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MONTANA STATE FUND
BOARD MEETING
June 19, 2015

The Montana State Fund (MSF) Board of Directors meeting was held June 19, 2015 at Montana State Fund, 855 Front Street, Helena, Montana.

Directors Attending

Joe Brenneman, Kalispell
Lynda Moss, Billings
Lance Zanto, Helena
Wayne Dykstra, Billings
Bruce Mihelish, Lolo
Richard Miltenberger, Helena

MSF Staff Attending

Laurence Hubbard, President/CEO
Verna Boucher, Special Asst to Pres/CEO
Mark Barry, Corporate Support VP
Nancy Butler, General Counsel
Peter Strauss, Insurance Ops Support VP
Julie Jenkinson, Insurance Operations VP
Rick Duane, Human Resources VP
Al Parisian, CIO
John Wilkins, Financial Analyst
Patti Grosfield, Internal Auditor
Shannon Copps, Strategic Planning
Rene Martello, Controller
Ethan Heverly, Gov. Relations Director
Mary Boyle, Communications Director
Nick Hopkins, Premier Business Unit Director
Chance Eaton, Organizational Development Specialist

Others Attending

Sen. Gordon Vance
Shelly Vance, Belgrade
Sonia Powell, OBPP
Barbara Quinn, MPERA
Pat Murdo, Legislative Services
Dave Duden, Deloitte
Bill Wheeler, ERD
Cody Pearce, DOA. SAB

I. Meeting Preliminaries

A. *Call to Order*

Chair Elizabeth Best was unable to attend this meeting and asked Board Member Joe Brenneman to serve as Chair. Chair Brenneman called the meeting to order at 8:30 a.m. He welcomed everyone and noted that public comment would be welcomed throughout the meeting though it was also specifically slotted for the end of the meeting. He welcomed Senator Gordon Vance from Senate District 34 and noted that the Senator is now one of MSF's Legislative Liaisons from the Economic Affairs Interim Committee (EAIC). He expressed his appreciation that Senator Vance attended the pre-Board meeting the day before and indicated he hoped that boded well for the cooperative effort the Board would like to build with the Liaisons. Chair Brenneman announced that the other Legislative Liaison is Representative Ryan Lynch from Butte who was out of state travelling and unable to attend this meeting. He moved to the next agenda item.

B. *Approval of May 1, 2015Board Meeting Minutes*

Mr. Miltenberger made a motion that the Board approve the May 1, 2015 minutes as presented. Mr. Dykstra seconded the motion. Chair Brenneman called for discussion. There being none, he called for the vote and the motion passed unanimously.

II. Laurence Hubbard, President/CEO

A. Miscellaneous – Laurence Hubbard, President/CEO

President Hubbard provided an update on several items and noted that much of this Board meeting's agenda revolved around the preparation for the transition to move oversight of MSF under the Commissioner of Securities and Insurance (CSI). After the 2013 Legislative Session and the passage of House Bill 25 (HB 25), the EAIC had studied and reviewed MSF's structure and oversight culminating in the drafting and passage of Senate Bill 123 (SB 123) during the 2015 Legislative Session. Effective January 1, 2016, MSF will transition to a calendar year financial basis and close out the fiscal year that began on July 1, 2015. He said there are a number of transitional items that must be completed to prepare for the changes. He added that statutorily audited financial statements and audited governmental statements for the short conversion year and the following calendar years will be required.

- As a result of the transitions and date shifts of required Board decisions, Mr. Hubbard requested that Board members check their calendars to assure they will be available to attend a December 11, 2015 Board meeting. He noted there is some flexibility with the day of the week this meeting is scheduled; however, it will be important to establish a quorum and asked Board members to convey any conflicts or availability issues to Ms. Boucher.

- He also noted that three Board member's terms have expired; however, Governor Bullock had not yet appointed or reappointed new Board members. President Hubbard stated that by statute, Board members continue to serve until new appointments are made and was hopeful those will be completed prior to the September 18 Board meeting.

- President Hubbard referred to Mr. Dykstra's request at the last Board meeting that staff prepare a settlement activity report for the Board's review. MSF has experienced increased settlement activity based on the law change in HB 334, passed in 2013, that allows for settlement of undisputed medical benefits. Staff prepared a report of settlement activity since the end of calendar year 2014 which was presented to the Board. Mr. Hubbard stated that this report will be produced quarterly.

President Hubbard invited Patti Grosfield, Internal Auditor to provide her presentation to the Board.

B. Internal Audit Update – Patti Grosfield, Internal Auditor

Ms. Grosfield provided a brief update, noting that the legislative auditors and statutory financial statement auditors will not be on site until the fall to complete their respective fiscal year audits. She stated that the auditors will return shortly after the beginning of the calendar year to assist MSF in establishing the beginning balances at January 1, 2016 for transitioning to calendar year reporting.

She reminded the Board about the premium review performance audit performed by Legislative Audit Division (LAD) that began in January 2013 and was presented to the Board in June 2014. She said typically for that type of audit, the auditors will return after a period of time to determine how well, and if, MSF has implemented the recommendations contained in their report. The implementation information is being gathered for review and submittal to LAD and no issues are anticipated.

She provided an overview of the on-going internal audit functions she performs such as review of policies, review of system change requests, conflict of interest discussions and Enterprise Risk Management (ERM) reviews of risks and controls.

Chair Brenneman called for questions; there were none.

President Hubbard told the Board that Jesse Laslovich, General Counsel at CSI, requested an opportunity at MSF's September Board to introduce himself and his staff to the Board of Directors. That item will be included in the September Board agenda.

C. *Compensation Consultant Contract – Hay Group – Rick Duane, VP, Human Resources –* Mr. Duane took a moment to introduce Chance Eaton, MSF's Organizational Development Specialist who was hired in May and has been transitioning into that position since. He noted that Mr. Eaton was hired from the State of Montana Professional Development Center and then provided the Board with a brief bio on Mr. Eaton.

Mr. Duane explained that when determining the President/CEO's performance compensation, the MSF Board has received consulting services from Hay Group since 2002. In September 2014, the Board requested that an additional consulting company be engaged. The RFP process was completed and in May 2015, the Board authorized a contract with Kenning Consulting. Since that process was completed, management was notified that the American Association of State Compensation Insurance Funds (AASCIF) has discontinued their use of Hay Group for their CEO compensation survey and has instead engaged Kenning Consulting for that purpose. Kenning Consulting completed a CEO compensation survey for AASCIF in late 2014 in which MSF participated. Additionally, Ron Keimach, MSF's Hay Group Consultant has left Hay Group to move to Mercer Consulting. Based upon these developments, management recommended that the Board not renew the contract with Hay Group for the CEO compensation consulting services.

Chair Brenneman called for questions.

