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

MONTANA STATE FUND
BOARD MEETING
December 14, 2018

The Montana State Fund (MSF) Board meeting was held December 14, 2018 at Montana State Fund, 855 Front Street, Helena, Montana.

Directors Attending

Lance Zanto, Helena
Lynda Moss, Billings
Cliff Larsen, Missoula
Jan VanRiper, Helena
Matt Mohr, Bozeman
Jim Molloy, Helena

MSF Staff Attending

Laurence Hubbard, President/CEO
Verna Boucher, Spec Asst to Pres/CEO
Patti Grosfield, Internal Auditor
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
Erika Ayers, Select Team Leader
Verena Mullins, Organizational Development Specialist
Rene Martello, Controller
Kevin Braun, General Counsel
Greg Overturf, Assistant General Counsel
Shannon Copps, Director, ESPM
Kurstin Adamson, ERM Risk Specialist
Dan Gengler, Internal Actuary
Peter Strauss, Compliance Officer
Tammy Lynn, Safety Services Director
Sandy Leyva, Insurance Applications Director
Mike Worden, Sr. Human Resources Generalist
Nick Hopkins, Marketing & Business Dev. Dir.

Others Attending

Russell Greig, Willis Towers Watson
Tapio Boles, Willis Towers Watson
Russell Ehman, CSI
Troy Smith, CSI
Peter VanNice, DOLI
Kerri Emmons, IIAC
Dave Maslowski, MSFA
Bob Biskupiak, CSI

I. Meeting Preliminaries

A. Call to Order

Chair Lance Zanto called the meeting to order at 8:35 a.m. Chair Zanto thanked everyone for attending. He noted that a change was made from the original agenda that was sent out two weeks prior. He said the revised agenda reflected that Item “E” and “F” under section three had been swapped. He also offered a reminder that the Board meeting was streaming live and being recorded and asked that speakers or commenters please approach the podium and speak clearly into the microphone.

B. *Approval of September 20, 2018 Board Meeting Minutes*

Chair Zanto said the first order of business was approval of the Board meeting minutes from September 20, 2018 and asked for a motion.

Cliff Larsen made a motion to approve the September 20, 2018 meeting minutes. The motion was seconded by Jan VanRiper. 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 said the key topics of discussion for this Board meeting were MSF's 2019 Annual Business Plan and MSF's operating budget for 2019. He took a moment to welcome and introduce Verena Mullins, MSF's Organizational Development Specialist and explained that Ms. Mullins has been given the critical task of assuring that MSF is investing in its employees and providing appropriate development and training. He noted that talent management is currently a very important topic in the industry as a result of Baby Boomers' retirements, the low unemployment rate and later-in-life career changes. He said competition for talented employees is high and added that he just welcomed ten new Claims Examiner Trainees at the beginning of the week. He also welcomed Russell Greig and Tapio Boles, MSF's consulting actuaries.

President Hubbard noted that the 2019 Legislative session was approaching and there were already approximately 35 workers' compensation-related bill draft requests. He said that number of draft requests was fairly typical; however, not all of those requests would develop into actual bills or legislation. He highlighted the details of a few bills MSF would be watching for this session such as legislation regarding workers' compensation coverage for all volunteer firefighters. He noted that there are a decreasing number of people willing to volunteer for fire departments and other emergency services which makes it critical they have appropriate benefits for their exposures. Related to that, a presumptive disease bill is also expected, which has been a recurrent discussion over the past ten years and increasingly so in more recent years. He noted that MSF does not take a position on bills that propose benefits or benefits changes unless the proposed language is unworkable or untenable as drafted and would be impossible to implement. He said that on proposed issues dealing with MSF's structure and the like, MSF definitely takes a position. He noted that it is fully expected that there will be another attempt to eliminate MSF; MSF is the guaranteed market for Montana's small businesses and elimination of MSF would definitely harm them, thus MSF will take a position on any proposed bill. He noted there has been no draft language to date; however, MSF will watch closely and take action promptly when necessary.

He said the Business and Commerce Department in Oregon releases a state ranking of average workers' compensation costs by state for the 50 class codes that are predominant in Oregon. The ranking makes an attempt to compare Oregon's average rates to other states. The 2018 Oregon ranking has been released and Montana has the 13^{th} highest rates in the nation according to this study. He noted that the study is based on 2017 data which does not include the loss cost reduction changes of minus 10.7 percent in Montana. He said MSF's analysis finds that comparatively with the lost cost filing of 2018 and other state's more recent filings, Montana would actually rank 20^{th} compared to other states. He said he believed the rate of change for Montana was perhaps one of the most significant changes in various comparative states. He added that there was no point at which Montana would be below North Dakota; due largely to the difference in benefits and what entitlements are available and how the benefits are consumed. The difference is also due to average wage differences between the states; Montana ranks 47^{th} in the nation for wage rates which means the workers' compensation insurance rate must carry more of the burden for equal costs. He said there are nuances of the Oregon ranking that are not often taken into account; however, Montana continues to make progress. He said it is up to our policymakers to decide what level of care and benefits they are going to provide to their injured Montana workers.

Chair Zanto said he also takes Montana's accident frequency level into consideration when reviewing Montana's ranking in the Oregon study. He said he believed Montana ranked fourth worst in the nation.

President Hubbard said unfortunately, Montana's rate of accident frequency and fatalities remains in the top five. He said this is a very important issue for Montana and the right thing to do is to continue to focus on workplace safety and reducing the accident frequency rate. On average, it is declining nationally by three percent; however, there will be a floor to that as well. He noted that Montana certainly has some room to improve.

He then announced that Mark Barry, MSF's Chief Financial Officer had planned to retire at the end of 2018; however, has graciously agreed to remain through March of 2019. He said that he and Rick Duane, Vice President, Human Resources, have begun a candidate search through the Jacobson Group. He said a number of applicants have been identified and the interview process will begin after the first of the year. He thanked Mr. Barry for agreeing to remain with MSF while the search ensues.

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

Ms. Grosfield provided a report on the internal and external audit activity.

Externally

Ms. Grosfield said the external audit crews will be working on their audits over the next four to five months completing their audits. She said Eide Bailly, LLP, will complete the CY18 Statutory Financial Statements audit. The Eide Bailly auditors had been on site December 10-14, 2018, interviewing staff and Board members and conducting testing. She added that although a lot of their work will be completed off-site, they will return to complete their fieldwork February 4-15, 2019 and then provide their final report by April 2019.

She reported that Legislative Audit Division auditors are expected to be on-site in March or April 2019 to begin the audit for the CY18 GASB (governmental) Financial Statement audit report.

