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MONTANA STATE FUND
BOARD MEETING
December 15, 2017

The Montana State Fund (MSF) Board meeting was held December 15, 2017 at Montana State Fund, 855 Front Street, Helena, Montana.

Directors Attending

Lance Zanto, Helena
Jack Owens, Missoula
Jim Molloy, Helena
Jan VanRiper, Helena (telephonically)
Cliff Larsen, Missoula

MSF Staff Attending

Laurence Hubbard, President/CEO
Verna Boucher, Spec Asst to Pres/CEO
Kevin Braun, General Counsel
Mark Barry, Corporate Support VP
Julie Jenkinson, Insurance Operations VP
Sam Heigh, Operations Support VP
Al Parisian, Chief Information Officer
Rick Duane, Human Resources VP
Nick Hopkins, Marketing Director
Greg Overturf, Assistant General Counsel
Rene Martello, Controller
Christy Weikart, Underwriting Services Dir
Patti Grosfield, Internal Auditor
Shannon Copps, Director, ESPM
Kurstin Adamson, ERM Risk Specialist
Dan Gengler, Internal Actuary
Peter Strauss, Compliance Officer
Tammy Lynn, Safety Services Director
Darcy Dunlap, Actuary Analyst
John Wilkins, Financial Analyst

Others Attending

Representative Vince Ricci
Bob Biskupiak, CSI
Russ Ehman, CSI
Bill Wheeler, DOLI
Sonia Powell, OBPP
Richard Miltenberger, InterWest Health
Russell Greig, Willis Towers Watson
Tapio Boles, Willis Towers Watson
Bridger Mahlum, Montana Chamber

I. Meeting Preliminaries

A. *Call to Order*

Chair Lance Zanto called the meeting to order at 8:40 a.m. Chair Zanto thanked everyone for attending and noted that Bob Biskupiak from the Commissioner of Securities and Insurance (CSI) office, Legislative Liaison to the Economic Affairs Interim Committee (EAIC) Representative Vince Ricci and Bridger Mahlum from the Montana Chamber of Commerce were in attendance. He noted that special guest Richard Miltenberger, former Board member was in attendance.

B. *Approval of September 15, 2017 and November 10, 2017 Minutes*

Chair Zanto said the first order of business was approval of the Board meeting minutes from September 15, 2017 and November 10, 2017, and asked for a motion.

Mr. Molloy made a motion to approve the September 15, 2017 and the November 10, 2017 minutes. The motion was seconded by Mr. Owens. Chair Zanto called for discussion from the Board, MSF Staff and members of the public. There being none, he called for the vote and the motion passed unanimously.

II. Miscellaneous – Laurence Hubbard, President/CEO

A. Miscellaneous

President Hubbard welcomed the attendees and thanked the Board for attending. He noted that Board members Matt Mohr and Lynda Moss were unable to attend today and shared that Mr. Mohr was in California fighting the wildfires and he wished him well.

He took a moment to recognize outgoing Board members Bruce Mihelish and Richard Miltenberger, noting that Mr. Mihelish was unable to attend. He said their terms expired at the end of April 2017; however, they graciously served until Jim Molloy and Cliff Larsen were appointed by the Governor. He commented that Board members never get enough credit for their service on MSF's Board and said he thought the new Board members were just discovering the amount of information and intricacies that are involved in the operation of MSF. He said Mr. Miltenberger's service to MSF had been remarkable on many levels; bringing fresh ideas and perspective to the Board. Mr. Hubbard presented him with a thank you gift and thanked him on behalf of the MSF management team for the tremendous public service he has provided to Montana and MSF's customers.

President Hubbard then provided an update on the Medical Billing Review Request For Proposal (RFP). He noted that MSF spends a substantial amount of money each year in medical payments and uses a vendor service to process those payments. The RFP response submission deadline is December 15, 2017 as the current contract with Conduent will expire in December 2018. Sam Heigh, Vice President, Operations and Michele Fairclough, Medical Services Director will lead a review team over the next few months to grade the proposals and make a selection. This process will take staff time as well as information technology resources to integrate the new systems. Further updates as the process continues will be provided to the Board as information becomes available.

President Hubbard noted that he previously provided the Board with a copy of the Legislative Audit for MSF for the Calendar Year ending December 31, 2016. He said the Legislative Audit Committee met and reviewed that audit report and Patti Grosfield, Internal Auditor, and other MSF staff attended to provide question responses if necessary. He said there were no questions from the Committee and the audit statements were approved without modification which means once again, MSF received a clean audit report.

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

Ms. Grosfield provided a report on the internal and external audits. She took a moment to introduce herself and explain the internal audit function to the new Board members. She added that MSF's full Board of Directors serves as the Audit Committee for MSF. She noted that the internal audit function is governed by the Board-approved MSF Internal Audit Charter which is available in the Board Member Handbook. She said her door is open to all Board members and would greatly appreciate any comments, feedback and suggestions the Board wished to provide.

Externally

She explained that MSF prepares two full sets of financial statements; a governmental set and a statutory financial statement set. The statutory basis audit or insurance basis audit is based on the National Association of Insurance Commissioners' (NAIC) promulgated rules and standards.

Ms. Grosfield said the statutory auditors, Eide Bailly, LLP, an independent audit firm well versed as insurance experts, was on site December 11-15, 2017. They will return to complete their fieldwork on February 5-16, 2018 although a lot of their work will be completed off-site. They will provide their final report by April 2018.

She reported that the Legislative Audit Committee (LAC) was presented with the Blue Cover or CY16 GASB (governmental) Financial Statements audit report on December 13, 2017. MSF staff were present to provide a response and take questions, though there were no questions. The audit report was an unmodified opinion with no recommendations and she offered kudos to MSF's financial department and other MSF staff.

Ms. Grosfield said MSF is expecting the Legislative Audit Division (LAD) auditors to be on-site March or April 2018 to begin the CY17 GASB Financial Compliance audit.

Internally
She mentioned that she would be completing the audit report, though not yet done, of MSF Scholarships which is a program to assist spouses and/or children of workers fatally injured in a work-related accident. To date, over $300,000 have been awarded in scholarships since 2002. She provided further program details and requirements.

She said the dividend audit of the $40 million declaration made by the Board of Directors at the September 15, 2017 Board meeting has been completed. She noted that audit seeks to assure adherence to the MSF dividend policy, Board established parameters and statute. MSF calculated, audited and processed dividends, and 23,156 policies received a total of $40,002,289. State Agencies received $1,430,026 of that total.

She said in coming months she will complete audits on the agent incentive program and payouts, coordinate with external auditors and MSF staff on CY2017 financial audits, employee leave plans, the merit-based pay-for-performance program, the Enterprise Risk Management (ERM) Top Risks, and conduct the annual review of the Code of Conduct and Data Confidentiality and Acceptable Use policies for MSF staff.

Ms. Grosfield presented the proposed 2018 Internal Audit Plan and provided a brief history. She said per MSF's internal audit charter, the Internal Auditor reports functionally and administratively to the President/CEO and reports functionally to the Board. She said best practices indicate that Board approval of the plan is optimal. She requested the Board approve the plan as presented.

Chair Zanto called for a motion.

Chair Zanto made a motion to approve the Calendar Year 2018 Internal Audit Schedule. Mr. Molloy seconded the motion. Chair Zanto called for discussion and comments from Board members and the public. Seeing none, he called for the vote and the motion passed unanimously.

Ms. Grosfield then provided a review of the disclosure forms that must now be completed by Board members. She said each year MSF employees are issued an updated MSF Code of Conduct as well as a Data Confidentiality and Acceptable Use Policy for review and signature. Based on the recent Report of Financial Examination recommendation from the CSI office, best practices indicate that Board members complete the acknowledgement and disclosure forms for each policy. She also reported that for those Board members who also serve or work for a "public" entity, a Multiple Public Employment Disclosure form must be completed and submitted to the Commissioner of Political Practices each year by December 15.

