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MONTANA STATE FUND
BOARD OF DIRECTORS MEETING
January 30, 2015

The Montana State Fund (MSF) Board of Directors meeting was held January 30, 2015 in Montana State Fund's Board Room at 855 Front Street, Helena, Montana 59601.

Directors Attending

Elizabeth Best, Chair, Great Falls
Wayne Dykstra, Billings
Richard Miltenberger, Helena
Lance Zanto, Helena
Joe Brenneman, Kalispell
Lynda Moss, Billings
Bruce Mihelish, Lolo

State Fund Staff Attending

Laurence Hubbard, President/CEO
Verna Boucher, Special Asst to Pres/CEO
Nancy Butler, General Counsel
Mark Barry, Corporate Support VP
Peter Strauss, Operations Support VP
Rick Duane, HR Vice President
Sam Heigh, Director, Insurance Applications
Jan Rouse, Interim Medical Team Leader
Dan Gengler, Internal Actuary
Mary Boyle, Communications Specialist
Patti Grosfield, Internal Auditor
Rene Martello, Controller
Christy Weikart, Underwriting Services Leader
Shannon Copps, Director, IT Plans & Controls
Ken Jeschke, ERM Director
Tammy Lynn, Safety Services Team Leader
Dr. Paul Gorsuch, Medical Director

Others Attending

Mari Kindberg, State Auditor's Office
Peter VanNice, DLI-ERD
Bill Wheeler, DLI-ERD
Cliff Sheets, Board of Investments
Bob Biskupiak, IAIA
Brenda Miller, Liberty Northwest
Rich Cooley, Board of Investments

I. Meeting Preliminaries (8:30 am)

A. *Call to Order*
Chair Elizabeth Best called the meeting to order at 8:30 a.m. Chair Best introduced herself and welcomed everyone to contribute and encouraged public comment.

B. *Approval of November 14, 2014 Board Meeting Minutes*
Bruce Mihelish moved to approve the November 14, 2014 minutes as presented. The motion was seconded by Wayne Dykstra. Chair Best called for any questions or comments from the Board and the public. There being none, she called for the vote and the motion passed unanimously.

C. *Approval of December 30, 2014 Board Meeting Minutes*
Richard Miltenberger moved to approve the December 30, 2014 minutes as presented. The motion was seconded by Lynda Moss. Chair Best called for discussion from the Board and the public. There was no discussion or comments and she called for the vote; the motion passed unanimously.

II. Miscellaneous – Laurence Hubbard, President/CEO (8:35 am)

A. Miscellaneous – Laurence Hubbard, President/CEO

President Hubbard noted that no members of the general public were in attendance. He requested that the agenda be shifted to move Nancy Butler, MSF General Counsel's presentation to an earlier time slot so that she could return to the Capitol.

- Mr. Hubbard introduced Ethan Heverly, MSF's Communications Director. He noted that Mr. Heverly joined MSF in December and was then immediately immersed in the 2015 Legislative Session with Ms. Butler and Kevin Braun, MSF Assistant General Counsel.

- President Hubbard reminded the Board of the meeting in December at which the Board authorized the continued charge of two cents per hundred of payroll for catastrophe coverage in MSF's endorsement because of the expiration of TRIPRA. On January 5th, Congress reconvened and as their first order of business, passed the TRIPRA extension which was signed by the President on January 8th. The extension will expire on December 31, 2020 and includes some program changes such as incremental yearly increases in the industries retention of exposure and a reduction of the Federal government's backstop obligations. Mr. Hubbard noted that all members of the Montana delegation supported passage of this extension.

- He also reported that Deloitte has been retained to conduct the claim review that the Economic Affairs Interim Committee (EAIC) requested be completed. The EAIC Chair, Senator Tutvedt, issued a letter of request to the Board asking that an evaluation of best claims handling practices for the New Fund and Old Fund be conducted to provide an assessment of reserve adequacy. The reserve adequacy review is to establish whether or not the claims examiners are appropriately anticipating and setting loss reserves on a case-by-case basis. He emphasized that this is not an actuarial loss reserves review. 187 randomly selected claims will be reviewed, 80 of which are from the Old Fund. He said that Deloitte had been on site for a week and a preliminary report was expected by early March with a final report submitted by the end of March. Once published, the Board will be provided with a copy.

B. Legislative Update – Nancy Butler, General Counsel

(Note: This agenda item was originally slated as item "F" and intended to follow the MSF Enterprise Risk Management (ERM) Update but was moved to item "B"). Ms. Butler provided an overview of the 2016 Legislative Session to date, highlighting and explaining the status of the active bills that pertained to workers' compensation. She noted that there were over 40 workers' compensation bill draft requests but very few of them had drafted language or had become bills thus far. Most bills would have to be through either chamber by the end of February in order to meet deadlines to complete the entire process of becoming a law.

Key bills of interest were:

Senate Bill (SB 123) 123 – moves oversight of MSF under the Commissioner of Securities and Insurance (CSI). A hearing of the bill was held in the Senate Business and Labor Committee and Executive Action was expected in the next week. MSF staff had been monitoring and addressing proposed amendments that have been or will be proposed to this bill.

House Bill (HB17) 17 – a loss run bill which calls for practices that MSF is currently following, clarifies the responsibility of insurers to give loss run information to their employers. This bill had not been heard.

House Bill (HB 90) 90 –the Department of Labor's housekeeping bill to bring practices up to date. It has passed the House chamber and been transferred to the Senate. MSF supports approval of this bill.

House Bill (HB 299) 299 – a bill that calls for clear notification on outgoing documentation of fraud penalties that may be applied.

Senate Bill (SB 3) 3 – sponsored by Senator Tom Facey, this bill called for an increase of access to rehabilitation benefits for workers who had no wage loss from an impairment rating of 15 percent to 10 percent. This bill was tabled in committee, likely due to the associated cost.

Senate Bill (SB 4) 4 – a bill to assure there was a workers' compensation court judge in cases of temporary vacancies due to gaps in appointments or a temporary disability for an extended period of time. That bill is progressing well.

Senate Bill (SB103) 103 – a bill that calls for the provision of presumptive disease coverage for paid fire fighters.

House Bill (HB271) 271 – Though not identified as a workers' compensation bill because it applies to all insurance types, this bill would allow physicians to dispense pharmaceuticals at their offices. MSF has concerns about this bill because workers' compensation, by law, has a fee schedule and MSF uses a pharmacy benefit manager to assist in containing pharmacy costs. This bill would cause increased costs.

Bill Draft LC0035 - though not yet a bill, the draft language requires MSF to transfer $50 million of its equity to the Old Fund. Existing statute clearly dictates that Old Fund and New Fund monies are not to be co-mingled as far as assets and funding sources are concerned. Impairment of contract language in the constitution supports that those funds are not to be used for any purposes except that for which they are collected. MSF also noted that this transfer would place the burden for the Old Fund liabilities on small Montana businesses.

Board member, Lance Zanto asked Ms. Butler to explain the impairment of contract issue.