Mr. Mihelish noted that the Board requested a second consultant be hired to provide the Board with a comparative opinion when addressing their CEO compensation discussion. With management's recommendation the second opinion component will be lost and he asked the Board members if they believed it would be necessary to seek another consultant or if they could be satisfied with their choice of Kenning Consulting.

Mr. Duane clarified that information received indicates that there are no other consulting organizations that focus on gathering information related to AASCIF companies and groups.

President Hubbard said if the Board is interested, MSF will work with the appointed committee to issue the RFP and complete the search process. He did clarify that MSF still maintains a consulting contract with Hay Group for all other position compensation but does not recommend continuing the contract for the CEO compensation consulting because Hay Group is no longer privy to the AASCIF information. AASCIF has not yet determined their future course of action as an organization but is investigating various possible approaches.

Chair Brenneman indicated that the motion should be specific to ending the Board's contract with Hay Group since MSF's contract will be continued.
Mr. Mihelish asked Mr. Miltenberger and Mr. Zanto to provide their input on this issue since they were the committee that worked on and through the RFP.

Mr. Zanto said he believed the best course of action is to "let the dust settle a little" until there is further clarification as to the direction that AASCIF will be taking.

Mr. Miltenberger clarified that some of the Board's concerns when the original request for an additional consultant was issued centered around the fact that one consultant was providing services to management and the Board. He too felt that the best approach for now was to wait and see.

Chair Brenneman called for additional comments. There were no questions or comments from the Board or the public.

Based on management's recommendation, Mr. Zanto made a motion to not renew the Board's contract with Hay Group. Ms. Moss seconded the motion. Chair Brenneman called for comments or discussion.

Mr. Dykstra said he agreed that the RFP addressed some of his concerns from the previous year and believes that if the Board views this as a compelling issue, it can be returned to in the future.

President Hubbard clarified that at the CEO performance review in September, Kenning Consulting has indicated they will be providing CEO compensation information gathered from ASSCIF as well as private sector insurance industry information.

Chair Brenneman called for additional discussion. There was none and he called for the vote. The motion passed unanimously.

D. Actuary Contract Renewal – Towers Watson

President Hubbard noted that the Board is statutorily required to consult with an independent consulting actuary. Towers Watson provides rate recommendations, reserve and loss analysis for New and Old Fund, equity determinations and support services for various models, such as tier rating. The consulting actuary reviews and certifies that rates are adequate, not excessive and not unfairly discriminatory. The contract amendment presented to the Board includes an average 2.93 percent on average rate increase for hourly rates for services performed by Towers Watson staff for MSF as well as an increase in the maximum compensation expense reimbursement from $371,500 to $394,000 for a two-year period. The current contract will expire the end of October 2016 and there will have to be a contract in place for the rate filing the next year.

Chair Brenneman called for questions from the Board and the public.

Mr. Dykstra commented that the service Towers Watson, and specifically Russell Greig, have provided during his tenure on the Board has been exemplary and excellent. He said he finds Mr. Greig to be an excellent contractor and values his knowledge and abilities. He added that he would like to see this contract permanently converted to a two-year contract because it would give MSF some leverage in negotiating rates and seems to be a bit of an annoyance to have to address this motion every year. He said he thought it could provide some cost savings for MSF and provide some assurance to Towers Watson.

Mr. Dykstra made a motion to approve the proposed amendment of the independent actuary contract with Russell Greig of Towers Watson. Mr. Zanto seconded the motion. Chair Brenneman called for questions or discussion.

President Hubbard asked Nancy Butler, General Counsel to explain the statutory requirements with regard to contracting.

Ms. Butler stated that by law, the Board is required to consult with an actuary for rates, reserves, surplus, etc. She said that for State of Montana contracts, an RFP process is generally required; however, actuarial services are exempt from any state procurement requirements. Though not required, many years ago, MSF chose to complete an RFP process for the actuary services to establish a knowledge base on the companies and services available. Management recommends the Board continue to use Towers Watson and Russell Greig because of the continuity it provides, particularly when addressing legislation, coming under regulation and the Old Fund information. This amendment extends the proposed relationship with Towers Watson for two more years. Towers Watson was unable to project the compensation amounts for the following year, so that component will have to be addressed again next year.

Chair Brenneman asked if the compensation component were unacceptable to the Board could the contract be terminated at that time.

Ms. Butler said the contract could be terminated and reminded the Board that they would be required to find another actuary. An RFP would not be required for the search unless the Board chose to utilize that method.

Chair Brenneman called for additional questions.

Mr. Zanto asked Mr. Hubbard to explain, with the transition to CSI oversight, how Mr. Greig's role will work with CSI and their actuaries.

Mr. Hubbard said that is uncertain; however, it is anticipated that MSF will require Mr. Greig's services to complete the required filing forms, which are substantial. Rate filing requires large volumes of data that is subject to review by the Insurance Department's actuary. Management envisions Mr. Greig working closely with Dan Gengler, MSF Internal Actuary and Mari Kindberg, CSI's Property & Casualty Actuary, to understand the filing and requirements. As MSF becomes more comfortable with the filing activity, Mr. Greig's input will be less critical for filing activity. Mr. Greig will remain as the Board's consulting actuary to certify that rates are neither inadequate, excessive nor unfairly discriminatory which may elicit additional discussion from CSI regarding aspects of the filings. Management has included additional budget for the various services that will be required preparing for that filing.

Chair Brenneman called for additional questions or comments from the Board and the audience; seeing none, he called for the vote and the motion passed unanimously.

E. MPERA Pension Accounting Update – Barbara Quinn, MPERA and Anthony Cacace, Department of Administration – State Accounting Division

Ms. Martello, MSF Finance Director, introduced Barbara Quinn from the Montana Employee Retirement Administration (MPERA) and Anthony Cacace, CAFR Accountant with the State Accounting Bureau (SAB), to provide the Board requested update on the new Governmental Accounting Standards Board (GASB) pension accounting standards. She noted that they will be providing an update on the GASB 67 and GASB 68 implementations.

Ms. Quinn and Mr. Cacace thanked the Board for the opportunity to provide this information. They noted that MPERA, SAB and the Teachers Retirement System have worked closely in developing information and educational materials regarding GASB 67 and 68 for the public and this presentation.

They explained that the Governmental Accounting Standards Board (GASB), which sets the standards for all governmental entities, instituted GASB 67 which governs financial reporting of pension plans and GASB 68 which details accounting and financial reporting for pension plans required of governmental employers. GASB 67 and 68 were developed to require better reporting for pensions; clearly indicating the employer's responsibility to their current and former employees for their pensions. Past standards did not require reporting in the financial statements; however, the liability did have to be included in the notes. They clarified that these changes affect the reporting not the funding requirements. These changes will offer more consistency, transparency and comparability for pension plans.