Internally

Ms. Grosfield said the dividend audit of the $40 million declaration made by the Board of Directors at the September 20, 2018 Board meeting has been completed. After the declaration, MSF calculated and she audited the dividend distribution process and payments for compliance with the MSF dividend policy, Board established parameters and statute. MSF calculated, audited and processed dividends for 23,152 accounts which received $39,997,664. She noted that the State Agencies received $1.8 million.

She reminded Board members that the Multiple Public Employment Disclosures reports are due to the Commissioner of Political Practices by December 15, 2018. Ms. Grosfield then provided a review of the disclosure forms that must now be completed by Board members.

Ms. Grosfield provided a review of the CY 2018 Internal Audit Plan and noted that this work has been completed except for a few fourth quarter items that are currently being completed. She then presented and proposed the 2019 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 and MSF adopted that practice in 2017. She said the CY2019 Audit plan was quite similar to CY2018; however, some of the elective audits have been removed to free up time to review the identified ERM top risks and review the controls. Also, added was a review of MSF's new guidelines and procedures that have been adopted due to a large project that has occurred throughout the company. She said she will be working closely with management, the Compliance Officer and the ERM Officer.
She invited any questions from the Board and requested the Board approve the plan as presented.

Chair Zanto called for questions. There were none.

Lynda Moss made a motion to approve the Calendar Year 2019 Internal Audit Schedule. Matt Mohr 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 added that the upcoming internal audits would be completed on Agency Incentive payments, the MSF Code of Conduct, Data Confidentiality and Acceptable Use, Employee Leave Plans, Employee Performance Based Pay, ERM Controls Testing and she will be supporting the CY2018 financial statement external auditors.

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

Mr. Duane provided an historical prospective on the MSF Board's use of a compensation consultant. He said Montana Statute §39-71-2317 establishes the authority of the Board to appoint and determine the compensation level of MSF's President/CEO. He said, also by statute 2-18-103, the President/CEO's and MSF's employee compensation has been exempted from the state classification and compensation plan in order for MSF to function as a competitive insurance company. He said that throughout the years, MSF has worked with various consultants regarding CEO compensation recommendations and after a Request-For-Proposal (RFP) process in 2014, Kenning Consulting was contracted to provide these services. After Kenning Consulting was hired by the MSF Board to provide this service, the American Association of State Compensation Insurance Funds (AASCIF) also hired Kenning Consulting to take over and conduct the AASCIF CEO Compensation Survey that is launched each December. The Board has approved the extension of this consulting contract several times and Mr. Duane asked the Board to extend the contract for Kenning Consulting to begin on January 1, 2019 until December 31, 2019. He noted that the contract can be renewed for up to seven years and 2019 will be the fifth year of the contract, including extensions.

Chair Zanto called for questions.

Mr. Molloy asked why the contract was renewed each year rather than just extend the dates through to the end of the seven-year period.

Mr. Duane said that pricing can change from year to year so it is a good practice to renew each year.

Mr. Mohr made a motion to approve the proposed amendment of the Compensation Consultant Service Contract with Kenning Consulting. Jim Molloy 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.

III. Reserve Reports – Montana State Fund

A. Introduction – Laurence Hubbard, President/CEO

President Hubbard noted that the Board would be determining the appropriateness of the unreserved liabilities for loss adjustment expenses for incurred claims to include in the CY2018 financial statements. He said the consulting actuaries from Willis Towers Watson will provide their estimations of the loss and LAE reserves and then Mr. Barry will provide a review of the impact on the CY2018 financial statements as a result of the adjustment.

B. Montana State Fund Calendar 2018 Reserve Report – Russell Greig, Director, Willis Towers Watson

Mr. Greig said the objective of Willis Towers Watson's analysis was to provide an aggregate amount of the unpaid claims benefits and include a provision for claim administration expense or LAE. He noted that this analysis encompasses injuries occurring between July 1, 1990 and December 31, 2018. 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 12 months, the change in Willis Towers Watson's total projection of loss is minus $4.2 million.

Mr. Greig said uncertainty is embedded in every actuarial and financial model because the aggregate amount of unpaid claims benefits 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 $1.5 million for the past nine months. He said Willis Towers Watson 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 $100,000 below expected in the past nine months. He said recent trends for indemnity are lower compared to trends from the latest 10 years, but for medical they are approximately the same. The recent claim frequency trends are decreasing, though not as much as medical and indemnity; however, frequency dropping is always a positive development.

Mr. Greig said the total actuarial central estimate of unpaid benefits as of December 31, 2018 is $627.6 million for medical and $160.3 million for indemnity for a total of $787.9 million before 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
$706.9 million	$787.9 million	$901.2 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 $101.4 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 Willis Towers Watson's estimates include considerations regarding amounts estimated to be recovered under MSF's reinsurance programs. In addition, Willis Towers Watson establishes an estimated claim administration expense (LAE). The selected provision is 14.2 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.

Overall Conclusion as of December 31, 2018

- Unpaid claims benefits & LAE – Actuarial Central Estimate

Medical	$627.6 million
Indemnity	160.3
Unpaid claims administration expense	111.9
Total gross unpaid benefits & administration	$899.8 million
Reinsurance	(2.2)
Total net unpaid benefits & administration	$897.6 million

- Considerable uncertainty is associated with projections of unpaid claims & LAE
  - Low estimate, $791.4 million
  - High estimate, $1,027.9 million

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

President Hubbard asked Mr. Greig to provide further explanation of how the actuary processes the accelerations of settlements, payment patterns and changes in law that they observe to assure they are not misunderstood.

Mr. Greig said communication with the client is key and he commended Mr. Gengler for understanding the importance of that component so that Willis Towers Watson can provide an accurate over all analysis through their diagnostics to determine the best recommendations.

President Hubbard said that Mr. Greig mentioned in his presentation that if there were just a two-percentage point change in medical inflation, it could have a $101 million impact on needed reserves. He asked how often in Mr. Greig's experience he had observed a one or two percent change in medical inflation rates from the year before?

Mr. Greig said he observes that amount of fluctuation quite often. He said it is inherent due to the actuary analyzing past data to forecast the future. They must determine if medical severity is running high or low and currently it is running relatively low which causes the actuary to determine when the medical severity reverts to the mean.

President Hubbard said this discussion illustrates that very small changes in the estimation can make significant and material impacts on the loss reserves that MSF needs to carry.

Chair Zanto called for additional questions; there were none.

