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MONTANA STATE FUND
BOARD OF DIRECTORS MEETING
March 10, 2016

The Montana State Fund (MSF) Board of Directors meeting was held March 10, 2016 in Montana State Fund's Board Room at 855 Front Street, Helena, Montana 59601.

Directors Attending

Lance Zanto, Chair, Helena
Bruce Mihelish, Lolo
Jan VanRiper, Helena
Jack Owens, Missoula
Richard Miltenberger, Helena
Lynda Moss, Billings
Matthew Mohr, Big Sky

State Fund Staff Attending

Laurence Hubbard, President/CEO
Verna Boucher, Special Asst to Pres/CEO
Curtis Larsen, Interim General Counsel
Rick Duane, Human Resources VP

Others Attending

Neville Kenning, Kenning Consulting

I. Meeting Preliminaries

A. Call to Order

Chair Zanto called the meeting to order at 2:00 p.m. He thanked the Board for attending, noted that no members of the public were in attendance and introduced Neville Kenning of Kenning Consulting, the Board's consultation consultant.

Approval of November 20, 2015 and December 11, 2015 Board Meeting Minutes

Chair Zanto asked for a motion to approve the November 20, 2015 and December 11, 2015 minutes.

Mr. Miltenberger moved to approve the November 20, 2015 and December 11, 2015minutes as presented. The motion was seconded by Mr. Mihelish. Chair Zanto called for any questions or comments from the Board and the public. There being none, he called for the vote and the motion passed unanimously.

II. President/CEO FY 15.5 Performance Review and Determination of CY16 Performance Goals

A. Introduction – Notice of Closure of Meeting – Lance Zanto, Chair of Board

Chair Zanto asked President Hubbard if he wanted to make any comments before the Board closed the meeting for the President/CEO performance review. Mr. Hubbard indicated he had no comments.

Chair Zanto asked President Hubbard if he wished to waive his right of privacy for his individual performance review. Mr. Hubbard stated that he did not wish to waive his right to privacy. He would however waive his right if the Board wished to consult with Mr. Kenning, Curtis Larsen or Rick Duane.

Chair Zanto closed the meeting at 2:04 p.m. and stated that it would be reopened after the discussion of the President/CEO's individual performance review.

President Hubbard explained that MCA 2-3-212 states that any time a presiding officer closes a public meeting pursuant to 2-3-203, for the discussion of a matter that relates to individual privacy such as personnel matters, the presiding officer shall ensure that minutes are taken in compliance with statute. The minutes must include the date, time, meeting place and a list of attendees as well as the substance of all matters proposed, discussed or decided and if requested, a record of votes by individual members for any votes taken. He clarified that the minutes are to be secured and he recommended that they be maintained by MSF's Human Resources Vice President, Mr. Duane.

The meeting closed at 2:04 p.m.

III. President/CEO Performance Review

A. Call to Order

B. CY16 Performance Goals of President/CEO - President/CEO's Performance Review

Chair Zanto took the minutes and upon completion of the closed meeting, provided the completed copy to Mr. Duane.

The meeting reopened at 4:27 p.m. Board Member Jan VanRiper left when the meeting reopened.

IV. President/CEO Determination of CY16 Performance Goals

A. Introduction – Lance Zanto – Chair of the Board

Chair Zanto asked President Hubbard to read the proposed language changes the Board wanted added to the guiding principles document.

President Hubbard clarified that he and Curtis Larsen, Acting General Counsel, at the Board's request, developed additional descriptive language regarding "customers." Mr. Larsen distributed the draft language to the Board and President Hubbard read the language. "Montana State Fund recognizes that it serves many customers. Our primary customer focus is on employers, employees and injured employees in the State of Montana by providing prompt, responsive and professional service. With respect to injured workers, MSF will provide prompt and appropriate benefits as provided by law. Other stakeholders we serve include our independent agency sales force, the legislature, the Department of Labor and Industry and Montana Commissioner of Securities and Insurance."

Chair Zanto called for additional discussion; there was none.

Ms. Moss made a motion to adopt the key guiding principles. Mr. Owens seconded the motion. Chair Zanto called for questions or discussion; seeing none he called for the vote and the motion passed unanimously.

B. CY16 Performance Goals of President/CEO – Board Action

Chair Zanto noted that this agenda item indicated Board action on the establishment of CY16 CEO/President Performance Goals. He said that in closed session, the Board's consultation with General Counsel determined the CEO has an individual right of privacy in matters relating to performance, including the criteria by which his performance is measured. In recognition of this individual right of privacy, he ask if Mr. Hubbard choose to waive his right of privacy. Mr. Hubbard indicated he did not at this time.

Chair Zanto declared that no public discussion or decision will be made regarding the CEO's performance goals.

V. Public Comment

Chair Zanto called for public comment; there was none.

The meeting was adjourned at 4:30 p.m.

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Curtis Larsen, Interim General Counsel
Mark Barry, Corporate Support VP
Julie Jenkinson, Ops Vice President
Rick Duane, HR Vice President
Sam Heigh, Ops Support Vice President
Dan Gengler, Internal Actuary
Suzanna Simmons, Underwriter Trainee
Allison Sims, Underwriter Trainee
Sam Heigh, Operations Support Vice President
James McCormick, Market Development Leader
Ethan Heverly, Dir., Gov. and Community Relations
Mary Boyle, Communications Specialist
Kevin Braun, Assistant General Counsel
Rene Martello, Controller
Christy Weikart, Underwriting Services Leader
Shannon Copps, Director, IT Plans & Controls
Al Parisian, CIO
Hester Davis, Underwriting Services Specialist
Suzie Shute, Underwriter
Alex Lamping, Underwriter Trainee
Peter Strauss, Compliance Officer
Audrey Kroll, Underwriter
Becky Bright, Underwriter
Jeff Bryant, Underwriter

Others Attending

Mari Kindberg, State Auditor's Office
Brenda Miller, Liberty Northwest
Russell Greig, Willis Towers Watson
Pat Murdo, Legislative Services Division
Rep. Ryan Lynch, Legislative Liaison
Bob Biskupiak, IAIA
Bill Wheeler, DLI-ERD
Les Vernon, Willis Towers Watson
Neville Kenning, Kenning Consulting

I. Meeting Preliminaries

A. Call to Order

Chair Zanto called the meeting to order at 8:30 am. He welcomed all attendees and thanked the Board for their commitment.

President Hubbard welcomed all attendees. He noted MSF's first class of underwriter trainees, Allison Sims, Suzanna Simmons and Alex Lamping, were in attendance to observe the Board deliberations and interaction with the public.

He noted that this Board meeting would establish MSF's first rate or loss cost multiplier filing to be submitted to the Commissioner of Securities and Insurance (CSI). He said he was proud of the MSF executive team and staff for getting to this point. Staff has worked diligently from the point of legislative implementation and passage of Senate Bill 123 (SB123) during the 2015 legislative session to the development of the transition plans and modifications of systems. He said establishing the rates for approval by the Insurance Department is really the seminal point of the transition. He noted that he received verbal confirmation from CSI that the NCCI loss cost filing was approved the previous day. He thanked the Commissioner's office for their professionalism through the entire process and said he looked forward to building an even deeper relationship and understanding regarding MSF's operations with CSI.

II. Ratemaking Decisions for July 1, 2016 to July 1, 2017

A. Overview of Rate Filing Process – Dan Gengler, Internal Actuary

Mr. Gengler provided an overview of the rate making process explaining what a loss cost multiplier is and how MSF's current rates relate to the National Council on Compensation Insurance (NCCI) filing made this year. He also provided information on how MSF's rates benchmark to the market and reviewed the Board's key decision points in setting MSF's rates. MSF's rates can be expressed in terms of an average in order to make comparisons to the market. He explained that the loss cost is the cost of benefits and claims management or loss adjustment expenses (LAE). In a loss cost state such as Montana, each carrier can evaluate what it thinks its loss costs are and MSF estimates its costs to be about 5 percent lower than NCCI's stated loss cost. Also added to this calculation is an additional amount per hundred which represents the general overhead expense, acquisition or commission expense, profit and contingencies and offsets for underwriting programs and investment income. MSF has five rate tiers which vary in percentage relationship to the NCCI loss cost; hence the five various loss cost multipliers. The Board will be establishing the rate tiers for the coming rate year for business effective July 1, 2016.

Mr. Gengler provided a comparison of MSF's rates and private carrier rates. He indicated that average MSF rates are typically about 10 percent lower than average carrier rates; however he stressed that rates are competitive because of the range of loss cost multipliers and underwriting programs.

Chair Zanto asked if the information on private carrier rates was provided by CSI.

Mr. Gengler said it was and that CSI provides a listing of all loss cost multipliers for all carriers as well as their premium volume.