Ms. Butler explained that as cited in several statutes, the assets of MSF belong only to MSF and are to be used for MSF purposes only. Since July 1, 1990, the Old Fund and the New Fund have been separated and required to have separate funding sources. If a law is passed impacting that statue, the contract that MSF has with its current policyholders would be impaired.

Joe Brenneman asked Ms. Butler to confirm his assumption that if a deal were struck between the legislature and MSF in which MSF were given $50 million to handle the Old Fund liabilities and those liabilities exceeded the $50 million, there would still be an issue regarding using MSF assets to pay the Old Fund claims.

Ms. Butler confirmed his assumption was correct and continued with her review of proposed legislation.

Bill Draft LC0477 – sponsored by Representative Chuck Hunter, this bill will begin the process for the State of Montana to take over the Federal OSHA responsibility. Even if the bill passes, Montana would still have to receive Federal approval so it is a multi-step process.

Bill Draft LC0533 – calls for an increase of the cap from 3 percent to 5 percent on the assessment fee that the Department of Labor charges insurers to cover the costs of providing a number of services such as the fee schedules, treatment guidelines, mediation and the workers' compensation court. This proposal also includes a separate safety assessment.

Bill Draft LC0747- sponsored by Senator Matt Rosendale, this bill would create a drug formulary for workers' compensation. Insurers generally use drug formularies and this bill would provide the Department of Labor the opportunity to adopt rules for a drug formulary for workers' compensation purposes.

Bill Draft LC2354 deletes the requirement for religious entities to purchase workers' compensation coverage for agriculture but maintains the workers' compensation need for other activities such as construction.

Chair Best called for questions.

Mr. Mihelish asked for clarification on Rep. Berry's bill as to whether it was to require loss run information only for workers' compensation lines of insurance or for all lines of insurance.

Ms. Butler stated that it began as a workers' compensation issue because a private carrier had been advised not to provide loss run information to employers. Further review of the issue illuminated indications that this could be an issue in all lines of insurance so Rep. Berry is trying to encompass that.

Mr. Mihelish suggested Ms. Butler seek assistance on understanding the health insurance components from Mr. Miltenberger.

Mr. Miltenberger said his understanding is that Senator Fred Thomas intends to insert the health provision in this bill to assure that the health insurance loss runs are provided. He noted that there is currently a law that requires health insurance carriers to provide loss runs if the group is considered a "large" group in Montana. He said the regulations are vastly different for small groups. He expressed concern that this would impede the progress of the bill.

Ms. Butler said that information assisted in helping to understand why the bill has not moved forward and confirmed that she will try to meet with Sen. Thomas for clarification and to see if they can move the bill forward with acceptable language for everyone.

Chair Best thanked Ms. Butler and called for additional comments and/or questions. There were none.

C. Report of Internal Auditor – Patti Grosfield, Internal Auditor

Ms. Grosfield reported that she had six items for discussion. The first item was an update on the FY2014 Legislative Audit Division (LAD) Financial Compliance Audit. The field work was completed in November; however, LAD was waiting on two items: the OPEB adjustment from the State of Montana and the third party actuarial review. Those items have now been received and MSF participated in an exit interview with the LAD auditors in December. The audit will be presented to the Legislative Audit Committee (LAC); however, a date for that that meeting has not yet been scheduled and public discussion of the results are not allowed until the

LAC has heard the report. She assured the Board that once the Blue Cover Audit Reports are received, each Board member will receive one.

Internal

- Ms. Grosfield reminded the Board that at the November meeting, the Board declared a $20 million dividend for qualifying policyholders of MSF. Once declared, MSF staff began the process of calculating, reviewing and distributing the dividends. The total pay-out was $20,004,917 to 23,209 (out of 26,071) policyholders. Eight state agencies received a total of $661,000.

- She noted that Internal Audit, General Counsel and Human Resources completed a review and update of MSF's Code of Conduct. This Code draws employee attention to the importance of assuring compliance with state policies. The Code has been issued to MSF employees and the deadline to review and complete their acknowledgement as well as disclose any possible conflicts of interest was January 30, 2015. She said that areas of particular emphasis, this year, were the employee whistleblower and no retaliation sections of the policy. Both sections already existed; they were just further developed and enhanced to reinforce and detail the proper channel for employee notification to the assigned authority should there be a breach of the Code of Conduct. The policy stresses that MSF does not tolerate harassment or retaliation of any type. Also issued at this time was the Data Confidentiality and Acceptable Use policy which provides definition of what data is confidential and details what information is releasable and to whom.

- MSF completed the annual calculation and audit of the FY14 agent incentive plan in January 2015. This program provides a commission for agents who maintain a profitable book of business and strong retention levels with their policyholders. The commissions totaled $1.5 million earned by 13 producing master agencies. These represent an incentive payout of 1.29 percent versus target of 1.25 percent. The profitability factor was .91 percent which is slightly lower than the target of 1.00; however, the retention multiplier came in at 1.42 which is higher than the 1.25 target. She noted that about 76 percent of the agent book is controlled by the top 4 producing agencies and 54 percent is controlled by Payne West Insurance.

- Ms. Grosfield explained that every year, a review of staff members' personal leave accruals is conducted and for personal leave amounts that exceed two times the annual accrual amount, payouts are calculated, reviewed and paid out. Leave payouts are done to ensure that large leave balances do not accumulate which eventually could be paid out at a higher rate. Forty employees received payouts totaling approximately $143,722. Also implemented this year was a Banked Holiday Excess payout, which is calculated on accrued banked holiday time exceeding 80 hours. Nine employees will receive a total payout of $31,496 and three employees have arranged to use that time for personal leave over the next year in lieu of payment. This option was offered due to the late date of introduction of this policy in the payment year.

External

- Ms. Grosfield reported that LAD has determined that more communication by LAD with MSF's Board of Directors is required based on their interpretation of audit standard SAS 125. That standard calls for direct communication with those charged with governance of an entity. LAD has determined that the MSF Board carries that charge which means the inclusion of four additional items.
  - Board Members will now receive the engagement letter, which describes the purpose, LAD and MSF responsibilities and the scope of the yearly financial audit.
  - Board Members will also receive a copy of the Management Representation letter which is provided to the auditors by MSF at the conclusion of the audit certifying a number of points such as assurance that MSF is not aware of any fraud and/or MSF feels its estimates are reasonable, etc.
  - Board Members will also be invited to the entrance and exit conferences though attendance by Board Members will not be mandatory and telephonic participation will be arranged if desired.
  - LAD will also be required to communicate any MSF non-compliance issues they find to Board members. Ms. Grosfield noted that these communications may be on minor issues that would not necessarily qualify as a recommendation in the Blue Cover Book but are required to be notified.

Chair Best called for questions from the Board.

Mr. Brenneman expressed concern that the whistleblower protection section of the Code of Conduct policy does not provide adequate instruction or recourse should the employee have issues with reporting their concern to the MSF Internal Auditor, the President and/or the General Counsel. He indicated that the policy made it fairly clear that the employee should not take their concern to the Board, nor did he think that was the best approach; however, he questioned what their recourse would be and expressed a desire to see something addressing that concern better developed in the language.

