855 Front Street • P.O. Box 4759 • Helena, MT 59604-4759
Customer Service: 1-800-332-6102 or 406-495-5000
Fraud Hotline: 1-888-682-7463 (888-MT-CRIME)

MONTANA STATE FUND
BOARD MEETING
September 15, 2017

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

Directors Attending

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

MSF Staff Attending

Laurence Hubbard, President/CEO
Verna Boucher, Special Asst to Pres/CEO
Kevin Braun, General Counsel
Mark Barry, CFO
Sam Heigh, Insurance Ops Support VP
Rick Duane, Human Resources VP
Julie Jenkinson, Operations VP
Al Parisian, CIO
Tom Martello, Asst General Counsel
Greg Overturf, Asst General Counsel
Lynn Mogstad, Claim Leader
Mary Boyle, Communications Specialist
Shannon Copps, Director, ESPM
Patti Grosfield, Internal Auditor
Rene Martello, Controller
Dan Gengler, Internal Actuary
Tammy Lynn, Safety Services Team Leader
Darcie Dunlap, Actuarial Analyst
Peter Strauss, Compliance Specialist
Kurstin Adamson, ERM Risk Officer
Nick Hopkins, Marketing Dev. Director

Others Attending

Russell Greig, Willis Towers Watson
Rep. Sharon Stewart-Peregoy
Pat Murdo, LSD
Russell Ehman, CSI
Tapio Boles, Willis Towers Watson
Rep. Vince Ricci
Sonia Powell, OBPP
Neville Kenning, Kenning Consulting

I. Meeting Preliminaries

A. Call to Order

Chair Lance Zanto called the meeting to order at 8:35 a.m. He thanked those present for attending and welcomed Pat Murdo from Legislative Services Division (LSD) and Russell Ehman from the Commissioner of Securities and Insurance office (CSI). He also noted that Representative Vince Ricci and Representative Sharon Stewart-Peregoy, the legislative liaisons to the Economic Affairs Interim Committee (EAIC) were present and he thanked them for attending.

B. Approval of June 9, 2017 Board Meeting Minutes

Chair Zanto noted that the first order of business was the approval of the Board meeting minutes for June 9, 2017.

Lynda Moss made a motion to approve the June 9, 2017 minutes as presented. The motion was seconded by Bruce Mihelish. 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 was unanimously approved.

II. Miscellaneous – Laurence Hubbard, President

A. Miscellaneous – Laurence Hubbard, President/CEO

President Hubbard also welcomed the attendees and thanked them for attending. He shared that this was the first time a Board meeting was going to be live streamed on MSF's YouTube Channel. He said MSF is excited to provide this capability to members of the public and stakeholders who are not always able to attend. He noted that the installation of the cameras will allow MSF to also tape webinars and other trainings to share with customers and MSF employees.

Mr. Hubbard provided a review of Senate Joint Resolution 27 (SJ27) and the action taken to date by the EAIC. He said that, as required by statute, MSF presented at the EAIC meeting the previous day the 2017 Board approved budget. He noted that Rep. Ricci and Rep. Stewart-Peregoy serve on the EAIC and he thanked them for serving as the committee liaisons to MSF. He said Mark Barry, CFO of MSF, provided the budget overview to the EAIC and he complemented Mr. Barry and staff on providing a very succinct presentation on a rather complex topic which included discussion and questions regarding the Policy and Billing System Replacement Initiative (PBRI). He said the EAIC approved the work plan on SJ27 that was developed by Ms. Murdo and the next meeting on SJ27 will occur on November 8. He said the EAIC is trying to be fiscally conservative and has coordinated an EAIC meeting on November 7 with the subcommittee meeting the next day. The subcommittee composition will be only legislators, though it was originally anticipated that stakeholders would serve as well. Stakeholders, including MSF, will provide presentations.

He then provided a brief update on the status of the PBRI project. He said contracts with Guidewire for the software application, and HCL as the system integrator, have been signed and staff are moving forward. The HCL staff will be onsite for approximately 18 months to complete Phase I and he encouraged Board members to visit the PBRI development room.

- He provided an update on the financial exam of MSF completed by the CSI Office. He said the exam went very smoothly and the report is expected shortly. Once received it will be provided to the MSF Board of Directors.

- President Hubbard asked Mark Barry to introduce Kurstin Adamson, Enterprise Risk Management Risk Officer. Mr. Barry provided a brief bio on Ms. Adamson and welcomed her to MSF, and back to Montana from Alaska.

- President Hubbard asked Kevin Braun, General Counsel, to introduce the new Assistant General Counsels. Mr. Braun stated that Assistant General Counsel, Curt Larsen retired in late August 2017 and he introduced Mr. Larsen's replacement, Greg Overturf. He said Mr. Overturf will handle the corporate side of the legal department, including contracts, bankruptcies, employer's liability and policy issues. Mr. Braun then introduced Assistant General Counsel Tom Martello who will handle the claims side of the legal department.

- President Hubbard reminded the Board that a Request For Proposal (RFP) for MSF's pharmacy program was recently completed and that Chair Zanto was a panelist on that committee. This management contract was re-awarded to Express Scripts (ESI) as the pharmacy benefit manager for MSF.
  Chair Zanto added that one hot topic that was key in this decision as well as at the legislature is the issue of opioid abuse. The committee spent considerable time with the RFP candidates addressing how they were prepared to manage that issue.

B. *Report of Internal Auditor – Patti Grosfield, Internal Auditor*
Ms. Grosfield reported on external audits:

External

- Eide Bailly, MSF's external auditor, will be on-site December 11-16, 2017 to begin the audit process for the calendar year 2017 statutory financial statements audit. They are scheduled to return on February 5-16, 2018 to complete the field work to prepare us for the March 1 statutory statement filing requirement at CSI. The report should be completed by April 2018.

- The calendar year 2016 GASB or governmental financial statements audit has been completed but has not been released to the Legislative Audit Committee (LAC) yet. It is anticipated to be presented to the LAC in November or December. Those auditors are expecting to return for the 2017 governmental audit in February or March.

NAIC Financial Exam
Ms. Grosfield provided additional information on the financial exam completed by CSI. She said CSI is finalizing the report and noted that there were no issues or findings. The examiners found the Eide Bailly audit work papers and testing to be thorough and helpful and complemented MSF on the quantity, quality and timeliness of the information provided.

She provided a status update on the internal audit plan for reviewing the MSF scholarships and Charitable Giving, retrospectively rated policies and agent commissions and promised a full report once completed.

Ms. Grosfield said the Enterprise Risk Management (ERM) program is transitioning with the hiring of Ms. Adamson as the ERM Risk Officer. The ERM Committee will be trained and she provided an outline highlighting the value of the ERM process and its value to MSF. She noted that the corporate governance annual disclosure requires MSF to provide a description of oversight of critical risk areas and ERM is the key tool for completing this report as well as being considered best industry practice.

The Corporate Governance Annual Disclosure (CGAD) report that was adopted by NAIC and more recently adopted by the State of Montana must be completed by June 1, 2018. This report will provide a description of MSF's governance practices, Board management and company policies and practices, as well as a description of oversight of critical risk areas.

President Hubbard sought clarification of how MSF's risks are identified.

Ms. Grosfield said risk identification can be submitted verbally or through the form located on MSF's computer portal. Once presented, the submission is researched to determine if it is already identified or needs to be added to the identified risk matrix. The addition of a risk calls for categorization and a rating based on the level of concern regarding the risk. She explained the process used to place the risk in the matrix and the process followed for identifying how to address the risk.

Ms. Moss asked for an example of one of MSF's identified risks.