Chair Zanto asked that Board members ensure they complete the Code of Conduct. He reminded presenters to speak into the microphones so there will be full audio for the live stream session. He then called on Al Parisian for his presentation.

C. Data Information Technology Security – Al Parisian, CIO

Mr. Parisian provided a brief history of examples of data security breaches and explained how the technological environment of today places private people as well as companies, at greater risk. He concentrated his presentation on three main categories: a. risks arising from engaging in digital business with others, b. risks arising from internet activity and c. risks arising from participating in networks and social media. He provided a variety of examples addressing each risk category, including personal and professional anecdotes about Roomba, smart doorbells, smart TVs, free WiFi access in public places and the fixes, if any, that had to be developed to address the concerns that arose from breaches of these and other products. He said our connectivity to the internet allows for unintended open doors of access to our personal and professional digital environments and he urged Board and audience members to take steps to protect themselves in the digital universe as is done at MSF.

Chair Zanto called for questions; there were none.

D. Financial Condition Examination Update

President Hubbard provided a brief update on CSI's Financial Conduct Examination recently conducted and completed. He noted that this is the first financial conduct examination MSF has undergone since becoming regulated by the Insurance Commissioner in January 2016. Copies of the full report were supplied to Board members. He said there were no findings; however, there were three recommendations. One was the Code of Conduct and Conflict of Interest Statement should be issued to and signed off on by the Board of Directors. The second was that one of the Board of Directors appointees should have professional financial expertise. He noted that the makeup of MSF's Board is found in Title 2 and the recommended financial expertise requirement is not included in the current language. The language would have to be changed by the Legislature and approved by the Governor and MSF would welcome that change, if made. The third recommendation was that MSF educate stakeholders and policymakers on the need for insurance companies, particularly MSF, to have adequate equity or surplus. He explained that surplus is not 'extra' or unneeded money; it is there to assure the long-term financial stability of the organization. He said MSF agrees with that in terms of assuring that high-quality reliable information is provided to policymakers so that they understand the need for adequate levels of surplus at MSF.

He explained that once the Board members have reviewed the financial conduct report, each member is required to sign an affidavit that is to be submitted with MSF's final response to the Commissioner's office which will conclude the examination.

Chair Zanto asked if all Board members have completed their affidavits.

President Hubbard said completion of the affidavits is in process and are due with the final submission on January 6, 2018.

Chair Zanto called for questions.

E. Senate Joint Resolution 27

President Hubbard updated the Board on the discussion and next proposed steps taken at the November 8, 2017 subcommittee meeting of the Economic Affairs Interim Committee (EAIC). During the 2017 Legislative Session, now Chair of the EAIC, Senator Gordon Vance, sponsored study bill Senate Joint Resolution 27 to review the options for MSF's future. The subcommittee is now considering a number of options; including elimination of MSF, mutualizing or privatizing MSF, or if a change to current structure is necessary. The first meeting of the subcommittee was

November 8 and included several informational presentations; one of which was an overview of the three-way workers' compensation system Montana currently has by Nancy Butler, Deputy State Auditor. Montana's system is a competitive three-way system with a State Fund that serves as an alternative to private insurance as well as the guaranteed market for small businesses that cannot obtain insurance in the voluntary market. Her presentation included how the claim and benefit structure is regulated by the Department of Labor and Industry (DOLI) and that Montana's insurance companies are regulated by CSI. The subcommittee heard from a panel of employers who provided information on workers' compensation insurance availability and the competitiveness of the Montana market. Mr. Hubbard presented on a panel with other insurance company executives who provided the insurance companies' perspective on Montana's competitive environment. While it may seem that as a public non-profit, MSF enjoys certain benefits by not paying premium taxes and being exempt from punitive damages in bad faith claims; in exchange, MSF carries the sole guaranteed-market responsibility and must take all comers. He noted there was also a presentation on Maine's experience in mutualizing a public entity from John Leonard, former President/CEO of the Maine Employers Mutual Insurance Company. The final panel provided a view of how various states handle the involuntary or residual market, which typically involves high-risk business or very small businesses. He explained the difficulty in defining what a residual market is lies in the nature of how each state addresses this need. The residual market is defined solely by what private insurance companies want to write in their voluntary book of business. There must be some mechanism to provide mandatory workers' compensation insurance which is done through a number of vehicles: state funds, monopolistic states such as the North Dakota state agency, and there are wholly private mechanisms where the state or the National Council on Compensation Insurance (NCCI) provide residual market administrative services. He said Montana's approach happens to be with a competitive state fund. He noted that Cliff Barrett from NCCI and Bruce Hockman, who had been retained by MSF, presented the various alternative market mechanism within each jurisdiction and provided the committee with perspective about the impacts of various administrations, including assigned risk pools.

Chair Zanto sought to confirm that Mr. Hockman was retained at the request of the committee; however, President Hubbard clarified that MSF had retained him well before the committee's request that Mr. Hockman present. He said Mr. Hockman has appeared before the EAIC before and they seem to appreciate his perspective. Mr. Hockman's background includes time as an insurance intermediary working with state funds as well as private companies and a stint as a regulator in Pennsylvania which amounts to quite a bit of experience in workers' compensation.

President Hubbard stated that the EAIC will reconvene on February 7, 2018 and the subcommittee will meet on February 8, 2018. The agenda has not yet been developed; however, when available, MSF will notify the Board. He said ultimately, the subcommittee is trying to formulate a direction as a recommendation to the legislature as to what alternatives they support.

Chair Zanto added that he is a member of the Labor Management Advisory Council (LMAC) and at their recent Board meeting, DOLI presented, at the Board's request, the Oregon study of workers' compensation and the rankings to help clarify for legislators where Montana actually sits.

III. Reserve Reports – Montana State Fund

A. Introduction – Laurence Hubbard, President/CEO

President Hubbard explained that this Board meeting would include two major decisions by the Board; 1) reserve recommendations for loss and loss adjustment expense for purposes of MSF's calendar year financial reports and 2) approval of the annual business plan and budget for calendar year 2018. He introduced Russell Greig, Director from Willis Towers Watson and Tapio Boles to present their reserve report.

B. *Montana State Fund Calendar 2017 Reserve Report – Russell Greig, Director, Willis Towers Watson*

Mr. Greig said the objective of Willis Towers Watson's (WTW) analysis was to provide an aggregate amount of the unpaid claims benefits and include a provision for claim administration expense or LAE. He provided a review of the methodologies that were used to determine the aggregate amount of unpaid claims and explained how each was applied. He reported that over the last twelve months, the change in WTW's total projection for prior AYs was $4.2 million lower.

Mr. Greig said uncertainty is embedded in every actuarial and financial model because the aggregate amount of unpaid claims is an estimate. Therefore, there are several contingencies that can impact future analyses. Medical costs may increase more than expected due to medical technology, utilization and higher frequency of severe diagnosis. Frequency and severity trends can fluctuate and benefit changes can result from law changes and/or court decisions and the level of attorney involvement. The expansion and contraction of economic cycles and social trends can have an effect, as well as the duration of injuries.

He said medical development patterns continued to stabilize as claim development in the past twelve months has been below expectations. Actual medical payments were below projections by $700,000 for the past twelve months. He said WTW believes due to statutory changes in 1991 and 2011 as well as changes in claim management, MSF will have favorable "tail" development in the future. Indemnity development patterns have been generally well-behaved and actual payments have been $1.6 million below expected in the past twelve months. He said that recent trends for both medical and indemnity are lower compared to trends from the latest ten years. The recent claim frequency trends are not decreasing as much medical and indemnity; however, frequency dropping is a positive development.