Ms. Grosfield noted that also described in the policy is the option to approach the Human Resources department or their department Vice President. That would at least get the process started to elevate the issue to a higher level for response.

Mr. Dykstra asked if, as a state agency, employees could go to the state inspector general or someone at that level.

Ms. Grosfield added that there is also a state fraud hotline and that employees could go to LAD to get an investigation initiated.

President Hubbard stated that MSF would look at the policy language again and determine if there is a way to strengthen it; if so, MSF will complete that. He noted that historically, employees were counseled to go to Human Resources as their first line of recourse however, no matter what the issues, the buck stops with the CEO, General Counsel and the Internal Auditor. The Internal Auditor is specifically included so that employees know there is a route to the Board other than through the CEO. It is important that employees feel comfortable and not fearful of retaliation for going directly to the Board through the internal auditor. MSF must reinforce with its employees that their first line of defense is with their own leadership structure so that employees are comfortable submitting complaints that can be investigated and resolved. The policy for this year has already been issued; however, policy clarification language could be incorporated into next year's submission.

Chair Best suggested that to be legally protected in a whistleblowing situation, an employee should go outside the organization so she recommended the policy include language providing some outside resources.

Mr. Miltenberger noted that with regard to the increased LAD communications, the Board would be remiss if a future look back established that there had been no Board member attendance at the entrance and exit interviews. He encouraged the Board to assure that at least one Board member always be present at the exit interview.

Chair Best shared with the Board that she had received the first notification email that morning and expected the other Board members to receive theirs shortly. She called for additional questions or comments. There were none.

D. *Communications Update – Mary Boyle, Communications Specialist*

Ms. Boyle presented an overview of MSF's spring media campaign. She noted that 2015 marks 100 years of The Workers' Compensation Act of 1915. Though MSF will be a part of this campaign, the main focal point will be a celebration of 100 years of Montana's workers. The theme is to look at the past and the hardships that workers endured then, while still looking forward and hoping to establish a smarter generation of workers who make safety a pivotal part of the next 100 years of workers' compensation.

The statewide campaign will run ads on television, on the radio and through a print element that will be distributed in rural communities to encourage celebration of workers there. There will also be ads on search engines such as Google and a social media splash through Facebook. This campaign will see the production of three videos for MSF's You-tube channel. They will take a look at Montana's more traditional jobs; such as mining, logging and agriculture through the experiences of older workers and then contrast those with the experiences of younger workers and the changes and improvements that have taken place throughout the past 100 years. This campaign rolls out March 16, 2015 and will run for four weeks and then be repurposed in the fall.

The campaign kicks off on March 12th at the Capitol with a Celebrate Montana Workers Day event in the Rotunda. Mr. Hubbard, Lieutenant Governor Angela McLean and Department of Labor and Industry Commissioner Pam Bucy have agreed to speak. The legislators will be invited as will MSF's Board members and industry dignitaries and partners. The actual invitation was in the final production phase and would be distributed shortly. Ms. Boyle said this event will be the kick off for the television ad. She was also arranging for representatives from some of MSF's oldest policyholders, such as Billings Monument (since 1915) to attend as well as some injured workers and will arrange recognition of these dignitaries on the House or Senate floor during the floor session.

Ms. Boyle said that MSF is planning to celebrate its own workers in July with a week-long series of events to thank them for what they do for Montana's workers and employers. Those events are currently being developed.

Ms. Boyle also reported that the legislative primer has been completed and distributed and the annual report will be completed and distributed in the next few weeks.

Chair Best called for comments from the Board and members of the public. There being none, she called for the next agenda item.

E. FY15 Business Plan Update – Shannon Copps, Director of Enterprise Strategy and Project Management

Ms. Copps reviewed the progress of the FY15 Business Plan which included MSF's Key Success Measures (KSM or financial measures) and several completed enterprise wide initiatives.

KSM	**2015 BP**	**2015 Projected**
Net Earned Premium	$167 M	$164 M
Fiscal Year Loss Ratio	74.7%	72.7%
Expense Ratio	27.2%	24.8%
Investment Income	$49.2 M	$48.1 M
Net Operating Income	$40.0 M	$48.2 M

She provided an overview of the KSMs to date. Upon completion of this review, Chair Best called for questions or comments from the Board; there were none.

Ms. Copps continued with her report on the status of the enterprise wide initiatives which include projects in four categories: Workforce, Customer Service, Claim and Medical Management and Infrastructure.

Workforce

Engagement – Sponsors: Rick Duane and Nancy Butler

- This project continues the focus on strategies to improve employee's perceptions of communication, organizational effectiveness and respect and fairness. A small internal engagement survey was completed in December and though there was an 81 percent response rate, there was a slight decrease in the overall favorable scores in communication, organizational effectiveness and respect and fairness. A commitment for the FY15 Business Plan was to improve these scores and with the decline in the scores, that places this project off track. The Executive Team has participated in six listening sessions with small groups of employees who were encouraged to provide, ideas, examples and information for potential improvements. A full survey that covers 22 areas of engagement is planned for June.

Succession – Sponsors: Rick Duane/Al Parisian

- The Leadership Development Project (LDP) that was begun last year is near completion for the three participants who were chosen. A final presentation from each will be presented next month and all participants reported that they found the program to be worthwhile and it offered some significant learning opportunities.

  Four employees were chosen in December for the next LDP program and that begins next month.

Customer Service

Stay at Work/Return to Work – Sponsors: Julie Jenkinson/Peter Strauss

- The Stay at Work/Return to Work project team continues to add sample job descriptions to MSF's SafeMT website which assists employers and medical providers in identifying physical job requirements. Forty-five descriptions have been added this year bringing the total available to 147.
- Educational webinars are a deliverable of this project – two webinars have been completed; one in September with 42 attendees and 50 attendees in December. Topics planned for third quarter are "How to Build an Effective Stay at Work

and Return to Work Program" and an overview of our Return to Work and Safety tools for our agents.

Claim and Medical Management

Claim Center Software Upgrade – Sponsors: Julie Jenkinson/Al Parisian

- Claim Center Software Upgrade – moving from Claim Center version five to the most current version which is eight. The current bulk of work is focused on extensive testing and repairing of issues discovered in the upgraded product as well as integrating the other software with the claim system. There is a diverse team of business users testing the product - claims examiners, customer service specialists and representatives from finance. This product is planned to move to production by the scheduled March date.

Infrastructure

MSF Structure Review – Sponsors: Mark Barry/Nancy Butler

- This project is the work the restructuring team has been developing with the CSI staff and legislators to move oversight of MSF under CSI. There is an internal team addressing the changes that would need to be effected if SB123 becomes law.

Ms. Copps reported that with the exception of the Engagement Project, all of the business plan projects were on schedule to meet MSF's commitments.

Chair Best called for questions from the Board; there were none.

F. *MSF Enterprise Risk Management (ERM) Update – Ken Jeschke, ERM Risk Officer*

Mr. Jeschke provided some background on the Enterprise Risk Management (ERM) process that began at MSF in 2011. It has evolved since its inception and has become, and will continue to be, embedded at MSF. Initially, more than 700 items were identified as risks. Further review pared that list to 479 and two years later down to 249. There are currently 121 identified risks.