Ms. Grosfield said one of the current identified risks is "not achieving the savings in HB334" which MSF views as a major risk. This risk has been on the top ten list of risks due to the financial impact that this issue could create if the expected savings are not met.

Chair Zanto called for additional questions.

Mr. Miltenberger said his understanding of the CGAD is that the report is not a disclosure of how MSF governs itself but rather a best practices model. He asked if that was an accurate assessment and if Ms. Grosfield has seen areas that may need to change for MSF to come into compliance such as the use of committees by the Board.

Ms. Grosfield said the issue of Board committees has been reviewed and discussed many times and that issue could rise to the recommendation level. She noted that one recommendation from a past performance audit conducted by LAD was for the development of a sub-committee structure. The result of that recommendation was to establish the entire Board as the audit committee and to establish the compensation committee. She said the spirit and intent of how MSF is operating does comply; however, greater use of sub-committees for governance could be recommended.

Mr. Zanto noted that charters have been established for the internal audit and compensation committee.

Mr. Hubbard clarified that the Board acts as a body of the whole as a committee under Title 33 unless there is a designated subcommittee and he believes this will meet the intent of CGAD.

Internal

- Ms. Grosfield noted that if the Board declares a dividend today, she will begin that audit.
- She stated that the agent incentive program and payouts will be audited later in 2017. She will also be coordinating various work efforts on the CY2017 financial audits.

Chair Zanto called for questions or comments.

C. *Consulting Actuary RFP and Contract – Mark Barry, VP Corporate Support*

Mr. Barry explained that the consulting actuary RFP and contract have been completed and he provided the results to the Board. He noted that Mr. Mihelish and Mr. Miltenberger participated on the selection team along with himself and Dan Gengler, Internal Actuary for MSF and he thanked them for their time and participation. He said there were four responders and two were chosen for onsite interviews: Willis Towers Watson (WTW) and Oliver Wyman. The result of the RFP is a recommendation for MSF to continue its relationship with WTW. They showed true commitment to MSF and to helping MSF continue forward. He noted that the contract is for a term over ten years and specifies that WTW's fees are not to exceed $750,000 over the initial two year period. MSF is able to budget to that expected cost. After the initial period, WTW will adjust their billing rates and amounts and MSF will generate an amendment as needed to address those changes. Mr. Barry said contract negotiations have been completed and he asked the Board to approve the contract for MSF to continue using WTW as the consulting actuary. He introduced Russell Greig, Managing Director with the Atlanta office and Tapio Boles, Director of the San Francisco office. He said Mr. Boles assisted with the initial tier rating program so has a solid understanding of MSF and how it works.

Matt Mohr made a motion to approve awarding the contract for Actuarial Services to Willis Towers Watson and also approve the proposed contract. Mr. Miltenberger seconded the motion. Chair Zanto called for discussion.

President Hubbard clarified that the ten-year term eliminates the Board from having to repeat the RFP process during that time. The contract does provide either party with a ten day-notice of termination of contract if they determine that is necessary.

Mr. Mihelish complemented Mr. Barry and Mr. Gengler for making this process simple, easy and streamlined. He said it was educational and he thanked the staff for the well-organized format.

Chair Zanto thanked Mr. Miltenberger and Mr. Mihelish for serving on the selection committee.

Mr. Miltenberger echoed Mr. Mihelish's comments regarding MSF staff's professionalism in handling the process. He added that actuarial services are expensive and at the same time a vital function for an insurance company, and the selection committee took this responsibility very seriously. The candidates that submitted responses were impressive and the committee reviewed each candidate thoroughly. He said the results of this process assured the committee that MSF does have the "best of the best" in WTW and it was a very worthwhile process for the policyholders and interested stakeholders.

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

D. Renewal of Compensation Consultant Service Contract – Rick Duane, VP Human Resources

Rick Duane, Vice President, Human Resources, provided an historical perspective of MSF's use of a compensation consultant. He noted that MCA 39-71-2317 provides the authority to appoint and set the compensation level for the President/CEO to the Board of Directors. MCA 2-18-103 exempts the President and employees of MSF from the state classification and compensation plan. At the September 2014 Board meeting the Board requested that MSF separate the consulting contracts for services provided for employee compensation and the President/CEO compensation. An RFP for a CEO Compensation Consultant was launched in October 2014 and on November 14, 2014 the Board entered into a contract with Kenning Consulting and Neville Kenning for the President/CEO compensation consulting services and has approved several extensions since then. At the March 2017 meeting the Board extended the existing contract until December 31, 2017 to allow for alignment with MSF's calendar year reporting. Also at that meeting the Board and Mr. Kenning redesigned and refined some of the processes for smoother execution. Based on the Board's satisfaction with Mr. Kenning's work, management is asking the Board to renew the contract with Kenning Consulting for the period of January 1, 2018 through December 31, 2018. The contract is not to exceed $19,700, including all travel and expenses. The contract can be extended up to seven years and in December 2018 there will be three additional years remaining before the Board must issue an RFP.

Chair Zanto sought clarification of the length of the notice period to end the contract if the Board or the consultant decided to end the contract.

Mr. Duane reported that the contract called for a 30 day notice.

Chair Zanto made a motion to approve the proposed amendment of the Compensation Consultant Service Contract with Kenning Consulting. Ms. VanRiper seconded the motion. Chair Zanto called for discussion and public comment. Seeing none, he called for the vote and the motion passed unanimously.

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

Ms. Copps provided the Calendar Year 2017 Business Plan performance update. She shared the Key Success Measures outlined below.

Key Success Measures

KSM	2017 BP	2017 Projected
Net Earned Premium	$167.0M	$164.6M
Fiscal Year Loss Ratio	79.0%	78.4%
Expense Ratio	30.3%	29.9%
Investment Income	$48.1M	$53.0M
Net Operating Income (before dividend)	$28.3M	$35.1M

Achieve Enterprise Wide Initiatives

Ms. Copps noted that net earned premium was slightly under projections due to an unanticipated rate reduction; however, that is offset by projected wage growth. The loss ratio and expense ratio were slightly better than expected and investment income and net operating income were performing well above expectations. Key drivers are decreased losses and increased investments.

Chair Zanto called for questions. There were none.

Ms. Copps said the three Enterprise-Wide Initiatives are all focused in the Customer Service category and include the Policy and Billing System Replacement, WorkSafe Champions and Growing a Safer Montana. She explained that the Policy and Billing System Replacement project is a multi-year project and is currently off track due to not meeting the contract goal deadline of July 31, 2017, though the delay does not affect the overall project schedule. She provided a review of the contract negotiations to date as well as the design work phase and the deliverables being developed to complete this phase of the project. Phase 1 of the project is projected to be completed and the new system usable by the July 1, 2019 renewals.

Ms. Copps said the Worksafe Champions project educates policyholders on identifying safety challenges at work and reducing those risks. There are two options to participate; one is an on-site training of several modules from one of MSF's Safety Management Consultants. The second option is for smaller employers to attend one of the regional workshops held throughout Montana, which is optimal for employers with less employee resources to dedicate to this process. This project is on track.

The Growing a Safer Montana project is designed to reach young workers, specifically high-school-aged students. The classroom safety kits have been delivered to the eight high school industry classes that were chosen to receive the grants this year. The kits contain personal protective equipment. The scholarship award program for students in college trade and occupational safety health programs is underway and the application submittal deadline is October 31, 2017. A total of ten scholarships will be awarded to students who promote and embody the safety commitment. Ms. Copps said this project is also on track.

Chair Zanto called for questions.