They stated that the net pension liability is the net of the total pension liability minus the fiduciary net position. The proportionate share is based on the employer's contributions in proportion to the total contributions of the plan. MSF's proportion is 1.35338 percent making the unaudited net pension liability approximately $16.8 million.

Example Journal Entry

MPERA

GASB

All amounts per PERS-DB Multi-employer Plan Report with MSF Proportinate Share of 1.35338% Applied

	Debit	Credit
Net Position	21,700,348	
Pension Expense	1,284,585	
Deferred Inflow - Exepected vs Actual		
Investment Return		4,357,173
Contributions		1,296,809
Net Pension Liability		16,863,200
Nonemployer Entity (**Grant**) Revenue		467,750
Totals	22,984,932	22,984,932

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President Hubbard asked when the audited net pension liability could be expected and which part of the liabilities will be required on the balance sheet.

Mr. Cacace responded that the completed audit is anticipated within the next month from the LAD's review. Ms. Martello noted that the impact on the balance sheet would be a reduction of $21.7 million to policyholder equity and the liability would be $16.8 million.

Mr. Hubbard said this liability will play a key role in the Board's dividend discussions because the equity position is affected by this required report.

Mr. Dykstra requested the derivation of the line items listed on the example journal entry and a definition for each.

Ms. Martello provided the requested information and stated that it is important that the Board understand how these numbers affect MSF's governmental financial statements as well as the insurance based statements. She further explained that the original $40 million estimated pension liability was a range of estimated liability based on MSF's percentage of total state payroll for 2014. A number of additional factors were considered in creating that placeholder, such as investment returns, contributions, and number of active or inactive retirees.

She further explained that the deferred inflows and outflows depicted in the example are governmental accounting entries and require a line item on the financial statements. The line items are the activity that has occurred since the actuary completed the evaluation as of June 30, 2014 and because the changes impact the estimate at the time of the financial reporting on June 30, 2015, they will have to be accounted for. The key number for the Board to focus on is the $21.7 million which will be the impact or reduction to policyholder equity.

Mr. Dykstra asked for a definition of the pension expense number.

Ms. Quinn explained the pension expense is partially comprised of employer and non-employer contributions and includes elements of change such as those in the net pension liability, deferred item amounts, actuarial demographics and the plan items.

Ms. Quinn and Mr. Cacace completed their presentation and highlighted a number of areas: GASB 25 and 27 defined covered payroll as the payroll for which contributions are owed; however, GASB 67 and 68 defines covered payroll as total payroll not just pensionable payroll. MPERA is going to use pensionable payroll and the employers will need to calculate the percent of covered payroll if different than the percent of pensionable payroll. The standards require a new valuation to be performed on each plan every two years and MPERA has requested that the final unaudited employer reports be made available on December 1 of each year. They also indicated there will be additional costs for the increased communication, the actuary cost for the GASB 67/68 reports and for the audits of the reports. The retirement system is paying for all of the additional costs but employers will see those administrative costs through the normal cost rate. They encouraged Board members to take advantage of the resources regarding GASB 67/68 that are available on the MPERA and TRS websites.

Chair Brenneman called for questions.

President Hubbard asked if the Board chose to do so, does the GASB standard allow that pension liabilities be pre-funded?

Ms. Quinn said GASB does allow it; however, MPERA does not have a system that can record an employer's contribution to that employer; contributions are recorded as a whole.

Mr. Zanto asked Ms. Martello if the $21 million would impact policyholder equity and have to be accounted for as a liability in MSF's financial statements.

Ms. Martello said it would have to be accounted for and would reduce policyholder equity for this fiscal year. She cautioned that this year will look at prior years to make the reporting current; however, that impact will not be as significant in future years.

Mr. Dykstra noted that last year's unfunded liability was $1.9 billion and this year it is $60 million, and he asked if that is going to have any impact on rates and dividends.

Ms. Martello clarified that MSF's contributions to the retirement system on an annual basis are expected to continue to be approximately $1.6 million or 8.37 percent. Changes to that would come from a legislative proposal and the Finance Team continues to monitor for those; however, this liability should not be factored into the rate process.

Mr. Zanto noted that dividend discussions are based on the prior year.

Mr. Martello agreed but noted that the current financial stability and health must be evaluated as well.

Mr. Brenneman asked Ms. Quinn if the pension liability that must be reported in the GASB would go away if the legislature decided to make the pension plan fully funded or over fund it.

Ms. Quinn said there is one plan that is in a surplus situation and they report a net pension asset so if the pension were fully funded, this would have to be reported as a net asset rather than a net liability.

Chair Brenneman called for more questions. There were none.

F. Workers' Compensation Claim File Review – David Duden, Director, Deloitte Consulting LLP

Mr. Duden provided a report on the claim review study that Deloitte completed for Montana State Fund and the Old Fund. He noted that the same team that completed the study in 2011 completed the 2015 study as well. For the review, 167 claim files, or approximately 10 percent were reviewed and Deloitte disagreed with the reserves in 31 files or 18.6 percent (16 MSF and 15 Old Fund). He stated that of the 31 files with discrepancies, most of the variances (29) were with medical reserves and the other two were with indemnity reserves. Two files were under-reserved and 29 files appeared to be over reserved. The total amount of estimated over-reserving seen in the 167 claim file sample was approximately $1.6 million or 5.6 percent of the total reserve amount. Mr. Duden also pointed out that it is not unusual for claims professionals to review the same files and same information and come to reserve numbers that could differ 10-15 percent.

Mr. Duden said overall the review found that MSF provides high quality claims handling services that reach industry leading practice levels in a number of areas. In the review of the selected claim files, Deloitte noted that the level of claims handling quality has been increasing over the past several years. That upward performance trend can be seen in well-documented claim files that include plans of action, detailed and informative claim examiner notes, reserve worksheets that include calculated benefits through life expectancy and regular supervisory reviews, and periodic discussions on large loss claims which all represent leading practices.
Mr. Duden provided a detailed review and recommendations on medical management, disability management, litigation management, supervision/action plans, subrogation, settlements and communication/reporting.

Chair Brenneman called for questions.

Mr. Miltenberger asked how the claim review of MSF compared to other state funds and asked if the 5.6 percent over reserve finding falls within the acceptable range.

Mr. Duden said the 5.6 percent falls at the lower end of the variation range and is well within the range that is considered normal within the average.

Mr. Mihelish sought clarification on MSF's response to the study and if MSF would be instituting any of the recommendations.

President Hubbard clarified that this presentation was made to inform the Board about the study report, the recommendations and MSF's response. Management concurred with a significant number of the recommendations and changes to the claim guidelines and trainings are in process now. MSF's Internal Auditor, Patti Grosfield will be monitoring the recommendations to assure that the practices are put into place. He noted that the Legislative Audit Division

(LAD) will also review the study and recommendations and MSF's implementation of those. Mr. Hubbard noted that if the Board were interested, management could provide periodic reports to the Board regarding the implementation of the recommendations and the actions taken.