C. Montana State Fund Calendar Year 2018 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 $939.9 million.

He provided further explanation as to the differences between Willis Towers Watson's reserve recommendation and MSF's recommendation. He noted that Montana's statutes require a more-than-necessary adequacy in MSF's rates and loss reserves than less. MSF must operate to be no more or less than self-supporting. Management has recommended over the years that the Board adopt a $32.1 million reserve strengthening to Willis Towers Watson's central estimate. He provided the adjusted recommendation depicted below.

Montana State Fund

Recommended Loss and LAE Reserves (in millions)

(as of Dec. 31, 2018)

	Willis TW	MSF
Unpaid Losses	787.9	787.9
LAE	111.9	111.9
Gross Losses and LAE	899.8	899.8
Adjustments:		
Reinsurance	(2.2)	(1.3)
Reserve Strengthening		32.1
Other States/EL		4.5
Additional LAE		4.8
Net Unpaid Losses and LAE	$ 897.6	$ 939.9
Total MSF Recommended Losses and LAE		$ 823.3 $ 116.7

Willis Towers Watson Estimates

Low	Central	High
$806.0	$897.6	$1,013.3

December 14, 2018

President Hubbard said the Willis Towers Watson reserve estimates carry a range of reasonable anticipated liabilities, all of which are reasonable potential outcomes for ultimate liabilities. He asked Mark Barry, MSF's Chief Financial Officer to present the impact of this recommendation on MSF's financial statements.

Chair Zanto called for questions. There were none.

D. *Calendar Year 2018 Projected Financial Report – Mark Barry, CFO*

Mr. Barry noted that management's recommendation was $42.3 million above the Willis Towers Watson central estimate; however, it was well within the consulting actuary's range and is less than five percent above the central estimate.

He noted that 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 the Commissioner of Securities and Insurance (CSI) by March 1, 2019, the Board is asked to determine the losses and LAE before the 2018 fiscal year is completed therefore, the consulting actuary is asked to project out what they feel will be the ultimate losses for 2018. 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 has the year end 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 8, 2019 will address the rate filing and provide a review of the final 2018 financial statements. That Board meeting falls after the March 1 required filing date for the 2018 NAIC Annual Statement, actuarial opinion and other schedules that are due to CSI by March 1, 2019. From March to May, the Legislative Audit Division will audit the GASB financial statements and notes. The audited statutory financial reports and auditor qualification letters are due to CSI by June 1 each year. He said the June Board meeting will provide an overview of the audited 2018 statutory and GASB financial statements with an explanation of the difference between the two. Management will request the Board's approval to use the statutory financial results in MSF's 2018 Annual Report.

He provided a year-to-year comparison of the loss and LAE reserves for 2017 and 2018 and the 2018 projected income statement as well as the 2018 projected changes in equity. He noted that significant changes in unrealized losses due to market conditions and corrections have occurred since September 30, 2018. He said overall the investment markets are trending to normal volatility rather than continuously going up. Overall, even though the Willis Towers Watson loss estimates are an $8 million improvement from MSF's internal estimates, with the investment market volatility, the resulting policyholder equity is on par or slightly lower than MSF's initial internal September 30 projection. He reminded Board members that the 5.6 percent decrease in equity includes the $40 million dividend and the second approximate $14 million SB4 transfer that sunsets June 30, 2019.

Mr. Barry provided a historical review of MSF's combined ratio, policyholder equity, loss and LAE reserves. He noted that the reserve to equity ratio is projected to be 1.80 and the target range is 2 to 2.5 to 1. He said MSF has been below that range for the last four years while also reducing rates and distributing dividends to policyholders. He provided a 2017 comparison of MSF's loss reserve-to-equity analysis to other insurers and noted that MSF was close to the middle of the pack at 1.66. He also noted that MSF carries 60 percent of the workers' compensation insurance market in Montana; however, he added that Montana in the aggregate is less than 0.5 percent of the national workers' compensation market. A comparison by percent of covered payroll indicated that private insurance companies are covering the majority of the payroll at over 40 percent while MSF is covering less than a third and self-insurers are approximately 25 percent. He said MSF providing workers' compensation insurance as the guaranteed market makes for a strong competitive marker.

Mr. Barry said management requested that the Board approve the Loss and LAE Reserves of $939.9 million to include in the 2018 year-end financial statements. He added that the request included the allowance to adjust the reserve amount for actual claim payments through year end. He also requested that the Board approve the target range for the Loss and LAE reserve-to-policyholder-equity ratio to be a range between 1.5 to 1 and 2.5 to 1.

Chair Zanto called for questions. There were none.

E. *Adoption of Montana State Fund Calendar Year 2018 Unpaid Loss and Loss Adjustment Expense Reserve Estimate – Laurence Hubbard, President/CEO*

Mr. Hubbard asked the Board to approve the loss and LAE recommendation that Mr. Barry presented.

Ms. VanRiper 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, on an undiscounted basis as of December 31, 2018, I move we adopt

$823,287,335 as the unpaid loss reserve and $116,656,905 as the loss adjustment expense reserve estimates for the Montana State Fund financial statements for the year ending on December 31, 2018, to be adjusted for changes based on the actual benefits paid at the end of the year. Mr. Molloy 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.

F. Reserve to Equity Target

President Hubbard asked the Board to discuss the reserve to equity target ratio that MSF has maintained for a number of years and to determine whether the current ratio of 2 to 2.5 to one was appropriate. He said Chair Zanto had requested this item be placed on this agenda for the Board's consideration and discussion. This ratio represents savings beyond the known obligations of an insurance company that are intended to weather catastrophic events, unexpected events and even errors on the part of the actuaries. He explained that insurance companies face a broad range of exposures because they are taking risks for the premium that they are paid which is a contractual obligation and in MSF's case a statutory obligation, to pay claims whenever they come due and at whatever amount they may ultimately be. Workers' compensation insurance is one of the most difficult lines of coverage to reserve accurately because the liabilities extend, often-times, for many decades. For example, he said, there is a claim in the Old Fund that dates into the 1960s.

He said insurance regulators have criteria which are considered early warning systems for insurance companies that are potentially at risk for ultimate insolvency. That is known as the Risk Based Capital (RBC) requirement and every carrier must file an annual RBC report. If an insurance company's equity or capital, which includes the investments for reserves as well as the surplus, reaches a level that indicates a weakened company, the insurance company must take action. A plan indicating how the company will build its capital adequacy must be filed with the regulator and if the company fails to realize the levels necessary, the regulator can take control of the company. An insurance company's capital adequacy must assure consumer protection and solvency of the company. He reminded the Board that they discuss MSF's level of capital with Mr. Greig and Mr. Boles during the dividend discussions each year.