Mr. Greig said the total actuarial central estimated of unpaid benefits as of December 31, 2017 is $623 million for medical and $159.4 million for indemnity for a total of $782.4 million before gross of reinsurance. He said there is inherent uncertainty in every actuarial analysis and as a result there is a significant range around the unpaid loss actuarial central estimate:

Low estimate	Actuarial Central Estimate	High Estimate
$701.4 million	$782.4 million	$895.7 million

He said as required, MSF's equity exists to absorb adverse reserve development as it is more likely than not that MSF will be dealing with adverse reserve development versus favorable reserve development. Policyholder equity is there to also support the continued growth in MSF's undiscounted loss and loss adjustment expense and to minimize the impact of unexpected events on MSF's financials. He said, for example, MSF's equity could be significantly impacted if medical inflation rates exceed long term averages by two percentage points annually for the next ten years. The impact would be an increase of approximately $100.5 million above the actuarial central estimate. Those additional costs would have to be funded from MSF's policyholder equity and could not be recouped by ratemaking. He said ratemaking is prospective and ratemaking cannot collect for past unfavorable development.

Mr. Greig explained that WTW's estimates include considerations regarding MSF's reinsurance programs and establishing a claim administration expense; the selected provision is 14.3 percent of future loss payment which recognizes that a significant portion of LAE occurs when the claim is first filed.

He provided a review of the overall conclusion depicted below and offered to take questions.

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Overall Conclusion as of December 31, 2017

- Unpaid claims benefits & LAE – Actuarial Central Estimate

Medical	$623.0 million
Indemnity	159.4
Unpaid claims administration expense	111.9
Total gross unpaid benefits & administration	$894.2 million
Reinsurance	(13.1)
Total net unpaid benefits & administration	$881.1 million

- Considerable uncertainty is associated with projections of unpaid claims & LAE
  - Low estimate, $766.5 million
  - High estimate, $1,016.7 million

http://natct.internal.towerswatson.com/clients/608626/MSF12312017ReservesAnalysis/Documents/5_Work/MSF%20Unpd%20Claims%20-%20Board%20Meeting%20Presentation%20Dec%202017.pptx
Willis Towers Watson 31

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

President Hubbard thanked Mr. Greig for his presentation and asked him to explain what discounting is and why MSF does not practice discounting ultimate liabilities or reserves and why that is a best practice.

Mr. Greig said it goes back to the fundamental difference between statutory accounting principles and GAAP accounting principles. GAAP focuses on looking at a company as a going concern and statutory accounting is keen on looking at a company from a very conservative view. Statutory accounting looks at the company from a liquidation standpoint so everything related to statutory accounting is looking at the balance sheet. GAAP is looking at the income statement. The key tenant of finance is that a dollar in the future is worth less than a dollar today which is the time value of money. Statutory accounting recognizes that truth; however, it does not allow loss reserves to be discounted because that is an additional measure of conservatism. Property/casualty companies in the United States are not allowed to discount their reserves even though it is common knowledge that discounting reserves is a better economic view of the reserves.

Chair Zanto called for more questions; there were none.
Ms. VanRiper took a moment to compliment Mr. Greig on his presentation. She said she has heard similar presentations; however, found this one to be much clearer and more informative.

C. Montana State Fund Calendar Year 2017 Reserve Recommendations – Laurence Hubbard, President/CEO

President Hubbard presented management's recommended loss and LAE reconciliation. He explained that there are additional items, such as reserve strengthening, other states exposure/employers' liability and additional LAE that are necessary to address when the Board is adopting MSF's loss and LAE. Management recommends a slightly more conservative estimation of net unpaid losses and LAE at $921 million.

He said the Willis Towers Watson (WTW) reserve estimates carry a range of reasonable anticipated liabilities, all of which are reasonable potential outcomes for ultimate liabilities:

Willis Towers Watson Range		
Low Estimate	Central Estimate	High Estimate
766.5	881.1	1,016.7

Montana's statutes require a more-than-necessary adequacy in MSF's rates or reserves than less so that MSF is no more or less than self-supporting. Management has recommended over the years that the Board adopt a $32.1 million reserve strengthening to WTW's central estimate. He said two areas of coverage that MSF provides that are not taken into consideration in WTW's estimates are other states coverage and employer's liability insurance and management includes those in the recommended higher loss and LAE. He provided the adjusted recommendation depicted below.

Chair Zanto called for questions. There were none.

As of December 31, 2017 (In Millions)	Willis Towers Watson	MSF
Unpaid Losses	782.4	782.4
LAE	111.9	111.9
Gross Losses and LAE	894.3	894.3
Adjustments:		
Reinsurance	(13.1)	(13.5)
Reserve Strengthening		32.1
Other States/EL		3.5
Additional LAE		4.6
Net Unpaid Losses and LAE	$ 881.2	$ 921.0

Total MSF Recommended Losses and LAE	$ 804.8
	$ 116.2

Mr. Hubbard asked Mark Barry, MSF Vice President, Corporate Support to illustrate the impact of this recommendation on the financial statements.

D. Calendar Year 2017 Projected Financial Report – Mark Barry, CFO

Mr. Barry said he would be explaining the recommendation of the losses and how it will impact MSF's projected financial results for the year. He said that due to the requirement for MSF to file its annual statement with CSI by March 1, 2018, the Board is asked to determine the losses and LAE before the 2017 fiscal year is completed. The losses and LAE for 2017 will be based on the financial results of 2017; therefore, the consulting actuary is asked to project out what they feel will be the ultimate losses for 2017. MSF then adds additional adjustments and asks the Board for approval. He explained that the consulting actuary will do another review after the year is completed to determine if there is a material change to their estimates; however, that is not anticipated. Management will provide the completed report in March and though no material changes are expected, if there are significant changes prior to the annual statement filing, the Board will be contacted and notified.

He said the financial reporting timeline will see the books close approximately January 18 and staff will then begin completing the financial statements which will be audited by Eide Bailly. The next Board meeting on March 9 will address the rate filing and provide a review of the financials. That Board meeting falls after the March 1 required filing date for the 2017 NAIC Annual Statement, actuarial opinion and other schedules due to CSI. From March to May, LAD will audit the GASB financial statements and notes. The audited statutory financial reports and auditor qualification letters are due to CSI by June 1. He said the June Board meeting will provide an overview of the audited 2017 statutory and GASB financial statements with explanation of difference between the two. Management will requests the Board's approval to use those financial results in MSF's 2017 Annual Report.

He provided a year-to-year comparison of the loss and LAE reserves for 2016 and 2017 and noted that the estimates for 2016 were very close to actuals, primarily due to the stability of the current claim management trends which reflected a reduction of $5.5 million in unpaid losses from year to year. He highlighted management's adjustments and noted that the excess of loss program for the estimated reinsurance recoverable is lower than 2016 due to the settlement of a large claim that had resulted from the Department of Corrections' bus crash from 2008. He said the aggregate stop loss reinsurance program kicks in once MSF's accident year hits a loss and LAE factor to premium above a set point in the contract. MSF is anticipating $11.6 million recoverable which is a decrease from last year by $1 million. The loss estimates fluctuate over time and this program has been in place for accident years 2009 to the present. He said with the reserve strengthening of $32.1 million and the loss adjustment expense reserve, MSF's recommended loss and LAE reserves is $902,904 million for the 2017 financial statements.

He reviewed the projected 2017 income statement and noted that the third quarter projections had been updated with the recommended losses, the $15 million management fee and investment results and showed a net loss after dividends of $2.3 million, primarily driven by the $15 million management fee.

He noted that the projected earned investment income of $55.9 million is due to very hot investment markets; however, he said there is no way to know how long that will last. He said net realized capital gains is slightly higher than projected by $1.3 million which is a result of an additional sale of $14 million of equities that BOI completed on MSF's behalf. BOI will likely make another sale of equities after the first of the year.

Mr. Barry said the 2017 projected changes in equity saw an addition of $3.5 million to the total projected policyholder's equity due to an increase in unrealized gains; however, following the recent sale of equity holdings by BOI, he expected this number to move downward. That would mean projected policyholder equity for 2017 will likely be at $548 million. He also informed the Board about the Other Post Employee Benefits (OPEB), a non-pension assumed benefit that affects policyholder equity. A recent legal opinion indicated that MSF should not have that OPEB liability on its books or report it in the statutory financial statements because the entity that has the OPEB liability is the Montana Department of Administration. He explained that it will still be reported in MSF's governmental statements.