Ms. Moss said she really appreciates the training for the younger workers; however, she said she felt the demographic of workers who are retiring and then returning to part-time work should also be re-trained and asked if MSF had looked into addressing that issue.

Julie Jenkinson, Vice President, Operations, indicated that specific demographic, particularly in the construction industry, has been a topic of discussion between herself and MSF's Safety Director, Tammy Lynn and they are exploring ways to provide those services in the future. She said they were also working to develop a way to leverage the older workers as trainers for the young workers joining the workforce.

Chair Zanto added that at the EAIC meeting the previous day, the question was asked as to what MSF was doing to improve or increase its influence on safety in Montana and he asked President Hubbard to share the response.

President Hubbard said that Mr. Barry committed the Board of Directors to a substantial investment which would be evident in future budget proposals. He also clarified that MSF is an insurance company in Montana with policyholders, not the Department of Labor and Industry (DOLI) or a substitute for the kind of responsibility that DOLI has under the Montana Safety Culture Act. The legislature has a safety culture act that requires education in schools and within the industries and the very real issue of funding constrains the level of investment the public agencies can make. He said he was not suggesting that was the answer nor does that relieve MSF of its obligation; however, the money invested in these endeavors must be prudently and wisely spent for MSF's policyholders. He said by improving the policyholder's safety experience, MSF is able to keep rates stable and costs down and prevent accidents and injuries. He noted that MSF has 15 FTE dedicated to safety services and conducts approximately 75 seminars in Montana communities per year that are open to all comers. MSF is out there with a footprint; however, he said he was hopeful that it is not the only footprint in Montana and that the Legislature can see fit to assure DOLI has the resources necessary to provide vital training to continue to change the safety culture in Montana. He said he felt a good spend is taking the time to train young workers how to work safely at the beginning of their careers rather than trying to change bad habits later on.

Chair Zanto said he also sits on the Labor Management Advisory Council (LMAC) which has been tasked with developing issues to bring before the next legislature. He said one of the issues that the LMAC pushed for in 2017 was a drug formulary for workers' compensation that is currently being implemented by DOLI. The LMAC agrees that safety is a big issue and feels the strong message that needs to be sent to legislators is the need to "get our arms around" a strong safety culture in Montana. The MSF Board has made the commitment to help build a safety culture in Montana; however, that effort should not just lie on MSF's shoulders.

Chair Zanto called for additional questions or comments; there were none.

III. Corporate Support – Mark Barry, VP Corporate Support

A. Calendar Year 2017 Second Quarter Financial Report – Mark Barry, V.P. Corporate Support

Mr. Barry provided the Calendar Year 2017 second quarter financial report. He noted that the financial report highlights policyholder equity which is a key discussion point when determining a dividend declaration and he noted that WTW will present their assessment as well. He said the dividend declaration would be based on last year's audited policyholder equity as it was reported on the balance sheet; however, an overview of MSF's current financial status is also imperative to a dividend discussion. He provided the overall financial results and projections through the end of the year.

He said for the period ending June 30, 2017, admitted assets increased $5 million and liabilities decreased $19 million; that decrease was related to the securities lending collateral. Policyholder equity increased from $526 million to $551 million. He said after the Board declared the dividend in 2016, the loss reserve to policyholder equity ratio ended at 1.75 to one which has been fairly steady for several years. The projection for this year estimates a 1.63 to one reserve-to-equity ratio prior to the Board's consideration for dividend. He noted there are still strong results in the investment returns and net income is projected to be $35, million which is above planned.

Mr. Barry shared a slide with the Board that he had presented to the EAIC the previous day which illustrated the percentage of incurred losses on closed claims prior to and after the passage of House Bill 334 (HB334). He explained the provisions of that law resulted in a higher percentage of paid claims in the closed category, which resulted in reduced development potential on the accident years. When claims are closed, the losses are capped. Post HB 334, the costs have less volatility and MSF has more certainty in the amount of ultimate losses and at 72 months, 99% of claims are typically closed.

He reviewed the income statement and mentioned that net earned premium was about two percent below target at $164 million; however, the target was set without consideration of a rate decrease. He said the loss ratio is lower than was anticipated and expenses are in-line as expected. He said there is an underwriting loss of $13.7 million which puts us at a combined ratio of 1.08 as compared to last year's ratio of 1.00. Earned investment income is projected to be $36.9 million and includes $16 million of realized gains which is being earned on real estate investment transactions and equity sales.

Mr. Barry reviewed the changes to date in equity and projected that policyholder equity will be at $570 million prior to any dividend declaration. He noted that last year, after the $35 million dividend there was still close to $11 million of net income; however, this year, if the same dividend were declared, there would be zero net income. He said the premium level is very stable even with rate changes and MSF continues to hold stable from year to year. Operating results indicate incurred losses will be $129.1 million which is under the projected $132 million due to better than expected current accident year losses and lower prior year losses than were planned. The loss ratio is slightly below plan and the expense ratio is very close to plan and the realized gains are bolstering the results. He provided a comparison of the industry's combined ratio which he noted is an indication that the industry is accumulating leverage. He said net income before dividend is at $35.1 million which is $6.8 million above plan.

Chair Zanto called for questions.

Ms. VanRiper asked for clarification regarding what happens to an injured worker who continues to have medical expenses after the medical claim has been settled.

Mr. Barry said when determining a settlement, MSF considers whether it is appropriate for the specific injury and what the appropriate level for continued medical costs would be. Once settled, the injured worker has the funds to manage their medical going forward rather than having MSF direct their care.
Ms. Van Riper asked if health insurance would then pick up the medical costs related to a settled workers' compensation claim.

Mr. Braun said that depends on the situation. All medical closures and settlements occur after the claimant has been determined to have reached maximum medical improvement so their future is fairly well determined regarding their needs. He said if the monies are all expended, there are several different equations that may apply: a) for a Medicare beneficiary, MSF would have completed a Medicare set aside, once the set aside is expended, Medicare will step in and cover the medical costs or b) if not a Medicare beneficiary and the money is expended, it falls upon the injure worker to cover the costs. Some health insurance policies will cover pre-existing conditions, some will not.

Ms. Jenkinson added that injured employees always have the right to not settle their future medical particularly if they have concerns about future medical issues. The settlements have to be in the best interest of both parties. When HB334 passed, a five-year-closure limit was placed on claims except in special circumstances; with the availability of settlements, most claimants are finding it preferable to handle their medical costs and decisions on their own.

Mr. Barry noted when MSF and an injured employee come to a settlement agreement, that agreement must be reviewed and approved by the DOLI as well.

Mr. Mihelish sought clarification on the passage of HB334. He said he understood the "heart" of the bill was to limit benefits; however, wondered if MSF has satisfied consumers or if the five-year limit is leaving people in a lurch as a result of this loss.

President Hubbard said that HB334 contains a number of different provisions, only one of which is the ability to settle undisputed medical benefits. He said when a settlement agreement is being developed, staff consider the injured worker's need for possible future surgeries or medical needs and build those considerations into the settlement amount. He also explained there is a process to petition DOLI after the five year closure date to assure that special circumstance situations are not just closed against the claimant's needs or wishes.

Mr. Mihelish asked if there had been any negative opinions voiced from the legal community regarding the provisions of HB334.

Mr. Braun said there are two different ongoing MSF cases that challenge portions of HB334. One has been in the workers' compensation court for slightly over two years and it challenges the change that states if there is a class one impairment without an actual wage loss MSF does not compensate for that. The other challenge is to the choice of treating physician. After MSF accepts the claim, we have the ability to designate the treating physician. Predominately the appointed physician is the one chosen by the claimant; however, HB334 grants the insurer the ability to designate a physician if necessary. The challenges with regard to medical closure have mostly gone away with the exception of one that is currently in a pending status.