The risk owners have revisited probability and impact for each risk and the risks have been segregated into three categories: "Top 10", Annual Business Plan and All Other. A monitoring and reporting mechanism has been established and risk response strategies have been developed. Mr. Jeschke explained that MSF's "Top 10" list actually contains eleven risks and that all of the risks in the matrix will continue to be reviewed and tested for controls to look for solutions and opportunities developed in Risk Action Plans.

Chair Best called for questions from the Board.

Mr. Dykstra asked if MSF ended up with a numerical matrix at the end of the ERM process that could be measured against the cost, people, or money, to mitigate those risks.

Mr. Jeschke reported that MSF has not invested in or adapted a tool that could be used to perform that measurement.

Mr. Dykstra offered to share a "surprisingly simple" analytical tool that he uses and confirmed he would send it to Mark Barry, Vice President, Corporate Support.

Mr. Zanto asked Mr. Dykstra to share it with all of the Board members as well.

Mr. Dykstra said that it is best seen in the context of a bound report which shows how it is utilized and he would have that prepared and sent to the Board members.

President Hubbard asked Mr. Jeschke to prepare the Top Ten list of identified risks and distribute them to the Board after the lunch break.

Chair Best thanked Mr. Jeschke.

Miscellaneous (continued) – Laurence Hubbard, President/CEO (10:30 am)

G. *Update from Dr. Gorsuch, Medical Director*

In his introduction of Dr. Gorsuch, Peter Strauss, Vice President, Operations Support, provided some background information on MSF's Medical Management Program and the Medical Director position. He said that medical benefits in Montana's workers' compensation system comprise 65 to 70 percent of total benefit costs. The top five medical cost categories are: doctor visits, inpatient hospital stays, prescriptions, physical therapy and ER and outpatient hospital services. Until July 2011, MSF vended out the medical management program to a managed care organization, Montana Health Systems (MHS), which was based in Oregon and offered a network of physicians and other health care providers, access to peer reviewers and a medical director. All communication was through MHS and MSF paid a fee as well as was charged a fee for a percentage of each transaction from the physician visits. Workers' compensation management care programs began in the late 80s and became legal in Montana in the mid-90s; from that point forward, this type of program served MSF well. Workers' compensation's approach to medical care began to change in the late 2000s and MSF recognized the need to change as well. The contract with MHS was terminated in 2011 and with the Board's support a new medical management program was developed. MSF has now doubled the number of nurses available to work the claim files and to work with claims examiners which has led to an industry leading early intervention program. MSF has also retained, by contract, nine peer reviewer practicing Montana physicians focusing on orthopedics, chiropractic, pain treatment, spine and neurosurgery, dental, pharmacy and physical therapy. Mr. Strauss noted that a medical director in the workers' compensation arena operates differently than one in the health care industry. With statutory communication restrictions on workers' compensation claims, Dr. Gorsuch's role as medical director for MSF has been to educate physicians regarding the workers' compensation system and how to navigate that system to provide the best possible care of injured workers.

Dr. Gorsuch has been retained as the Medical Director of the provider relations program. He is a practicing neurosurgeon in Montana since 1989 and provides MSF with a credible voice with his physician peers throughout the Montana medical community. As a result of implementing this program and due to a decreasing rate of medical inflation, MSF's medical benefit costs have reduced three percent.

Mr. Strauss said Dr. Gorsuch, based primarily out of Great Falls, was a member of the Department of Labor and Industry Utilization Treatment Guidelines Project in 2009 which helped create the first Montana Utilization Treatment Guidelines for workers' compensation. He has been an instructor in neurological surgery at the Thomas Jefferson University in Philadelphia and an ER and clinic physician in Fresno and in San Francisco with the Native American Clinic. He is board certified in neurological surgery, is a member of the Association of Neurological Surgeons, the Montana Medical Association and the American Association of Physicians and Surgeons, the Christian Medical and Dental Society and the Cyber Knife Society. He is also currently a staff physician at the Billings Clinic, St. Vincent's Hospital in Billings and Benefis Healthcare in Great Falls.
Chair Best thanked Mr. Strauss and welcomed Dr. Gorsuch.

Dr. Gorsuch provided an update on the accomplishments that have been achieved since the establishment of the medical management program at MSF. As background information he noted that there are three things that are unique about workers' compensation:

- The first is the causality issue - for every symptom, treatment, and diagnosis, the insurer is supposed to render a second hand opinion on whether it is really related to the work injury. Physicians are not routinely trained to address this situation so can be reluctant to make those determinations.
- The second issue is medical guidelines - no other type of insurer in the state comments on whether the treatment and diagnosis is consistent with medical guidelines. MSF is a second hand opinion which causes providers to feel MSF is interfering with their patient's treatment.
- The third unique issue, particularly for Montana, is provider availability. There is difficulty finding specialists for certain problems, partly because providers do not like the first two factors and withdraw from seeing workers' compensation patients.

He said for those reasons, MSF's ability to relate with providers in a professional manner and to demonstrate medical expertise is very important. Doctors receive extensive training and continued or additional years of training for specialties, developing a unique use of medical terminologies. It is imperative that MSF provide claims examiners with the resources to be able to communicate professionally and effectively with providers on that level.

Dr. Gorsuch provided a handout that demonstrated how the peer reviewers provide their input and expertise when reviewing claims. He noted that every response impacts the health of the patient and the bottom line as well as how MSF staff is perceived. Each claim is an opportunity to educate claims examiners and medical case managers by giving them the best understanding of how to apply the guidelines and what medical expectations there should be.

Since the peer review inception, the doctors have experienced opportunities to improve patient care on particular cases such as an example he shared regarding a hernia surgery and follow-up processes that proved to be beneficial. He also cited an example of a certain type of injection request to address neck pain and noted that typically the requests are filled out by secretaries or clerks and not communicated directly by the physician. A review of the physician's notes prior to the injection can initiate a confirmation of the procedure being sought, limiting the risk to the patient and assuring the credibility of the doctor.

Dr. Gorsuch noted that the medical management program experiences constant changes in examiners, guidelines and providers which causes it be a continuous education process for everyone involved. The ever changing environment calls for ingenuity in addressing the individual needs. One such method recently developed was to "make rounds" regarding certain patients with the claims examiners. This solution offers continuous dialogue with a doctor on a weekly basis, particularly with difficult-to-treat patients. Another method adopted was the development of standardized letters, about 14 to date, requesting specific medical information utilizing "doctor" language which has assisted in replacing the myriad of means that the same question was being asked. He noted that there are hindrances such as the patient's right to privacy and the legality issues of a peer review doctor calling the treating physician to try to resolve an issue on a particular patient. If this method were allowed, issues could be resolved far more quickly, perhaps in a day or two; however, based on the inherent delays within this system, a solution is often months away. That amounts to a lot of trial and tribulation for the patient and for the physician, costs to the employer and costs to MSF, so it is a big issue. The medical management program is looking at ways to minimize MSF's part in those delays and address the statutory boundaries legally, effectively and efficiently.