Mr. Larsen asked why the decision was made to require OPEB to be reported in the first place.

Mr. Barry said the determination to require this accounting standard reporting came from GASB and was strange since there is no funding there or any pool of money. The accounting standard finds that this is a benefit that older workers receive under the insurance program and therefore MSF must report it on the governmental statement.

Mr. Barry said the combined ratio is defined as MSF's operational expenses, including losses, loss adjustment expenses and underwriting expenses, divided by premium. He explained that the ratio in 2009 was 108 percent which meant for every $1 dollar of premium MSF collected there was $1.08 of expenses. He provided information that indicated that MSF experienced higher ratios between 2010 and 2012; however the ratio began to drop and was at 101 percent in 2016. He then stated that the 2017 combined ratio is projected to be 109 percent due to the $15 million management fee; if removed the ratio would be below 100 percent. He explained that the ratio reductions over the years were a direct result of claim settlements and claim management changes that have been implemented.

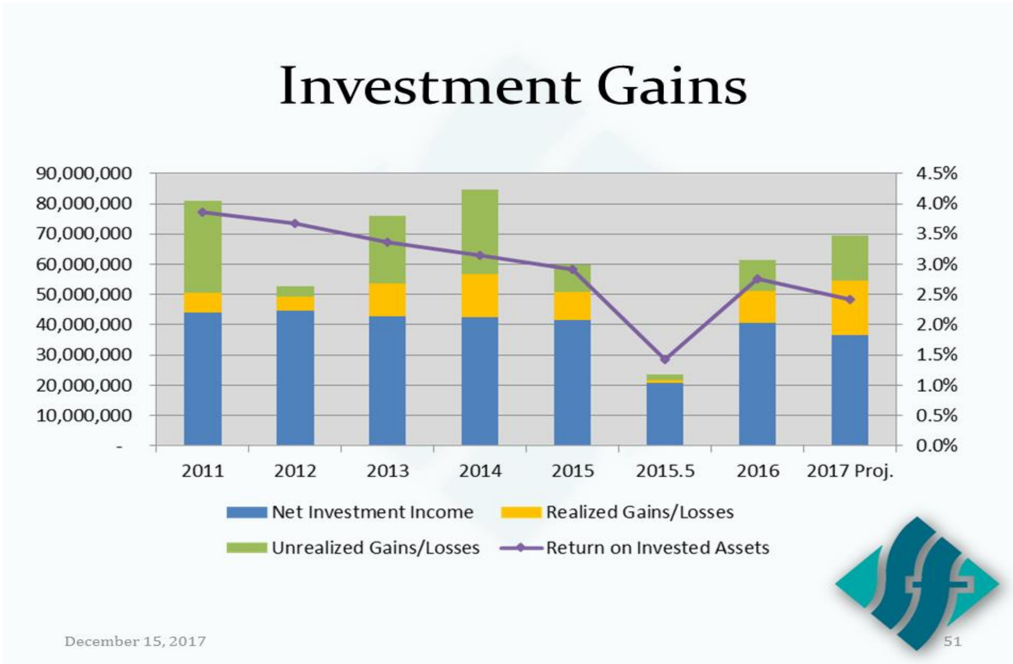
President Hubbard asked Mr. Barry to explain the combined ratio amount of 78 percent in 2015.

Mr. Barry noted that there is $32.1 million of reserve strengthening; however, prior to 2015, there was $64 million in reserve strengthening. In 2015 the Board chose to cut that in half; that reserve release went to the income statement and resulted in the 78 percent combined ratio. He also explained that the combined ratios did not include dividend which is different than the industry standard of including the dividend amounts.

He said in 2009 MSF experienced loss increases of 8 percent due to $19 million of prior year development that the consulting actuary added to their estimate. In 2001 to 2009 there was prior year development of $174 million with just one year of that being $36.5 million. Over 2001 to 2009 MSF averaged about $19 million of adverse development. Since 2010, prior year development has really mitigated; after that year, reserve development was averaging around 2 percent and 2017 is seeing a slight decrease of a tenth of a percent.

Chair Zanto asked if MSF's equity is what helps to carry the company through during those years of adverse development.

Mr. Barry said that was correct and noted that even during the period of time he discussed, MSF did not have a rate increase. He explained that 2009 was about the time of the great recession and noted that MSF took an adjustment from the investment market losses. He added that $30 million of premium in the construction industry disappeared from the marketplace; at the same time MSF was still experiencing adverse development. He noted that for the period 2010 to 2015, MSF has grown its equity 18 percent, 23 percent, 7 percent, 19 percent, 17 percent which is fairly significant growth in equity over that time; in recent years, equity growth is holding steady at approximately 4.2 percent growth despite no rate increases. He said at the same time, MSF was seeing the reserve to equity ratio also mitigating; the loss reserve to equity ratio is a measure of our losses and LAE reserves to policyholder equity. He said in 2009 it was 398 percent which means for every dollar of policyholder equity MSF has, there were losses of $3.98. The target range is between 200 to 250 percent. Reducing the reserve to equity ratio was accomplished by implementing operational changes to manage the losses. He said there was a benefit reform in 2012 that has had positive effects; however, the biggest driver to reducing the reserve to equity ratio was from MSF's investment gains. The investment markets have been very good since the great recession. MSF only has 12 percent invested in equities and some real estate investments and about 80 percent in bond investments. The actual earnings on earned invested income on bonds are going down; however, that is offset by both realized and unrealized gains on MSF's other holdings.



Mr. Barry said the investment markets have really bolstered MSF's financial position allowing MSF to not make rate increases and to increase dividend declaration amounts since the recession. He said despite no rate increases or adjustments and increased dividend declarations, MSF is still seeing growth in its equity because the markets continue to benefit MSF. He noted that MSF is taking steps to try to correct MSF's equity position by issuing larger dividends.

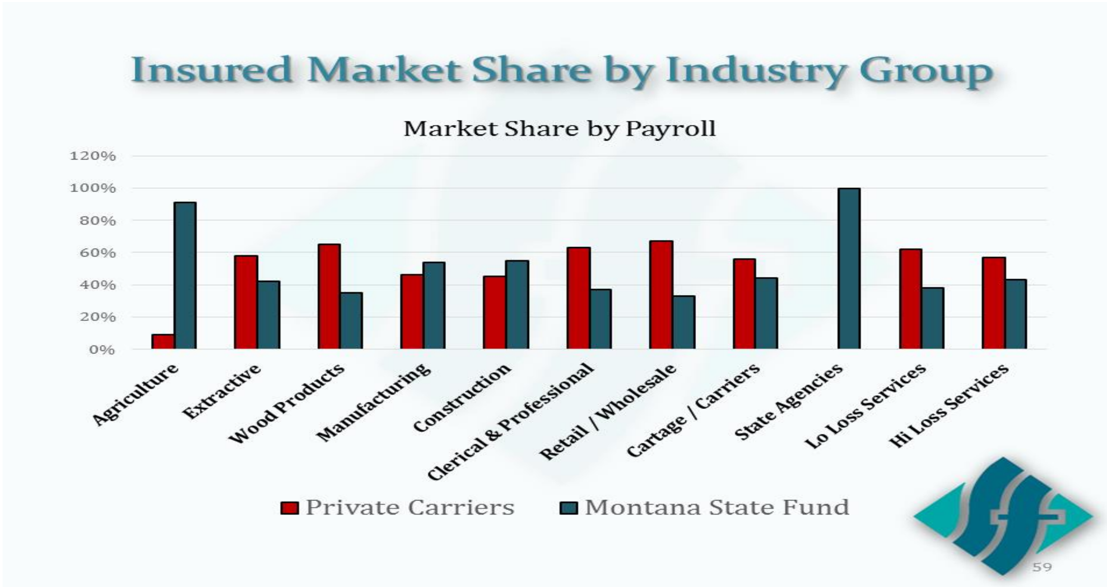
He said Mr. Greig mentioned that a two-percent change in the medical trend could impact MSF's loss reserves by $100 million. If that did occur, MSF's reserve to equity ratio would go from 168 percent to 227 percent. An additional risk is that the markets will not continue the extended recovery MSF has been experiencing as there will be a correction the other way. He said a ten percent correction in MSF investments would cost approximately $150 million, which would put the reserve to equity ratio in the 220 percent range. He provided an example from 2001 when the reserve to equity ratio was at 216 percent; by 2009 due to adverse development and the investment market crash, MSF was bumped up to 398 percent. He said it can and has happened in the past and there is no way to tell if it will be the investment markets and/or medical trend. He noted that these variabilities and risks are continuously being reviewed and monitored by MSF management so that the recommendations they provide to the Board encompass the consideration of how to sustain and maintain a financially sound organization and yet have the capacity to reward MSF's customers.
President Hubbard added that Mr. Barry's point about the critical discussion regarding the long term financial management of MSF is an important one. He said MSF has not had a rate increase since 2007, which means during this entire period of time, rates were either flat or being reduced. He said without the level of equity that was being leveraged through the trends in the market and the trends in MSF's equity levels, rates would have had to have been used to cover costs and build capital. The equity is a shock absorber for those periods or cycles when MSF experiences less-than-favorable investment periods. MSF is currently in a positive trend cycle which has given

