked Bob Biskupiak, Executive Director of the Independent Insurance Agents Association of Montana, if he had received any feedback from the agents.

Mr. Biskupiak reported that this discussion has occurred at the agency partnership level and when he visits with individual agencies. He said there has been no concern whatsoever.

Mr. Mihelish noted that it is important to not disrupt the agency component of MSF's distribution network because the agencies comprise a lot of the market share for the state and cautioned staff to be aware of that.

Chair Zanto called for questions from the Board and the public. There were no questions.

C. *Calendar Year 2016 Annual Business Plan – Shannon Copps and MSF Staff*

Ms. Copps introduced the key success measures for the proposed 2016 Calendar Year Annual Business Plan.

Proposed Key Success Measures

- Generate Total Net Earned Premium of \$162.0 million
- Achieve 78.6 percent loss ratio
- Achieve 28.6 percent expense ratio
- Achieve \$44.1 million investment income
- Achieve \$27.3 million (before dividend) net operating income

Ms. Moss requested that based on the fact that the Board of Investments (BOI) handles all of MSF's investments, they be invited to provide a presentation to the MSF Board.

President Hubbard said that BOI and MSF's investment managers are invited at least once a year to address the MSF Board and in consideration of MSF's new Board members, this would be a very appropriate time to extend another invitation. We will request a presentation on the investment policy agreement and an opportunity to answer MSF Board questions.

Ms. Copps resumed her presentation and noted that all projects are again in customer service and infrastructure. She said the initiatives for CY2016 would be a continuation of those

proposed and adopted for FY2015 year because the projects are multi-year projects and have not yet reached targeted completion dates. She then turned the presentation over to Al Parisian, CIO and Nancy Butler, General Counsel, to review the Calendar Year Annual Business Plan project plans and projection.

Mr. Parisian told the Board that the Policy and Billing System Replacement under the Customer Service Initiative is a multi-year project to replace core insurance systems. The policyholder application has served MSF since 1997; however, it is built on aging technology that presents integrational challenges with a modern system. He said the team anticipates years of preliminary work to determine the best process and product. He explained the IV&V process and the functions that will need to be completed to be able to present a phased implementation for the Board's approval in late 2016. Mr. Parisian walked the Board through the reporting considerations that will have to be included to assure MSF remains compliant under Montana Insurance Code Title 33.

Chair Zanto asked at what stage the Team was and how long the process was expected to take.

Mr. Parisian reported that an IV&V vendor has been chosen and the Team has submitted to the vendor research documentation for evaluation of the project thus far. The IV&V vendor will be on site in a couple of weeks to begin the requirements phase in earnest. He said the next calendar year will entail the requirement and planning work to choose a solution though the duration of the process is difficult to pinpoint at this time.

Ms. Moss questioned if the Team has developed an opportunity for the policyholders to provide input.

Mr. Parisian said that part of the RFP process with the IV&V vendor is to find someone who will include policyholders, medical service providers, agents and agencies in the stakeholder analysis.

Mr. Owens asked how many competitors there are for building this type of system.

Mr. Parisian said there are probably four or five main competitors that we would consider and any number of other partial players who provide less robust solutions. That does not include the firms that would be willing to write custom code for MSF.

Mr. Zanto called for additional questions from the Board and the public. There were none.

Ms. Butler commented that getting MSF to this stage has been a huge investment of MSF staff and many stakeholders on the outside who supported the move to oversight under the CSI. The infrastructure initiative includes four projects:

- Regulation – will ensure MSF successfully meets reporting requirements and prepares for examinations under Title 33, Montana Insurance Code. The first Market Conduct Exam is expected to begin mid-year 2017.
- Calendar Year Conversion – ensure MSF successfully transitions from July – June reporting to January – December reporting. This will include budget processes and financial reporting processes.
- Rates and Rate Filings – ensure MSF is compliant with rate related areas of Title 33, Montana Insurance Code. Implement provisions of NCCI basic manual, additional application and policy form submittal and complying with rate filing requirements.

- Change Management and Communications – ensure internal and external stakeholders are informed of changes affecting them under the new regulation.