President Hubbard said the capital position MSF must have, historically, is expressed through the reserve-to-equity ratio. He said as reserves grow or shrink, the level of equity should adjust accordingly. There is no one perfect answer to the question of "what is the correct amount"; the best way to address this question is to, after careful review and consideration, establish a reserve-to-equity ratio. MSF has two ways to raise capital, one is through rates and the other is through investment income which limits MSF as to how it grows its equity position. He added that by law, MSF must be neither more nor less than self-supporting; that means it is management's responsibility to assure the capital adequacy of MSF. Past legislative discussions about assuring the future of MSF included the premise that MSF operate more conservatively, not less conservatively. The Board must adopt a measure that is more than likely to meet our obligations rather than less than likely.

He noted that some stakeholders, some legislators and some private insurers feel MSF is over capitalized; however, it is actually the Board of Directors job to determine the appropriate levels for MSF's future. There is also discussion regarding a future where MSF becomes insolvent and who would be responsible to pay should that happen. Some say the taxpayers would be on the hook, a theory that has never been tested; however, the legislature is the only body that can incur a debt or obligation. He said that the actuality is that MSF is on its own to assure that MSF remains solvent for decades to come. He said MSF's reserve-to-equity ratio compared to other private companies and state funds falls about in the middle of the pack. He said there are other measures or stress tests; however, for MSF, the most important measure is the reserve-to-equity ratio. He noted that since about 2003, the ratio has been 2 to 2.5 to one, prior to that the target was 1.5 to 2 to one. He said that over the past few years, MSF has been in that 1.7 to 2 range which is very stable and stronger than the current range of 2 to 2.5 to one. He recommended the Board adjust the policyholder-equity-ratio range to something between 1.5 to one and 2.5 to one. He reminded the Board that the lower the range the stronger MSF is in capital.

Chair Zanto called for the motion to begin the discussion.

Chair Zanto made a motion the Board adopt a loss and loss adjustment expense (LAE) reserve to policyholder equity ratio targeted range of between 1.5 to one and 2.5 to one; meaning that Montana State Fund should try to maintain a target range where every one and one-half dollars to two and one-half dollars of loss and LAE reserves would be supported by one dollar of equity. Ms. Moss seconded the motion.

Chair Zanto noted that the Board should be responding to identified trends rather than being reactionary after the fact. The ratio has hovered around 1.73 to 1.80 for the past several years. He said he spoke with Mr. Hubbard about moving the upper end down as well; however, Mr. Hubbard cautioned against that. He said he believed that the change being discussed today would give MSF more variability in that target range and would be a smart move. He said he thought this was a good time to take a look at the ratio range and take action.

Mr. Larsen asked Mr. Hubbard if by making this change, is the Board and management putting more pressure on itself to perform better?

President Hubbard said there has been a lot of pressure to perform better for years and this move simply adjusts “the goal line” slightly by giving MSF more chance to score. He said MSF is in the “sweet spot” which is the appropriate place to stay.

Ms. VanRiper commented that she would like to understand why the recommendation does not include a reduction in the higher range. She said this is a big range which offers a little less guidance than she would hope for.

Mr. Hubbard said the reason it is a range in the first place is because it recognizes that there can be inherent variability without imperiling the operations of the company. MSF could have a bad year and have to observe significant developments which could bump that up quite a bit. The following year could stabilize or even reverse the trend so it is necessary to have a range when MSF would not be forced internally, to make recommendations that would have to adjust rapidly to a number that could affect the policyholders. It is just a way to give the Board some benchmarking to determine how best to handle the monies.

Ms. VanRiper elaborated on her concern; she said that some folks in the policymaking sector believe that MSF has too much money. She said if the range is 1.5 to 2.5 and we are at 1.5 does that mean that MSF has too much money sitting there?

President Hubbard said he shared Ms. VanRiper’s concern due to the fact that some might think that having any equity is too much money for MSF which is misguided and terribly ill-informed. Having no equity would result in the regulator stepping in and taking action. He said the discussion here is what is the appropriate level to size MSF’s reserve and equity on the balance sheet for purposes of when the Board believes it can safely release it in the form of dividends. As long as MSF stays within that entire range the company will be fine and this discussion is meant to frame the narrative correctly rather than incorrectly.

Chair Zanto noted that this discussion is really highlighting the need for MSF to clearly define and articulate MSF's financial strength goals.

Mr. Mohr asked how this will affect policyholders in the near and the far term?

President Hubbard said it will not affect policyholders. The only time this will be addressed is next September when the Board will consider whether to declare a dividend or not. It will be in the context of the consulting actuary's presentation and whether or not the target range has been met.

Chair Zanto called for further questions. Seeing none, he called for public input; there was none.

He called for the vote and the motion passed unanimously.

Chair Zanto took a moment to thank Bob Biskupiak, Deputy Insurance Commissioner, CSI, for joining the Board meeting today.

IV. Calendar Year 2018 and 2019 Annual Business Plan – Laurence Hubbard, President/CEO

A. Annual Business Plan Introduction

Chair Zanto called upon Ms. Shannon Copps to present the status of the 2018 Business Plan and the proposed Calendar Year 2019 Business Plan.

B. Calendar Year 2018 Annual Business Plan Status – Shannon Copps, Director of Enterprise Strategy and Project Management

Ms. Copps provided the Key Success Measures and noted that these were projected results based on available information up to September 30, 2018.

Key Success Measures

KSM	2018 BP	2018 Projected
Net Earned Premium	$162.4M	$158.9M
Loss Ratio	75.1%	77.6%
Expense Ratio	40.5%	41.0%
Investment Income	$40.7M	$55.9M
Net Operating Income (before dividend)	$10.7M	$22.7M

Achieve Enterprise Wide Initiatives

She said net earned premium is projected to be $3.5 million less than planned at $158.9 million. The plan which was approved last December did not include the 8 percent rate decrease that was effective July 1, 2018. With the Willis Towers Watson estimates the loss ratio will actually be 73.7 percent below the Business Plan projection for 2018. Total expenses are estimated $600,000 over plan which includes the $13.8 transfer to the Department of Natural Resources. Net investment income is projected at $55.9 million which is over planned and due primarily to realized gains. Net operating income was $12 million over the plan.

Chair Zanto called for questions; there were none.

Ms. Copps said the three initiatives for CY2018 were all focused on customer service. MSF is several years into the multi-year project to replace the policy and billing system with a modern application. There are two safety initiatives to continue MSF's efforts to reduce Montana's high rate of workplace injuries.