Mr. Mihelish recommended that the Board request further reports on the actions taken in response to the claim handling study and recommendations.

President Hubbard also added that the EAIC will also receive the findings of this report at a later date and that management feels it is MSF's obligation to provide the report and follow up actions to the Board and the EAIC. He mentioned that there were a couple of recommendations that MSF did not agree with such as the widow letter. He said a similarly computer generated notification had created an unpleasant situation recently for the spouses of some workers who were horribly hurt in a tragic accident.

Mr. Zanto mentioned that he was concerned that the report indicated that there was a high frequency of claim file transfers from one examiner to another. He noted that state agencies have had a significant number of claim transfers over the past year and it has had a great impact.

Mr. Hubbard said that MSF has experienced quite a bit of turn over with retirements and departures and noted that claim file transfers are not uncommon in workers' compensation insurance where a single claim could last decades. Structurally, MSF has specifically redesigned the management of workload distribution to be sensitive to the effects of frequent claim transfers.

Chair Brenneman asked if Deloitte followed up with MSF on the recommendations that were made from the 2011 study and if they compared those recommendations to the current study. He said that if the same recommendations from 2011 were being made after this study that would need to be addressed.

Mr. Duden said a comparison to the previous study was not within the scope; however, the reviewers did take a look and determined that the majority of recommendations have been implemented or are planned to be implemented within the next year. The predictive modeling recommendation was one that is planned to be implemented this year.

Peter Strauss, Operations Support, VP, reported that all of the accepted recommendations from the 2011 study have been or are in the process of being implemented and the claims analytics program is the last recommendation to be implemented.

Chair Brenneman called for more questions. He added that he thought it was very important to remember that we are here for the primary purpose of processing claims as efficiently and correctly as possible.

III. Annual Business Plan for the Period of July 1, 2015 to June 30, 2016 – Laurence Hubbard, President/CEO

A. SB123 Implementation Update

Prior to the introduction of the Annual Business Plan (ABP), President Hubbard explained that the ABP presented will cover a twelve month period beginning July 1, 2015, through June 30, 2016; however, another plan and proposed budget will be submitted for Board review at the December Board meeting due to the calendar year conversion project. The conversion to a calendar year is a result of SB123 which will also call for significant changes to MSF's business plan, budget, HR performance review period and the timing of merit.

He also notified the Board that as part of SB123, Board members will be requested to complete a biographical affidavit which is used to support private insurance companies' submissions for a certificate of authority to do business. He noted that a criminal background check will not be required of the Board of Directors as current members are to be grandfathered in. He said Curtis Larsen, Assistant General Counsel, will contact the Board members about completion of the affidavit and will make himself available for questions or needed guidance.

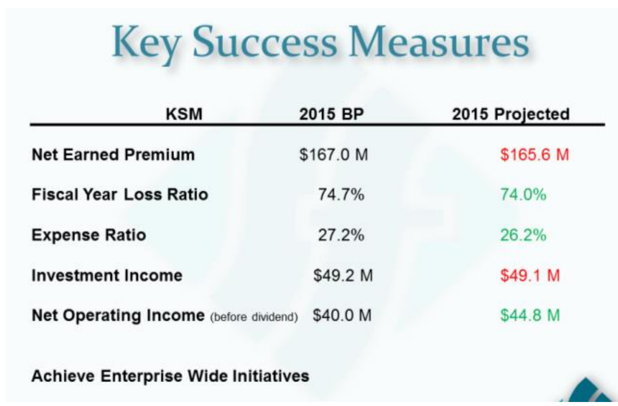
Mr. Hubbard explained that under SB123 there are four essential projects and the project sponsors are Nancy Butler, Mark Barry, Al Parisian and Julie Jenkinson. Debrief meetings are held each week to discuss the status of each project. He said it is key to begin this process now because there are only six months to develop the transition plan and execute needed changes. He noted that MSF is on track and has a good project management structure in place.

B. *Annual Business Plan Introduction*

President Hubbard asked Ms. Copps to provide a report on the Fiscal Year 2015 results and introduce the Fiscal Year 2016 Annual Business Plan.

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

Ms. Copps reviewed MSF's FY15 business plan Key Success Measures and Enterprise Wide Initiatives. She shared the key success measures based on third quarter financial projections as depicted in the graph below.



Key Success Measures

KSM	2015 BP	2015 Projected
Net Earned Premium	$167.0 M	$165.6 M
Fiscal Year Loss Ratio	74.7%	74.0%
Expense Ratio	27.2%	26.2%
Investment Income	$49.2 M	$49.1 M
Net Operating Income (before dividend)	$40.0 M	$44.8 M
Achieve Enterprise Wide Initiatives		

She noted that the Net Earned Premium was below plan by $1.4 million, Loss Ratio and Expense ratio were better than projected, Investment Income was under by $100 thousand and Net Operating Income was $4.8 million over the planned projection.

Ms. Copps explained that the Enterprise Wide Initiatives were in four key areas; Workforce, Customer Service, Claim and Medical Management, and Infrastructure. She reported that all initiative projects were on schedule and completed with the exception of the Engagement initiative which, though completed, saw results that did not meet the projected levels. Completion of a full survey will occur in June 2015 for additional input consideration.

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

D. *Annual Business Plan for the Period of July 1, 2015 to June 30, 2016 – Shannon Copps and MSF Staff*

Ms. Copps presented the proposed fiscal year 2015's Annual Business Plan which includes the Key Success Measures KSM and the Enterprise-Wide Initiatives which are the planned action items to achieve KSMs.

Key Success Measures for FY15:

- Generate Total Net Earned Premium of $157.1 million
  - Implement Board approved rate action
  - Produce $11.9 million of new premium
  - Achieve 91.1 percent premium retention
- Achieve Fiscal Year Loss Ratio of 80.8 percent of net earned premium
  - Achieve current annual year loss ratio of 78.2 percent
  - Manage prior period reserve adjustments to $4.1 million
- Achieve Expenses Ratio of 28.2 percent of net earned premium
  - Manage acquisition expense to 6.9 percent
  - Manage loss adjustment expense to 10.6 percent
  - Manage operating expenses to 17.4 percent
  - Reinsurance contingent commission of (6.7 percent)
- Achieve Investment Income of $47.6 million
- Achieve Net Operating Income of $28.8 million before dividend

Chair Brenneman called for questions from the Board and the public.

Mr. Mihelish asked for a brief explanation of why there were projected decreases of premium income for the past two years.

President Hubbard said the primary decrease factor is the five percent rate reduction that the Board approved last meeting. He added that a couple of years ago one of the major markets withdrew from workers' compensation business in Montana and MSF received an unexpected influx of premium for that year. The current projections are more reflective of a slow-growing and stable workers' compensation insurance market.