Mr. Mihelish thanked Ms. Butler, President Hubbard, the Board, the management team and all of the MSF employees for working diligently to assure that SB123 was passed and that the requirements of that law are met. He said he also wanted to thank the legislature and the Governor for supporting this move because he believes it is the right solution for MSF. He said it puts MSF on a level playing field with its competitors and it puts MSF's financial health under the review of the Insurance Department who are the experts. That takes a little heat off the legislators which is a good thing considering how much they already have on their plate. He said he believes this is a win/win situation and should be well received.

Chair Zanto said he echoed those comments as well. He said this is an important move for MSF and thanked the staff for their hard work.

Ms. Copps noted that the Business Plan Budget will be included in the full budget approval that the Board will address later; however, she provided a budget for the project costs.

<b>Project</b>	<b>Budget</b>
Policy and Billing System	\$333,000
Regulation	\$389,680
Calendar Year Conversion	\$105,000
Communication and Change Management	\$82,399
Rates and Rate Filing	\$26,500
<b>Total</b>	<b>\$936,579</b>

She requested the Board approve the Business Plan as presented.

Chair Zanto called for questions or comments from the Board and the public.

*Mr. Miltenberger made a motion the Board adopt the proposed Calendar Year 2016 Annual Business Plan. Ms. Moss seconded the motion. Chair Zanto called for additional questions or discussion from the Board and the public; seeing none, he called for the vote and the motion passed unanimously.*

#### **IV. Calendar Year 2016 Budget – Laurence Hubbard, President/CEO**

##### *A. Budget Introduction*

President Hubbard thanked the Board for the approval of the Calendar Year Business Plan and called upon Mr. Barry to present the proposed Calendar Year 2016 Budget.

##### *B. 2016 Budget – Mark Barry, VP Corporate Support*

Mr. Barry provided a review of the MSF income and expenditures for FY15 and the FY16 budget which was approved June 2015 and presented the budget request for CY2016. He noted there was a net earned premium increase of 3.1 percent from the FY16 budget and 1.5 percent decrease from FY15 actuals. The estimated \$162 million of premium assumes no manual rate change and wage growth of three percent, premium retention of 90.3 percent, net loss of business at \$3.9 million and Other States Coverage of \$2.35 million. He said with \$44 million of investment income brings the total estimated income to \$206.2 million. There are two main



budget categories: the operational budget and the claim benefit costs. The overall CY16 budget request is an increase of \$3.7 million or a 2.1 percent increase over the FY16 budget and a \$16.9 million or 10.2 percent increase from FY15 actuals.

### MSF Income & Expenditures

(000s)	FY15 Actuals	FY16 Budget	CY16 change from FY16	CY16 Budget
Net Earned Premium	\$164,557	\$157,107	3.1%	\$162,010
Investment Income /Gain *	<u>50,708</u>	<u>47,620</u>	-7.3%	<u>44,147</u>
<b>TOTAL INCOME</b>	<b>\$215,265</b>	<b>\$204,726</b>	<b>0.7%</b>	<b>\$206,157</b>
Operational Budgets	\$50,700	\$53,061	5.0%	\$55,711
Claim Benefits Payments	<u>114,428</u>	<u>125,271</u>	<u>0.8%</u>	<u>126,298</u>
<b>TOTAL EXPENDITURES</b>	<b>\$165,128</b>	<b>\$178,332</b>	<b>2.1%</b>	<b>\$182,009</b>

*CY16 estimated premium is a 3.1% increase from the FY16 Budget.*

*CY16 Operational Budget is 5.0% more than the FY16 Budget.*

*CY16 Claim Benefits Payments increase 0.8% as compared to the FY16 Budget.*

*\* Investment Income is based on a weighted average investment income return and includes realized gains.*

Mr. Barry provided information on the historical trends of net earned premium, operational expenditures, policies written and MSF serviced claims, which reflects the correlation between premium and workload indicators. He explained that serviced claims are defined as claims with a non-zero transaction (medical, indemnity, ALAE, paid, incurred, recovery) during the year. “Serviced claims” is a term that is more indicative of workload as it reflects claims needing to be “touched” by MSF staff during a fiscal year. He provided further clarification and comparative data on the derivation of the expense ratio. He noted that the action taken by the Board to reduce loss reserves by \$32.1 million also resulted in a reduction of the loss adjustment expense reserves by \$4.6 million, which reduced the MSF expense ratio for FY 2015. He noted that the expense ratio for CY2016 is 28.5 percent which compares competitively with other Montana workers’ compensation carriers.