She said one of the policy and billing system replacement goals was for the Independent Verification and Validation (IV&V) vendor to certify, by early October, that the system functionality that has been developed to date, supports at least half of our defined business value metrics. IV&V did complete that analysis and found that the business value is being delivered; however, the report was completed later than planned. The development work is not dependent on this goal and the team is making good progress and plans to complete Sprint 14 of 16 next week. Some of the challenges include finding available Guidewire resources and keeping the integration partner consultants on-site at MSF. These present a schedule risk as final development and testing phases are entered into next year. She noted that Ms. Jenkinson would provide additional details in the next presentation.

The Growing a Safer Montana project is on track and focuses on expanding MSF's efforts to reach young workers and invest in the safety future of Montana. Safety equipment grants were awarded to 22 high school classes which impacts close to 2,000 students. The instructor selected from a variety of personal protective equipment to fill the need according to the class up to $750. The equipment was branded with MSF's logo and distributed to the classrooms in September. The second aspect of this project is to award $1,500 scholarships to students in college trade and occupational health and safety programs. The team received ten applications from trade and industry students and five from occupational safety and health students. The team is in the process of selecting 11 total recipients as well as planning for the awards presentation and safety seminar that will be held in Helena in January, 2019.

The WorkSafe Champions program, which was 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. Twenty people from 14 policyholders signed up for workshops in Helena, Miles City, Kalispell and Missoula and the workshops were completed in September.

Chair Zanto called for questions. There were none.

C. *Calendar Year 2019 Annual Business Plan – Shannon Copps and MSF Staff*

Ms. Copps moved to the Calendar Year 2019 Annual Business Plan and presented the Key Success Measures:

- Generate Total Net Earned Premium of $151.1 million – which included producing $13.5 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 2018 policy year.
- Achieve 80.9 percent loss ratio with no prior period reserve adjustments. For 2019 MSF is planning for no development.

- Achieve 35.2 percent expense ratio. This would include loss adjustment expense at 14.5 percent and managing operating expenses to 20.7 percent.

- Achieve investment income of $43.4 million.

- Achieve Net Operating Income of $16 million before dividend.

Chair Zanto called for questions; there were none.

Ms. Copps said there were three initiatives for the 2019 Annual Business Plan. This year will begin year four of modernizing the core policy and billing systems and adding two customer portals. MSF will continue to positively impact Montana's high rate of work-place injuries with the Growing a Safer Montana and Worksafe Champions projects.

Julie Jenkinson, Vice President, Operations, provided an update on the policy and billing replacement initiative (PBRI). She said this is the fourth year of the development and 2019 will see the platform go live. She said this project began in 2015 and is now through to Sprint 14. She explained that a Sprint is 30 days of development and there are two Sprints of development left. She reminded the Board that there are five products: a policy center, a billing center, a rating engine and two portals – one for the customer and one for the agents. She said there are also two work streams which include assuring all of the documents work properly for the new system and all of the old data is converted to the new system. Most importantly are the efforts that have been made for organizational change management to assure that when the new system is implemented, everyone is excited about the new adventure and customers know what to expect. A simulated environment (SIMON) has been launched so that staff can acclimate themselves to the new system with the changes that were implemented in the recently complete Sprint. There are direct and indirect users and the SIMON session are averaging about 81 attendees through each Sprint.

She reviewed the project schedule with the Board and explained that when the RFP was released MSF thought they were being abundantly clear regarding the requirements for the rating engine. The intergrater had a differing conclusion regarding the rating engine. Throughout the development of 2018, it became clear that more time would be needed to include the rating engine in Phase I. To do that and deal with the resource issues with both Guidewire and retaining contractors on-site to work on the system, three more Sprints had to be added. Some slack in the schedule had been anticipated; however, these additional Sprints eat up about two thirds of the planned-for slack.

Ms. Jenkinson said development is expected to end in February and then six months of system integration and user-acceptance testing will begin. She assured the Board that the two project managers, Sandy Leyva and Erika Ayers, are dealing with issues as they arise and are not shying away from challenges and are adhering to a very rigorous governance model that escalates issues as necessary. She said the project managers are the backbone of the entire project and are dealing with a team of 20 MSF employees and upwards of 70 HCL employees and various people. She said a project of this size and length is going to have issues; however, the project team has been completely on top of those issues and challenges as they have arisen. She said they have dealt with them firmly and at times collaboratively, depending on what the situation called for.

She said the important factor in all of this and even with the tenants and goals of the project are that quality is not sacrificed in any piece of this. She said it is important that the team does not force itself to artificially deliver on a set schedule resulting in a product that does not meet the quality level that the team wants. She said the team commits to still going live in 2019. She said the good news is that with the three additional Sprints, the project has been re-baselined with the integration partner, HCL, who committed to a fixed price contract. The team renegotiated how HCL would be paid for the additional Sprints that were added to the project and the team remains committed to the original budget of $19.9 million even though the schedule had to be stretched some. She also said there are three hold backs that add up to 15 percent of the contract should MSF determine that they are not satisfied with the product that has been developed thus far.

Ms. Jenkinson said that even with issues, the project leadership team is doing their job and the governance model is working as designed and the team is achieving the functionality that was aimed for. She said they will realize the business values that were adopted as evidenced by the confirmation from the IV&V partner, Sabot. She said for 2019 the functionality build will continue, testing will begin and there will be continued assistance to employees to prepare for the new system.

She said on behalf of the project team and the whole of MSF, she wanted to thank the Board for their support of this very long and not inexpensive project. She noted that this will bring MSF into the future and allow MSF to offer additional services and products that will ensure that MSF remains competitive in the marketplace.

Ms. Moss noted that Ms. Jenkinson spoke about the internal work that is being completed to assimilate the employees and asked about external work with policyholders and customers. She asked if there will be beta testing that will occur?

Ms. Jenkinson said we are already speaking to our external customers; most specifically, our agent partners. We have established what they expect from the system, what would they like to see, what do they like about what they have now, what do they want to see differently. We have a plan, also, to begin training them so that they can operate through the new portals when we go live.

President Hubbard added that he sees some of the biggest challenges internally and externally are not technical system challenges; however, business process changes that will be necessary to improve productivity. This system development has highlighted that some of the processes are going to need to change and MSF needs to be very prepared to help them make that transition.

Ms. Jenkinson noted that some of the process changes have already been implemented so they will not be a shock when the system goes live. She said as the system has been going through development, they have been looking for the opportunities to make process changes that enhance the “ease of doing business” with MSF. These changes apply to both internal and external customers.

Chair Zanto called for additional questions; there were none.