Board members then asked several questions about monitoring MSF's market share and the ability to receive any reports that cover that information.

Mr. Hubbard noted that MSF does receive industry data on private insurers; however, self - insurers are not required to publicly share that information and typically do not.

When called upon to provide clarification, Bill Wheeler, Bureau Chief, Workers' Compensation Claims Assistance Bureau, Department of Labor and Industry (DOLI) reported that DOLI is the direct regulator for all the self-insured and collects all their financial information; however, not the individual claims information. He noted that the self-insureds do not report to NCCI nor are they required to. He said the percentages based on paid claims indicate the self-insureds represent about 18 percent of the market, MSF represents about 45 percent and private carriers represent 35 to 40 percent.

Ms. Copps continued her presentation and noted that the Enterprise Wide Initiatives will focus on two areas: Customer Service and Infrastructure. She said Executive Staff members would be presenting the Enterprise Wide Initiatives and invited Julie Jenkinson to begin the presentation.
Julie Jenkinson, VP, Operations, provided the replacement recommendation of the policy and billing system. She noted that the current policyholder application went live in 1997 and that

business needs since that time have evolved. She provided a brief overview of the history of MSF's billing and policy systems and noted that new oversight requirements will be called for when MSF is regulated under CSI. She also stated that MSF's external customers have expressed desire for more accessible and varied products. She reported that the work in Phase One (July 2015 to December 2015) will be to develop requirements, including regulatory compliance functionality, and identify potential vendors and determine the cost. She said that management recommends using an Independent Validation and Verification Consultant (IV&V) to provide continuity throughout the project and ensure comprehensive evaluation of requirements. The IV&V consultant will coordinate the needs of all of the stakeholders, which reduces duplication of effort and complex planning and allows staff to manage their regular duties as well as the project. She explained that this portion of Phase One is to recommend a Request for Proposal (RFP) to identify an IV&V consultant to determine the best means of moving forward.

Chair Brenneman called for questions.

Lynda Moss asked if input from end users will be collected and considered.

Ms. Jenkinson reported that the plan includes collecting input from desk users, agents and policyholders to be sure and capture the needs and desires they would like to see, even if those requests cannot be accommodated.

Chair Brenneman called for more questions, there were none.

Nancy Butler, General Counsel, provided a review of SB123 implementation. SB123 calls for the increased scrutiny of MSF operations and structure that legislators have been requesting to give confidence to our stakeholders and customers that MSF is regulated similarly to private industry companies. She said SB123 revised the regulatory authority of MSF and makes MSF subject to Title 33, the Montana Insurance Code, with exceptions in recognition of MSF's role as the guaranteed market. This oversight will include solvency and financial monitoring, rate review, form approval, market conduct examinations, financial examinations, policyholder compliant reporting, compliance with applicable NCCI requirements and licensing producers. To accomplish this implementation, MSF has developed four projects: Regulation, Rates and Rate Filings, Calendar Year Conversion, and Change Management and Communication. MSF will submit the application related to the Certificate of Authority by September 1, 2015 and the transition plan for implementing applicable NCCI requirements by August 1, 2015. She reported that MSF is in the process of hiring a compliance Officer by September 2015. She also noted that the timing of future Board meetings will have to be adjusted to address issues created by the conversion to calendar year reporting. The 2016 calendar of MSF Board meetings will be provided at the September Board meeting for review of the Board.

Chair Brenneman called for questions; there were none.

Mark Barry, VP, Corporate Support, reported that MSF will be converting to a January 1 to December 31 calendar year reporting basis rather than a July 1 to June 30 fiscal year. The MSF financial reporting system will close the six month conversion period and a new 12 month calendar year reporting system will have to be established. That conversion means MSF's internal budget and financial reporting systems will have to be adjusted as well as the state accounting system, BOI, MPERA and CSI statutory reporting. Mr. Barry said these conversions items are currently moving forward; MSF staff members are meeting with vendors, CSI staff, BOI staff and SAHBRS staff to begin addressing the required changes.

Chair Brenneman called for questions; there were none.

Mr. Barry reported that MSF must ensure rate and rate filing compliance with rate-related areas of the insurance code. The classification code differences between MSF and NCCI must be eliminated and the NCCI basic manual provisions must be implemented. The application and policy forms must be submitted to CSI for approval and MSF must comply with rate filing requirements. He noted that NCCI has approved the addition of MSF's special class codes (0006 and state agency codes) for use by all workers' compensation insurers. CSI is also requesting an increase to the experience modification level that MSF has utilized in the past. He noted that the rate filing requirement date will remain at July 1.

Chair Brenneman called for questions; there were none.

Al Parisian, Chief Information Officer, completed the presentation with a review of the change management and communication project. He said this project will ensure internal and external stakeholders are informed and prepared for the changes. This project will concentrate efforts on stream lining the licensure of MSF's customer service specialists and underwriters (approximately 50 employees). It also looks to enhance the communication efforts to MSF employees and external stakeholders with FAQs and prepare talking points to open and encourage discussions.

Chair Brenneman called for questions.

Ms. Moss asked that the talking points that have been developed be shared with the Board.

Mr. Parisian offered to provide those by the end of the day.

Mr. Mihelish cautioned MSF staff that a good communication plan with all the agents would be a wise move to address what could be a perceived threat that MSF is moving to a direct writer position.

President Hubbard said MSF has a very good relationship with Bob Biskupiak, Executive Director of the Independent Agents Association. He said he appreciated the reminder to leverage that relationship with Mr. Biskupiak to send a communication on our behalf to assure our commercial producer partners that MSF is not in the market to displace those vital services provided to our customers by the agents. This is a very narrow licensure for the casualty line only.

Ms. Copps presented the proposed budget for the business plan initiatives.

Business Plan Budget

Project	Budget
Policy and Billing System	$209,156
Regulation	$85,273
Calendar Year Conversion	$448,380
Rates and Rate Filing	$101,200
Communication and Change Management	$109,664
Total	**$953,673**

President Hubbard clarified that taking action on the proposed Business Plan did not mean the budget request was also approved. Mr. Barry clarified that updated information that was received that morning from MPERA alters the pension liability and asked the Board to allow the adjustment to the financial projections from $40 million to $21.7 million which would essentially increase the ending surplus by $18.3 million.

Ms. Copps said that management requested approval of the July 1, 2015-June 30, 2016 Annual Business Plan as presented.

Chair Brenneman called for questions; there were none.

Mr. Dykstra made a motion that the Board adopt the proposed Annual Business Plan for the period of July 1, 2015 to June 30, 2016. Mr. Miltenberger seconded the motion. Chair Brenneman called for questions, discussion or comments from the Board and the public. There being none, he called for the vote and the motion passed unanimously.