### MSF CY16 Budget

<b>Claim Benefit Payments</b>	
Indemnity	\$38,421,735
Medical	\$87,876,100
<b>Total Claim Benefit Payments</b>	<u>\$126,297,835</u>
<b>FTE</b>	<b>306.50</b>
<b>Operational Expenditures</b>	
Personal Services	\$28,001,309
Operating Expense	23,677,291
Equip & Int Assets	206,056
ALAE	<u>3,826,156</u>
<b>Total Operational Expenditures</b>	<u>\$55,710,812</u>
<b>Total Budget Request</b>	<u><b>\$182,008,647</b></u>

Mr. Barry noted that for CY2016, indemnity payments are expected to be approximately \$38 million and medical payments, including settlement actions, of \$88 million bringing total claim benefit payments to \$126 million. He explained the operational expenditures in depth and noted the proposed operational expenditures were approximately \$56 million. That made the total expenditure budget request for CY2016 \$182 million.

Chair Zanto asked if the proposed \$88 million in medical expenses factored in the five year medical closure settlements?

Mr. Barry explained that the budget is built based on expected payments on a cash basis which does not take into consideration allocations of these amounts for specific payment types. Payment activity would be tied to benefit change which would reflect the medical settlement increase that MSF is seeing in payments and is reflected in the budget.

Chair Zanto requested information about the costs associated with air ambulances and where those are categorized.

Mr. Barry said those costs are included in the "Other" category.

Chair Zanto noted that the EAIC will be reviewing this issue at its next meeting and asked Representative Lynch if it was accurate that the EAIC would be reviewing that cost for workers' compensation as well.

Representative Lynch confirmed that was an agenda item for the EAIC.

Mr. Barry continued by providing detailed information regarding claim benefits payments, indemnity payments and operational expenditures including comparisons of staffing in prior years and personal services as well as loss adjustments expenses. He also provided an overview of the costs associated with the ESPM projects. He also clarified that the effects of the medical settlements will not be evident and useful in actuarial analysis for several years.

President Hubbard requested Mr. Barry provide the Board an explanation regarding how the increase in settlement activity is being discussed with MSF's actuary.

Mr. Barry stated that the settlement activity causes the payment activity to escalate which causes the actuary to determine that losses are increasing. MSF provides the loss data in a separate line item and written analysis of the settlement activity for the consulting actuaries' consideration when developing their analysis.

Ms. VanRiper asked if an increase in medical settlements would mean a decrease in medical reserves?

Mr. Barry said that was an accurate assertion on case reserves; however, the actuarial perspective would be to identify a trend over several years to determine consistency before any adjustments were recommended.

Ms. VanRiper asked if the medical settlement activity of the last year could be viewed as a "bubble" that is expected to decrease in the future.

Mr. Barry said it could be a bubble because MSF is taking advantage of open claims that were not able to be settled in the past; however, the real challenge is the medical settlement factor will remain in the payment mix which will make it difficult to determine the appropriate level of loss reserves to utilize going forward.

Mr. Miltenberger asked if MSF conducted a comparison of episodic care to measure the underlying trend of medical inflation that MSF is experiencing.

Mr. Barry said the consulting actuary does not base trend estimates on episodic analysis; however, they do factor medical inflation into the financial reserve estimate. The actuaries based their trends on the aggregate information. MSF does spend time analyzing the granular data and provides the consulting actuary with an in-depth analysis of their observations.

Mr. Hubbard clarified that MSF does have that data readily available and uses it to monitor yearly average bills and varying costs of medical services. MSF was able to pull the necessary and requested data on its air ambulance incurred costs per carrier and service for submission to the EAIC staff member.