the Board the luxury of managing the company with very high investment returns since 2010; however, MSF will face difficult times in the future so MSF's capital adequacy must be maintained to provide a shock absorber for the company. He noted that the equity will allow MSF to not have to go immediately to rates or rate level actions that could be very impactful to MSF policyholders and the Montana economy. This shock absorber allows for management and the Board to take deliberate, not volatile, action to address the issue.

Mr. Barry provided a comparison of MSF's reserve to equity ratio to other state funds as of 2016 which indicated that MSF is neither-the-highest or the lowest. He said most entities are seeing an improving equity position throughout the majority of the insurance market. He noted that the top 10 insurance companies selling workers' compensation insurance nationally are also key players in the Montana market. Nationally the workers' compensation market in 2016 was at premiums of $58.5 billion. MSF's market position on the national market is number 63. He noted that MSF writes 61 percent of the Montana market. The total Montana workers' compensation market is $287 million and compared to the national market, Montana's marketplace is less than one half of one percent. Montana's market is small and the larger writers insure businesses in Montana that are domiciled in another state because those insurance companies can sell insurance across state lines; MSF cannot. He said comparatively, the national insurance carriers' reserve to equity ratios are much stronger than MSF and if those carriers wanted to take over the market in Montana, they could easily do it. He noted that Liberty Mutual's workers' compensation insurance makes up only 7.5 percent of their overall premium. Traveler's has 18 percent in the workers' compensation line and they are the largest writer nationally. He noted that MSF is one line, one state and other insurers are able to divest across various lines and offer package deals to their customers which MSF cannot do.

He said 76 percent, 19,000 to 20,000, of the policies insured with MSF pay less than $5,000 in premium per year and make up only 15 percent of MSF's business. He said 22 percent make up 84 percent of MSF's business in the larger account size, $5,000 on up. Two percent of the largest of MSF's accounts make up 42 percent. Those numbers indicate that MSF is relying on its larger customers and the ability to compete for the larger customers to balance out the volatility of the small customers for more stable rates. Small customers present a lot of variability in their results. He said when looking at market share based on payroll, you can see that though based on premium MSF is 61 percent of the market, private carriers are insuring more of the market by payroll. Based on payroll only, MSF is one third of the market in total insured workers' compensation in Montana. He added that private carriers are insuring the majority of the low hazard business. Low-hazard class codes include Office & Clerical, Retail/Wholesale, and Low-Loss Services. High-hazard class codes include Agriculture, Mining, Wood Products, Construction, Manufacturing, Cartage & Carriers, and High-Loss Services. Small businesses are typically high-hazard accounts. He said private accounts are insuring more of the payroll and are insuring the low-hazard accounts because they are able to offer a package deal. He said the Liberty Mutual representative at the EAIC hearing on SJ27 indicated that Liberty is looking at that small market as a market that they want to insure. He said Liberty currently writes approximately $16 million in Montana; however, in 2008 they were writing $51 million and then chose to decrease their writings in the workers' compensation line in Montana. Now they are indicating they want back into this line of insurance.

Mr. Barry said the insured market share by industry group indicates that MSF has the high-hazard low-payroll market share as indicated in the graph on the next page:



He said MSF is the small, high-risk insurer for Montana; however, in order for MSF to offer good services across the board, MSF must compete across the board. He commented that the Oregon study's review of the ratings does not take into account residual-market-program states, the assigned risk pools, which are excluded. The Oregon study looks only at the voluntary market and the reason MSF's rating is so low is that MSF is included in the ratings despite the fact MSF has the residual market. Oregon is able to remove about seven percent of their market share because it is in the assigned risk plan. Another point is that the rating slot is based on flat premium, using a class code rate times payroll for that class code; it does not take into account discounts and it excludes dividends. He said when MSF is returning 24 percent of the premium to customers in the form of a dividend it reduces the customers' net cost; however that is not taken into account in the Oregon study. He said there are a lot of flaws with the Oregon study as far as where Montana and other states truly rank.

Mr. Barry asked the Board to approve loss and LAE reserves at $920.9 million.

Chair Zanto called for questions.

Ms. VanRiper said she does have a question about the issue of not reflecting the $15 million when determining dividend declarations or rates; however, offered to hold that until the agenda reached the dividend discussion points in March.

Mr. Barry added that an earlier slide indicated that MSF would estimate its equity to be $548 million at the end of 2017 which is up from $526; the $548 result is after the $15 million management fee and the $40 million dividend.

Chair Zanto called for additional questions. There were none.

E. *Adoption of Montana State Fund Calendar Year 2016 Unpaid Loss and Loss Adjustment Expense Reserve Estimate – Laurence Hubbard, President/CEO*

Chair Zanto made a motion that based on the actuary's best estimate of unpaid losses and loss adjustment expenses, adjusted for projected reinsurance recoverable, and for President

Hubbard's recommendation for loss reserves for Other States Coverage, Employers' Liability, and reserve strengthening, undiscounted as of December 31, 2017, I move we adopt $804,753,825 as the unpaid loss reserve and $116,150,291 as the loss adjustment expense reserve estimates for the Montana State Fund financial statements for the year ending on December 31, 2017, to be adjusted for changes based on the actual benefits paid at end of the year. Mr. Larsen seconded the motion. Chair Zanto called for additional questions or discussion from the Board and the public; seeing none, he called for the vote and the motion passed unanimously.

IV. Calendar Year 2018Annual Business Plan – Laurence Hubbard, President/CEO

A. Annual Business Plan Introduction

Chair Zanto called upon Ms. Copps to present the proposed Calendar Year 2018 Business Plan.

B. Calendar Year 2017 Annual Business Plan Status – Shannon Copps, Director of Enterprise Strategy and Project Management

Ms. Copps told the Board she is responsible for the strategic planning process and the reporting and track of that as well as project management office for standards and methodology. She first provided a review of the progress of the 2017 Business Plan.

She provided the Key Success Measures and noted that these were projected results based on available information up to September 30, 2017.

Key Success Measures

KSM	2017 BP	2017 Projected
Net Earned Premium	$167.0M	$164.8M
Fiscal Year Loss Ratio	79.0%	77.6%
Expense Ratio	30.3%	29.2%
Investment Income	$48.1M	$54.5M
Net Operating Income (before dividend)	$28.3M	$39.4M
Achieve Enterprise Wide Initiatives		

She said net earned premium was 2.2 less than planned due to the rate reduction not being a consideration when the plan was set in 2016. She noted that the expense ratio was 2.4 million below plan; however, because these numbers are up to the end of September, the $15 million management fee is not included in that projected ratio. She said the net operating income was $11.1 over the $28.3 million projection due to a decrease in ultimate losses and an increase in investments.