Chair Zanto clarified that HB334 did not just specifically impact MSF, it also affected other workers' compensation insurers as well.

Mr. Mihelish said he liked revisiting the subject of HB334 due to the financial decisions that are made based on the provision of that statute and an occasional update is helpful to him as a Board member.

Ms. VanRiper commented that she represented injured workers in the past and saw first-hand that they flounder when they chose not to use the money for things other than their medical needs. She said when medical treatment continues to be needed, the costs may be passed on to another means which concerned her.

Mr. Owens asked how many states have adopted or are now adopting similar legislation to HB334.

President Hubbard said that HB334 managing medical expenses with the termination of medical benefits after five years on most permanent/partial cases was a rather novel approach countrywide. He said other states have since taken up similar provisions before their legislative bodies. He said most states are trying to race to the bottom in terms of their costs for workers' compensation insurance and inevitably, the idea of cost shifting comes into play. HB334 shifted the burden of proving the need to keep medicals open from the insurer and medical provider to the claimant. Time will tell if that is an effective and fair process.

Mr. Braun added that when this was debated in 2011, there were other states with hard medical caps; some with regard to duration or dollar amount. We are not completely unique in that fashion. The benefit schemes from all 50 states are unique; some are more liberal with benefits and some are more conservative, and Montana's benefits scheme is in the middle of the road.

Mr. Hubbard also noted that an administrative study in the mid-2000s highlighted two key points: 1) Montana workers tended to stay out of work longer than other states and 2) the accident frequency rate in Montana was 50 percent higher than the national average at the time which were both problematic for Montana. HB334 was intended to try to put limitations on those durations. He said he felt the ability to settle claims has been a very effective tool in getting people to the table to wrap up their workers' compensation medical issues. The oversight from DOLI offers some very effective controls and assures there is a nominal degree of fairness in the transactions.

Ms. Moss asked what follow-up MSF is doing regarding claimants who settle and their level of satisfaction with their experience, during and after the entire process.

President Hubbard said that in the mid-2000s MSF completed policyholder and injured worker satisfaction surveys and it may be time to invest in new surveys, though he recommended giving the new settlement process more time before trying to determine how the business and injured worker communities are responding to this option. He noted that MSF's goal is to provide the best service possible under the law for injured workers and employers as provided by the legislature.

Ms. VanRiper mentioned that the Board sees a lot of reporting on MSF's financial factors and different business plans; however, said she would like to see more information from the claims side.

President Hubbard said Ms. Jenkinson would take that request as an action item and develop some reporting on claim dynamics. He added that now that MSF is regulated by CSI, complaints are more formally addressed with a log and follow up regarding actions taken.

Mr. Miltenberger made a comment that one board he served on also included a sitting member who was a claimant and he found that additional perspective to be beneficial to the board.

Mr. Barry added that over half the medical settlement claims include attorney involvement on the claimant's benefits and that once a claim reaches MMI the claim can be closed so settlement is a benefit to the claimants.
Chair Zanto called for questions or comments. There were none.

B. *Analysis of Surplus Adequacy and Policyholder Dividend Program – Russell Greig, Director and Tapio Boles, Senior Consultant – Willis Towers Watson*

Mr. Boles thanked the Board for renewing the Willis Towers Watson (WTW) contract for two years. He explained that this presentation is a summary of WTW's analysis of MSF's policyholder equity adequacy and policyholder dividend program.

MSF management asked that WTW address several interrelated questions; a) how much policyholder equity MSF needs in order to support its long-term viability and stability for Montana employers and MSF's long–term business plans and projections, b) how is the required amount of policyholder equity affected by changes in the business environment and c) does this year's financial situation support a policyholder dividend? Mr. Boles said policyholder equity plays a vital role in the Montana economy to provide a stable environment for businesses and a stable and competitive business market. He noted that MSF operates as the business of last resort so must write all businesses including those that private insurers choose not to cover. He said the MSF Board and management have addressed dividend considerations and discussions for nineteen years. He noted that net premiums declined approximately six or seven years ago and have been stable at about $165 million per year for several years. Net operating earnings have increased over time in proportion to greater investment income and favorable results on the loss reserves. Further review of MSF's fiscal status from 2008 provided an illustration that MSF's financial strength has improved relative to the reserves and resulted in increasing dividend declaration amounts as the reserve to equity ratio declined.

Mr. Boles explained that policyholder equity serves a key role for the proper management of a property-casualty insurance company. Based on sound industry standards, policyholder equity stabilizes costs to business, fosters regional economic competitiveness for Montana and minimizes the probability of MSF insolvency. Ultimately, equity is intended to assure that the insurer will be able to fulfill its obligations to policyholders and injured employees via management of the risks in the insurer's underwriting and investment portfolios. These characteristics distinguish insurance from virtually all businesses that provide goods and services, where the price is established after most costs of production and delivery are known.

He said policyholder equity is not "extra", not "excess", and not un-needed funds. If insurers retained no equity, potentially half the companies would become insolvent each year. On the other hand, an insurance company would need to maintain an infinitely large pool of equity to provide absolute assurance that it could never suffer financial failure. Building infinite equity is neither possible, nor is it the best use of financial resources and insurance prices would be much higher than employers would be willing to pay.

Mr. Boles said MSF, as a workers' compensation state fund, has several characteristics that highlight the importance of policyholder equity to absorb adverse financial results: extremely long-term obligations associated with workers' compensation claims especially as medical continues to grow, writes only one line of highly regulated insurance, writes in a single state and provides the guaranteed market. He added that there is also the uncertainty from significant Montana benefit changes such as HB 334, the effects of which have yet to be determined. MSF also cannot access additional capital to finance future growth or to cover adverse financial results. He said MSF's equity must be adequate not only to cover current and next year's obligations, but also to support the long-term strategy. Therefore, MSF needs stronger-than-average policyholder equity to address these unique issues.

He said that for the same reasons that equity is necessary, policyholder equity fluctuations are to be expected. Equity is there to absorb adverse financial results and corrective actions have been required and taken in order to reign in the adverse medical development. The financial fluctuations are expected, so do not warrant abandoning long-term strategic initiatives. They require the balancing of long and short-term considerations.

Mr. Boles said that policyholder dividends are an important element of the long term relationship between insurer and employer. The dividends provide an incentive for employers to improve safety and loss control efforts and return employees to work as quickly as possible. Dividends also serve to build a long-term relationship/partnership with the insurance company.

Mr. Miltenberger commented that the greatest risk for MSF is not necessarily the repeal of HB334 but a market crisis that could cause other insurers to pull out of the state leaving MSF, as the carrier of last resort and only able to operate in Montana, exposed to absorbing all of that coverage and resulting in increased rates. It would become a situation of "We're here, they left and we have to take their customers" which he said is a significant risk for MSF stakeholders.

Mr. Boles said if that type of crisis occurred, MSF would have to support a much greater volume of premium with the same amount of policyholder equity which would mean MSF would not be adequately funded for future losses.

Mr. Hubbard commented that in the early 2000s, during the end of the last soft cycle, MSF absorbed a number of policies that private carriers were no longer writing because they became insolvent or withdrew from the marketplace. The 2001 to 2003 numbers indicate that prior year development losses increased above anticipated range.

Chair Zanto called on Mr. Greig to continue WTW's presentation.