Mr. Gengler said the key Board decisions will be: 1) the Board formally adopting the NCCI loss costs as the basis for MSF's rates, 2) establishing MSF's tiered rating plan 3) establish the loss cost multiplier for MSF's five rate tiers and 4) decision regarding various other rating program. He noted that the tiered rating plan has been certified by Willis Towers Watson, MSF's consulting actuary. He explained that in establishing the loss cost multipliers for the five rate tiers, the Board will be determining the appropriate level of expenses as well as the appropriate level of underwriting profitability in MSF's rates. He clarified that the other programs the Board will be addressing include minimum premium and expense constant as well as a number of rating programs that affect a large number of policyholders. He stated that staff will be presenting what will be filed to CSI for their review.

Chair Zanto called for questions.

Mr. Mihelish noted that the original implementation of the tier rating program created a degree of angst for some consumers and agents and asked if the tier rating program has finally been accepted and if MSF is receiving less feedback on that program.

Mr. Gengler deferred the question to Julie Jenkinson.

Ms. Jenkinson reported that the feedback is still a little mixed, though much better, because the program has been simplified and is better understood. There are still some questions and expressed concerns; however, not nearly as much as was initially experienced.

Mr. Mihelish sought clarification as to whether there was anticipation that MSF needed to apply additional tweaks to further simplify the program.

Mr. Gengler said the factors and parameters would be routinely updated but the next routine update would likely not be for four or five years.

President Hubbard added that MSF constantly samples the trends and the data to determine necessary adjustments; however, no structural changes have been identified at this point.

Chair Zanto called for additional questions and questions from the audience. There were none.

B. *NCCI Montana Loss Costs Filing Update Effective July 1, 2016 – Dan Gengler, Internal Actuary*
Mr. Gengler then presented the NCCI Montana loss costs filing update which will be effective July 1, 2016. He explained that the NCCI loss cost filing is the basis for MSF's manual rates.

C. *Adopt NCCI Filings/Loss-Costs Filing Effective July 1, 2015 – Dan Gengler, Internal Actuary*
Mr. Gengler said Title 33 requires the use of the NCCI loss cost filing; however, the Board may choose to either use the new loss cost filing or the current in-force loss cost filing. He stated that the circumstances under which management would recommend using something other than the recently filed loss costs are extremely narrow and are highly unlikely to come into play. Management recommends that the Board adopt the usage of the current filed prospective NCCI loss costs which were approved by the Commissioner of Securities and Insurance the day before the Board meeting for policies effective July 1, 2016. Mr. Gengler explained the NCCI loss cost changes and requested the Board approve the July 1, 2016 NCCI filing as a basis for MSF's rates.

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

Mr. Mihelish made a motion the Board adopt the NCCI filed loss costs for rates applicable to new and renewal policies effective July 1, 2016 to July 1, 2017 for Montana State Fund classification codes. Ms. Moss seconded the motion. Chair Zanto called for further discussion from the Board and the audience; there was none and the motion passed unanimously.

D. *Multiple Rating Tiers and Certification – Dan Gengler, Internal Actuary*
Mr. Gengler presented management's request for the approval of MSF's Tiered Rating plan for the July 1, 2016 renewal process. He stated that this plan works in conjunction with the NCCI experience rating plan so that together they formulate the pricing mechanisms to put policyholders

in the correct rate given their risk profile. The rating plan also creates appropriate safety incentives. The tiered rating plan must be actuarially sound and Willis Towers Watson, the independent consulting actuary, has provided a certification letter to the Board. CSI has also offered an opinion on the MSF tiered rating plan for the past four years and has found it to be reasonable and not unfairly discriminatory.

He said the tiered rating plan is based on three-year claim frequency, account size and claim-free tenure and explained the requirements for meeting these three criteria. Mr. Gengler provided the Board with specifics regarding the make-up of MSF's tiers and the manner in which policy placement is determined. He noted that the recommended table of factors contains no change from the previous year's table.

Tiered Rating 2.2 - Table of Factors*

Claim Frequency	
Value	Factor
No History	1.100
0.00-0.00	1.000
0.01-0.10	1.020
0.10-0.15	1.060
0.15-0.20	1.090
0.20-0.25	1.110
0.25-0.30	1.130
0.30-0.35	1.170
0.35-0.40	1.190
0.40-0.45	1.210
0.45-0.50	1.240
0.50-0.55	1.260
0.55-0.60	1.290
0.60-0.70	1.320
0.70-0.80	1.360
0.80-0.90	1.420
0.90-1.00	1.460
1.00-1.25	1.520
1.25+	1.560

Claim-Free Tenure	
Value	Factor
New	1.100
0	1.100
1	0.980
2	0.950
3	0.920
4	0.885
5	0.850
6	0.815
7	0.780
8	0.740
9	0.700
10+	0.660

Account Size	
Value	Factor
<$1,500	1.600
$1,500-$2,500	1.500
$2,500-$5,000	1.400
$5,000-$8,000	1.300
$8,000-$12,000	1.150
$12,000+	0.950

Rate Tier	Lower	Upper	Relativity
Tier1	0.000	0.870	0.750
Tier2	0.870	1.100	0.900
Tier3	1.100	1.250	1.000
Tier4	1.250	1.600	1.200
Tier5	1.600	& Above	1.450

Two-Tier Swing Limit
Renewal policies shall be limited to a maximum change of two rate tiers from one policy period to another.

* No change from current tiered rating plan factors

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Mr. Gengler said management's recommendation is to approve the tiered rating criteria as presented and noted that Board members had been provided the Willis Towers Watson certification letter. He explained that the certification letter concludes that MSF's tiered rating structure effective July 1, 2016 improves the equity of pricing for policyholders and is not unfairly discriminatory. He noted that Russell Greig, the consulting actuary for Willis Towers Watson was also available for questions.

Chair Zanto called for questions from the Board.

Mr. Miltenberger sought clarification regarding the spread of relativities or decrements which he felt seemed quite large in the two extreme categories.

Mr. Gengler said the analysis shows the spread of risk quality in MSF's book of business is derived from the actual loss results of its book of business and how different classes of businesses group. MSF insures the best of the best and the "has room for improvement" accounts as well.

Chair Zanto called for a motion to approve the use of the multiple rating tiers and factors.

Ms. Moss moved that the Board approve, for new and renewal policies effective July 1, 2016 to July 1, 2017, the Tiered Rating plan which consists of five rating tiers and that policies be assigned to the tiers based on the factors as presented by management. Mr. Owens seconded the motion. Chair Zanto called for additional questions or discussion from the Board and the public; seeing none, he called for the vote. The motion passed unanimously.

Chair Zanto noted that Mari Kindberg, actuary for CSI, was in attendance and he thanked her for her assistance and efficiency in working with MSF staff in achieving the transition and the timely approval of rates.

E. Minimum Premium and Expense Constant – Mark Barry, VP Corporate Support

Mr. Barry explained that management was requesting approval on the expense constant and loss based minimum premium for small accounts for the year. Expense constant is the charge to every account, regardless of size, for the costs expected to be incurred for issuing a policy. It is not inclusive of all expenses; just those common to renewing or writing a new policy. The current expense constant level is $170 and management's recommendation is to increase that amount to $175.

The minimum premium or loss base premium is primarily charged to small accounts (those with little or no payroll) to cover the loss based portion of their exposure that they might have from medical and wage loss. The current level is $235.

Mr. Barry explained how the expense constant and the minimum loss based premium are calculated and clarified MSF would be applying a proration used for cancellations as specified in Title 33. He said management is requesting approval of an expense constant of $175 to be charged to all new and renewal accounts effective July 1, 2016 and a loss base minimum premium of $235 for a total minimum premium of $410.

Chair Zanto asked when the Board last increased the expense constant.

President Hubbard reported that an increase of $10 was adopted in 2012.

Mr. Mihelish stated that he was not familiar with a property and casualty carrier that charges anything less than $500 and indicated that $410 was a competitive and a fair amount.

Mr. Biskupiak, Chief Executive Officer of the Independent Insurance Agents' Association of Montana, (IIAM), confirmed that amongst carriers, the minimum premium can vary greatly and $410 is on the low end. He noted that the minimum premium and expense constant is designed to protect the smaller employers and help those businesses that have a harder time getting established. He said a minimum premium of $500 may not seem like much; however, proportionally and percentage wise it is a large amount for a struggling small business. He cautioned the Board to continue to recognize the burden workers' compensation insurance places on the smaller businesses and said $410 is a good starting point in that recognition.

Mr. Hubbard encouraged the Board to be sensitive to the overall need to recover loss costs in rate structure and operational expense.

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

Mr. Owens made a motion that the Board approve an expense constant of $175 for all new and renewal policies effective July 1, 2016 to July 1, 2017. In additional I move the Board approve the amount of $235 for the loss based portion of the Minimum Premium so the total Minimum

Premium is $410 for new and renewal policies effective July 1, 2016 to July 1, 2017. The motion was seconded by Chair Zanto. Chair Zanto called for questions or discussion from the Board and the public. Seeing none, he called for the vote and the motion passed unanimously.