Chair Zanto called for questions; there were none.

She said the initiatives for CY2017 were a replacement of MSF's policy and billing system with a modern application and two safety initiatives to continue MSF's efforts to reduce Montana's high rate of workplace injuries. The initiatives were all focused on Customer Service and the projects included the policy and billing system replacement (PBRI), WorkSafe Champions and Growing a Safer Montana.

She noted that the PBRI project was off track due to contract negotiations with HCL, the implementation vendor, which have gone longer than anticipated and the contract was signed a month later than planned which caused remaining project goals to be extended out as well. The plan to implement the Phase I core functionality and the reduction to the manual business processing steps have been presented to the Executive Team for review and approval and are in process. She said development work has begun and several streams of separate yet related work will occur simultaneously. Each team includes experts from MSF and HCL and they are tasked with completing a set number of requirements about every month. The current plan is to implement this project in the third quarter of 2019.

The WorkSafe Champions program, which is on track, is designed to educate policyholders on identifying safety challenges at work and then reducing those risks. Participants can either have a Safety Management Consultant (SMC) train the policyholder's staff on-site or, for smaller employers, attend a regional workshop.

The Growing a Safer Montana project is also on track in its first year. This project focuses on expanding MSF's efforts to reach young workers and invest in the safety future of Montana. Safety kits were awarded and distributed to eight high school classes in September, which impacts over 600 students who now have the equipment and safety knowledge to work safer in the classroom. MSF's SMC Dan Johnson presented follow-up safety information to each class and is responding to one teacher's request to assist with their safety and health curriculum. The second part of this project is to award scholarships to students in college trade and occupational safety health programs. Ten students with a commitment to safety will be selected by the end of 2017 and awarded in the first quarter of 2018.

Chair Zanto called for questions. There were none.

Chair Zanto told Board members that if the opportunity arises for them to visit the PBRI work room, he would really recommend it as it is very impressive. He called for additional questions. There were none.

C. *Calendar Year 2018 Annual Business Plan – Shannon Copps*

Ms. Copps moved to the Calendar Year 2018 Annual Business Plan and presented the Key Success Measures:

- Generate Total Net Earned Premium of $162.4 million – which included producing $12.2 million of new premium and achieving a 90.7 percent premium retention. This is in line with the new premium that we are seeing in the 2017 policy year.

- Achieve 75.1 percent loss ratio with no prior period reserve adjustments. For 2018 MSF is planning for no development.

- Achieve 40.5 percent expense ratio. This would include managing acquisition expense to 7.1 million, loss adjustment expense to 12.7 percent and operating expenses to 20.7 percent.

- Achieve investment income of $40.7 million.

- Achieve Net Operating Income of $10.7 million before dividend.

Chair Zanto called for questions.

President Hubbard clarified that the premium level estimate does not anticipate any rate level changes or actions that the Board may take at the March meeting for the rates effective July 1, 2018. It does assume about a 2.5 percent wage inflation trend; however, though the market is very competitive right now, MSF does anticipate a good retention rate on its premium which is a reflection of the quality of service that MSF employees provide.

Chair Zanto noted that in past Board meetings the Board has discussed what can be done to promote and go after the larger more profitable businesses. He said those discussions and actions are something the Board should keep on its radar moving forward.

Ms. Copps addressed the 2018 Enterprise Wide Initiatives. She said the CY2018 initiatives are again focused on customer service. She introduced Julie Jenkinson, Vice President of Operations.

Ms. Jenkinson said the policy and billing replacement project (PBRI) is a three-year initiative to move MSF to a modern, flexible platform that will improve the customer's experience and their interaction with MSF. She said the new platform from the Guidewire Insurance Suite will improve MSF's ability to spend time with its customers by as much as 25 percent. She provided a brief timeline that covered the hiring of the independent validation and verification (IV&V) servicer, Sabot, in 2015 to provide project strategies and value metrics. In 2016, the business and technical requirements were identified and the Request For Proposal (RFP) was written and released. In 2017 the RFP process was completed through review and evaluations and Board approval in June to negotiate contracts with Guidewire for the software and HCL for the implementation and Cognizant to provide employee backfill. Development began in late November with the inception phase and core functionality. The planned work for 2018 is to configure the core functionality for policy center, billing center, the rating engine, an agent gateway portal and a customer service portal. This work plan also includes data conversion and system integrations as well as ongoing organizational change management and IV&V reports to President Hubbard. She reported that the Board will receive updates regarding this project at each Board meeting.

Mr. Molloy asked, based on his experience dealing with Xerox while working at the Governor's office, if MSF had built in some penalties and/or incentives into the contract in terms of time frame?

Ms. Jenkinson replied that when the contract was negotiated, MSF's General Counsel and Assistant General Counsel as well as State Procurement were involved in the negotiations and language and there are hold backs embedded in the contract if deadlines are not met. She said the holdbacks are automatic for each phase until each is completed and signed off on.

Mr. Molloy added that from his experience major IT contractors never perform on time and his recommendation would be to be proactive if the team should find things falling behind. He warned that the contractor will game the system on MSF and MSF should plan to "ride herd over them." He said their experience in the Governor's office resulted in dismissing Xerox from the state Medicaid program.
Ms. Jenkinson assured Mr. Molloy that the team was aware of that prior to taking on this task; however, they also heard that repeatedly from the other insurance carriers they spoke with who had gone through a similar system change process. She said the IV&V vendor was engaged specifically to oversee the deadlines and deliverables to assure there was no slippage. She also

added that there are two project managers; Sandy Leyva from the IT Department and Erika Ayers from the Operations Department who oversee the project and timelines.

Chair Zanto thanked Mr. Molloy for a really great comment.

Ms. Jenkinson then presented the two on-going safety projects that began last year. She said Growing a Safer Montana focuses on young workers in the construction and trade industries and was designed to impact the safety culture for the next generation of Montana employees. She added this is a two part project that includes equipment grants to high schools and college scholarships. The plans for 2018 are to expand the equipment grants to 20 high schools. She said the scholarships will be awarded in January 2018 after the students GPA's have been determined for the first semester.

She said the WorkSafe Champions program is in its tenth year and the Safety Team has developed a plan to expand the impact. The program offers central workshops in major cities conducted by an MSF Safety Services Specialist and smaller policyholders are able to participate in these. The onsite WorkSafe Champions program has a larger impact on the policyholder because they are conducted by the policyholder's assigned Safety Management Consultant and address specific organizational issues impeding improvements to their safety culture.

Ms. Copps reported the business plan budget depicted below:

Business Plan Budget

Project	Budget
Policy and Billing System	$13,694,418
Growing a Safer Montana	$63,789
Worksafe Champions	$106,811
Total	**$13,865,018**

Ms. Copps requested the Board approve the 2018 Annual Business Plan as presented.

Chair Zanto thanked Ms. Copps and called for a motion.

Mr. Owens made a motion the Board adopt the proposed Calendar Year 2018 Annual Business Plan. Mr. Molloy seconded the motion. Chair Zanto called for Board discussion.

President Hubbard mentioned that Ms. Moss had sent an email to the President and the Chair in which she encourage the Board to continue to invest more dollars in safety and find opportunities to impact young workers as well as older workers and also partnering with other organizations such as the Department of Labor and Industry. He noted that MSF's current overall investment in workplace safety efforts is approximately $2.2 million in the aggregate. He said he had assured Ms. Moss that MSF would continue to develop new approaches and programs.
Mr. Molloy asked if MSF had the staff capacity to expand the high school program beyond 20 schools at this time.

President Hubbard said he could not say for sure. MSF has 12 Safety Management professionals on staff and MSF would need to assess their workloads to better inform the Board if that would be viable.

Chair Zanto said safety is a hot topic with the Labor Management Advisory Council (LMAC) as well and there is a lot of work to do in Montana regarding the safety culture here.

Chair Zanto called for further questions from the Board and public; seeing none, he called for discussion or comment from the public. There being none, he called for the vote and the motion passed unanimously.