Mr. Barry provided a visual that showed that operational expenses as a percent of premium have remained fairly consistent over the years. He noted that MSF has been taking rate decreases for the past several years and the increases in premiums have been payroll driven. He also noted the budget request did not include a President/CEO merit increase. He also mentioned the State of Montana is in contract compliance negotiations with Oracle which could affect MSF by as much as \$150 thousand; however, due to the uncertainty of this issue and MSF being in contract compliance, that amount was not included in this budget.

<b>MSF Budget Request</b>	
<b>Fiscal Year 2016</b>	
<b>January 1 - December 31, 2016</b>	
Total Operational Expenditures	\$55,710,812
Claim and Benefit Payments - MSF	<u>126,297,835</u>
<b>TOTAL 2016 BUDGET REQUEST</b>	<b>\$182,008,647</b>
FTE	306.50
Positions	309

*Authority for the President to move budget between expenditure categories and make staffing adjustments if needed as long as within approved budget.*

Mr. Barry requested that the Board approve management's recommended CY2016 Budget as proposed. This request included the authority for the President to move budget between expenditure categories and make staffing adjustments if needed as long as within approved budget.

Chair Zanto asked where in the budget the two positions at the Commissioner's office are detailed.

Mr. Barry clarified that MSF is funding two positions at CSI; the estimated cost is \$174 thousand and can be located in the consulting and other services cost item.

Chair Zanto called for questions from the Board.

Ms. Moss offered a comment about the WorkSafe Champion program. She said she was really pleased to see the Board was able to approve a healthy dividend to the policyholders yet believes the Board also has a responsibility to the employees of the policyholders, because without employees there would be no policyholders. The WorkSafe programs are MSF's external link to people in Montana and to those employees who are demographically becoming a changing workforce. Montana has an aging population and will have a need for new workers to provide the services employers offer. She said it is her hope that whatever resources can be put into the WorkSafe programs will continue to be dedicated to those programs. It is beneficial

as a public relations tool which helps build and create more Montana policyholders. She mentioned that she has had an opportunity to work closely with the Montana Indian Business Alliance, a group of small business owners who have expertise in Montana. She is hopeful that MSF has the ability to outreach to similar organizations. She would also like to assure that MSF's public relations information and programs respect the different perspectives and aid in moving MSF forward in Montana with the changing demographics. She said she is very supportive of all of the work that MSF does in that respect.

Mr. Hubbard assured Ms. Moss that the budget includes a media campaign to continue to heighten the awareness of the safety program and the benefits of utilizing strong healthy safety programs. MSF will continue its investment in safety with on-site visits to policyholders and safety webinars conducted around the state. He said MSF recognizes the age demographic challenge and noted that MSF has worked to address that through the No Jack campaign that began several years ago. MSF will have to adjust its targeting very carefully to where the dollars need to be spent wisely while still continuing to invest.

Chair Zanto called for questions; there were none.

*Ms. VanRiper made a motion the Board approve the proposed Montana State Fund budget for Calendar Year 2016 totaling \$182,008,647 as follows:*

- *Total Operational Expenditures of \$55,710,812, including the costs that are reimbursed to Montana State Fund for Old Fund administration; and*
- *Montana State Fund Benefit Payments of \$128,297,835.*

*The President is to retain and may utilize the prior direction from the Board to adjust expenditures among first level expenditure categories, and may increase staffing, as long as the total approved budget amount is not exceeded. Chair Zanto noted the correct amount for benefit payments should be \$126,297,835. Mr. Mihelish seconded the motion. Chair Zanto called for additional discussion from the Board and the public; there was none.*

Mr. Miltenberger commented that if the President needed to adjust expenditures between categories and increase staffing as long as the total budget amount is not exceeded, he would anticipate that for any significant adjustment or increase, the Board Chair would be apprised of any changes.

President Hubbard confirmed that notification action would be taken and he would not commit the Board and box the Board into long term commitments and positions that the Board was not comfortable with.