F. *Additional Ratemaking Decisions – Christy Weikart, Underwriting Service Leader*
Ms. Weikart noted there were a number of additional ratemaking decisions the Board would be addressing and management requested that one inclusive motion be proposed unless Board members had specific issues with individual items that needed to be addressed separately.

1. Scheduled Rating
Ms. Weikart explained that the scheduled rating plan is to allow modification of an insured's premium to reflect such characteristics of the risk that are not reflected in its experience. Seven categories are considered when determining any credit or debit and they are: 1) premises, 2) classification peculiarities, 3) medical facilities, 4) safety devices, 5) employees – selection, training, supervision, 6) management – cooperation with insurance carrier and 7) management – safety organization. NCCI has filed a plan in Montana that provides for a maximum modification of plus or minus 25 percent. CSI approves a maximum modification in Montana of 40 percent. As the guaranteed carrier in a competitive market, MSF management recommends a maximum modification of plus or minus 40 percent.

The NCCI plan also contains ranges of modifications by category based on the filed plus or minus 25 percent. In order to accommodate the plus or minus 40%, MSF has doubled the level of credit/debit for each category. Ms. Weikart provided the Board with an additional handout that reflected the doubling for each category.

Should the Board approve, MSF will file a maximum modification of plus or minus 40 percent and double the modification by category.

Chair Zanto requested a clearer definition of "classification peculiarities".

Ms. Weikart explained that risks are evaluated to determine if they are better or worse than the average risk. She cited an example of a new account with a state-of-the-art building with sprinklers and other newer safety considerations as opposed to a 65-year-old building with old electrical wiring, trip and fall hazards due to uneven flooring, etc. She clarified that this category is not often used and typically experienced in the evolution of industries.

President Hubbard noted that the logging industry was previously very high risk classification but has been responding to improvements in safety and technology though the data often lags behind the new implementation trends. Classification peculiarities would provide an underwriter with the ability to address that lag.

Ms. Moss asked if underwriters do site visits to the policyholders, and if so, are the policyholders made aware of these categories so there is some sharing of information and transparency.

Ms. Weikart reported often the majority of safety information that the underwriter receives is from safety reports that are completed by our Safety Management Consultants (SMC). The SMCs go out and work with policyholders, initially to do a site analysis, then one-on-one with our customers to try and improve safety. She noted that if a policyholder requests to know the different sources and categories, MSF is required to share that with them.

Mr. Mihelish asked if scheduled rating also gives the underwriters a tool to be more competitive in the marketplace.

Ms. Weikart responded that it gives the underwriter the tool to price the risk appropriately. She noted that it can be a very powerful tool to use with a policyholder who does not have record for running a safe workplace. This approach can encourage the policyholder to take the correct steps and try to eliminate the injurious hazards.

Mr. Hubbard noted that scheduled rating is not a replacement for experience rating. These are factors that are not reflected in the actual loss experience.

Chair Zanto asked if the medical facilities category was specifically related to their degree of safety practices.

Ms. Weikart clarified that "medical facilities" typically refers to the ease of access for an injured employee to rapid medical care.

President Hubbard clarified that it could also apply to a large employer with a clinic or triage center on its grounds.

Chair Zanto asked President Hubbard if the EAIC had approached MSF regarding the air ambulance issues that the Committee is currently researching and reviewing.

Mr. Hubbard noted there have been recent news items regarding air ambulance service costs and the catastrophic affect the bills for services are having on some Montana families. CSI has been on point regarding this issue and gathering research to determine if a workable solution can be developed. He noted that air ambulance service charges are not part of the fee schedule because Federal law exempted air ambulances as commercial carriers and Federal law controls the regulation of fees and costs. He said there is no certainty that the state legislature can develop a reasonable response. MSF pays reasonable and necessary costs and MSF's data indicates that MSF pays a lesser-than-average amount for the charges incurred than private health insurance though he was not aware of the reason for that.

Chair Zanto asked Pat Murdo, Research Analyst, Legislative Services Division for the EAIC, if she wanted to provide some information on this topic.

Ms. Murdo reported that the data she received from MSF was from FY 2014 and confirmed Mr. Hubbard's assertion that MSF paid less than the private carriers. She said the reason for the disparity is partly because of the phase out of the "reasonable and customary" language from insurance companies.

Mr. Owens asked if the call for a site-visit results from a request by the policyholder or if they occur after an accident and injury.

Ms. Weikart reported that both situations can be the reason a site-visit takes place. She said MSF provides safety services to large employers as well as providing focus programs that identify employers that need help in improving their safety programs. She also reported that MSF does safety workshops all over Montana.

Chair Zanto than asked if MSF had received any feedback on its recent advertising campaign.

Mary Boyle, MSF Communications Specialist, summarized the most recent safety campaign "Be A Champion for Safety". She said it ran for four weeks; kicking off on Super Bowl Sunday. The Facebook campaign received 111 likes and there have been a lot of positive comments. There were a few comments about what were perceived as unsafe practices in the commercials; however, she confirmed that the approach was a metaphor for being a champion not an example of best practices.

2. *Anniversary Rating Date*

Ms. Weikart explained that the anniversary rating date (ARD) is an NCCI rule that MSF has never followed. She said that for MSF, the anniversary rating date is the policy effective date which is the date that such factors as rates, premium modifiers, experience ratings, etc. change. She explained NCCI's program can apply a different date and said that MSF was aware that when moving under the oversight of CSI, adjustments for handling this difference would need to be adopted and would be costly. NCCI had recently announced the elimination of their ARD date effective July 1, 2017. As a component of MSF's transition plan, CSI approved MSF an exemption regarding use of the ARD.

3. *Employer's Liability*

Ms. Weikart explained that employer's liability coverage is included on all MSF workers' compensation policies. NCCI publishes many different limits of liability that can be chosen by an employer with specific premium charges and minimum premiums applicable to each set of limits of liability. She said that MSF recommends basic limits continue to be included on all MSF workers' compensation policies for no additional premium or minimum premium. Also recommended were that two levels of increased limits of liability be available to be chosen by MSF insureds. She reported that these are the same limits that have been available and have fulfilled the needs of MSF customers for many years.

4. *Deposit*

Ms. Weikart said that NCCI publishes a rule about crediting a deposit premium to the final earned premium or to the renewal policy subject to the approval of the insurance regulatory authority. Though the rule is not mandatory, MSF's current practice is to keep a deposit premium from year to year with appropriate adjustments. The deposit premium is only applied to an outstanding balance after policy cancellation. This specific issue was included in the MSF transition plan submitted to CSI and if the Board concurs, MSF will file this information with CSI.

5. *Short Rate Premium*

As filed by NCCI, if a policy is cancelled by the insured (except when retiring from the business) the premium for the cancelled policy must be calculated using a "short-rate percentage or short-rate factor". This is basically a penalty for cancelling a policy. MSF has never used a short rate cancellation and management does not recommend adopting this usage. Instead, MSF will file with CSI a pro-rata method of cancellation that does not include any penalties.

6. *Payroll Versus Per Capita for Domestic Workers*

NCCI uses classification codes for domestic workers that base premium on a per capita basis. MSF uses classification code #9015 for domestic workers and bases premium on payroll. MSF's current policyholder system is not capable of basing premium on a per capita basis. This item was also included in MSF's transition plan that was submitted to CSI. CSI granted an exception to MSF to continue use of the payroll based classification for domestic workers with the stipulation that a new policyholder system must provide for per capita capability for policies issued or renewed on and after July 1, 2019.

7. *Volume Discount*

MSF provides a volume discount based on the premium size of a policy and recommends no change to the current volume discount program utilized. If the Board concurs, the following Volume Discount will be filed with CSI.

Standard Premium	Discount
$0 - $12,000	0%
$12,001 - $150,000	5%
$150,001 - $750,000	7%
$750,001 & Over	9%

Chair Zanto called for questions.

Mr. Miltenberger asked if volume discounts were standard in the industry and offered by other carriers as well.

Ms. Weikart confirmed that it is standard and other carriers provide volume discounts though the percentages offer vary widely.

8. Retrospective Rating Plan Factors – Dan Gengler, Internal Actuary
Mr. Gengler continued the presentation and explained that the retrospective rating plan was an option for larger, more sophisticated employers. By mutual agreement, this plan is offered to an insured risk who pays the premium upfront while agreeing to take the risk of later paying more than that amount if losses are high. They also could share in the reward of paying less if losses are low. After the end of the policy period, a look-back at actual losses incurred determines if either a charge or return of premium is warranted. This rating option is attractive to employers that are confident in their ability to control losses. He shared the parameters with the Board and noted that they are applicable to individual policies and group association plans.

Chair Zanto called for questions.