Chair Brenneman noted that he had been remiss in introducing Shelly Vance, Senator Gordon Vance's spouse and thanked her for attending the meeting. He also explained that Chair Elizabeth Best was out due to extensive court proceedings in Cascade County and was not able to attend.

IV. Budget for the Period of July 1, 2015 to June 30, 2016 – Laurence Hubbard, President/CEO

A. Budget Introduction

Chair Brenneman called the meeting back to order after the lunch break.

Before introducing Mr. Barry to present the budget proposal, President Hubbard mentioned that the fiscal Year 2016 proposed budget incorporating a 12 month period for July 1, 2015 through June 30, 2016 is $178.3 million which is an increase over last year's budget. There is an estimated 6.7 percent increase for benefit payments due to an expected increase in medical payments of 9.4 percent over FY15. He also noted that operationally, there was a 2.3 percent budget increase request over FY15's amended budget driven by a 2.9 percent increase in personal services.

B. *Budget for the Period of July 1, 2015 to June 30, 2016 – Mark Barry, VP Corporate Support –* Mr. Barry presented the FY 2016 budget and explained the proposed budget was for a 12 month period. He noted that under SB123, Board approval of the budget will move to early December for a calendar year 2016 budget. He explained that the graph below depicts the FY15 budget as amended and management's recommendation for the FY16 budget for approval.

MSF FY16 Budget

(000s)	MSF FY15 Budget	MSF FY15 Projections	FY16 Change from FY15 Projections	MSF FY16 Budget
Net Earned Premium	$167,039	$165,563	-5.1%	$157,107
Investment Income /Gain *	49,145	49,129	-3.1%	47,620
TOTAL INCOME	**$216,184**	**$214,692**	**-4.6%**	**$204,726**
Operational Budgets	$51,849	$50,411	5.2%	$53,049
Claim Benefits Payments	117,595	117,405	6.7%	125,271
TOTAL EXPENDITURES	**$169,444**	**$167,816**	**6.3%**	**$178,320**

FY15 Budget includes budget amendmentof $8.0 million for medical benefit payments.
FY16 estimated premium is a 5.9% decrease from the FY15 Budget.
FY16 Operational Budgets are 2.3% more than the FY15 Budget.
FY16 budgeted Claim Benefits Payments increase 6.5% as compared to the FY15 Budget.
** Investment Income is based on a weighted average investment income return and includes realized gains.*

Mr. Barry explained that the proposed budget reflects a 5.1 percent decrease in net earned premium and total income is estimated to be a 4.6 percent decrease from projected FY15 when including the decrease from investment income and realized gains. He said there are two main budget categories: operational budget and claim benefits payments. He noted that the total budget for the July 1 2015 to June 30, 2016 period was $178,320,000 which was a 5.2 percent increase from the FY15 budget.

Mr. Barry provided a comprehensive overview of net earned premium historical trends and emphasized that during the period from 2008 to 2016 the rate change totals minus 39 percent. He explained that MSF's statutory operating expense ratio is 28.2 percent which compares favorably to the expense ratios of the large workers' compensation carriers in Montana. MSF is also significantly below industry and state fund expense ratios nationwide.

MSF FY16 Budget

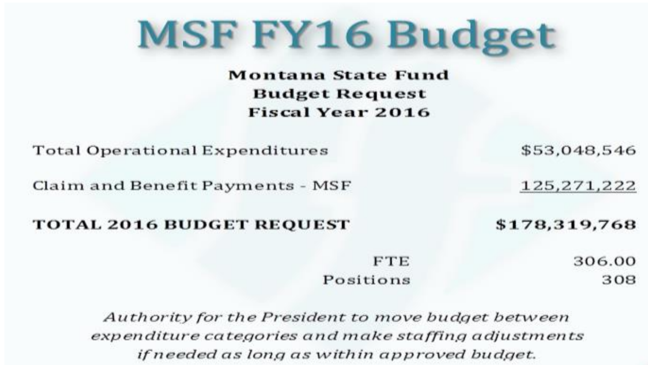
Claim Benefit Payments	
Indemnity	$38,210,181
Medical	87,061,042
Total Claim Benefit Payments	**$125,271,222**
FTE	**306.00**
Operational Expenditures	
Personal Services	$27,389,875
Operating Expense	21,896,766
Equip & Int Assets	337,265
ALAE	3,424,640
Total Operational Expenditures	**$53,048,546**
Total FY16 Budget Request	**$178,319,768**

Mr. Barry provided the summary of the budget breakout depicted above. He said the $87 million projected for medical payments is a significant increase over FY15 and that is due to increased settlement activity. Indemnity and medical claim benefits are $125.3 million which constitutes 70 percent of expenses. He reported that operational expenditures contain 306 FTE and 308 positions which is a 2.0 FTE increase from FY15. He clarified that MSF has four half-time positions. The other operational expenses are $27.4 million for personal services which is salaries, employee taxes and benefits. Operating expenses are $21.9 million which includes $10.7 million in commissions. Operational expenses also include equipment and intangible assets of $337 thousand and the allocated loss adjustment expenses (ALAE) of $3.4 million.

He explained that the increased settlement activity will help to address the effects of House Bill 334 (HB334) language that calls for a five year claim cut-off date. The first claims to meet that cut-off deadline will close on July 1, 2016. He said that if settlement can be achieved prior to that date, the injured worker and MSF could avoid mediation. Though this practice will create a benefit later on, it will take time to build this approach into the budget data and projections.

Mr. Barry explained that the ALAE expenses are comprised of the medical invoice processing, legal and employer's liability costs, investigations and prosecutions costs, medical consultants, contract adjusters and photocopy costs. That budget projection is $3.4 million which is an increase over FY15 budget of $465 thousand. That increase is also a result of increased legal services regarding undisputed settlements.

He said that half the operational budget is personal services and the requests for 2.0 FTE are for a paralegal position and the compliance officer position called for in SB123. Mr. Barry provided detailed information regarding operational costs and significant expenditure changes as well as a breakdown of the expenditures paid to the State of Montana. He completed his report with a review of the costs for the FY16 ABP and the ESPM Projects.



On behalf of management, Mr. Barry requested that the Board approve the budget as presented.

Chair Brenneman called for questions.

Mr. Dykstra requested a summary of the succession plan benchmarks be presented at the September Board meeting.

President Hubbard said he would ask the Vice President of Human Resources, Rick Duane, to prepare a report on the initiatives that have been undertaken regarding implementation of the succession planning project. He reminded the Board that they approved 14 additional FTE in 2013 to address succession planning and six of those were Claims Managers to streamline and enhance the important task of claims handling.