Mr. Greig said that WTW agrees with management that MSF needs to maintain policyholder equity relative to loss reserves. MSF, like every other insurer, needs to maintain or grow policyholder equity which is a delicate balance with evaluating rate changes. He said if MSF had to make rapid progress towards increasing or decreasing its equity, it could mean big changes in the premium levels. He noted that MSF's policyholder equity level is currently at the financially-strong level which is a guiding principle of the Board. Being financially strong positions MSF to be well prepared to handle multiple adverse deviations in financial results in the short term. He said insurers strive to achieve "financially strong" or "very strong" positions, to assure they will be operating in the long term and able to pay claims many years down the road. The heightened awareness of potential exposures to terrorism and other catastrophes was also considered by the actuary when addressing a possible dividend declaration.

Mr. Greig provided an example of an actual company that was very strong and rather quickly became insolvent. SeaBright Insurance Company experienced rapid growth and significant adverse development on medical reserves which caused their equity to drop to insolvency levels. Their premiums dropped as did their policyholder equity, very rapidly from 2010 to 2014, resulting in the company going into insolvency in 2015. He said this cautionary tale illustrates that a company can get into trouble writing workers' compensation in a relatively short period of time.

Mr. Greig said WTW's annual pricing review supports MSF's objective of producing modest operating income. He said operating income recognizes the risk and uncertainty inherent in pricing future business, makes ongoing contributions to growing policyholder equity as needed and supports an ongoing dividend strategy. He noted that MSF's policyholder equity as of December 31, 2016 significantly exceeds the "regulatory solvency perspective" equity benchmarks. He compared MSF's equity levels to three regulatory benchmarks and explained that these benchmarks are levels established to identify when a company is weak and potentially in a spiral towards insolvency.

Chair Zanto asked if the regulatory benchmarks were essentially "the floor".

Mr. Greig said that was correct. He continued and said the reserve to equity ratio quantifies how much adverse development a company can handle. He provided the chart depicted below to provide an illustration to the Board of the comparisons of MSF to A- and A rated state funds and the workers' compensation industry. He explained the leverage ratios are used to measure a company's ability to survive operating losses, catastrophes and other bad financial results. He said Wall Street seeks high return on equity, a low equity amount and to be able to do as much as possible with it; however, in insurance companies, the more equity the better and the leverage ratios need to be as low as possible, which indicates company financial strength.

SUMMARY OF ANALYTICAL RESULTS

Comparisons to A- and A rated State Funds and the workers' compensation industry (assumes reserve adequacy) suggest a 12/31/16 MSF policyholder equity range of approximately $340 - $800 million

	Peer Group				
	Private Carriers				
	Mean of Lower Quartile	Median	Mean of Upper Quartile	A- and A State Funds*	Workers' Compensation Industry
Premium-to-equity ratio	1.3	0.9	0.5	0.5	0.5
Implied MSF equity	$130 million	$188 million	$339 million	$339 million	$339 million
Gross leverage **	4.3	2.8	2.1	1.9	3.0
Implied MSF equity	$310 million	$476 million	$635 million	$701 million	$444 million
Net leverage **	4.2	3.1	2.1	2.0	2.6
Implied MSF equity	$311 million	$422 million	$622 million	$654 million	$503 million
Reserve to equity ratio	2.4	1.4	1.0	1.2	1.5
Implied MSF equity	$384 million	$658 million	$922 million	$768 million	$614 million
Equity to RBC ratio **	1.9	3.5	5.7	7.4	N/A
Implied MSF equity	$206 million	$379 million	$617 million	$801 million	N/A

MSF's December 31, 2016 equity position of $526 million places MSF toward the middle of the range indicated by A- and A state funds and by the workers' compensation industry

* Unweighted average of Hawaii, Kentucky, Louisiana, Maine, Missouri, Nevada, New Mexico, Texas, and Utah.

** Gross Leverage =(Gross Written Prem + Gross Loss Reserves + Other liabilities)/equity, Net Leverage = (Net Written Prem + Net loss reserves + other liabilities)/equity using MSF's FY2016 statutory financial statements, Equity to RBC ratio = Policyholder Equity / Risk-Based Capital

Mr. Greig provided a recap of the various levels of policyholder equity depicted below.

SUMMARY OF ANALYTICAL RESULTS

Evaluation of policyholder equity levels - recap

	Indicated 12/31/16 MSF Equity
▪ Quantify marginal equity perspective	
▪ Traditional rules of thumb	$57 - $85 million
▪ NAIC Risk-Based Capital – Company Action Level	$217 million*
▪ Quantify strong equity perspective	
▪ Peer company comparisons	
– A- and A State Funds	$339 - $801 million
– Private carriers (average of median and upper quartile)	$264 - $790 million
– Insurance industry (WC dominant)	$339 - $614 million
▪ Policyholder Equity Model results	
– Six scenarios: VaR (99.5%)	$437 - $1,002 million**

*By statute, MSF's Company Action Level RBC is 4 times Authorized Control Level RBC.

** Based on MSF's estimate of December 31, 2016 net loss and expense reserves of $921.5 million.

He provided Willis Towers Watson's conclusions and recommendations to the Board. He said their analysis suggests several general policyholder equity considerations: 1) Worker's compensation is the longest-tail line of any non-reinsurance line of business; therefore must be supported by significant levels of equity, due to the volatility risk to the insurer, exacerbated by the long recognition period and the tendency for good and bad years to run in strings. The real world poses more risks than models can measure or predict. 2). No reasonable amount of equity can fully guarantee against an insurer's failure. 3) Management intervention is required to keep an insurer on track. 4) There is no one correct level of equity for all time periods.

MSF's equity has done its job extremely well over the decades. It has absorbed approximately $227 million from FY2002 to FY2016 of adverse loss and LAE reserve development and absorbed retroactive benefit changes reflected in court decisions as well as absorbed volatile investment climate. MSF policyholder equity has also provided relatively stable rates and lower rates via a zero-profit and contingencies provision. MSF's position is considered financially strong; however, MSF will want to maintain a strong equity level relative to loss reserves and the fact that MSF requires stronger than average policyholder equity to address its state fund specific role.

Mr. Greig concluded from Willis Towers Watson's analysis that MSF has enough policyholder equity and financial performance to pay a large dividend. He said the policyholder equity has done its job of absorbing adverse financial results. He added that MSF's decision regarding a dividend declaration also needs to consider the strategic role of dividends with respect to its most profitable and long-term customers.

Chair Zanto called for questions.

Ms. Van Riper said she wanted to underscore that the NAIC Risk Based Capital – Company Action Level of $217 million means the regulator would begin getting worried and asked Mr. Greig if that was a correct assumption.

Mr. Greig said that was correct.

Ms. VanRiper said being at just that $217 million level would not mean MSF was "good".

Mr. Greig said the NAIC has several levels of action that would occur before hitting the lowest level. At the point the company reaches this company action level, they would have to provide a plan to the regulators that shows the actions they will be taking to stop the drop in policyholder equity and what they will do to continue to grow equity and be a viable company. If equity continued to drop, the regulators would take action within the company and possibly shut down the company.

Ms. VanRiper said she wanted to stress for observers that MSF could not go down to that level and be just fine.

Mr. Greg commented that no good company would set that floor-level threshold as their target.

Chair Zanto added that essentially in 1990 when the Old Fund went away and the New Fund started the equity levels got that bad and MSF does not want to repeat that. He said the directive from the legislature at that time was to not ever get there again and MSF is doing a good job of maintaining strong financial health.

Chair Zanto called for additional questions for Mr. Greig. There were none.