Ms. Moss indicated that she was familiar with CSI; however was less familiar with NCCI and asked about their responses to these rating factors. She asked for clarification on the degree of communication that MSF has with NCCI.

President Hubbard reported there was a high degree of communication with CSI and also with NCCI. He said MSF is required to be a member of NCCI which is the rating organization in Montana, licensed by the Commissioner in Montana. He said there is a structural relationship between carriers, the regulator and NCCI. He explained that he is a current NCCI Board member and believes that enhances the level of communication with that organization. NCCI has a States Services Provider, James Crumel, who visits MSF frequently throughout the year. NCCI, on behalf of the regulator and insurance companies, acts as a data repository and collector for filing of loss costs. In addition, it assists with how the "rules of the road" are used by companies with the approval of the regulator.

Mr. Mihelish sought some clarification on the differences Mr. Gengler had illustrated earlier between MSF's historical loss costs and NCCI's. He noted that at one point there was a separation of approximately 12 percent and asked if MSF was required to subscribe to NCCI's declared loss costs and if not, why there was such a disparity.

Mr. Gengler explained that the difference is essentially different actuaries coming to different estimates. He said the significant difference in the mid-2000s was based on MSF's actuary determining that it was not necessary to charge as much as NCCI was indicating to cover the loss costs. In hindsight, MSF's financial results have supported that opinion.

Mr. Mihelish asked if these NCCI loss cost rates were established just for Montana or were they national numbers.

Mr. Gengler explained that this filing was applicable for Montana only.

President Hubbard provided additional information regarding the use of NCCI loss costs. He explained that the use of the NCCI loss costs factors was really the index point for how carriers measure the additional charge that they include for profit and contingencies. Each carrier assesses their own experience and, as the guaranteed market, MSF must determine how that factor will affect its outcomes.
Chair Zanto called for additional questions. There were none.

Chair Zanto moved the Board to adopt management's recommendations for the following additional ratemaking decisions to apply to new and renewal policies effective July 1, 2016 to June 30, 2017, as follows:

a. Schedule Rating
b. Anniversary Rating Date
c. Employer's Liability
d. Deposit
e. Short Rate Premium
f. Payroll versus Per Capita for Domestic Workers
g. Volume Discount
h. Retrospective Rating

Mr. Mihelish seconded the motion. Chair Zanto called for further discussion and questions. There were none. He called for the vote and the motion passed unanimously.

Chair Zanto welcomed Representative Ryan Lynch, EAIC Legislative Liaison.

After a brief break, Chair Zanto noted that the motion that was passed prior to the break regarding the ratemaking decisions, the ending date should have said to July 1, 2017, not June 30, 2017.

Chair Zanto amended the motion to say "new and renewal policies effective July 1, 2016 to July 1, 2017". Mr. Miltenberger seconded the amendment. Chair Zanto called for the vote and the amendment passed unanimously.

G. Construction Credit Eligible Class Codes – Christy Weikart, Underwriting Services Leader

Ms. Weikart provided the clean-up rule changes that the Board approved in December. She said in the construction credit program the Board approved a list of eligible class codes which was based on discussions with NCCI. After this rule change was adopted, NCCI discussed these changes with CSI and shared with MSF that NCCI is going to undertake another analysis on these eligible class codes over the course of the next year. This may mean a new filing effective next year for July 1, 2017. That means MSF is no longer in sync with NCCI's eligible class codes and must do some clean up to continue to follow NCCI's program until the eligible class codes are changed next year. The simplest means of meeting compliance is to strip the class codes out of the Board approved rule and follow the NCCI eligible class filed with CSI. Should changes occur next year, MSF will not have to revisit this issue with the Board and MSF's changes will match the basic manual and automatically update when that occurs.

Chair Zanto called for questions; there were none.

Mr. Miltenberger moved the Board adopt an amendment to Rule 6, Construction Industry Premium Credit Program, of the Montana State Fund Rating, Underwriting and Dividend Rules, as proposed by management, to delete the list of eligible construction industry class codes and adopt those listed in the NCCI Basic Manual, Montana Construction Premium Credit Program, Applicable Contracting Classifications, and filed with the Montana Commissioner of Securities and Insurance. Ms. Moss seconded the motion. Chair Zanto called for discussion or questions from the Board and the public; seeing none, he called for the vote. The motion passed unanimously.

III. Actuarial Report – Russell Greig, Director and Leslie Vernon, Senior Consulting Actuary – Willis Towers Watson

Mr. Greig summarized Willis Towers Watson's analysis in support of MSF's management and Board selections of loss cost multipliers for policies incepting from July 1, 2016 to June 30, 2017. The recommended loss cost multipliers cover the expected losses and expenses and generate a reasonable contribution to policyholder equity to cover the risk that is assumed by MSF from the individual policyholders. He included in his presentation an overview of their methodology, key management decisions, an estimation of historical ultimate losses of the premium, expenses, and management's recommendations on investment income on cash flow, contribution of policyholder equity and provision for adverse deviation and indicated loss cost multipliers.

Mr. Greig said MSF's indicated loss cost multipliers assume an investment yield on underwritten cash flow of 2.50 percent and management recommended target contribution to equity is 0.0 percent of earned premium.

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

IV. Ratemaking Decisions for July 1, 2016 to July 1, 2017 – Laurence Hubbard, President/CEO

A. Introduction – Laurence Hubbard, President/CEO

President Hubbard said the key decisions the Board and management should be focusing in on are: 1) the assumed rate of return associated with the cash flow on the invested income for the upcoming rate year, 2) the amount of contribution to equity expressed in the percentage of earned premium that the Board seeks to achieve through the rate indication and 3) any provision for adverse deviation. He explained to the Board the processes that management uses to establish its recommendations and also pointed out that the Board materials included examples of 2.25 percent up to three percent. He said management's recommendation is a zero percent contribution to equity in the rate level and a zero percent manual rate change for MSF customers.

Chair Zanto had requested additional information on varying ranges for the Board members review.

President Hubbard asked Mr. Greig to explain that information to the Board.

Mr. Greig explained that Willis Towers Watson developed information to provide the Board members with additional rate level changes ranging from -2.0 percent to 2.0 percent. He explained how the projected contribution to equity would fall within those ranges based on the variance of the loss experience. The investment rate ranges from 2.25 to 3.0 and explained that by varying the investment rate it also has an impact on the contribution to equity.

President Hubbard compared the rate making decisions to gas and brake pedals. He said the rate level is represented as the gas pedal and the brake is the dividend program. MSF has hit the range of the targeted reserve to equity ratios and the Board was able to declare a record dividend at $35 million in November 2015. Rates are fairly predictable through wage growth and MSF is a stabilizing force in the market. MSF's rate level decisions have to be sensitive to what is needed in the market and what is coming on the horizon. He said should constitutional challenges to House Bill 334 (HB334) savings that are embedded in MSF's current rate levels go adversely, an immediate response from the Board may be necessary. He said there must be some means of absorbing the unknown issues that may and will arise. He noted that the conservative approach that has been adopted and embraced to date may allow the Board a cushion for addressing any adverse decisions. He said given MSF's financial strength at this point, a rate increase is not necessary in the upcoming year and not needed in this rate action; therefore, management recommends no change to rates.

Mr. Miltenberger thanked Mr. Greig for the well prepared documentation and encouraged management to continue offering these thorough summaries to the Board. He also offered kudos to the MSF management and staff for managing this plan so well that the Board can again look at no rate increase.

Mr. Mihelish asked how the medical inflation estimate at five to six percent was developed because he had been hearing trends of nine and double digits.

Mr. Greig said that when looking at eight, nine or ten years, medical inflation is developing at five and six percent. Then HB334 came into play. When doing the analysis, there is an actual spike in medical severity trends immediately after HB334. Since then, the medical costs have been trending at around two percent per year based on MSF's data. The pharmaceutical side of medical is inflating and is probably where those higher percentages are being experienced.

Mr. Miltenberger added that a lot of the increased medical costs are in the biologics or pharmaceuticals that are intended to treat illnesses like cystic fibrosis, Hepatitis C and arthritis which are not typically work-related injuries.

Chair Zanto asked Bill Wheeler from the Department of Labor and Industry (DLI) if that is the trend they have observed in medical inflation.

Mr. Wheeler said that is the trend DLI has seen and they are in the process of reviewing fee schedule changes for the next fiscal year and pricing was at point seven percent.

Chair Zanto called for additional questions from the Board.

Mr. Mihelish said that after our historic dividend declaration, he received a lot of feedback and the majority of the comments were that the dividend was great but MSF should really consider reducing rates. He said he thought a minus one percent rate reduction would be a nice gesture to the state of Montana and the consumers. He said he was certainly in favor of management's recommendation; however, based on the amount of dividends that have been displayed over the last couple of years, MSF might be able to pull this off and show the state that a minus rate can be delivered.