Chair Brenneman addressed the proposal to replace the policy and billing system. He indicated that he believed it was necessary to replace a 17-year-old system; however, did not see the need to spend $200 thousand to hire a consultant to assist MSF in determining which system is needed.

Ms. Jenkinson said the consultant that MSF is hoping to engage will not only assist in maintaining control and continuity throughout the project, they will assure that all the necessary requirements are gathered and considered. Moving into a system without the correct requirements could actually place MSF in a bad position a year from now and unable to move forward. She noted that gathering the requirements is absolutely one of the key parts of the project as well as providing oversight and guidance to MSF's four project managers. MSF is looking for a consultant that also has a knowledge base of other available products and services in the marketplace.

Chair Brenneman asked how long the consultant would be providing this service for MSF.

Mr. Parisian said there was a great deal of variability of how intense the relationship with the consultant may be in the six month plan or in any other period of the overall project life. He further explained that the $200 thousand would not necessarily be spent on the one vendor consultant; that projected cost could include the consultant locating and directing third-party research capabilities on MSF's behalf to assure complete objectivity for the Executive Committee's decision. He said it is important to realize that as capable as MSF staff are, a policy implementation project has not been attempted in his tenure at MSF. He noted that his research of other state funds that have undertaken this process indicated that a third of them reported the problems they experienced were due to failing to capture requirements at the front end. He explained that the team is purposefully looking for a firm that has recently provided this kind of service.

Chair Brenneman asked how many possible vendors exist that can provide the final product of a billing and policy service and noted that he believed they would be willing to come and do the presentation for a multimillion project free of charge.

Mr. Parisian said that a recent observed process in another state elicited about a dozen and half responses of which perhaps six or seven would pass any kind of reasonableness test. And that would be cut down by another half or third depending on specific Executive and architectural principals such as allowing a policy system to be cloud based, on public servers or in house. He noted that it is not advised to simply skip to the project provider interview process. The vendor now being sought for the life of this contract will assist in preparing the RFP with a view of MSF's vision of its future while assuring MSF does not experience the pitfalls other state funds or workers' compensation carriers have experienced.

Chair Brenneman sought assurance that after MSF spends $200 thousand, gets assistance developing the RFP and investing four staff members part-time, the consulting vendor will guarantee their recommendation.

Mr. Parisian explained that the RFP calls for demonstrated references and experience in providing this kind of service as well as a double-hold-back system on the payment of statement of works. The first hold back would be based on immediate knowable deliverables and the second one based on future determination of satisfaction with the recommended product. This concept has been explored with a couple of potential vendors and they understand why MSF is looking for this kind of mechanism.

Chair Brenneman indicated that his questions were rather more philosophical. He said he was fairly certain that MSF has extremely well qualified people who can probably do more than they are currently being challenged to do. He said he was a little hesitant with this proposal and believed that MSF does not empower these people to do all that they can because of fear of making a mistake; however, if the other Board members were comfortable with the proposal he would support it.

President Hubbard indicated that he too pushed back on the consultant proposal at first; however, after further review became increasingly convinced that MSF would need assistance in the beginning stages of the project definition. He said those are the most critical aspects of project management, particularly since MSF has not engaged in a policy system endeavor in 18 years. He said he was present when the policy build project 18 years ago was embarked upon and thought there were some significant scope control mistakes. The lesson learned is that the preparation piece is vital and the money piece will increase substantially if there is failure to invest, up front, in defining requirements very concisely and utilizing all available resources, including in-house staff. Mr. Hubbard also noted that the consultant will report directly to the CEO/President to assure that the myriad of viewpoints on needs and requirements from various interested parties are taken into consideration and properly weighted. He said he views the consultant role as neutral and accountable only to the CEO and the CEO is accountable to the Board of Directors to ensure that the right requirements are incorporated into the system.

Mr. Dykstra stated that his company provides a similar risk and vulnerability assessment consulting service and has done so for 20 years. He said some of their consulting work has involved billion dollar projects and he has found that the contracting company does not always know everything that is available because they do not work with it on a daily basis. He said an independent consultant should have a clear grasp of what is available. He added that his firm gets paid to help write the RFP; however, is then not allowed to bid on the work on the back end. He said that stipulation helps keep the vendor that actually does the project honest because it provides staff in the procuring company with a visual of product vendor's capabilities and product availability. He remarked that 20 years ago nobody did this; however, now, in large scope, large magnitude or large dollar projects, this is standard practice. When reaching the point of hiring the contractor to complete the project assuring that every "i" has been dotted and "t" crossed is vital and assists in avoiding scope creep. He said this approach is truly best practices.

Mr. Zanto added that he recently watched a Legislative Finance Committee hearing in which they were very hard on the State Technology Information Services Division (STISD) over implementation of a management information system where the vendor is not meeting the outlined requirements. Testimony to the Committee indicated that corners were cut early in the development of the program which assisted in a failure to efficiently define the scope elements. He said he agreed that the requirement details should be clearly defined in the early stages.

Mr. Miltenberger said he agreed with Mr. Zanto's and Mr. Dykstra's recommendation to move forward with the consultant. He indicated that he had to leave the Board meeting but wanted to address a concern that he had about the budget before departing. He said though he appreciates the work that was done to build the budget and did not want to minimize that, he did have concerns over what he considered to be a somewhat minimalistic goal for growth in sales. He expressed a desire to see MSF experience economic growth in the marketplace and not at a slow, creeping pace as it has but at a more aggressive pace. Though he did not recommend any specific suggestions he noted that he was a bit concerned about the $5.2 million increase in the budget recognizing that MSF has a number of projects that need completion.

Mr. Mihelish said he concurred with Mr. Zanto, Mr. Dykstra and Mr. Mihelish regarding completing the study though he too dislikes consultants and the expense.

Ms. Jenkinson pointed out that MSF staff are experts at workers' compensation insurance; however, not necessarily as skilled at choosing a new policy system after 18 years.

Ms. Moss shared her appreciation for all the work that went into the budget build and explanations. She indicated that she appreciated that input and was not really concerned with the proposed budget increases because she views the next 18 months as a transition phase. She did express concern that the WorkSafe Champions program be adequately supported and promoted financially and program wise to increase MSF's safety presence in Montana.

President Hubbard spoke to the empty chair that Mr. Miltenberger left after expressing his economic growth concern and departing. He noted that prudent fiscal management is one of management's main objectives, which accounts for the volumes of historic information provided to the Board regarding past budget proposals and the adjustments made to address ebbs and flows in economic downturns, hard and soft markets and the like. He noted that there is continuous upward pressure on MSF's expense ratio and that though the Board lowers rates on premiums, workload does not decrease at the same rate or degree. He said a $500 thousand increase was anticipated as outlined in the SB123's fiscal note; however, those costs essentially result in an insurance policy to the legislature, MSF's stakeholders and the Board that someone other than MSF management is watching MSF's balance sheet and how services are provided to Montana consumers. He said the $1.2 million budget increase this year was due to the required state obligations for moving under CSI oversight and two General Counsel FTE: a compliance officer necessary for the successful implementation of SB123 and an additional staff member to handle the increased asbestos litigation. He indicated that he hoped the Board believed the proposed overall budget was supportable.