He said that when he first joined the medical management team, he was asked to address the opioid epidemic and the ill effects and unwanted deaths that resulted from opioids being over prescribed. The means to review a patient's opioid usage and trends over time did not exist unless manually calculated. The medical management team met with the IT department and together they developed an electronic process within MSF's software that can provide a patient's total opioid usage and trends in just minutes. This allows MSF to respond on an individual scale rather than trying to respond on a global scale. The letters asking providers to take a second look at the patient's opioid usage trigger a number of varying responses; however, MSF has experienced a five percent decrease in its opioids costs.

He said there are a number of tools being utilized for monitoring pain inflection that are now available on the MSF website and are nationally recognized. The medical management team is also hoping to develop physician and patient portals that could contain these easily-downloadable tools. Billings Clinic has already adopted one of these as their standard tool.
Another issue that the medical management team has been able to provide guidance and assistance on is how to deal with and receive approval for the developing technologies that are not yet in the guidelines.

Dr. Gorsuch reported that the review process has assisted in reducing costs for MSF in a number of ways and offered the example of urine testing to determine if patients with chronic pain are actually using the narcotics they are prescribed or selling them illegally. He found that physician offices were applying the wrong dip test, one that costs $36 and can be purchased over the counter, as opposed to the test that was supposed to be administered and cost $1,600. Notifying staff of that issue assisted in reducing those overall costs. As did his alert to staff regarding prescription compounds which are very popular, heavily marketed and not scientifically effective. A pharmacist alerted him to the fact that the pharmacist cost was $300 but MSF was charged $1,800.

He also reported that he has been able to participate as the MSF representative, on a committee formed by the Montana Medical Association dealing with prescription misuse. This committee makes recommendations to the legislature and his participation allows him to provide a perspective from workers' compensation. It also allows him to provide his fellow physicians with statistics and insights from the workers' compensation perspective as well as listen to their concerns. He said that educating physicians at mid-levels regarding how to work with the system and how it functions proves to be invaluable time and time again. He and the team are planning a presentation at Benefis in April that includes his presentation for doctors on how to treat a workers' compensation patient without going crazy.

Chair Best called for questions.

Mr. Brenneman said he is frequently asked questions about the approval of procedures at MSF and why, for instance, physical therapy is not approved for the long term but expensive injections are. He noted that he did not wish for the answers to those specific questions but expressed concern that the injured worker has a right to that information and wanted to know if that could be provided to them without testing the legalities of disclosure.

Chair Best said that if the injured worker is asking the question there are no privacy issues and they would have the right to that information.

President Hubbard assured Mr. Brenneman that injured workers have every right to call their claims examiners and ask questions regarding their claim, injury or treatment program. It is the

MSF claims examiners' job to be available to their claimants so the line of communication he is referring to already exists. As to the approval of physical therapy versus injections, without knowing the particulars of the case, functional improvement would have to be evident and the decision could be the result of a number of issues such as mandates in the utilization treatment guidelines calling for specific treatment timeframes.

Doctor Gorsuch agreed with Mr. Hubbard's assertion that functional improvement would have to be evident; however, having a physical therapist on the panel of peer reviewers assisting in sorting those requirements out is proving to be beneficial when these questions arise. He added that "maintenance" or "feel good therapy" is not really a covered entity and ongoing improvement must be demonstrated. Injections are held to a different standard and are approved if deemed diagnostic.

Chair Best wondered why "feel good therapies" such as physical therapy would not be a preferred modality to opioids or a similar treatment.

Dr. Gorsuch agreed with Chair Best but noted that statute simply does not allow for maintenance therapy. He added that attempts to impose functional improvement standards in opioid usage are also mandated but are difficult to achieve.

Chair Best also asked whether the pain tools mentioned by Dr. Gorsuch are nationally recognized, where they were developed and are hospitals in Montana using them.

Dr. Gorsuch said all of the tools are nationally recognized with one exception which is the injection log, a tool that he developed. This log is an ad hoc form that was created to meet the documentation called for in the guidelines that require tracking for x number of hours after the injection. He also noted that the Billings Clinic has adopted that injection form.

Chair Best asked if sedation scales were provided as well to go along with the pain tools when managing opioids.

Dr. Gorsuch said the scales used are not true sedation scales; they are scales of function to determine how the opioids are affecting the patient. He noted that there are universal precautions that a body of medical experts encourage all physicians utilize; however, that is not the reality the majority of the time.

Mr. Miltenberger thanked Dr. Gorsuch for the informative presentation and his efforts on behalf of Montana's injured workers and MSF. He also asked if the issue of making the process less onerous for approving and determining treatment for injured workers could be made more timely and effective by proposed legislation during the 2017 legislative session.

President Hubbard noted that Mr. Miltenberger's suggestion was well intentioned and laudable but the Montana Supreme Court interpretations of the constitutional protections regarding the injured workers' rights to their medical information privacy is very narrowly based. It provides a level of prevention of ex parte communications about medical issues in workers' compensation and general health. As a health insurer, MSF cannot telephone a doctor's office about an injured worker's medical condition without advising the injured worker first. Allowable discussions include scheduling appointments, asking questions about ability restrictions, such as lifting or standing for long periods of time. He added that though MSF must walk a fine line, he believes there are steps that could be taken to speed up the process for approval for procedures for injured workers and they could be as simple as contacting the injured worker and/or their attorney to seek permission to do so and in manner that preserves the privacy rights.

Chair Best also offered that an item adding time to the process could be that the appropriate authorization letter was issued timely to the physician's office; however, due to an overwhelmed physician office, immediate action was not taken on that end.

Dr. Gorsuch added that one potential work around is an injured employee portal where communication occurs in writing so the injured employee knows what is being asked. He indicated that he did not know if that satisfies the legal requirements but it would certainly satisfy the time requirements and is something all physicians are being required to do for their patients as part of the Federal statute.

Mr. Zanto asked Dr. Gorsuch if he could offer his view of the medical community's opinion and willingness to fill out that medical status form for increasing communication in the return-to-work process. His experience has been hit and miss based on the physician and he wondered if the crux of the misunderstanding occurs in what the employer is trying to provide in terms of transitional duty and what is being presented to the doctor. He asked if there are measures employers can take to improve their communication process with physicians so that employers know what is needed to modify the job and get injured workers back to work and help in that healing process.

Dr. Gorsuch reiterated the value of an injured employee portal where the restrictions and limitations could be posted and made available to employers through their injured worker or the claims examiner.

Chair Best called for further comments from the Board. There being none, she called for comments from the public. There were no comments from the public.

III. Corporate Support (11:00 am)

A. *FY15 2nd Quarter Budget and Financial Reports – Rene Martello, Controller*

Rene Martello provided a FY2015 second quarter budget and financial summary. She reported that net earned premium for second quarter was $89 million and projected for end of year at $163.9 million, which is 1.8 percent or $3.1 million below business plan. She explained that the plan estimated a net business gain of $4 million which has not been realized to date. Payroll growth, premium development and wage trends are tracking closely to what was expected.