Chair Zanto said he appreciated Mr. Mihelish's remarks and had been considering a range similar to that described. He asked if the Board did adopt a one percent reduction in rates, would MSF be able to sustain the $35 to $40 million dividend declarations.

President Hubbard explained that this is where the art of the insurance business comes into play. There are a tremendous number of educated assumptions. Though it is nice to give good gestures, the Board and MSF, since 2007, have been consistently delivering decreases or no rate changes and consistently delivering dividends at higher levels, primarily due to the performance of the investment markets. The dividend declarations are not because the rates are too high and the HB334 rate reductions are embedded in MSF's rates. MSF's assets have performed very well in an economic recovery. He said it was not wise policy to offer goodwill gestures in rate levels; the appropriate place to offer those gestures should be through dividends. He said rates should be set on the expected costs of claims and the need to either generate more or no additional contribution to equity and a provision for adverse deviation. He said he recognized that point; however, he cautioned against a rate reduction because the data is essentially saying that zero is as good as it is going to get right now. He asked the Board to show confidence in the research, information and analysis that MSF staff and Willis Towers Watson has provided. He recommended the Board stick with management's recommendation of zero rate change.

Mr. Mihelish said the feedback that he received compared the dividends to the old property tax rebates, and clients would rather have the rates lowered than a rebate.

Mr. Hubbard added that dividends go to the safe policyholders that really contribute to the health of this organization whereas a rate decrease goes to everyone, even the bad actors. He said if MSF and the Board really want to send the right signals about workplace safety, dividends are the way to do it.

Chair Zanto called for more questions or comments.

Ms. Moss noted that she appreciated the discipline and analysis that goes into the recommendation. She said she thought that MSF was in the "sweet spot" with the smoothing out, the predictability and that stability that MSF is experiencing. She said she sees the role of the MSF Board to display some discipline to honor that analysis. In the future, there may be some difficult decisions; however, based on the current environment, they won't cause huge spikes. The Board will have the tools and the ability to navigate in any kind of future developments in a way that does not disrupt policyholders, employees and the businesses in Montana. She said she was very comfortable with management's recommendation and felt the dividend that was declared in 2015 was significant and remarkable and does not believe that will happen in the future to that extent, though she is hopeful the Board can still declare a dividend.

Chair Zanto said this was a good discussion to have and that it would be a much different discussion if it involved a three or five percent increase in rates. He asked Mr. Gengler to provide his information on the loss cost multipliers and components.

B. Loss Cost Multipliers and Components – Dan Gengler, Internal Actuary

Mr. Gengler provided an additional perspective on the loss cost multipliers and their components. He explained how the loss cost multipliers were derived and offered clarification regarding the availability of the investment income in MSF's financials and explained how that interplayed with the rates. Mr. Gengler presented the proposed lost cost multipliers based on a zero rate change. He explained that each of the rate tiers begins with a comparison to the NCCI loss costs. Then provisions for offsets to underwriting programs, general and acquisition expenses, and profit and contingency are added. Profit and contingency is a negative number because it is offset by investment income.

Proposed Loss Cost Multipliers

0% Rate Change

Analysis of LCM Components

	Tier1	Tier2	Tier3	Tier4	Tier5
Loss & LAE	0.725	0.870	0.967	1.160	1.402
Offsets for UW Programs	0.092	0.110	0.123	0.147	0.178
Genl & Acquisition Expense	0.152	0.182	0.203	0.243	0.294
Profit & Contingency	-0.060	-0.072	-0.080	-0.096	-0.116
Loss-Cost Multiplier	**0.909**	**1.091**	**1.212**	**1.454**	**1.757**

Mr. Gengler said the proposed loss cost multipliers depicted above are management's recommended loss cost multipliers.

C. *Adopt Loss Cost Multipliers for new and renewal policies effective July 1, 2016 to July 1, 2017*

Ms. Moss moved the Board to adopt loss-cost multipliers as recommended by management to reflect a 0% overall change in rates and 0% contribution to surplus; to be applied to the loss-costs as approved by the Board, resulting in rates for new and renewal policies effective July 1, 2016 to July 1, 2017 as follows:

For Tier 1, a loss-cost multiplier of 0.909
For Tier 2, a loss-cost multiplier of 1.091
For Tier 3, a loss-cost multiplier of 1.212
For Tier 4, a loss-cost multiplier of 1.454, and
For Tier 5, a loss-cost multiplier of 1.757.

Mr. Miltenberger seconded the motion. Chair Zanto called for questions or discussion from the Board.

Mr. Mihelish said he was supportive of the zero rate change; however, he noted that he felt it important that the Board have the discussion regarding reducing rates and take any opportunity it can to reduce rates for the good of the State of Montana. He said workers' compensation is a burden to small businesses and if the Board has an opportunity to reduce rates outside of the dividends, he feels they should do so.

Chair Zanto said he agreed and noted that he supports the zero rate change because he has an interest in assuring that the dividend picture is not experiencing large fluctuations that are difficult to explain. He would prefer a measured approach in how rates and dividend results are addressed. Though he was hopeful to adopt a one percent reduction, there are a lot of unknowns that need to be taken into account and he supports the zero percent change.

Chair Zanto called for additional discussion from the Board and comments from the public. Seeing none, he called for the vote and the motion passed unanimously.

Mr. Larsen reminded the Board that a motion was necessary to direct management to file the rate plan with the Commissioner.

Mr. Mihelish moved the Board to direct management to file with the Montana Commissioner of Securities and Insurance a rate plan using the rates and premium factors established and *approved by the Board today. Chair Zanto seconded the motion. Chair Zanto called for discussion from the Board and the public. There was none and he called for the vote; the motion passed unanimously.*

V. Reserve and Financial Reports – Montana State Fund

A. Introduction – Laurence Hubbard, President/CEO

President Hubbard thanked the Board for their deliberations and votes. He told the Board that if there are any issues with the filing, which will be submitted to CSI, the Board may have to readdress any necessary changes in a special Board meeting.

He introduced Mr. Vernon to provide the FY15.5 reserve report.

B. Montana State Fund FY15.5 Reserve Report – Russell Greig, Director and Leslie Vernon, Senior Consulting Actuary, Willis Towers Watson

Mr. Vernon provided the reserve report for FY15.5 and explained the analysis objectives to estimate the aggregate amount of unpaid claims benefits and include the provision for claim administration expense, which is the LAE, for the period encompassing July 1, 1990 to December 31, 2015.

He provided a review of the methodologies used to develop the reserve report. He said over the last six months, the change in the total projection of loss is a decrease of $0.8 million or 0.0 percent. He reviewed the diagnostics that were utilized to determine the current downward trend and provided an industry comparative. The estimates have not changed significantly over the past five years. He noted the aggregate amount of unpaid claims benefits is an estimate which means there are several contingencies that can impact future analyses, such as medical costs, benefit changes, litigation or attorney involvement, court cases, economic cycles and social trends and the duration of injury.

Mr. Vernon said medical development patterns have continued to stabilize though development in the past six months is slightly above expectations. He said the indemnity development patterns are generally well behaved and actual payment activity has been slightly below expectations. He noted that medical and indemnity trends are lower compared to trends from the latest ten years; however, claim frequency trends are not decreasing as much.

He said there is a considerable range of uncertainty around Willis Towers Watson's actuarial central estimate; however MSF's equity provides a substantial cushion which is required to support the continued growth of MSF and to minimize impact of unexpected events on MSF's financials. The example he provided showed that if medical inflation rates exceeded long term averages by two percentage points annually for the next ten years, it would increase medical payments by approximately $80.2 million above the actuarial central estimate.

He concluded that the unpaid claim benefits and LAE estimate is:

Medical	$616.1 million
Indemnity	166.6
Unpaid claims administration expense	111.1
Total gross unpaid benefits and administrations	$893.8 million
Reinsurance	(34.5)
Total net unpaid benefits and administration	$859.3 million

The low estimate is $743.5 million and the high estimate is $995.1 million

Chair Zanto called for questions or discussion; there was none.

C. *Montana State Fund Fy15.5 Reserve Recommendations – Laurence Hubbard, President/CEO*
President Hubbard provided information to the Board that supports the graph depicted below which highlights the employers' liability and other states insurance that are not included in the actuary's estimate of recommended losses and LAE. There is also a provision for reserve strengthening that the Board has maintained in MSF's loss reserves of $32.1 million. Willis Towers Watson's estimate is $859.3 million; however, management's recommendation is $900.3 million to account for those additional items.

He then asked Mr. Barry to provide the FY15.5 preliminary financial report to the Board.