C. Surplus Level Determination and Declaration of Dividend – Management Recommendation - Laurence Hubbard, President/CEO

President Hubbard thanked Mr. Greig and Mr. Boles for an excellent presentation that provided both the reason that policyholder equity is necessary and the risks that are in the environment for eroding that surplus. He said MSF could not provide the level of customer service that it expects for policyholders and injured workers, if MSF were not financially sound. He said the most important thing the MSF Board of Directors and management can do is to assure the long-term financial health of MSF for injured workers and the benefits employers owe to them. He said it has been approximately 26 years since the Old Fund liabilities were declared to be $500 million in unfunded liabilities with no assets and MSF has "dug out of a long hole". The New Fund was capitalized with $20 million in 1991-92 and had to rely on the rate level from policyholders to rebuild its equity by implementing improvements in claim management and controlling claim adverse development. He said it has taken many years and by those efforts as well as the tremendous performance of MSF's invested assets, MSF now has the financial strength necessary to meet the promise to injured workers and employers. He added that due to MSF's financial strength the Board has been able to declare dividends since 1997.

President Hubbard reviewed the Board adopted Dividend Policy with the Board and added that the policy was the guidepost by which the Board can consider a dividend. He said management's recommendation to the Board encompasses considerations of MSF's current level of equity, the accident year 2015 financial results, trends and losses, the workers' compensation market conditions and the potential impact on future dividend declarations. When looking at the specifics of management's analysis, MSF's current year financial results are important to review. He said, importantly, if MSF did not have investment income, MSF would have an operating loss this year of about $13 million which would erode the level of surplus equity that is currently held. As a non-profit, it is not MSF's goal to acquire profit each and every operating year, the goal is to maintain as much financial strength to be reasonably prudent and respect the non-profit directive as much as possible. He said this year the current projection is MSF will have approximately $35 million in net operating income which will flow to equity for continued equity growth. He added that loss reserves and losses are remaining relatively stable. He said he believed that current operating year results will support another dividend by the Board of Directors. He added that another consideration is that underwriting profitability for the dividend year (2015) which was $36.8, investment income of $50.7 million and the Board was able to declare a dividend of $20 million that year.
He asked the Board to use considered and measured discussions in determining whether to declare a dividend and if so, at what level. He noted that MSF has adopted and continues to implement a long term, stable financial strategy as opposed to short-term responsiveness. He said the Board could safely declare a dividend in the $35 to $45 million range. Mr. Hubbard said management recommends a dividend amount of $40 million should the Board determine it appropriate to declare a dividend.

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

Mr. Mihelish made a motion that the Board, based on the unreserved surplus of $526,466,458 as of December 31, 2016, declare a dividend to dividend year 2015 policies of approximately $40 million dollars, not to exceed 2% above or more than 2% below the declared dividend, exclusive of any uncashed warrants. The motion was seconded by Ms. Moss. Chair Zanto called for questions or discussion from the Board.

Chair Zanto said MSF's financial statements show a current net income of $35,103,038 which means a declaration of a $35 million dividend essentially erases MSF's net income earned over the last year and any amount over that is eroding MSF's net income figure. He said he believed that should be a consideration in the Board's discussions to declare a dividend. He added that he thought it was important to point out that a dividend declaration is a retroactive look at a prior year's performance, it has nothing to do with rates on prospective years. He said that is a different meeting entirely. He said what the Board sets as rates in a prior year and the performance in that year, dictates the Board's ability to declare a dividend currently. He said MSF is in a very good position and asked the Board to reflect on whether they were comfortable with erasing the net income for the year.

Mr. Hubbard thanked Chair Zanto for that perspective. He added that the decision on dividend is based on equity levels, not necessarily net income. The point is well taken because a dividend declaration would be equivalent to not adding to equity at all during this accident year.

Ms. VanRiper said MSF has one known increasing risk which is climate change and she expressed concern about the increasing fires. She asked what that would do to MSF's increasing costs, recognizing that MSF would not be looking at an extreme increase in workplace injuries. She said smoke inhalation could be a serious concern and asked if there are other serious risks to workers' compensation associated with this known new environment.

Chair Zanto said speaking from his position as a policyholder with the State of Montana, there were well over 1,000 firefighters, as well as National Guardsmen that were deployed. The state has seen an increase in the number of injuries and had two fatalities this year. There have been a number of inhalation issues and this is a large concern for state government along with the significantly increased risks and injuries than experienced in prior years which will then impact the state's premiums going forward.

Mr. Hubbard added the importance of this discussion is the Board's ability to respond in an even, steady manner if that eventuality occurs. He said if there are unknown exposures that are developing today that will emerge over the next several years, that will require MSF to maintain a strong equity level so the Board has the time to take the appropriate action when necessary and not have to react to what has become a volatile situation. A strong equity level and appropriate reserve levels allow the Board time to respond so that customers are not shocked with volatile rate increases.

Ms. VanRiper said she believes the fires are a known risk rather than an unknown risk, given current knowledge for the future and she said she would feel more comfortable declaring a $35 million dividend.

Chair Zanto called for additional comments from the Board.

Ms. Moss said she concurred with the $35 million dividend declaration. She said the importance of the stability and predictability for MSF is vital. She said discussions among business owners when she has attended safety classes in Billings, illustrate the benefit the dividends play with their policyholder relationship to MSF. She said a $35 million amount would allow for the smoothing out and is consistent with past declarations.

Mr. Mihelish said he believed the Board had an opportunity today to share with the policyholders some of MSF's extremely good financial shape. He said if MSF can share a little of MSF's financial strength and help boost the economy and gain a little good will from this declaration, he sees $40 million as an appropriate amount.

Mr. Miltenberger shared that he has a small company that has a policy with MSF; however, he also has an investment where he is a minority owner that moved from MSF in 2015. The low bidder in 2015 was about eight percent less than MSF; however, the rates have increased again this year. The company has had no claims and would probably have qualified for a dividend with MSF if they had remained there which illustrates a loss, not necessarily a savings, by moving. The dividend that would have been received would have been a good consideration in that move. He said he agreed with Mr. Mihelish that $40 million is an appropriate declaration and the Board should support management's recommendation.

Mr. Owens said he agreed with Mr. Miltenberger and Mr. Mihelish. He said he believes MSF management is fairly conservative and if President Hubbard is comfortable with a $40 million declaration, he was as well.

Mr. Mohr asked if MSF's investment income changes significantly would that drastically change MSF's ability to disburse a dividend?

Chair Zanto said yes, it could.

Mr. Mohr asked if that meant a dividend declaration next year would be zero?

Chair Zanto said historical dividend declarations have been $6 million in 2012, $4 million in 2011 and $2 million in 2010. He added that 2013 was $10 million, 2014 was $12 million, 2015 was $20 million and 15.5 and 2016 was $35. He said MSF's investment income is carrying MSF's weight and is what is allowing MSF to keep rates under control. He said if there is a catastrophic event or the market turns and investment returns are not there, that would create an entirely different discussion.

Mr. Hubbard added he thought Ms. VanRiper and Ms. Moss made very good points. He said it is possible that there could be years when no dividend declaration would be possible; however, he does not believe that is the case for MSF in the short-term. He said his ultimate point is that MSF's dividend declarations are a significant stabilizing force in the market so that employers can invest in safety and increased wages for workers.

Mr. Mihelish commented it was difficult to make this decision because the Board is trying to look forward and assure there is something in the savings account in case things do get bad. He added that he really did believe this needed to be a retrospective decision and based on MSF's performance and the 2015 performance, he believed the $40 million dividend was appropriate.