Ms. Jenkinson moved to the Growing a Safer Montana Initiative. She said this initiative focuses on young workers and as this initiative continues there is a growing excitement to work with MSF on the safety culture of Montana. Growing a Safer Montana has two components; equipment grants to high schools and scholarships to trade and industry technical programs. She said the equipment grants increased from reaching 600 students in the first year to reaching 2,000 students this year. It is expected to grow further next year as this program will be rolled out to the North Central portion of Montana as well.

She said there will be an awards ceremony in January 2019 for the scholarships portion of the project. Next year will see an increase from 11 scholarships to 13. Creating the safety awareness and safety culture in Montana begins when future workers are students.

Sam Heigh, Vice President, Operations Support, provided an update on the WorkSafe Champion program. She said this program was developed in 2009 and the intent was to provide employers with the education and tools to improve the safety culture in their organizations. This program has been revamped and improved over the years and in 2018 a new program called Worksafe Champion Elite was developed. She said throughout this program's duration, MSF has graduated over 500 participants representing over 290 employers.

She said the on-site sessions are facilitated by MSF's Safety Management Consultants and include an eight-module program which takes a year to complete and then provides a safety plan developed specifically for the policyholder. She said in 2018 there were ten policyholders that graduated 80 participants and for 2019 the classes have been slotted and filled and there is now a waiting list for these classes.

Ms. Heigh said the central workshops are designed for smaller employers with classes held in central locations working on the same types of programs and plans. In 2019, MSF will offer those workshops to non-MSF policyholders. MSF is also seeking to build some specialized workshops for various MSF groups such as Montana Auto Dealers, etc. The Worksafe Champions Elite program was developed in 2018 and will be launched in 2019. There are six interested customers lined up to participate and this offers an opportunity for our Worksafe Champion graduates to continue their safety culture training and continued work on their safety plans. In 2019 the MSF safety team will research ways to incorporate the WorkSafe Champions and Elites into the Growing a Safer Montana program to possibly provide internships.

She said the on-site classes were just begun in 2016 which means the data for the success metric is rather raw; however, the team plans to pull in loss ratio, claim counts and e-mod to develop data elements that can indicate the success of these programs. She said that since 2009, there appears to be a modest decline of indemnity claims compared to MSF's overall book.

Ms. Heigh added that the Worksafe Champion Elites program will be offering CPR training, OSHA training and tuition and grants for additional training and grants for safety equipment. She shared one success story about a gentleman who was adamant that he could not bring any employees back for return-to-work for an injured employee that wasn't released to fulltime. At the end of the class he told the Safety Management Consultant that he got it and he would return to his business and figure out a way to accommodate the return-to-work situations for not-fully-released employees.

Chair Zanto called for questions.

Mr. Molloy asked if the $124,000 budget line item included the advertising that he observes on television?

Ms. Heigh responded yes and it includes the books and grants.

Mr. Molloy asked if there were any way to do an empirical analysis of the cost benefit of an ad on television versus targeting employers who have higher risk of injuries. He commented that he did not know that the advertising accomplished anything and asked if there was any empirical evidence that it does anything?

Ms. Heigh said she was not aware of a study like that being conducted by MSF; however, it was certainly something that could be explored for 2019. She added that she believed that if this program changes one person and saves one person from having an accident, then it was successful.

Mr. Molloy clarified that based on the finite amount of resources being used to focus on improving the safety culture, where is that return on investment?

President Hubbard said that MSF has had annual safety campaigns for 15 to 20 years and various approaches have been taken. He said that MSF has even sponsored Grizzly and MSU games and had a physical presence at those events because one of the key components of the entire culture change initiative is raising awareness. He added that getting the safety message out beyond finite groups is very important. Our media experts, Partners Creative out of Missoula, have provided data analytics of "impressions" that the campaigns make. He noted that the more impressions that can be made, the more likely the product or service will be remembered. The ad campaigns that you see in newspapers, television and billboards are to keep that awareness about workplace safety in their mind. He added that there is a lot to the one-on-one interaction and that is why MSF has 12 Safety Management Consultants.

Ms. Heigh commented that one class graduate reported that prior to completion of the safety class they did not pay much attention to the billboards and advertising. After completion of the class the ads acted as a reminder to keep up that safety focus.

Chair Zanto said he commended the Board for their support in keeping this type of safety initiative going. He said that this really speaks to MSF's interest to affect the culture in Montana and to improve the lives of Montanans. He said that continual presence of MSF's safety messages will have an impact over a long period of time.

Ms. Copps provided the financial commitment of the projects for 2019 depicted below.

2019 Business Plan Budget

Project	Budget
Policy and Billing Replacement	$8,314,674
Worksafe Champions	$123,832
Growing a Safer Montana	$52,667
Total	**$8,491,173**

She then asked the Board for approval of the Calendar Year 2019 Annual Business Plan as presented.

Chair Zanto called for questions; there were none.

Mr. Molloy made a motion the Board adopt the proposed Calendar Year 2019 Annual Business Plan. The motion was seconded by Ms. VanRiper. Chair Zanto called for questions or comments. There were none and the motion passed unanimously.

V. Calendar Year 2018 Budget Update and 2019 Budget Request – Laurence Hubbard, President/CEO

A. Budget Introduction

President Hubbard asked Rene Martello, MSF Controller to present the third quarter financial budget update.

B. 2018 Third Quarter Update and Budget Amendment Request - Rene Martello, Controller

Ms. Martello provided the 2018 third quarter variance report as of September 30, 2018. She said overall, out of a $208 million budget, $190.5 million is projected to be spent, or $17.5 million under budget which would result in 91.6 percent of the budget expended.

She said overall claim benefit expenditures were projected to be $9.5 million under budget and indemnity was $1.2 million under. The medical area was where the most significant savings were being observed due to medical settlements being under budget. Ms. Martello said those estimates were based on historic data from the previous two years (2016 and 2017) and there is now a downtrend in that settlement activity. Medical costs categories excluding settlements were over budget and that level will be adjusted in the proposed 2019 budget as will the settlement activity.

She said that operational expenditures were under by about $8 million due primarily to PBRI being under by $4 million; however, that is not a cost saving as those funds will be paid in 2019 as the Sprint work and development continues. The SB4 transfer to DNRC was budgeted at $15 million; however, the investment portfolio has decreased in value resulting in an estimated $13.8 million transfer fee. Personal service costs saw higher vacancy savings as well as the effects of SB3 which called for the employer share of insurance to not be paid for two months resulting in $550,000 in savings for MSF.

Ms. Martello provided information on the safety expenditures made by MSF and depicted below.