Mr. Mihelish indicated that he wanted to address Mr. Miltenberger's comment. First, he commented that he thought MSF had done a stellar job on the expense side of the budget; however, he too was concerned that MSF was not capturing more market share. He said he believes this needs to be addressed organizationally and that MSF should be leveraging its workplace safety products to capture more market share and increase revenues. He recommended that the Board quit worrying about the nickel and dime expenses and work on the revenue side.

President Hubbard said that past discussions with legislators have included the question of the continuing role of MSF. Is MSF here just for the consumers that cannot purchase workers' compensation competitively or should it be a more competitive insurance company? He said leveraging the fact that MSF does not pay Federal income tax or premium tax could also increase MSF's market share. Private insurance companies believe not having to pay those taxes provides MSF with an unfair advantage and have expressed that to legislators as well. Having heard from both sides, MSF has tried, as a matter of management philosophy, to not focus on the top line other than assuring rates are adequately set to cover expected expenses.

Chair Brenneman called for board action on the proposed budget.

Mr. Zanto asked if the three percent merit built into this budget would be split to 1.5 percent for the six-month transition period.

Mr. Barry explained that the three percent merit in this proposed budget is for performance relative to FY15 which will close out June 30, 2015. When the annual budget request is presented in December, the merit adjustment for the six-month transition period will be included and is currently anticipated to be 1.5 percent.

Mr. Dykstra moved the Board approve the proposed Montana State Fund budget for the period of July 1, 2015 to June 30, 2016 totaling $178,319,768 as follows:

- *Total Operational Expenditures of $53,048,546, including costs that are reimbursed to Montana State Fund for Old Fund administration; and*
- *Montana State Fund Benefit Payments of $125,271,222.*

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. Ms. Moss seconded the motion. Chair Brenneman called for discussion, there was none. He called for the vote and the motion passed unanimously.

V. FY16 Old Fund Funding Estimate

A. *FY16 Old Fund Funding Estimate – Mark Barry, VP Corporate Support, Board Action*

Mr. Barry presented the FY16 funding estimate for the Old Fund and noted that this was not a budget request. MSF administers the Old Fund and provides a cost estimate for expense allocation and benefits to the Governor's Budget Officer for fiscal year planning. He said the total funding of the Old Fund for FY16 will be approximately $8.4 million which is $28 thousand less than FY15 projection. He provided a breakdown of the administrative costs and the State Insurance Fund assessments. He requested Board approval for the Old Fund funding estimate.

Chair Brenneman called for additional questions; there were none.

Mr. Mihelish moved the Board approve the executive staff recommendation of $8,441,772 for the FY16 Old Fund estimated benefit and administration costs for reporting to the State of Montana for funding from the general fund. Mr. Dykstra seconded the motion. The Chair called for questions or discussion; there was none. He called for the vote and the motion passed unanimously.

V. Old Business/New Business

Mr. Dykstra shared with the Board that he was recently the victim of identity theft and based on his level of national clearance, this breach may, and probably will, affect his future business interests. Based on his personal experience, he proposed that the Board receive a quarterly brief on the substance of the ongoing attempts to breach MSF's data at the pre-Board meetings that are scheduled prior to each Board meeting. He requested the report include the ongoing breach attempts and the methods used to stop them. He also requested a quarterly presentation from the Information Technology staff on the breach attempts with the information that can be disclosed publicly. He said he felt it indicates to policyholders and injured workers that MSF is undertaking on-going and aggressive measures to protect their medical and financial information. He said he was hopeful this report would provide some incentive for other state agencies to step up their responsiveness to the protection of data approaches. He expressed interest in some sort of threshold trigger point if a massive data breach attempt occurred to provide notification to the Board. He requested a formal written policy for the Board's review and approval on data security and network security and the trigger points for notification and action. He asked that it provide clarification regarding the position the Board would have in these situations.

President Hubbard asked Mr. Parisian to provide a brief report on the security measures that MSF currently has in place. He noted that as a public entity, reports have to be made public while still balancing personal rights to privacy.

Mr. Parisian confirmed that Mr. Dykstra's reports were to contain documentation of MSF's policy position with regard to data, network and building security and MSF's escalation procedure. He assured the Board that MSF has a policy program that involves every Executive and is cross walked to both MIST and ISO security standards. He said MSF has threshold trigger points and escalation procedures for data breach and several other types of incidents that occur. He noted that the escalation procedures get exercised on a fairly regular basis and involve in-person contacts with up to and including the CEO depending on the exact nature of the occurrence. The escalation procedures have not extended past the President/CEO to Board members nor have the individual incident reports been shared with the Board. He did mentioned that staff track and prepare reports on security breaches at other companies, such as Target, to remain up to date on security concerns.

Mr. Dykstra indicated that he was concerned if there were a massive incident, people would wonder why the Board was not part of the response team.

Chair Brenneman requested that management work with Mr. Dykstra to develop a response plan that includes Board notification and could be presented at the next Board meeting for Board action.

Mr. Zanto requested a brief update on what is currently in place to assure continuity of operation in the event of a breach or natural disaster.

Mr. Parisian said from the IT perspective a full recovery of all core systems and many secondary systems is practiced every year with a timed event. The team achieves better results each year and is led by Stacey Ripple, Director of IT Operations. An employee alert system has been developed and implemented to provide fast, efficient notifications of on-site risks or incidents. This system utilizes the telephone system and provides a mechanism by which the CEO can issue a voice message to all employees with specific instructions if necessary. Also available is an icon an each employee's computer that once initiated alerts a response team that assistance in needed at their desk as well as triggering a recorder of the phone call that has been deemed a risk.

Chair Brenneman called for additional new or old business. There was none.

VI. Public Comment

Senator Gordon Vance thanked the Board members for their service on the Board and said he believed their service is comparable to his service as a Legislator. He said that he served in the House of Representatives for three terms before being elected to the Senate and he takes his responsibility very seriously. He said he thought he knew what went on in the Capitol until he actually arrived to serve his first term and realized he did not, he said he felt that is the same thing that this Board does and he appreciates their service.

Chair Brenneman thanked Senator Vance for the interest he had shown in the proceedings and the pre-Board meeting.

The meeting was adjourned at 2.42 pm. The next scheduled Board Meeting will be held on Friday, September 18, 2015 at 8:30 a.m. in the Board Room at Montana State Fund, 855 Front Street, Helena, Montana.

Respectfully submitted,

Verna Boucher
Special Assistant to the President/CEO