Recommended Losses and LAE

As of December 31, 2015 (In Millions)	Willis Towers Watson	MSF
Unpaid Losses	782.7	782.7
LAE	111.1	111.1
Gross Losses and LAE	893.8	893.8
Adjustments:		
Reinsurance	(34.5)	(33.2)
Reserve Strengthening		32.1
Other States/EL		3.0
Additional LAE		4.6
Net Unpaid Losses and LAE	$ 859.3	$ 900.3

Total MSF Recommended Losses and LAE	$ 785.3
	$ 115.0

D. *FY15.5 Preliminary Financial Report – Mark Barry, VP Corporate Support*
Mr. Barry provided additional data regarding the comparison of Willis Towers Watson's estimate and management's recommended estimate for losses and LAE. He provided a review of the current accident year ultimate losses and prior accident year ultimate losses less the cumulative paid. He explained MSF management's adjustments made up of reinsurance recoverables and reserve strengthening.

He provided a summary of MSF's balance sheet showing an investment decrease of $38 million which was driven by a drop in the securities lending collateral. They dropped from $91 million to $28 million by December 31, 2015. He said the Board of Investments (BOI) addressed this reduction in the securities lending program by reducing the number of MSF securities that were loaned out during the second half of 2015.

Mr. Barry provided a review of MSF's loss and LAE reserve and policyholder equity histories. He said that changes in policyholder equity have been erratic primarily due to unrealized gains in the investment markets and principally on the equities side. The significant change in 2015 reflected the Board's release of $32 million in reserve strengthening. He provided a breakdown of the distribution of MSF's assets and a review of the equity investments. He noted that the reserve to equity ratio has dropped slightly, primarily due to the reserve strengthening reduction; however, the 1.78 loss reserve to equity ratio remains strong and stable which means MSF remains financially strong.

He provided a review of the income statement for FY15.5 and explained that the plan was based on a full year; however the results only encompass six months due to the conversion to calendar year reporting from fiscal year. He reviewed the condensed income statement which is provided on the next page.

**FY15.5 Income Statement
Actual vs. ABP**

Condensed Income Statement			
	Actual FY15.5	ABP	%
Net Premium Earned	88,494,811	157,107,000	56.3%
Losses Incurred	64,895,010	126,950,000	51.1%
Loss Expenses Incurred	8,959,545	16,722,000	53.6%
Underwriting Expenses Incurred	11,784,287	27,568,000	42.7%
Net Underwriting Loss	2,855,969	(14,133,000)	120%
Net Investment Income Earned	20,744,298	41,483,000	50.0%
Net Realized Capital Gains (Losses)	983,709	6,137,000	16.0%
Net Income Before Dividends	22,476,724	28,839,000	77.9%

He provided the reconciliation to the GASB net position and clarified that the net unfunded pension liability is not required in the statutory financial statements; however it is required in the GASB statements.

Mr. Barry asked the Board to approve management's recommended total unpaid loss and LAE reserves as presented.

Chair Zanto called for questions; there were none.

E. *Adoption of Montana State Fund FY15.5 Unpaid Loss and Loss Adjustment Expense Reserve Estimate – Laurence Hubbard, President/CEO*
Chair Zanto called for a motion.

Mr. Miltenberger moved that based on the actuary's best estimate of unpaid losses and loss adjustment expenses, adjusted for reinsurance recoverables and for President Hubbard's recommendation for loss reserves for Other States coverage, Employers' Liability, and reserve strengthening, undiscounted as of December 31, 2015, I move we adopt $785,305,845 as the unpaid loss reserve and $114,900,651 as the unpaid loss adjustment expense reserve estimates for the financial statements of the Montana State Fund for the six month period ending on December 31, 2015. Mr. Moss seconded the motion. Chair Zanto called for Board discussion and public comment. He called for the vote and the motion passed unanimously.

VI. Public Meeting on FY15.5 Annual Business Plan

A. *Presentation Results – Shannon Copps, Director of Enterprise Strategy and Project Management*
Ms. Copps presented FY15.5 business plan results, beginning with a report of the Key Success Measures (KSM) depicted below. She noted that the KSMs were targeted for a full year yet measured at six months.

	July 2015- June 2016 Plan	**FY15.5 Result**
Net Earned Premium	$157.1 million	$88.5 million
Fiscal Year Loss Ratio	80.8 %	73.3 %
Expense Ratio	28.2 %	23.4 %
Investment Income	$47.6 million	$21.7 million
Net Operating Income (before dividend)	$28.8 million	$22.5 million

Chair Zanto called for questions; there were none.

She provided a review of the Enterprise-Wide Initiatives which are focused in two main area: 1) Customer Service and 2) Infrastructure. Customer Service includes a Policy and Billing System Replacement project that has been partially met and is multi-year. Phase one seeks to engage the stakeholders to produce high level requirements and establish an estimated schedule and budget based on improved understanding of the regulatory environment and other relevant system decisions. The Infrastructure is a multi-year coordination effort with the Insurance Commissioner to lay the groundwork for implementing regulation of Montana State Fund. This project includes Regulation, Calendar Year Conversion, Rates and Rate Filing and Change Management and Communication. Ms. Copps provided a review of the projects and the completion status to date of each.

Chair Zanto called for questions; there were none.

Mr. Miltenberger left the Board meeting to address a personal schedule conflict.

General Counsel's Office – Curtis Larsen, Interim General Counsel

A. *Administrative Rules – Proposed Amendment to ARM 2.55.502 – Individual Loss Sensitive Dividend Distribution Plan*

Mr. Larsen reminded the Board that in December, they had adopted new underwriting and rating rules and it was mentioned at that time, that the rules may need to be addressed at some point. He said Ms. Weikart had addressed the Board earlier in the meeting about the construction credit program and the changes that were identified there. He said staff were asking the Board to authorize changes to the rules which would then call for a final adoption consideration at the May Board meeting.

He said the administrative rule changes that were being requested applied to policies that are issued prior to July 1, 2016.

B. *Amend Board Policies, Procedures, Rules and Guidelines – Rule 14 – Individual Loss Sensitive Dividend Distribution Plan*

Mr. Larsen noted that for policies that are issued after July 1, 2016, the policies, procedures, rules and guidelines that were adopted by the Board would need to be changed and then adopted at the May meeting.

He said the administrative rules and the policy and guidelines contain a lot of the same provisions and the dividend rule is the same for both sets of rules.

He clarified that while issuing the dividends after the last declaration, staff realized that the rules, as written, excluded individually retrospectively rated policies from the general dividend. When the general dividend process was first implemented, retrospectively rated policies typically did not reach a final determination of premium by the date losses and premiums were valued for purposes of the general dividend. The timing of the dividend process has changed such that retrospectively rated policies are now generally finalized by the dividend valuation date established by the Board. Since the dividend is a fixed amount and is declared by the MSF Board based on capital adequacy, it is now appropriate to allow retrospectively rated policies to participate in the general dividend as long as a final determination of the premium for the retrospectively rated policy has been made.

Mr. Larsen explained that if the Board approved staff to proceed, the proposal would be filed with the Secretary of State's Office and published for public comment. Final approval would be requested from the Board at the May Board meeting.

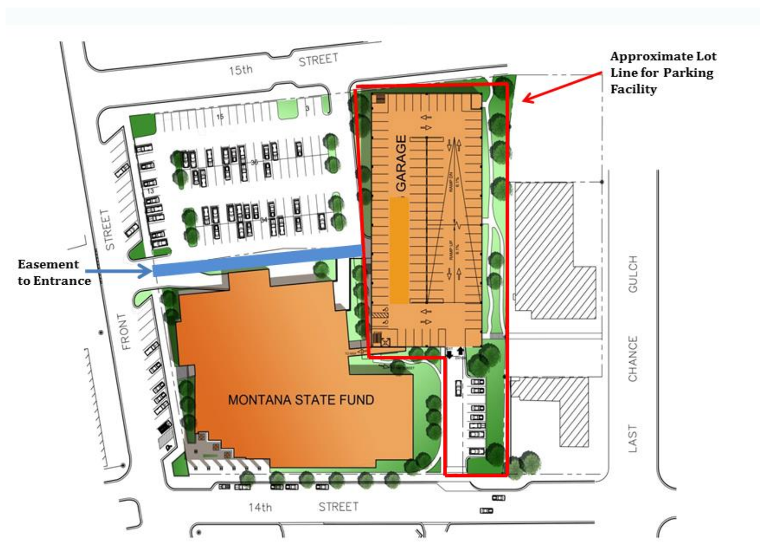
Mr. Mihelish moved to direct staff to proceed to file notice of the proposed amendment to the rule as recommended. Mr. Mohr seconded the motion. Chair Zanto called for discussion and public comment. Seeing none, he called for the vote and the motion passed unanimously.

VII. Miscellaneous – Laurence Hubbard, President/CEO

President Hubbard asked the Board to begin Agenda Item VII with the presentation and discussion on Item C. The Board approved that request.