Ms. Martello reported that the operating results reflect that incurred losses are at $57.7 with end of year projected to be $119.2 million which is less than planned at $124.8 million. There was favorable development on ultimates of $6 million where the business plan called for zero development. Loss expenses were $7.2 million and end of year was projected to be $16.9 million, current operating expenses related to claims management and the loss adjustment expense (LAE) estimates being lower than planned. Underwriting expenses are under by $353 thousand. Investment income was at $27.2 million at end of quarter and projected to be $48 million for end of the year and planned had been $40 million. She reported that net income at the end of the second quarter was $45.5 million and end of year is projected to be $48.2 million. She also stated that after the dividend of $20 million, net income was projected to be $28.2 million and the uncertainty of the impact of the pension liability and expense remained unknown for the year end results.

Balance Sheet Summary

Condensed Balance Sheet			
	FY 2015 Q2	FY 2014	Variance
ADMITTED ASSETS			
Bonds	1,100,919,285	1,083,973,027	16,946,258
Equity Securities	165,660,771	167,515,006	(1,854,235)
Real Estate Investments	26,642,258	26,908,775	(266,517)
Cash and Short-term Investment	37,791,978	38,011,790	(219,812)
Other Invested Assets	81,959,395	74,841,190	7,118,205
Securities Lending Collateral	141,120,618	166,416,008	(25,295,390)
Total Investments and Cash	1,554,094,304	1,557,665,796	(3,571,492)
Other Admitted Assets	149,027,697	113,444,450	35,583,247
Total Admitted Assets	1,703,122,001	1,671,110,246	32,011,755
LIABILITIES AND EQUITY			
Reserve for Unpaid Losses	808,839,409	805,717,546	3,121,863
Reserve for Unpaid Loss Adjustment Exp.	119,032,577	118,880,034	152,543
Securities Lending Liability	141,120,618	166,416,008	(25,295,390)
Other Liabilities	162,076,579	136,244,064	25,832,515
Total Liabilities	1,231,069,183	1,227,257,652	3,811,531
Policyholders' Equity	472,052,818	443,852,594	28,200,224

Ms. Martello provided an overview of the balance sheet summary and noted that total assets increased to $1.7 billion due to bond increases of $16.9 million which is a result of purchases of $88.8 million offset by sales of $71.9 million. Equities are recorded at fair value and are down $1.9 million from FY14. She noted that there is an overall increase of $32 million of admitted assets from end of year and liabilities reserve increased $3.3 million which is the net impact of the addition of the 2015 accident year payments made and favorable development. Policyholder equity is at $472.1 million and is projected to be at $474.8 million at end of year.

Mr. Brenneman asked if the reduction in net earned premium could be related to the slow down being experienced in the Eastern Montana oil fields.

President Hubbard said that recent reports from various sources indicated there is job growth in Montana with a wage trend increase of around 3 percent. He said there has been a slow-down in the oil patch but that is not affecting MSF's net earned premium because MSF did not experience a significant influx of payroll increases due to that boom. The main contributing factor that drove MSF's forecast for FY15 was an increase last year in new business from other carriers in Montana, primarily Liberty Mutual. Liberty Mutual had made a corporate-wide decision to retrench from the workers' compensation line and MSF picked up a considerable amount of premium due to that. MSF has not experienced that same increased level of new business as was anticipated for this year.

Mr. Mihelish asked if MSF has done any analysis on new business formulations in Montana and the tiered rating program's treatment of a new business when initiating workers' compensation insurance. He indicated that the tiered rating program does not seem to favor new business and asked if that could be impacting the level of new business that MSF is seeing.

Mr. Hubbard said he did not have the answer to that specific question; however, anecdotally, MSF may not be as competitive as other markets. He noted that there are other markets available that have offered and can accommodate insurance of risks. The majority of MSF's premium is larger accounts, not smaller accounts, so any major movement in our premium projection is more influenced by the middle and large market decision rather than the small business or guaranteed market. He said he believed it was a pressure point on individual accounts because those placed in higher rated tiers are those that will be looking for other available markets and if unable to find that insurance, will either stay with MSF or decide not to begin the new business. He said he was unaware of any business "failure to launch" stories due to tiered rating.

Chair Best called for additional questions; there were none and Ms. Martello moved to the report on the second quarter budget variance summary of FY15.

She noted that her typical report is that the budget is under expected estimates; however, this year staff is projecting to be slightly over budget for FY15. She reported that operational expenditures were estimated to be $634 thousand under budget due largely to vacancy savings in personal services of $542 thousand. MSF is actively working to fill those vacancies. Operating expenses are $239 thousand under budget. The largest area of overages are commissions by $219 thousand and the Operations Optimization Project, not initially included in the budget which is $75 thousand over budget due to the cost of moving work spaces. Also adding to the overage was a parking garage invoice of $70 thousand more than anticipated due to a switch in the billing cycle. At the request of the EAIC, an actuarial claim review was conducted at a cost of $52 thousand which was also not included in the initial budget projections.

Ms. Martello provided an overview of the budget items that were under budget as reflected in the table depicted below.

MSF Budget Status FY 2015

As of December 31, 2014

Montana State Fund	Budget	Projection	Variance from Budget	Percent of Budget Expended
Personal Services	$26,608,599	$26,066,869	$541,730	98.0%
Operating Expenses	21,731,155	21,492,340	238,815	98.9%
Equipment & Intangible Assets	1,116,999	1,028,230	88,769	92.1%
ALAE	2,392,570	2,627,100	(234,530)	109.8%
Total Operational Expenditures	$51,849,323	$51,214,539	$634,784	98.8%
Indemnity	$39,995,769	$34,212,787	$5,782,982	85.5%
Medical	69,599,337	76,606,991	(7,007,654)	110.1%
Total Claim Payments (inc. OSC)	$109,595,106	$110,819,778	($1,224,672)	101.1%
Total MSF Expenditures	$161,444,429	$162,034,317	($589,888)	100.4%

She reported that the ALAE category is $234 thousand over budget. The real driver of the overage is the claim medical benefit payments of $7 million over budget, while indemnity payments are $5.8 million under. That $7 million overage in medical payment is due primarily to increased settlement activity including two large settlements in the second quarter that totaled about $2 million dollars. There has been increased training for claims examiners in the medical settlement process which is driving that increased activity. Currently, the overage is estimated to be $600 thousand over and staff is monitoring it closely. Ms. Martello noted that this may mean a budget amendment request will be necessary at the May or June Board meeting.

Mr. Zanto asked for clarification on the fraud investigations category costs; specifically asking if the situations described by Dr. Gorsuch were investigated; billing for a test not actually completed or a procedures completion was not supported by the doctor's known skill level.

Ms. Martello said that fraud investigations can include provider, claimant and policyholder payroll reporting fraud.

Mr. Strauss said that situations such as those described by Dr. Gorsuch are typically questioned when the bill is received and payment is denied if there are perceived issues.