V. Calendar Year 2017 Budget Update and 2018 Budget Request – Laurence Hubbard, President/CEO

A. Budget Introduction

President Hubbard thanked the Board for their approval of the 2018 Annual Business Plan and asked Rene Martello to present the third quarter financial statement update and the proposed Calendar Year 2018 Budget.

B. 2017 Third Quarter Update and Budget Amendment Request - Rene Martello, Controller

Ms. Martello provided the 2017 third quarter variance report as of September 30, 2017 and stated they do not include the estimated $15 million rate transfer and that management intended to request an amendment for this next. She said the claim benefit payments approved budget for 2017 was $128 million and the current projection is $119 million or 93 percent of the budget expended. She said as of third quarter the total operational expenditures were projected to be $59.1 million or 96.1 percent expended. Those two main categories indicate the budget is projected to be under by $11.3 million. Indemnity costs for claim benefit payments were at 92 percent of budget expended due to an unanticipated five percent decrease rather than the planned for three percent increase. Medical costs without medical settlements are at 94.1 percent of budgeted. She provided a detail of the operational expenses and explained that the only category over the projected budget was equipment and intangible assets due to the installation of the video equipment in the board room. Despite that category being over, the operational expenses are projected to be under by 3.9 percent. She clarified that the Transfers included the two positions that are funded by MSF at CSI which are prepaid and then compared to actual cost after the year closes. Ms. Martello presented the following slide to explain the requested amendment to the 2017 budget.

MSF 2017 Budget Status

Projected with SB4 3% Management Fee Transfer	Current Budget	Amended Budget	Projection	Variance from Amended Budget (over) / under	Percent of Amended Budget Expended
Operational Expenditures					
Personal Services	$29,811,693	$29,811,693	$29,021,838	$789,856	97.4%
Operating Expenses	25,897,239	25,897,239	24,790,983	1,106,256	95.7%
Equipment & Intangible Assets	1,869,830	1,869,830	1,906,202	(36,372)	101.9%
ALAE	3,542,351	3,542,351	3,146,644	395,707	88.8%
Transfers	379,395	15,379,395	15,239,203	140,192	99.1%
Total Operational Expenditures	$61,500,508	$76,500,508	$74,104,870	$2,395,638	96.9%

Ms. Martello said Senate Bill 4 was passed in 2017, and based on discussions with BOI, the State Financial Services Division and MSF staff, the reporting of the $15 million management rate transfer must be included in the reporting and budget considerations for the Calendar Year 2017. The table depicted on the previous page shows the inclusion of the estimated $15 million management rate transfer which is expected to occur sometime in early 2018. Staff will provide an exact amount of the management rate transfer in March compared to the requested $15 million in the requested amendment.

Chair Zanto called for questions; there were none.

Mr. Owens made a motion the Board approve an amendment to the Fiscal Year 2017 budget of an increase of $15 million. Mr. Molloy seconded the motion. Chair Zanto called for discussion or comments from the Board and the public. Seeing none, he called for the vote and the motion passed unanimously.

C. 2018 Budget Request – Mark Barry, VP Corporate Support and Rene Martello, Controller

Mr. Barry provided the 2018 Budget proposal request. He explained the income and expenditures expected. He said the Board is requested to approve the proposed 2018 budget income of $162.3 million in net earned premium and $40.7 million in investment income for a total of $203.1 million. Expenditures are projected to be $120 million in claim benefits payments and $88 million in operational costs for a total of $208 million. He provided a breakdown of expenditures and noted that in addition to claim benefit payments and operational expenses, the total projected costs for projects is estimated to be $14.5 million and a $15 million management rate transfer. He noted that operational expenses are up for 2018 due to the management fee and projects, which include the high-cost PBRI project. He said the statutory operating expense ratio for 2018 is projected to be 40.5 percent which is the operating expenses as a percentage of premium. Comparative expense ratios to private carriers providing insurance in Montana typically indicate that MSF's expense ratio is lower than market; however, that is not true for 2018. Without the addition of the $15 million management rate transfer, the ratio would be 31.2 percent not 40.5 percent.

He said claim benefits for 2018 are projected to run $36 million for indemnity and $83.7 million for medical. Operational expenditures also include 307 FTE. He provided further breakdown of the expenses that make up each category and noted that the largest cost in medical claim payments is for medical settlements which have proven to be a very positive trend and beneficial to MSF. Settling the claims reduces the long tail of costs that are typically associated with workers' compensation insurance. He also noted that the non-settlement medical payment category has been decreased in 2018 by 4.3 percent due to reduced medical costs being projected.

Mr. Barry provided details on MSF's staffing and personal services for 2018 and noted that the proposed budget reflects 11 retirements and a 3.25 percent merit adjustment which would take effect in March. He added that the proposed budget reflects a vacancy savings of three percent which is then subtracted from the personal services budget. He said the significant items in the proposed budget are the PBRI project, the management rate transfer and agent commissions. He mentioned that due to the PBRI project it is also necessary to backfill some of the IT staff positions while the project is ongoing. He said the Annual Business Plan Projects, including PBRI, WorkSafe Champions and Growing a Safer Montana, comprise $13.8 million of the projects budget and the ESPM Projects are budgeted at $691,596. Those projects include: Data Visualization, Brand Refresh, Medical Bill System, Regulation Documentation Gaps and Executive Development Program. He clarified that the PBRI project is incurring a lot of expenses; however, it is amortized between 2016 and 2020 and is a project to upgrade and replace a 20-year old policy and billing system.

Mr. Barry requested that the Board approve MSF's 2018 Budget request of $88 million in operations expenses, $120 million of claim and benefits payments for a total budget of $208 million with a total of 310 positions or 307 FTE. He also asked that the President be given the authority to move budget between expenditure categories and make staffing adjustments if needed as long as they are within the approved budget.

Chair Zanto called for questions; there were none and he called for a motion.

Mr. Molloy made a motion the Board approve the proposed Montana State Fund budget for Calendar Year 2018 totaling $208,020,450 as follows:

- *Total Operational Expenditures of $88,026,398, including the costs that are reimbursed to Montana State Fund for Old Fund administration; and*
- *Montana State Fund Benefit Payments of $119,994,052.*

Further, 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. Mr. Owens seconded the motion. Chair Zanto called for discussion or comments from the Board and the public; there were none. He called for the vote and the motion passed unanimously.

VI. Insurance Operations Support – Christy Weikart, Underwriting Services Director

A. Construction Industry Premium Credit Program Approval

Ms. Weikart provided historical background on the development and implementation of the construction industry premium credit program. She explained that this program was developed in the 90s under HB187 to level the playing field for high-wage construction industry contractors within the workers' compensation system. Wage rate variances exist from employer to employer yet workers' compensation premiums are based on total payroll reported. Without this program, employers who pay higher hourly wages for the same type of work would pay higher workers' compensation premiums. She assured the Board that the employee's exposure to loss remains the same and is unaffected by this program and MSF's exposure to loss is the same but the premium is different.

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

The table is adjusted each year as the state's average weekly wage increases. The table is updated annually and validated by MSF's internal actuary, Dan Gengler. Policyholders must have specific class codes to be eligible for this program. Statute outlines which class codes, mapped to the NAICS classification system, are eligible to be in the construction credit program. MSF completed an in-depth review to assure that all the class codes in the program were appropriate. Some changes to the eligible class codes were required. NCCI filed changes and all carriers are using the exact same class codes as of July 1, 2016.

Ms. Weikart requested that the Board approve the proposed table for new and renewal policies with an effective date in Policy Year 2019 as recommended by MSF management.