Chair Zanto thanked the Board for their comments. He said he is in agreement with the $40 million dividend because he thinks MSF is in a stable enough position to reward safety-minded employers; next year may be different. He also challenged MSF management to consider how MSF can increase its concentration on incentivizing safety. He said anything that MSF can do to help promote the employers of Montana to build a stronger safety culture and protect employees from getting injured would be a good thing. He asked that staff continue to do that and work toward a solution for the Board to consider in the future. He added that he was in support of a $40 million dividend and he called for additional comments from the Board.

Ms. VanRiper said she would feel more comfortable with $35; however, she could support the $40 million dividend declaration. She said she thought all of the ranges were good and that Board members made good points in support of that level.

Ms. Moss observed that she serves on another non-profit board and they have worked very diligently over several years to smooth out a budget with a large investment portfolio and essentially for the next three to five years they are projecting flat income from their investment portfolio. She said she appreciates being retrospective and looking back; however, she said in the world today, you have to be nimble and look backward and forward. She said with a word of caution she will support her Board colleagues and President Hubbard's recommendation; however, she said they should all be mindful of the reality of falling investments which is being predicted by financial advisors throughout the country.

Chair Zanto called for additional comments or questions from the Board, there were none. He called for comments from the public, there were none. He called for the vote and the motion passed unanimously.

Chair Zanto thanked the Board for the discussion.

IV. Dividend Distribution – Rene Martello, Controller

A. Minimum Dividend and Level of Warrant Amount or Credit to Account

Ms. Martello provided the parameters used to distribute the dividend to MSF's customers. She said the minimum payment amount of $10, and a minimum warrant at $100 which means anything less than $100 would be applied to the account; anything over $100 would be issued to the policyholder. She said within the dividend distribution parameters there is a requirement that the dividend be applied to the account if the following exist:

- A current policy has a past due premium or other debt pending
- A canceled policy with an obligation owed to MSF or an outstanding payroll report is due.

She noted that this has been the process in the past and staff was requesting that no action or changes be made on this items.

Chair Zanto called for questions. There were none.

Chair Zanto made a motion that the Board approve a minimum dividend payment amount of $10.00 and a minimum warrant amount of $100.00. Ms. Moss seconded the motion. Chair Zanto called for discussion or questions from the Board and the public; there were none. He called for the vote and the motion passed unanimously.

B. Authority to Issue Dividend Warrant To a Cancelled Policy with a Past Due Premium or Other Debt Pending

The Board did not make any changes or take action on this item.

C. Authority to Issue Dividend Warrant to a Cancelled Policy with an Existing Obligation Owed the State Fund including a Past Due Premium or an Outstanding Payroll Report

The Board did not make any changes or take action on this item.

D. Table of Dividend Factors and Actuarial Certification of Approved Table of Dividend Factors – Dan Gengler, Internal Actuary

Mr. Gengler presented the table of dividend factors for the $40 million declaration. He noted that there would be some variance around the $40 million amount due to rounding, which is why the motion contains plus or minus language. The dividend is payable to policies written July 1, 2014 to June 30, 2015 with at least six months of continuous coverage. He explained that the table distributes the dividend proportionally to actuarial determined profit. He provided the Board with an overview of the methods used to establish the table and utilized to assure the table distributed the dividend fairly and equally to all qualifying accounts. He noted that the table of dividend factors was reviewed and certified by the consulting actuary, Willis Towers Watson, and the certification letter was provided to each Board member. He said management requests that the Board approve the table of dividend factors for the $40 million dividend declaration.

Chair Zanto called for questions.

Ms. VanRiper said she was struggling with the dividend table. She asked if she was in the zero to 2000 range, and someone else in that pool had bad accidents, would it impact her dividend more than if she were combined with other accounts?

Mr. Gengler said it would in the long run; however, it does not necessarily reduce the amount because the insurance charge is based on long-run averages as estimated by NCCI. What has actually been found is that the level of losses given the law of large numbers, if there are enough policy holders, the year-to-year results are actually pretty smooth. This works fairly well; however; a happenstance large loss in any given year would not necessarily change this table because the fair insurance charge is based on long-run distributions.

Ms. VanRiper asked if larger pools were established, would that even out the percentage that people would receive in their dividend amount? She said she is questioning how the pools were determined and what the cut-off was. She said more rows would seem to be more equitable.

Mr. Gengler explained that the rows are determined by the equity of the process. The rows are constructed based on what is known as the increments in the insurance charge, which decreases rapidly as account size increases. The rows are constructed with an effort of assuring a smooth transition. He illustrated with the example that if the row were all policies from zero to 20,000, the policies falling within the low and high ends of that single row would be treat inequitably. The proposed table is structured to provide for as fair of a distribution as possible. He said determining the rows is a balancing act so that the table is not excessively large.

Mr. Miltenberger made a motion to approve the recommendation of staff to approve the table of dividend factors as presented and as certified by the independent actuary; and distribute the dividend to all qualifying policyholders with new or renewal dates within the dividend year of July 1, 2014 through June 30, 2015, and who had at least six months continuous coverage during their policy period. Ms. VanRiper seconded the motion. Chair Zanto called for discussion or questions from the Board and the public; there being none, he called for the vote. The motion passed unanimously.

Chair Zanto commented that agenda item C had been missed and asked Ms. Martello about that item.

Ms. Martello responded that Item C was covered as staff recommended no action on it. She explained that staff requested to handle the process as they have done in the past and if the Board approved of that, no action would be needed.

Chair Zanto asked the Board if they wanted to change current practices and return to discussion on Item C. The Board members indicated no interest in changing current practice and Chair Zanto stated there was no need for action on that item.

Chair Zanto called for public comment, there was none.

V. Reserve Report

A. Overview of Old Fund statutes – Rene Martello, Controller

Ms. Martello provided an overview of the Old Fund statutes. She said 39-71-2351 of Montana Code Annotated establishes separate funding of the Old Fund and the New Fund. The legislature has determined that the most cost-effective and efficient way to provide a source of funding for, and to ensure payment of, the unfunded liability and the best way to administer the unfunded liability is to separate the liability of the State Fund on the basis of whether a claim is for an injury resulting from an accident that occurred before July 1, 1990, or an accident that occurs on or after that date.

She said MCA 39-71-2352 establishes a separate payment structure and sources for the claims for injuries of the Old Fund and MSF. It also determines the cost to administer and pay claims of the Old Fund and separately determine the cost to administer and pay claims of MSF. It states that the administrative expenses and benefit payments for the Old Fund and MSF are funded separately from the sources provided by law. This statute also establishes that an independent actuary must be engaged by MSF to project the unpaid claims liability for claims for injuries resulting from accidents that occurred before July 1, 1990 each fiscal year until all claims are paid. Further, it states that if in any fiscal year the Old Fund is not adequately funded, which has been the case since 2011, any amount necessary to pay claims for injuries resulting from accidents that occurred before July 1, 1990, must be transferred from the General Fund.

Ms. Martello provided a summary table of the Old Fund losses and LAE. She noted there was $2 million of development on Old Fund years, a change of about $7 million paid during that year and LAE reserves were $4.6 million. The net outstanding liability decreased from $38.4 million in 2016 to $32.2 million in 2017. There was a LAE rate increase from 16.2 percent to 16.7 percent which included a DOLI assessment rate of 3 percent for 2017.

Chair Zanto called for questions; there were none.

B. Old Fund FY17 Reserve Report – Russell Greig, Director – Willis Towers Watson

Mr. Greig explained that their assigned objective as the independent consulting actuary is to estimate the aggregate amount of unpaid future claims benefits, including a provision for claim administration and future Montana Department of Labor and Industry (DOLI) assessments, and also to forecast the payout timing. He noted the Old Fund consists of claims that occurred prior to July 1, 1990.