President Hubbard added that MSF does not hesitate to pursue observed abuses though it is very difficult to prove intent and asked Mr. Strauss to provide additional follow up.

Mr. Strauss reported that MSF has implemented a urine drug testing program and under the medical fee schedule guidelines, has corrected the level of payment for the dip stick tests. Regarding compound medications, MSF has changed the contract with the pharmacy benefit management company so that MSF is charged more appropriately for those compound medications. That change saved MSF $200 thousand on a total $400 thousand spend for the prior year.

Chair Best pointed out that Dr. Gorsuch also spoke about up-coding by providers and indicated that she thought that was something worth investigating.

Mr. Hubbard said that MSF does not tolerate fraud on any level, whether it is provider, employer or injured worker and reassured Chair Best that any actionable incident would be investigated and dealt with by MSF.

Ms. Martello also noted that the bill audit process is also effective in detecting billing errors and overpayments and MSF carries $400 to $600 thousand in medical recovery collections.

Ms. Martello then provided a summary of the status of the Old Fund funding as of the second quarter FY15. She noted that total expenditures were projected to be $74 thousand under the funding estimate and operational expenses were projected to be over by $48 thousand due to the actuarial claim review requested by the EAIC. Benefit payments are projected to be under by $521 thousand so the final variance report finds the Old Fund projections under by $73,788.

Chair Best called for questions or comments from the Board; there were none.

B. *Tiered Rating and Reinsurance Update – Mark Barry, VP Corporate Support*

Mr. Barry provided a report on tiered rating and a reinsurance update. He noted that the reinsurance item would have been a larger discussion point had TRIA not been reauthorized by Congress. He clarified that MSF's reinsurance has two programs; the excess of loss program which is a catastrophe program and the aggregate stop loss program. Both programs have terrorism coverage and in the event of a terrorism act, MSF would have coverage though nuclear, biological, chemical and radiological (NBCR) events are excluded in most of the coverage. He noted that in the excess of loss program, there is a $70 million in excess of $30 million loss for NBCR events. A risk analysis of Montana indicates that there is no place in Montana that is identified as a potential terror target including the missiles in Malmstrom Air Force Base. The nearest terror targets are in Spokane, Washington or Boise, Idaho and MSF has negotiated for NBCR coverage for MSF if there is a terrorist event in one of those areas that has an impact on Montana such as chemical gasses blowing into the state.

He provided an update of the tier rating program review which is currently being conducted by Towers Watson, the firm that assisted MSF in designing the program. The program has five variables: experience rating modifier, three-year claim frequency, account size, hazard code and claim-free tenure. The claim-free tenure and claim frequency are measured on a ratable claim amount of $500, which means the claim has to be in the $500 range to be included in the calculation. He explained that the relativity between tiers refers to the distance between one tier and the next and determines the amount of increase or decrease in a rate as a policyholder moves through the tiers which can be significant. He noted that an evaluation of accounts that have renewed with MSF since July 1, 2014 to the end of September shows that 67 percent or two thirds of policies remain in the same tier; 23 percent decreased tiers and ten percent experienced a tier increase. This indicates that the tier placement is adversely impacting a smaller percentage of accounts; however, MSF has requested a review of the entire program.

Mr. Barry noted that a policy-year-to-policy-year comparison indicates consistency in policy placement. Most of MSF's policies fall into Tier 2 and the policies paying larger premiums generally fall into Tier 3. The average account size in Tier 1 is $10 thousand and the average account size in Tier 2 is $3,500. That is due to the fact that most small businesses do not experience losses so they move to, and remain, in Tier 2. The average account size in Tier 3 is between $14 and $15 thousand and Tier 4 is $10 thousand. Tier 5 average account size is $2,500. Mr. Barry indicated that smaller accounts have either no losses and remain in Tier 2 or they have experienced one or more claims and move to Tier 5.

Mr. Barry said that MSF has heard concerns regarding several issues and one issue being reviewed is that some high-experience-rated accounts are in low rate tiers or low-experience-rated accounts are in high rate tiers. The reason is because the experience modification program responds to pricing through severity of claims and the tier program assesses the likelihood of loss based on frequency of claims. Another issue being reviewed is that the calculation of the frequency factor in the tier program applies a premium amount (manual premium at Tier 3) that is not readily available to the agent or policyholder. As a result, we are evaluating whether it is possible to use the final premium (before tier placement) to calculate frequency. Also being reviewed is the hazard code category to determine if this factor may be caused by adverse selection where MSF is covering the residual share of the low-hazard business.

He said that MSF has requested that Towers Watson review the Tier Rating program issues to model something that MSF can present to the Board for rates effective July 1, 2015; however, there will not be time to implement recommended changes prior to that date. MSF is developing a plan to implement the changes in two phases: changes that can be made by July 1, 2015 and then more substantive changes that could be incorporated into next year's rates. Towers Watson's final report is expected in March 2015.

Chair Best called for questions from the Board.

Mr. Mihelish noted that he has heard from independent agencies that the tiered rating program has been a very "painful process" and he asked Mr. Barry what the main driver of that was.

Mr. Barry said the MSF has always had three different rate tiers; however, in mid-2003, MSF wished to devise a more data driven means of placing accounts into rate tiers. The initial program was fairly rudimentary and when revised, MSF utilized its data more extensively to create a predictive analytical analysis for the most current tier program.

Mr. Hubbard clarified that the revisions were largely driven by requests from our partners asking MSF to consider finding ways to allow smaller businesses to access MSF's better rates, particularly if their safety record is good. Previously, the challenge was determining the lucky from the good and the unlucky from the bad because it was difficult to pinpoint management behaviors that were causally related. With the Tier Rating Program, utilizing the systematic patterns within the books of business driven by the five factors allows the actuaries to certify that there is sound statistical backup for the structure of the program and fairness in account placement. He noted that there are still pressure points and issues and that is why MSF has asked Towers Watson to review and effectively address the expressed concerns. The program will still have to be actuarially sound. He noted that if responding to the complaints received makes the program anything less than that, he will not recommend adopting any changes that violate that standard.

Mr. Mihelish cited an example of moving from the mid-tier level at $10,000 to a lower tier would mean reducing the cost to $7,000; however, moving to Tier 5 would increase the cost to $17,000 and he said he felt that variance was too excessive. And he also felt that this model removes the expertise of the underwriter and the advantage of using them to apply logic.

Mr. Barry addressed the relativity issue and noted that relativity is something that MSF plans to address with the realization that accounts with losses cannot just be randomly discounted with no means for making up the loss. All insurance programs carry a risk charge. He also noted that MSF cannot be unfairly discriminatory in our pricing and how accounts are placed in the program must be justifiable to a regulator.

Mr. Gengler added that when the Tier Rating Program was first designed, the underwriter override was contemplated; however, LAD determined that underwriters could not judgmentally override tier placement and that MSF must set rules and rigidly follow those placements.

Chair Best called for additional questions; there were none and she thanked Mr. Barry for his presentation.