C. *Potential Purchase of Parking Structure from City of Helena – Mark Barry, VP Corporate Support*

Mr. Barry provided a history of the parking facility utilized by MSF yet owned by the City of Helena (City). He said one of the criteria for MSF to locate in downtown Helena was the available parking for MSF employees. The City agreed to build a parking facility that MSF could occupy and issued bonds to fund the construction of the facility. He said MSF's lease agreement calls for the rental of 350 parking spaces (approximately 360 spaces in the facility) for 30 years and was entered into in June of 2010. The current space rental fee is $71 per month or approximately $298,200 for a year. The City retained the ability to lease spaces not used by MSF on MSF's behalf and reimburse MSF for the revenue stream for those rentals. Last year, MSF received $11,265 for spaces rented on behalf of MSF. The original agreement states that upon expiration of the agreement, MSF can continue to lease this location; however, not at the current rental rate.



Mr. Barry explained that the rental costs that MSF pays only cover about half of the costs of that facility for the City; the other half is spread among the City's parking facilities in downtown Helena. He said that is one of the reasons the City approached MSF about purchasing the garage. The map depicted above outlines the parking facility and the blue line indicates the easement the City would have to grant to MSF for access to the facility. It cost $28 million to build the MSF building and included the land cost of $1.1 million. The original cost of the parking facility was $6.9 million and the allocated land cost was $833,800.

Once approached by the City, MSF contracted for an appraisal from Elkhorn Appraisal Services which valued the building at $28 million and the parking structure at $7.5 million. The value if the properties were combined is $37 million which adds $1.5 million or 4.2 percent to the property worth for MSF. The allocation of the added $1.5 million would value the MSF building at

$29,183,099 and the parking structure at $7,816,901. The City has offered the parking structure to MSF for $7.7 million

Mr. Barry provided an analysis of lease versus purchase options for a term of 25 years. He showed the Board what possible investment income might be if the Board chose not to move forward with purchasing the parking structure as well as rented space income and appreciation. The analysis included an assumption of $500,000 for maintenance each year. The very conservative assumptions that were built into the analysis indicated MSF would break even on the parking structure purchase at the 27-year mark.

He listed the reasons to purchase the parking structure: the combined properties have a higher value, if the MSF building were sold, an attached parking structure would offer a better option for the purchaser, the agreement states that the building must be sold to a local or state entity while bonds are outstanding, there is uncertainty in cost increase after 25 years, the parking facility enhances employee engagement and this is an opportunity for expansion.

He also listed the reasons not to acquire: MSF is assured of parking for 25 years, plus can continue to lease after the agreement terminates, cash outlay for the purchase reduces investment income on those funds, additional maintenance, management and administration in an area that is not a core function of MSF and it discourages alternative transportation means for employees.

Mr. Barry said management's recommendation was for the Board to approve the management team to continue working with the City of Helena on terms of ownership transfer, investigate facility management options and provide final acquisition recommendations with terms and conditions to the Board at the May Board meeting.

Mr. Barry invited Ron Alles, City Manager, City of Helena to address the Board.

Mr. Alles thanked the Board for the opportunity to address them. He said that while working through the City's parking budget a few years ago, they identified some issues. In 2009, the City issued an $8.9 million bond to build and acquire the parking structure attached to MSF. The Helena parking commission has an operating budget of $2 million and of that, 90 percent is derived from permit revenue. For the parking structure attached to MSF, the City pays $600,000 per year in debt service. Within the commission's parking budget, the $600,000 is offset by $300,000 in revenues from MSF. In order to account for the $300,000 budget deficit, the City must increase parking prices throughout the greater Helena area. That causes parking fees to increase yearly by three to five percent.

He said his staff recommended offering to sell the parking structure to MSF because, on a short term basis, it means consistent parking rates for the Helena area rather than addressing necessary rate increases each year. He said for the long term, his preference would be for the City to maintain ownership of the garage but felt stabilizing the parking rates for the businesses in downtown Helena was a more compelling consideration at this time. He added that the City has taken measures to lower the operational costs to address some of the budget deficit but that has also meant deferring some heavy maintenance. The City is hopeful they can better address the budget deficit by either refinancing the current bonds or selling the parking structure to MSF.

Mr. Alles said he believed MSF purchasing the parking structure would offer an advantage to both the City of Helena and MSF. He said there is additional due diligence to complete this transaction including contracting for another appraisal.

Chair Zanto called for questions.

Mr. Mihelish asked Mr. Alles, based on his experience, if it was a reasonable assumption that maintenance would cost $500,000 every five years.

Mr. Alles said he believed that was a conservative number and was on the high side. He said that some items, such as replacing a surface on a deck can be quite costly but not as high as assumed.

Chair Zanto asked if the current footprint of the garage, being connected to MSF, caused problems for the City or parking commission.

Mr. Alles said it did not. The City would have to develop a subdivision and provide a permanent access easement for MSF to be able to enter both sides of the building.

President Hubbard thanked Mr. Alles for attending. He asked Mr. Alles, for the record, to clarify that the City of Helena approached MSF with this proposal.

Mr. Alles said absolutely.

President Hubbard asked Mr. Alles if there were an impediment for MSF to move forward at this time, would he view this as a lost opportunity or would the purchase be a possibility in the future.

Mr. Alles said if MSF is unable to act now, it would probably be a lost opportunity. The City is looking at refinancing the bonds to save about $60,000 per year which would close the option to buy for ten years. The City is fast approaching the trigger to either refinance or sell.

Mr. Mihelish asked if the $7.7 million price tag were negotiable?

Mr. Alles said he would not tell the Board no; however, the City owes roughly $8.1 million on the debt and the City would have to address any shortages through rates imposed by the parking commission.

Ms. Moss asked if MSF acquires the building and has leasing revenue, would MSF be required to pay unrelated business taxes on that revenue.

Mr. Alles said he did not believe so; however, he stated he was not a tax expert. He added that given the current arrangement the City has with MSF, if MSF purchased the structure and then leased parking spaces, that would mean direct income for MSF and the proper rules on taxes would have to be followed.

Mr. Hubbard assured Ms. Moss that MSF would seek tax counsel on that issue.

Chair Zanto called for additional questions; seeing none, he called for the motion.

Mr. Mohr moved the Board approve management moving forward with negotiations with the City of Helena for the purchase of the parking structure adjacent to the Montana State Fund office building. And if those negotiations are satisfactory, that that matter be brought back to the Board in May for the Board's final approval of the purchase. Mr. Owens seconded the motion. Chair Zanto called for additional discussion and public comment.

Representative Ryan Lynch thanked the Chair and said that upon initial blush, he was wondering why MSF was considering purchasing a parking garage. He said Helena should probably compliment their City Manager for getting creative and looking at all options and coming up with alternatives. Clearly he is trying to run programs and assure that the City is flush with cash and can provide the services that the City needs to continue to do business.

He said for the Board's role, today, it is appropriate to go forward to see where this leads. He said he did have some questions on some of the numbers and wondered if there is room for growth. He said MSF currently rents 350 spots and is technically paying for the garage though apparently not fully funding it which is an issue, as Mr. Alles indicated.

Rep. Lynch said if MSF proceeds with this purchase, there needs to be a clear explanation as to why this is being done and how best to do it. He said his initial conversations with other legislators elicited non-favorable responses that MSF did not need another building. He cautioned the Board to assure there is some sort of communication plan to roll this out. He said Mr. Alles appears flexible and willing to work with MSF. Rep. Lynch said he believed there is some merit to the proposal and MSF should investigate and evaluate it.

He asked if there could be a public procurement issue if this is Helena surplus property and would have to go out for bid. Would a private investor also be allowed to bid and would that be transferable. He also added that the purchase pencils out in 27 years if every assumption is correct. He asked if considerations had addressed such changes as charging a management fee or if MSF decided to not provide parking for employees? He said he could not speak for every state agency but he did not know if there were other state agencies that did provide that service or not. He said it was well worth going through the process; however, there is a conversation that needs to happen and due diligence needs to be done. He commended the MSF Management Team as well as the City of Helena for having this conversation and looking at alternatives.

Chair Zanto thanked Rep. Lynch and noted that his point was well taken and did not fall on deaf ears. Mr. Zanto asked Mr. Alles if he would be available to help sell the issue if necessary.

Mr. Alles promised his support.

Ms. Moss said perhaps there is a way to seek information from legislators or other stakeholders that would have interest in this potential transaction. She said she supports the partnerships and good-neighbor policies between the municipal governments and the state government and entities like MSF; however, MSF operates in a much broader footprint, the footprint of Montana. She said she felt the Board needed to consider that in its deliberations and be aware that a new legislative session is approaching. She said those relationships we have are very important and will help us move forward.