Montana State Fund
Construction Industry Premium Credit Program
Applicable to policies effective July 1, 2018 to July 1, 2019

Average Hourly Wage	Credit Percentages
$22.41 or less	0.00%
$22.42 to $22.77	0.37%
$22.78 to $23.18	1.20%
$23.19 to $23.65	2.12%
$23.66 to $24.19	3.13%
$24.20 to $24.81	4.24%
$24.82 to $25.52	5.45%
$25.53 to $26.33	6.75%
$26.34 to $27.26	8.16%
$27.27 to $28.33	9.66%
$28.34 to $29.55	11.26%
$29.56 to $30.95	12.93%
$30.96 to $32.56	14.69%
$32.57 to $34.40	16.51%
$34.41 to $36.51	18.37%
$36.52 to $38.94	20.27%
$38.95 to $41.72	22.19%
$41.73 to $44.91	24.11%
$44.92 to $48.57	26.01%
$48.58 to $52.77	27.86%
$52.78 or more	29.67%

Chair Zanto called for questions. There were none.

Chair Zanto moved the Board adopt the plan of credit percentages for Montana State Fund's Construction Industry Premium Credit Program, for new or renewal policies, with effective dates of July 1, 2018 to July 1, 2019, as proposed by Montana State Fund management. Ms. VanRiper seconded the motion. He called for discussion and questions from the Board and the public, there were none. He called for the vote and the motion passed unanimously.

B. *Classification Code Update*

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

Ms. Weikart outlined the only classification code modification that was made in 2017:

Montana State Fund (MSF) adopted an existing National Council on Compensation Insurance (NCCI) classification code for a MSF policyholder conducting operations that are properly classified to this classification code:

Effective January 4, 2017:

- Established classification code 3118 – Saw Sharpening, Saw Manufacturing, File Manufacturing.

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

C. Rating, Underwriting and Dividend Rules Revision

Ms. Weikart reported that there were a few changes to the Rating, Underwriting and Dividend rules. She described for the Board the changes and the necessity for each. The changes were mainly to provide clarity and comply with the NCCI requirements and enhance consistency.

Chair Zanto called for questions. There were none.

Chair Zanto made a motion to approve the changes to the Rating, Underwriting and Dividend Rules as recommended by management. Mr. Larsen seconded the motion. Chair Zanto called for questions or comments from the Board and the public; there were none. He called for the vote and the motion passed unanimously.

VII. Corporate Support – Mark Barry, VP Corporate Support

A. Enterprise Risk Management Update –Kurstin Adamson, Enterprise Risk Management Risk Officer

President Hubbard introduced Kurstin Adamson, Enterprise Risk Management (ERM) Risk Officer and asked her to provide the ERM report.

Ms. Adamson said her goal at MSF is to assist in establishing and enhancing an ERM program and culture that encourages all employees to participate in risk management. The key to utilizing an ERM program is to be actively preparing and preventing identified risks now rather than after there has been harm done. She said the ERM program can also help to identify opportunities. The Executive Sponsors of the ERM Program are Mark Barry, CFO and Kevin Braun, General Counsel and the Advisory Committee is made up of Mr. Barry, Mr. Braun, Ms. Martello and Ms. Grosfield. The ERM Committee is made up of 12 members from across MSF who serve two-year staggered terms. Carol Athearn, Executive Assistant, Corporate Support, maintains the meeting minutes and assists in keeping the program running smoothly.

She said there are 122 currently identified risks across 15 focus groups and each one is reviewed at least annually and updated as often as needed. The ERM Committee meets monthly to assess new risks, review proposed risks, review updates to existing risks, and make program changes. The Executives are updated monthly at the ESPM meetings.

Ms. Adamson said the risks can be brought from any level in the organization and are submitted to the ERM Management Committee to do the initial assessment and assign a risk owner. The Committee meets with the risk owners to assist in further evaluation of the risk and the risk is then raised to the Executive and ESPM level where it is used for business planning and budgeting purposes. Upon development of a project or program to address a risk, the Board is then asked to approve the approach through their approval of the Annual Business Plan and/or the budget. She noted that Board members are also welcomed to bring forward any concerns they have with a specific risk or with the program.

She said the ERM programs are common industry practice and regulators and auditors are requesting review of the risk matrix when examining MSF. The NAIC model law requires the annual filing of the Corporate Governance Annual Disclosure beginning on June 1, 2019 and that will require a description of critical risk areas. She then provided the Board with a review of the process used to review and judge the severity levels of a particular risk and determine which are top risks for MSF.

She said there were 12 risks identified as the top risks for 2018. She said the top risk is inadequate or ineffective employee retention and engagement programs and the second is inadequate, ineffective or improper leadership succession planning. She said these risks are the reason MSF has developed some strategic planning projects that develop potential leaders and executives and a brand refresh project that will review the mission, vision and guiding principles to assure the values of our organization are aligned with the values of MSF employees.

Ms. Adamson mentioned that PBRI is listed as one of the risks, not because it can harm the organization but because there is a risk of not meeting the business objectives. She also noted that increased medical costs due to poor medical outcomes, medical inflation and/or inadequate access to medical providers has been added to the top ten risks this year. Also at center stage for MSF is the risk of legislative scrutiny regarding the MSF structure/operations and/or any financial impact due to their involvement or actions. She also mentioned the risk of a data breach either internal or external.

She said the ERM program is relatively new in MSF which means there are still a lot of opportunities to see the benefits and value from the program. She noted that MSF is working to establish goals to be able to experience more value from this program and to fully integrate the ERM into the business planning process. She said she is also working to develop methodologies for verifying and testing controls and looking into modernizing the ERM program. She said there have been a lot of new developments in risk techniques and tools since implementing ERM at MSF.

Chair Zanto called for questions; there were none.

B. *Old Fund Fiscal Year 2018 First Quarter Budget Summary – Rene Martello, Controller*

Ms. Martello provided an update on the status of the Old Fund. She said since 2011 all expenditures for the Old Fund are funded out of the General Fund which is when the assets of the Old Fund were completely depleted. MSF staff now prepare a funding estimate and her report covered the first quarter of the state's FY2018.

She said total claim benefit payments are projected to be slightly over for first quarter by $280,000 due to medical settlements that were higher than estimated for the year. She noted that this may correct itself by the end of the fiscal year. She said operational expenses include the cost to administer the Old Fund and the DOLI assessments based on the benefits paid for the Old Fund which is estimated to be $170,000 under budget. She noted that the Old Fund now has a much smaller pool of claims, approximately 652 open claims, which makes it difficult to estimate the funding based on historical data with higher claim counts. The number of open claims will fluctuate throughout the year and occasionally there is a new Old Fund claim due mainly to asbestos claim activity.

Ms. Martello said the original funding estimate called for $722,000 to administer the claim costs; however, the triggers for SB261 were met which requires that MSF cap or limit the expenditures to $625,000. MSF staff analyzed what could be reduced to comply with the SB261 cap. The DOLI assessment is set at $121,000 and the ALAE expenses are set within the funding estimate.

Chair Zanto asked Ms. Martello to explain the legislative change in the Old Fund for the benefit of the new Board members.

Ms. Martello said that SB261 established certain limits for various things across the state. One item was if the state revenue targets were not obtained, certain restrictions and limits would take effect which for MSF meant the administration of the Old Fund including claim management and administrative costs could not exceed $625,000 per year. Historically, the Old Fund costs have been ranging from $1 million to $800,000 and in the most recent year, $722,000. In order to meet that cap, MSF staff and team have developed plans to limit the use of nurse case managers on Old Fund claims and reduce the legal department review and time.

Chair Zanto said he is personally concerned about this change because there is not as much of an aggressive effort put towards the management of those claims because the ability to do so is now restricted which could extend the tail of the claims. He noted that the projection for the Old Fund is that all claims would end by 2055 which indicates how long these claims hang out there. He said this is a continual issue for MSF and foresaw the Board discussing this more in the future.

Chair Zanto called for more questions or comments. There were none.

VIII. Old Business/New Business

Chair Zanto called for old business or new business. There was none.

IV. Public Comment

Chair Zanto called for public comment; there was none.

The meeting was adjourned at 2:06 p.m. The next scheduled Board meeting will be held on Friday, March 9, 2018 at Montana State Fund, 855 Front Street, Helena, Montana in the first floor Board Room.

Respectfully submitted,

Verna Boucher
Special Assistant to the President/CEO