MSF Budget Status 2018

As of September 30, 2018

Safety Expenditures	2018 Projected	2017 Actuals
Safety Services Team	$1,503,495	$1,497,873
Communications	679,256	832,594
Facilities	195,460	137,456
Safety Workshops	132,997	124,610
WorkSafe Champions	82,486	70,932
Growing a Safer Montana	60,002	34,560
Brand (safety material updates)	29,278	n/a
ACE Grants	25,000	27,086
Other	539	0
Total	**$2,708,513**	**$2,725,111**

Chair Zanto called for questions; there were none.

C. 2019 Budget Request – Mark Barry, VP Corporate Support and Rene Martello, Controller

Mr. Barry provided the 2019 Budget proposal request. He explained that anticipated net earned premium for 2019 is $151.1 million and expenditures are expected to be $177.8 million. He said overall this budget request is a decrease of $12.8 million or 6.7 percent from the 2018 projected budget. He noted that the SB4 transfer fee sunsets at the end of 2018 so was not included in the 2019 request.

He said the expense ratio of 32.5 percent is the statutory expense divided by the net earned premium. The statutory expense is determined by taking total expenditures and adjusting for claim payments, equipment and intangibles, Old Fund administrative costs, statutory accounting and Generally Accepted Accounting Principles (GAAP) adjustments and reinsurance. He compared MSF's expense ratio to that of the average of the largest Montana carriers and illustrated that MSF had historically ranked lower than other carriers.

Mr. Barry said claim benefit payments, both indemnity and medical are projected to be $109.5 million and operational expenditures are expected to be $68 million. He provided further illustrations of the breakdown of the budget costs and noted that 62 percent of the budget is in claim payments and 38 percent is in operational expenses. In prior years that distribution has been closer to 70 and 30 percent; however, the percentage changes are reflected in the investment in the new PBRI system as well as a decrease on claim payments due to settlements trending lower. He said claim payments at 62 percent of the entire budget are reflecting 68 percent for medical and 32 percent for indemnity. He provided further breakdown of the indemnity payments and where the budget is expected to be spent and noted that with medical the largest expected outlays are medical settlements. He noted that HB334 allowed for the closure of undisputed medical claims which spiked in 2016 and 2017 and he reiterated that those are expected to moderate going forward. He noted that 2018 is reflecting an uptick in medical which appears to be inflationary because claims are not up.

He said the operational expenditures make up approximately 38 percent of the budget or $68.3 million. He provided a breakdown of the expected staffing costs for 2019 for 307 FTE. He noted that 305 positions are full time, three positions are .5 FTE and two positions are .25 FTE. He noted that the other services included both commissions and IT consulting which includes the PBRI consulting and reflects an increase of $1.5 million over projection due to a Data Analytics project that is incurring costs for consulting services. He said there is also backfill for the IT staff that is assigned to the PBRI project. He also said communications is up due to a new campaign that will be completed this year.

2019 Safety Related Service Costs

Safety Related Service Costs

	2017 Actuals	2018 Projection	2019 Budget
Operations - Safety Services Team	$1,497,873	$1,503,495	$1,576,760
Communications - Safety Support	832,594	679,256	879,805
Ergonomic workstations and Safety staff field offices & vehicles	137,456	195,460	263,064
Operations Support - Safety Workshops	124,610	132,997	133,044
WorkSafe Champions	70,932	82,486	123,832
Growing a Safer Montana	34,560	60,002	52,667
Brand (safety material updates)	0	29,817	0
ACE Grants	27,086	25,000	25,000
Total	$2,725,111	$2,708,513	$3,054,173

He provided the safety related costs depicted above for 2019 compared to 2017 and 2018 and noted that a $3 million budget is expected to support MSF's business plan objectives. He noted that ABP and ESPM projects are budgeted at $10 million for 2019 which includes Data Analytics and Talent Management. The Allocated Loss Adjustment Expense (ALAE) is up for 2019 by $331,907.

Mr. Barry requested that the Board approve MSF's 2019 Budget request of $68.3 million in operations expenses, $109.5 million of claim and benefits payments for a total budget of $177.8 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 made a motion the Board approve the proposed Montana State Fund budget for Calendar Year 2019 totaling $179,761,982, as follows:

- *Total Operational Expenditures of $68,266,353, including the costs that are reimbursed to Montana State Fund for Old Fund administration; and*
- *Montana State Fund Benefit Payments of $109,495,630.*

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. Molloy made a substitute motion to clarify that the total amount was $177,761,982. Chair Zanto seconded the motion.

Mr. Larsen commented that constituents and others approach him and challenge him on the issues that the Board addresses at the Board meetings and he wants to be able to defend the decisions the Board makes. He said some of the individual features such as the new $19 million operating system or the assessment that Senator Keane imposed on MSF cause him concern. He said that if Chair Zanto did not mind, he would like to get more interested in the budget process next year. We need to focus on handling that bottom line and look at those features that people really look at and question.

President Hubbard welcomed Mr. Larsen to participate more thoroughly in the budget process. He noted that this is a zero-based budget, not a prior year plus. He said each position has to be re-presented and department staff go through discussions as a team. We go through each department about the funding needs. He said everything in the budget is built on a solid foundation. The pressure on expense ratios as premiums drop is a very real factor because customers want premiums to go down but want the same levels of service. We recognize the increased pressures on expense ratios and partnership between the board and management. He said he and management welcome Mr. Larsen taking a deeper dive into the budget. He said there are a couple of volumes of budget materials that could be reviewed that support this request and he encourages this action.

Mr. Larsen said he was not challenging the honesty or the ethic or the morality of this organization. He said he would not be here if he did not want to try to play defense too. He said he comes from a world in the political arena and understands how sensitive all of this is. He said he could see the revenue stream dropping and some of the challenges that MSF is facing and he would just like to get a better handle on this to be able to address questions and comments accurately.

Ms. Moss said she was excited to see, in the upcoming transitional year, the streamlined services for our customers and policyholders that the new technology will afford MSF and was hopeful it would increase relations.

Chair Zanto commented that from the Board's perspective, they were asking that MSF staff and management keep their pencils sharp.

Chair Zanto called for additional questions, discussion or public comment. Seeing none, he called for the vote and the motion passed unanimously.

Chair Zanto thanked Mr. Larsen for his comment and said he thought it would lead to further discussion of how the Board wants to be more engaged in that process.

VI. Insurance Operations Support – Sam Heigh, VP, Operations Support

A. Construction Industry Premium Credit Program Approval

Ms. Heigh 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. The table is adjusted each year as the state's average weekly wage increases.

Ms. Heigh requested that the Board approve the proposed table.