IV. Insurance Operations Support – Peter Strauss, V.P. Insurance Operations Support (11:40 am)

A. *Administrative Rules – Proposed Adoption of Amendments to ARM 2.55.320 – Method for Assignment of Classifications of Employments*

Mr. Strauss clarified that at the last Board meeting MSF proposed that Rule 2.55.320 be updated to reference the most current underwriting manual which changes the date from 2013 to 2014. He reported that no comments were received as a result of publishing the proposed rule change. Mr. Strauss requested that the Board complete the rule change by a formal adoption.

Mr. Zanto made a motion that the Board adopt the amendment to the administrative rules as proposed. Mr. Brenneman seconded the motion. Chair Best called for discussion and questions; there being none, she called for the vote and the motion passed unanimously.

B. *Experience Modification Eligibility Amounts for FY16*

Mr. Strauss explained that MSF follows the NCCI experience rating plan formula to establish experience modification factors for policyholders who are eligible. One area where MSF differs from NCCI is in the eligibility threshold. This program is used to compare the results of like businesses in the state and provide a predictive analysis of what the future losses for that business might be, based on their past losses. An area of difference from NCCI for MSF is the eligibility threshold. MSF currently has a threshold of $5,000 average premium per year or more than $10,000 in a single year whereas NCCI is currently at $2,500 and $5,000. Mr. Strauss asked the Board to support MSF's current eligibility threshold again this year.

Mr. Dykstra moved that the Board adopt experience modification eligibility amounts for new or renewal policies with effective dates in fiscal year 2016 in accordance with the following rules:

- *A risk qualifies for experience rating if its data within the most recent 24 months of the experience period develops a subject premium of at least $10,000.*
- *If a risk does not qualify based on the above rule and has more than the amount of experience in the above rule, then to qualify for experience rating, the risk must develop an average annual subject premium of at least $5,000.*

Ms. Moss seconded the motion. Chair Best asked for any questions or comments from the Board and from the public; there being none, she called for the vote and the motion passed unanimously.

C. Construction Industry Premium Credit Program Approval

Mr. Strauss noted that the construction industry premium credit program is a tailoring program for policyholders to provide the correct premium for the risk presented by that specific and particular business. This program addresses the possible very wide differentials in wage levels for the same kind of work within the construction industry. He explained that since workers' compensation premiums are based on wages paid, there is a recognition that the actual exposure to injury does not vary nearly as much as the wage discrepancies. Those wage differences cannot be adequately dealt with by the experience modification factor alone so this program has been adopted to address this issue. This program was developed in 2009 by MSF and allows for the calculation of the premium adjustment applicable within the plan. A similar program offered by NCCI and used by MSF in the past, charges approximately $25 per application and is only calculable by NCCI. By utilizing its own program, MSF estimates a saving of about $135 thousand in charges for that service last fiscal year. Mr. Strauss asked that the Board update the program credit table to reflect the most current state average weekly wages.

Average Hourly Wage	Credit Percentages
$20.67 or less	0.00%
$20.68 to $21.03	0.41%
$21.04 to $21.44	1.30%
$21.45 to $21.91	2.29%
$21.92 to $22.44	3.37%
$22.45 to $23.04	4.53%
$23.05 to $23.73	5.78%
$23.74 to $24.51	7.13%
$24.52 to $25.40	8.56%
$25.41 to $26.42	10.08%
$26.43 to $27.58	11.70%
$27.59 to $28.90	13.38%
$28.91 to $30.40	15.12%
$30.41 to $32.12	16.91%
$32.13 to $34.08	18.75%
$34.09 to $36.31	20.61%
$36.32 to $38.85	22.47%
$38.86 to $41.75	24.33%
$41.76 to $45.06	26.17%
$45.07 to $48.83	27.96%
$48.84 or more	29.70%

Mr. Miltenberger moved that the Board adopt for Montana State Fund's Construction Industry Premium Credit Program for new or renewal policies with effective dates in Fiscal Year 2016 the plan of credit percentages as proposed by Montana State Fund management. Mr. Mihelish seconded the motion. Chair Best called for questions or comments from the Board and then from the public. There being none, she called for the vote and the motion passed unanimously.

D. *Classification Code Update – Christy Weikart, Underwriting Services Leader*

Christy Weikart explained that the Board delegated staff the ability to establish class codes or change class codes in order to be able to rapidly respond to MSF's customers; the Board did request annual reports and updates. MSF follows the NCCI classification system in Montana which lists approximately 600 classifications; however, MSF uses slightly over 400 codes due to not carrying codes for businesses not located in Montana, such as auto manufacturers. Ms. Weikart reported that MSF established three new class codes throughout the past year and provided background and definitions of each.

She explained that there has been an ongoing effort to address necessary changes to class codes that have now been updated by NCCI. She said the change affecting the most policyholders in this past year was eliminating the clerical office employee designation for dentist or physician offices, those will now be included in the basic classification. She further explained that the rate differential between the two classes was about thirty cents. She provided an update on other code eliminations.

Chair Best called for comments or questions from the Board, members of the public or staff. There were none.

President Hubbard added that Senate Bill 123 (SB 123), which moves regulatory oversight of MSF under CSI, would require MSF to move to full compliance of class codes and rules as determined by NCCI, including the basic manual for assigning class codes. Though the changes that Ms. Weikart has been reporting for some time were not specifically in anticipation of the oversight change, MSF has made a conscientious effort to try to further align its operations with private carriers in the insurance market subject to those real important distinctions. He noted that it is an entire process which takes time to implement and a key discussion point with CSI is that MSF will need adequate time to transition to full compliance with the regulatory insurance code requirements.

Chair Best called for comments or questions.

V. Old Business/New Business

Mr. Dykstra requested an update on the status of the reciprocity and shared coverage discussions occurring between Montana and North Dakota.

President Hubbard indicated that he was unsure that he had the most recent information; however, his last report was that the Montana Department of Labor and Industry (DOLI) had sent several proposals to North Dakota, all of which had been rejected. DOLI will now escalate it to the Governor's office to request that he reach out to the North Dakota leadership. Due to the large influx of economic activity in North Dakota, Montana has a greater interest in developing a reciprocal agreement than North Dakota because there is no significant incentive for North Dakota to recognize Montana coverage. There are some political and pragmatic challenges in getting North Dakota to consider changes.

VI. **Public Comment**

Bob Biskupiak, Chief Executive Officer of the Independent Insurance Agents Association of Montana addressed the issue of the tiered rating program and noted that he is a licensed agent and appointed by MSF. He also sits on the Agency Partnership Committee (APC) and assured Board members that the tiered rating program is discussed at every APC meeting and the agents are providing feedback and concerns from the field. He said the primary challenge in implementing the tiered rating program has been educating the agents so that they can communicate the possible rate scenarios clearly and accurately to their clients. He noted this will continue to be the challenge going forward.

Chair Best called for additional public comment. Seeing none, she adjourned the meeting.

The meeting was adjourned at 12:30 p.m. The next regularly scheduled Board meeting will be held on Tuesday, May 1, 2015 at Montana State Fund, 855 Front Street, Helena, Montana.

Respectfully submitted,

Verna Boucher
Special Assistant to the President/CEO