*He called for the vote and the motion passed unanimously.*

**V. Insurance Operations Support – Christy Weikart, Underwriting Services Leader**

**A. Construction Industry Premium Credit Program Approval**

Ms. Weikart provided historical background on the development and implementation of the construction industry premium credit program in the 1990s. She explained that this program was developed to maintain a level playing field for construction industry contractors within the workers' compensation system. Wage rate variances exist from employer to employer yet workers' compensation premiums are based on total payroll reported. Without this program, employers who pay higher hourly wages for the same type of work would pay higher workers'

compensation premiums. She assured the Board that the employee’s exposure to loss remains the same and is unaffected by this program.

She noted that MSF has the ability to craft their own plan or use the NCCI formulaic plan. MSF has found the use of a table to be more transparent for clients. Additionally, by developing and implementing its own plan, MSF saves approximately \$100 thousand per year.

The table is adjusted each year as the state’s average weekly wage increases. Policyholders must have specific class codes to be eligible for this program. Statute outlines which class codes, mapped to the NAICS classification system, are eligible to be in the construction credit program. MSF completed an in-depth review to assure that all the class codes in the program were appropriate. Some changes to the eligible class codes were required; NCCI reviewed the changes, agreed and plan to file those changes so that all carriers are using the exact same class codes as of July 1, 2016.

**Montana State Fund  
 Construction Industry Premium Credit Program  
 Applicable to policies effective July 1, 2016 to July 1, 2017**

Average Hourly Wage	Credit Percentages
\$21.41 or less	0.00%
\$21.42 to \$21.77	0.40%
\$21.78 to \$22.18	1.27%
\$22.19 to \$22.65	2.23%
\$22.66 to \$23.18	3.27%
\$23.19 to \$23.79	4.40%
\$23.80 to \$24.49	5.64%
\$24.50 to \$25.28	6.96%
\$25.29 to \$26.19	8.39%
\$26.20 to \$27.23	9.90%
\$27.24 to \$28.42	11.51%
\$28.43 to \$29.77	13.19%
\$29.78 to \$31.32	14.93%
\$31.33 to \$33.09	16.74%
\$33.10 to \$35.11	18.59%
\$35.12 to \$37.42	20.46%
\$37.43 to \$40.06	22.35%
\$40.07 to \$43.08	24.23%
\$43.09 to \$46.54	26.09%
\$46.55 to \$50.50	27.92%
\$50.51 or more	29.69%

Ms. Weikart requested that the Board approve the proposed table for new and renewal policies with an effective date in Policy Year 2017 as recommended by MSF management.

Chair Zanto called for questions or comments.

Mr. Mihelish asked if this was something that had to be vetted through CSI since it was rate related.

Mr. Weikart replied that it is and would be part of MSF’s rate filing that would be completed in March. She added that this table was included in the mock rate filing that was submitted to CSI though no response has been received yet.

Ms. VanRiper asked if the discount was driven back into the overall rates.

Ms. Weikart confirmed that they were.

Chair Zanto called for more questions or comments. There were none and he recommended the change to the written motion that the Board had in front of them.

*Mr. Mihelish moved the Board adopt the plan of credit percentages for Montana State Fund's Construction Industry Premium Credit Program, for new or renewal policies, with effective dates in Policy Year 2017, as proposed by Montana State Fund management. Mr. Mohr seconded the motion. Chair Zanto called for discussion; seeing none, he called for the vote. The motion passed unanimously.*

*B. Classification Code Update*

Ms. Weikart provided the yearly update on the classification codes adopted by MSF from existing NCCI classification codes as well as the continuing effort to eliminate differences between the MSF classification system and the NCCI classification system.

Ms. Weikart outlined the classification codes modifications that were made in 2015:

- Established Classification Code 1472 – Distillation-Wood & Drivers effective January 22, 2015.