Montana State Fund
Construction Industry Premium Credit Program
Applicable to policies effective July 1, 2019 to July 1, 2020

Average Hourly Wage	Credit Percentages
$23.15 or less	0.00%
$23.16 to $23.51	0.37%
$23.52 to $23.92	1.18%
$23.93 to $24.39	2.07%
$24.40 to $24.93	3.05%
$24.94 to $25.55	4.12%
$25.56 to $26.27	5.31%
$26.28 to $27.09	6.60%
$27.10 to $28.03	7.98%
$28.04 to $29.12	9.47%
$29.13 to $30.37	11.07%
$30.38 to $31.80	12.74%
$31.81 to $33.45	14.50%
$33.46 to $35.35	16.33%
$35.36 to $37.53	18.21%
$37.54 to $40.04	20.14%
$40.05 to $42.92	22.08%
$42.93 to $46.24	24.02%
$46.25 to $50.05	25.94%
$50.06 to $54.44	27.83%
$54.45 or more	29.66%

Mr. Molloy made a motion 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, 2019 to July 1, 2020, as proposed by Montana State Fund management. Ms. Moss seconded the motion. Chair Zanto called for discussion, questions or comments from the Board and the public; there were none. He called for the vote and the motion passed unanimously.

B. Classification Code Update

Ms. Heigh 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. She explained this update was purely informational and the changes were effective July 1, 2018 and will be used in 2019.

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

VII. Corporate Support – Mark Barry, VP Corporate Support

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

Kurstin Adamson, Enterprise Risk Management (ERM) Risk Officer provided the Board with a review of the ERM activity for the past year.

She said the ERM risk owners are leaders from across the organization and they provide an in-depth analysis and perspective on MSF's risk prior to them being reviewed by the ERM Committee. The ERM Committee consists of a dynamic group of 12 members, some are leaders, some are not. The executive team oversees the entire program and the executive sponsors are Mark Barry and Kevin Braun. The sponsors and Ms. Adamson are responsible for updating the Board.

Ms. Adamson said that MSF has determined that the definition of risk for MSF is "an uncertain future outcome that can either improve or worsen your position" which is a fairly standard definition within ERM programs; however, slightly different from the traditional definition which focuses on negative outcomes. She said risk is not always bad; there can be a potential positive side to the actions that are taken regarding the risk. An effective ERM program must have a balance between mitigating the negative outcomes and pursuing the positive ones.

She said there were two major program changes in the past year; first an opportunity analysis field was added to the risk register and then MSF implemented a new collaboration tool for managing risk data. W-Desk is a Cloud-based tool that allows our executives, risk owners and risk committee members to access data information on all of the risk at any time and at the same time. She said that by centralizing the risk information it becomes easier to analyze the risk profile and environment as a whole rather than in silos. She provided an example of an All Risks Heat Map and the overall inherent risk rating and walked the Board through the process she uses to follow and chart the risk severity.

Ms. Adamson said the ERM Committee has identified two new risks: soft market cycle negatively impacting employer safety motivation and eventually leading to worsening loss performance and the risk of increased new claim inventory and claims caseload due to a disaster event. She noted that the controls are weak for the last risk due to the risk being newly identified and not yet addressed; however, there is an action plan in place and the residual risk is low.

She said the MSF risk program is unique because in addition to ranking each risk on probability, impact and strength of controls, MSF also gives each risk a reputation impact ranking. The reputation is ranked on a three-point scale, high medium and low. There are three MSF risks out of 118 identified risks that hit the high reputation impact. One of the triggers for a high reputation impact is if the risk were to occur, it could require an immediate and critical reaction by the Board of Directors and the CEO. The three risks are: 1) the risk of adverse financial impact due to Executive, Legislative or Administrative area of government involvement or actions, 2) the risk of developing /implementing the policy and billing replacement system in a manner that does not realize the business value and 3) the risk of improper, unethical or illegal actions by MSF executive staff with adverse impact to MSF. She said the controls for risk number one are moderate rather than strong due to all of the unknowns and the variables that are at play, yet the residual risk remains high. Risk number two is one of MSF's top risks and greatest opportunities. She said the project team is very committed to mitigating the risks associated with this project and also pursuing all of the opportunities associated with modernizing the policy and billing replacement system. She said the third risk is controlled by MSF's Code of Conduct which is reviewed annually as well as other policy procedures and audits. Though this risk has a high reputation impact the overall residual risk is low.

She provided the Board with MSF's 2019 top risk list and explained that each year the executive team and the ERM Committee review all 118 risks and determine which risks pose the biggest threat. She said this list is very similar to 2018 with the exception of one addition.

Ms. Adamson said MSF spent the past year assuring there is a consistent and accurately rated set of risks. Now that the framework and risks are well established, MSF will begin building the risk management culture throughout the company. This will be achieved through minimal formal training and, more importantly, communication on the risks and how the program works to the entire organization. Work will also begin on the opportunity analysis field with a small committee that has been developed to bring that forward. Upon completion of the opportunity analysis, staff will begin driving the completion of action items on risks with weak controls. Some of this was done in 2018; however, these actions will be ramped up in 2019. She said she and the internal auditor, Patti Grosfield, have initiated a program for testing the controls on the top risks. She said they have received very good evidence to support the ratings that have been given to the controls which will also help MSF prepare for future market conduct exams and improve the value of the ERM program.

Chair Zanto called for questions; there were none.

B. *Old Fund Fiscal Year 2019 First Quarter Budget Summary – Rene Martello, Controller*

Ms. Martello provided an update on the status of the Old Fund funding estimate.

She said total claim benefit payments are projected to be slightly under for first quarter by \$311,000 with most of the variance being in the claim benefits area. Wage loss benefits are on track with expected and medical costs, excluding medical settlements, are under the projected budget. She noted that medical settlements are projected to be \$1.1 million; however, it is difficult to tell with the timing of those and the number that will occur; however, to date it has been on track.

She said the operational expenses include the administrative cost to MSF to manage the Old Fund claims which is capped at \$625,000. The Department of Labor and Industry (DOLI) assessment rates are set and no changes are expected. She said the ALAE has seen a higher than expected increase in costs on Medicare set aside evaluations during the first quarter. She said the most recent data indicates that there are 620 open claims, 14 closed in the past month; however, there continue to be fewer and fewer claims in the Old Fund.

Chair Zanto asked Ms. Martello if it remains true that a small percentage of the claims account for the largest percentage of the costs.

Ms. Martello said that remains true.

Mr. Larsen asked what the original liability was when the conversion was made to an Old Fund and a New Fund.

Mr. Barry said the amount of the liability was $497 million.

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 were none.

IV. Public Comment

Chair Zanto called for public comment; there was none.

The meeting was adjourned at 1:06 p.m. The next scheduled Board meeting will be held on Friday, March 8, 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