President Hubbard noted that MSF works hard, as an entity, to maintain a degree of transparency with the public and the legislators. He commended and thanked Rep. Lynch and Senator Gordon Vance for attending and participating in the Board meetings. He said that is an important factor in building the credibility of this organization and maintaining that credibility. He said he is also pragmatic and if something becomes a political anchor, it does not matter how legitimate the business decision might be, the politics would prevail. He said he views this transaction as a business person would and sees it as a business decision. He said his fiduciary obligation as an executive officer for MSF is to bring these business matters to the Board for their consideration. MSF must operate like an insurance company and is granted the legislative power to own property. However, trying to build understanding remains very important and his intent is to spend the next couple of months working on final sales numbers to present to the Board but also working with Rep. Lynch and Sen. Vance to communicate with other legislative stakeholders so that this does not become a lightning rod issue as other issues have in the past. He noted that MSF made a strategic decision to locate in downtown Helena, negotiated and achieved a very positive deal with the City of Helena regarding the parking garage which was mutually beneficial. He said we are a community here and citizens of Helena as a corporate body. He said he is hopeful that the pros and cons can be conveyed to those who may be sitting in judgement and not have a close eye on the details so that though they may not be supportive, this issue does not become an anchor for MSF.

Mr. Mihelish thanked Rep. Lynch and Ms. Moss for their comments which really center from the political side of things. He said he is not from that side of things, he is a commercial property holder in Helena and he sees this purchase as an opportunity for MSF. He said this is more than an opportunity, it is probably a window because it is only going to last so long. He said he found Mr. Barry's pro forma analysis a bit conservative; however, he did appreciate that management was playing it safe. He said in Helena, he believed commercial property values, including parking garages, are only going to increase and the proposed costs of the garage are reasonable numbers that are worth pursuing. He said renting makes sense if MSF is going to be here temporarily but when looking 25, 30 or 40 years into the future, owning the parking garage only makes sense. He noted that Blue Cross Blue Shield of Montana is moving out of downtown Helena and the primary reason is due to the inability to find parking for their employees. He said this transaction would not impact MSF's reserves and, though politically, we have to tread lightly, as far as being a good business decision, it was an easy call.

Chair Zanto asked that all the Board members help support this effort over the next few months to investigate this proposal and come to a good conclusion that supports MSF management and staff.

Chair Zanto called for additional Board comments and public comment; there were none. He called for the vote and the motion passed unanimously. Chair Zanto added that Board member Jan VanRiper was unable to attend this meeting; however, she asked the Chair to express her support of this proposal and motion.

A. Miscellaneous

President Hubbard had no miscellaneous items to discuss.

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

Rene Martello, Controller, provided the Internal Audit Report for Ms. Grosfield who was unable to attend. Ms. Martello reported that the Blue Cover Audit Report for 2015 was sent electronically by President Hubbard earlier in the week. This report was completed some time ago and the audit opinion was received in December; however, the Legislative Audit Committee (LAC) just heard the report on February 3, 2016. The report is not released or distributed until LAC conducts a hearing on the report. MSF received a clean audit with no recommendations made from the auditors and the LAC commended MSF for receiving a good report. The questions that the Committee asked during the hearing were geared towards the new regulatory structure and were not related to the financials.

Also at that meeting, LAC received a follow up review regarding the premium performance audit. The performance audit was dated January 2014 and this review was to determine if the eight audit recommendations had been implemented. The performance audit report indicated that MSF had implemented the appropriate controls for all of the recommendations.

She reported that LAD will be returning to MSF in April to begin the audit report for the six-month conversion period with results as of December 31 for the State's CAFR audit.

The State of Montana CAFR was issued on Monday, March 7, 2016 and the state received a clean audit opinion. With this reporting cycle, the Old Fund was assumed as part of the governmental activities of the State of Montana. In previous years, that was lumped in with MSF; however that has now been separated from the New Fund.

She said that Eide Bailly, MSF's independent auditors will be auditing the six-month period as well. MSF has been providing a large amount of the information in advance of Eide Bailly's on-site review. Receiving the final reserve approval from the Board today will provide the last information item needed for completion of the financials. Eide Bailly will be completing audit testing on premium calculations by pulling a sample of polices and claims as well as conducting on-site interviews. The audit work will be completed off site and the final report will be submitted in time for the May Board meeting.

Ms. Martello said Ms. Grosfield, as the internal auditor, has seen a lot of activity since her December report. She reviewed the agent incentive calculation which was distributed to 17 producing agencies for a total of incentive payments of $2,253,636. The projected budget for this item was $2.3 million. This agent incentive distribution was the largest MSF has paid out due to the agents success with the profitability measure and retention.

Ms. Grosfield also audited the personal leave and excess leave payout calculations. These are an annual evaluation. Once an employee has accrued a certain amount of personal leave, a payout is required. The total payout was $147,000 and involved 38 MSF employees.

Mr. Martello said that Ms. Grosfield also reviewed and monitored the merit review process. She said this process typically followed the fiscal year for evaluation; however, with the calendar year conversion, MSF has moved those evaluations to the end of the calendar year. Performance reviews were completed and based on that analysis total merit of $240,650 adjustments were provided to MSF employees based on their performance the previous six months.

Ms. Grosfield also reviewed the State of Montana Agency Group Plan Return and tested the retention plan factors and the calculations based on the agreement with state agencies. Fifteen agencies will receive a return for approximately $1.4 million.

Chair Zanto called for questions; there were none.

D. *Budget Variance Reports as of December 31, 2015 – Rene Martello, Controller*

Ms. Martello provided the budget variance report for the six month period ending December 31, 2015. The total annual budget approved was $178.3 million and actuals as of December 31, 2015 were $87 million which means 48.8 percent of the budget spent.

She said the half year projection for claims benefits was $62.6 million and the actual expenditure was $61.5. Operational expenditures were planned at $26.5 million and were also under at $25.6 million. She said indemnity benefit payments were close and on track for the year with $18.2 million spent or $688,090 under. Medical benefits were budgeted at a higher level in consideration of medical settlements and increased activity and that was also very close to planned. The Other States Coverage expenditure was slightly over by $6,019.

Ms. Martello said operational expenditures were also very close to being on track. Despite being slightly over budget on equipment and ALAE, personal services and operating expenses were slightly under which resulted in total operational expenses being under by 3.5 percent or $917,000.

MSF Budget Status FY 2015.5

Variances	Annual Budget	Expenditues	Estimated Budget	Estimated Budget
Under Budget				
Software Maintenance Contracts	$632,098	$334,811	$297,287	53.0%
ABP & ESPM Projects	$590,005	$293,930	$296,075	49.8%
Parking	$144,900	($11,265)	$156,165	-7.8%
Software Subscriptions	$200,589	$98,826	$101,763	49.3%
OSC program mgmt. fees	$299,000	$197,521	$101,479	66.1%
Over Budget				
Commissons	$5,392,744	$5,952,493	($559,749)	110.4%
Independent Actuary	$173,225	$267,164	($93,939)	154.2%

Ms. Martello said the under budget variances are driven by timing and comparison methodology. She explained that MSF had converted paying for the parking garage leasing from a fiscal year basis to a calendar year prior to entering the six-month period. There was no expense for it during that time period; however, MSF did collect the revenue for it. The full annual payment for the parking lease was due and paid in January 2016. She explained the over budget area; 1) commissions are over due to increased premium collections for this period and 2) independent actuary review work and services were completed in the six months and though anticipated, the timing of when this was paid reflects an over budget item.

Ms. Martello summarized that overall MSF is on track with the planned budget and was slightly under budget for half of the originally approved budget. An update on the status of the new CY16 budget will be provided at the next Board meeting.

Chair Zanto called for questions; there were none.

Ms. Martello provided a budget variance review of the Old Fund. She noted that the Old Fund reports will remain on a fiscal year basis and this report was for the second quarter of the 2016 fiscal year. The funding for the Old Fund will continue to come from the General Fund. She said the Old Fund is projected to expend more than the funding estimate by $1.3 million or 15% due primarily to claim benefit payments. The claim benefit payments were $1.25 million or 17% above estimate due to medical settlements in the Old Fund.

She said operating expenses which include administrative cost, the DLI assessment, and the Allocated Loss Adjustment Expense (ALAE) are about $17,000 or 1.6% over the initial estimate. The overage for operational expenses is due to medical consultants and increased medical processing costs.

Chair Zanto called for questions; there were none.

President Hubbard took a moment to introduce Sam Heigh as the new Vice President of Operations Support. He said he is delighted that Ms. Heigh took the risk to compete for the position. He noted that she is a very knowledgeable insurance executive and has extensive experience on the business side as well as experience leading the enterprise applications function in the IT Department. Her background, skills and experience with MSF make her a wonderful addition to the Executive Team.

VIII. Old Business/New Business

Chair Zanto called for old and new business; there were none.

IX. Public Comment

Chair Zanto called for public comment. Seeing none, he adjourned the meeting.

The meeting was adjourned at 3:30 p.m. The next regularly scheduled Board meeting will be held on Friday, May 13, 2016 at Montana State Fund, 855 Front Street, Helena, Montana.

Respectfully submitted,

Verna Boucher
Special Assistant to the President/CEO