Mr. Greig provided an overview of the methodologies used to determine the actuarial estimate and range of estimates of the unpaid liability of the Old Fund as of June 30, 2016. He noted that their indemnity observations indicate payment activity has been slightly lower than projected for last year which is reflected in the slight decrease seen in the ultimates projected for this year. A continued decline in indemnity payment activity is projected as the Old Fund claims continue to mature. He noted that in recent fiscal years, actual medical payment activity has been above expectations and those higher activity levels have been weighted into their projections. He said Old Fund payments have not been declining as expected over recent fiscal years and as a result estimated unpaid losses have been increased. He explained the factors and considerations that Willis Towers Watson applied to the Old Fund to determine their final projections for FY2017.

Mr. Greig said the Old Fund forecast for the next fiscal year is $6.3 million and the total undiscounted claim related unpaid actuarial central estimate is $27.6 million timed out to Fiscal Year 2050-2051. He said Willis Towers Watson's total claim-related unpaid amounts estimates of the Old Fund are at $32.2 million. He noted there has been a lengthening of the development patterns and based on past activity a shift to a lower level is predicted.

Chair Zanto called for questions. There were none.

C. Old Fund FY17 Reserve Recommendations – Laurence Hubbard, President/CEO

President Hubbard clarified that the Old Fund liability is not supported by any assets; it is cash flowed by the State of Montana and MSF receives fund transactions from the General Fund to administer the benefit payments and operational costs. He stated management recommended that the Board adopt the actuary's central estimate to include loss and LAE as well as DOLI assessments of $32,211,634.

D. Adoption of Old Fund Fiscal Year 2017 Unpaid Loss and Loss Adjustment Expense Reserve Estimate – Laurence Hubbard, President/CEO

Chair Zanto called for questions or comments from those present; there were none and he called for a motion.

Ms. Moss made a motion to adopt for the Old Fund, based on the actuary's best estimate of unpaid losses and loss adjustment expenses for Fiscal Year 2017, the amount of $32,211,634 undiscounted as of June 30, 2017. Mr. Mihelish seconded the motion. Chair Zanto called for questions or comments.

Mr. Mihelish asked if there were still political winds that are blowing that might throw the Old Fund back into MSF's lap so that it was no longer funded by the General Fund.

President Hubbard said there have been historical attempts to transfer the Old Fund liabilities to MSF; the challenge there is that MSF's assets cannot be utilized for anything other than post July 1, 1990 claims. The Old Fund claims are pre-July 1, 1990, so unless there was a capitalization of those liabilities then they just cannot be transferred. He said the good news is that these liabilities are unwinding and are eventually going to go away. The Old Fund has gone from $500 billion in unfunded liabilities to approximately $32 million which is a substantial change. He added that he could not assure the Board that efforts like that would not continue; however, he believed the current law would not include these liabilities.

Mr. Mihelish commented that with all of the economic pressures of the General Fund such as the fires and the budget estimates that were wrong, that approach may be a place where the Governor's office would look.

Chair Zanto called for further comments or questions from the Board and the public. Seeing none, he called for the vote and the motion passed unanimously.

VI. Corporate Support

A. Calendar Year 2017 Second Quarter Budget Report – Rene Martello, Controller

Ms. Martello provided a high-level summary of the second quarter budget report. She said total expenditures, which includes claim benefit payment and operational expenditures, were budgeted for $189 million and are projected to come in at the end of the year at $184 million which is approximately $5.5 million below the estimates. She said claim benefit indemnity payments were budgeted for $38.5 million and are expected to be approximately $2.7 million under budget and medical benefit payments were projected to be $1.4 million under budget with medical settlements being $406,000 under projected. Total medical benefits of $88 million or 98 percent are expected to be spent in 2017. She said operational expenditures are also projected to be under budget overall by $1.029 million or 98.3 percent due to: use of internal staff rather than consultants for the documentation gap project the medical bill review RFP, funding differences for the staff positions at CSI versus actual costs, and lower ALAE than expected.

Chair Zanto called for questions. There were none.

B. *Old Fund Funding Status – Fiscal Year 2017*

Ms. Martello then provided the closing report for the Old Fund FY2017 as of June 30, 2017. Overall total claim benefit payments were $1.2 million under projected and total operations expenses were approximately $17,000 under. She said benefits payments variances were due to indemnity being $387,436 less than projected. The Old Fund also had medical settlements, an impact from HB334, in the amount of $1,070,640 which was $462,939 under the projected budget. Total benefits payment were about $7.5 million or 86.5 percent of the expected budget. She said operations expenses which include administrative costs, DOLI assessment, and ALAE were $1,104,844 or 98.1 percent of the expected budget due to lower than expected DOLI assessment and ALAE.

C. *Old Fund – SB261 Administrative Cost Reduction*

Ms. Martello explained that the Old Fund funding estimate for FY18 that was approved at the last Board meeting would have to be readdressed. MSF projected that $722,289 would be needed for administrative costs. She said that since the revenue triggers that were enacted in SB261 were hit, MSF will have to reduce its services for the administration of the Old Fund. The administrative cost limit is now $625,000. She said leadership and staff have met to identify reductions to areas that administer Old Fund claims. MSF spoke to Willis Towers Watson about reducing their analysis and services spent on the Old Fund and that estimated reduction will be approximately $16,000. Operations Support’s quality assurance team will no longer review Old Fund claims and the medical team will reduce nurse consultations. The Operation’s claims team limit their analysis or assistance on Old Fund claims. She said the number of staff working on the Strategic Claims Team, which manages the Old Fund claims will be reduced which will mean larger caseloads for the staff that will remain. She said by removing these second-level reviews there is a possibility that it could equate to larger benefit payments. She said the last reduction is the legal and claim attorney support which will be reduced to just one attorney and a closer look will be taken at hiring outside legal counsel instead, which will be charged to the claim.

Chair Zanto called for questions.

Mr. Miltenberger commented that the MSF reductions being managed to the allowable funding source for the Old Fund were nicely done and he encouraged MSF to continue to work within the limitations to do whatever was necessary to assist the State through this period of time.

Ms. Martello noted that the caseload change is focusing the transfer of Old Fund claims to the examiners with the most experience.

Chair Zanto called for additional questions; there were none. He then asked Mr. Greig if the reduction changes to the management of claims were taken into consideration with the report he had just provided.

Mr. Greig said he did not take these changes into consideration for this report; however, it would be a concern and would be addressed going forward. He said if MSF is cutting back on properly managing the claims, it will affect the analysis. He said cutting back on loss adjustment expenses usually results in higher loss payments which is a legitimate concern going forward and that it may save money in the short term but the ultimates may go up.

Chair Zanto announced that the Board would be going into a closed meeting and reconvene following the closed session.

CLOSED MEETING

VII. President/CEO Performance Review

A. Call to order
B. President/CEO's Performance Review
   Mr. Kenning took the minutes and upon completion of the closed meeting, provided the completed copy to Mr. Duane.

Chair Zanto called the open meeting back to order at 3:18 p.m. He noted that a couple Board members had to leave; however, there was no further action necessary.

VIII. Old Business/New Business (2:45 pm)

Chair Zanto called for Old or New Business.
There was none.

IX. Public Comment (2:50 pm)

Chair Zanto called for Public Comment. There was none.

Ms. Van Riper moved to adjourn. Chair Zanto seconded the motion.

The meeting was adjourned at 3:18.m. The next scheduled board meeting will be held on Friday, December 15, 2017 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