MSF adopted changes to the following classification codes effective July 1, 2015:

- Revised the phraseology of classification Code 8263-00 – Junk Dealer & Drivers to add a reference to Code 8500-Metal Scrap Dealer & Drivers for operations whose principal type of merchandise sold is nonferrous scrap metals. Revised the reference to Code 8265-Iron or Steel Scrap Dealer & Drivers for operations whose principal type of merchandise sold is ferrous scrap metals.
- Revised the phraseology of Code 8500-Metal Scrap Dealer & Drivers to remove the restrictive language regarding the collection or handling of scrap iron or steel.
- Deleted Code 3069-00 – Sheet Metal Products Mfg. & reassigned these operations to Code 3076-01 – Sheet Metal Products Mfg.-Shop Only.
- Revised the x-reference in 3076-Sheet Metal Products Mfg.-Shop Only regarding the awning erection.
- Revised the phraseology of Code 3076-Sheet Metal Products Mfg.-Shop Only to remove the reference to Shop Only and specify that erection, installation, or repair is to be separately rated.
- Revised the phraseology of Code 5535-Sheet Metal Work/Metal Ceiling or Wall Covering Installation & Drivers to specify mfg. of sheet metal products at a shop is separately rated & remove reference to 3069-Sheet Metal Products Mfg.
- Revised the assignment of Code 3076-Sheet Metal Products Mfg. from Hazard Group B to C.
- Revised the phraseology of classification Code 5213-02 – Guniting-Not Chimneys-All Operations to remove the inclusion of drivers.

- Revised the phraseology of classification Code 5213-04 – Cleaning/Renovating Building Exteriors to remove the inclusion of drivers.
- Revised the phraseology of classification Code 5705-00 – Salvage Operation-No Wrecking or Any Structural Operations to remove the inclusion of drivers.
- Revised the phraseology of classification Code 6003-01 – Pile Driving to remove the inclusion of drivers.
- Revised the phraseology of classification Code 6017-00 – Dam or Lock Construction-Concrete to remove the inclusion of drivers.

She indicated that the report effective date July 1, 2016 will be longer and will bring MSF into full compliance with NCCI classification code usage.

Mr. Mihelish asked if the special agriculture classification code will still be utilized to accommodate the farmers and ranchers in Montana.

Ms. Weikart responded in April of 2015, the Classification Review (CR) Committee approved MSF's single agriculture classification (0006) for use by all carriers in Montana effective July 1, 2016. The Committee also approved MSF classifications applicable to state agencies and municipalities for use of all carriers in Montana effective July 1, 2016.

Chair Zanto called for questions or comments from the Board and the public; there were none.

## **VI. Old Business/New Business**

Chair Zanto provided an update to the Board on issues that the Board discussed regarding the CEO performance review. He said he has been working with Mr. Duane to develop some responses to the requests from Board members such as education for Board members and performance expectations that this Board would like to establish for the President/ CEO. He noted that the March Board meeting would not include a wage adjustment for Mr. Hubbard; however, the Board will be reviewing proposed new performance measures as well as discussing rates which will result in a longer meeting day for Board members. He noted it has not yet been determined whether or not to have Mr. Kenning return for that meeting.

Ms. VanRiper clarified for the public that there were no big concerns regarding President Hubbard's performance. The Board has simply requested new assessment tools and procedures to update their reference materials.

Chair Zanto called for additional items.

Ms. Moss noted that she had been on the Board for three years and said she was so impressed with the professionalism and the expertise of the employees at MSF. She views the Board's role as a governing Board as somewhat evolving and believes the Board should access as much helpful information as possible. She said it would be beneficial to invite some speakers that could provide regional trends and expectations. She also suggested inviting representatives from sister funds to offer the Board some directional information.

President Hubbard thanked Ms. Moss for the recommendation. He reminded Board members that the Board's budget contains line items for two members to attend the AASCIF annual conference. He

noted that many Board members from other funds attend this event and it provides a great networking opportunity. He said Ms. Boucher will send the agenda and a reminder to Board members when that information is available.

Ms. VanRiper recommended that future budgets contain funding for as many Board members who would like to attend the AASCIF event.

Mr. Hubbard said if the entire Board wished to attend, any budgetary constraints would be addressed to accommodate that request.

Chair Zanto called for additional old/new business; there was none.

**IV. Public Comment**

Chair Zanto called for public comment; there was none.

The meeting was adjourned at 11:51p.m. The next scheduled Board meeting will be held on Friday, March 11, 2016 at Montana State Fund, 855 Front Street, Helena, Montana in the first floor Board Room.

Respectfully submitted,

*Verna Boucher*

*Special Assistant to the President/CEO*