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MONTANA STATE FUND
BOARD OF DIRECTORS MEETING
March 9, 2018

The Montana State Fund (MSF) Board of Directors meeting was held March 9, 2018 in Montana State Fund's Board Room at 855 Front Street, Helena, Montana 59601.

Directors Attending

Lance Zanto, Chair, Helena
Jan VanRiper, Helena
Matthew Mohr, Big Sky
Jim Molloy, Helena
Lynda Moss, Billings
Jack Owens, Missoula
Cliff Larsen, Missoula (telephonic)

State Fund Staff Attending

Laurence Hubbard, President/CEO
Verna Boucher, Special Asst to Pres/CEO
Mark Barry, Chief Financial Officer
Julie Jenkinson, Ops Vice President
Rick Duane, HR Vice President
Al Parisian, CIO
Sam Heigh, Ops Support Vice President
Patti Grosfield, Internal Auditor
Tammy Lynn, Safety Services Director
Audrey Kroll, Underwriter
Suzie Shute, Underwriting Manager
Suzanna Nordahl, Underwriter
Dan Gengler, Internal Actuary
Kevin Braun, General Counsel
Rene Martello, Controller
Christy Weikart, Underwriting Services Leader
Shannon Copps, Director, IT Plans & Controls
Mary Boyle, Communications Specialist
Peter Strauss, Compliance Officer
Mike Worden, HR Specialist
Nick Hopkins, Marketing Director
Deb Brotherton, CSS/QA Underwriter
Darcy Dunlap, Actuarial Analyst

Others Attending

Mari Kindberg, CSI
Christopher Peck, CSI
Russell Greig, Willis Towers Watson
Neville Kenning, Kenning Consulting
Richard Miltenberger, Interwest Health
Bob Biskupiak, CSI
Russell Ehman, CSI
Pat Murdo, Legislative Services Division
Eric Strauss, DOLI
Kirby Fugle, DOA

I. Meeting Preliminaries

A. Call to Order

Chair Zanto called the meeting to order at 8:34 am. He welcomed and thanked all attendees for participating.

B. Approval of November 29, 2017 and December 15, 2017 Minutes.

Chair Zanto called for a motion.

Jan VanRiper made a motion to approve the November 29, 2017 and December 15, 2017 minutes. The motion was seconded by Jim Molloy. Chair Zanto called for discussion from the Board, MSF staff and members of the public. Seeing none, he called for the vote and the motion passed unanimously.

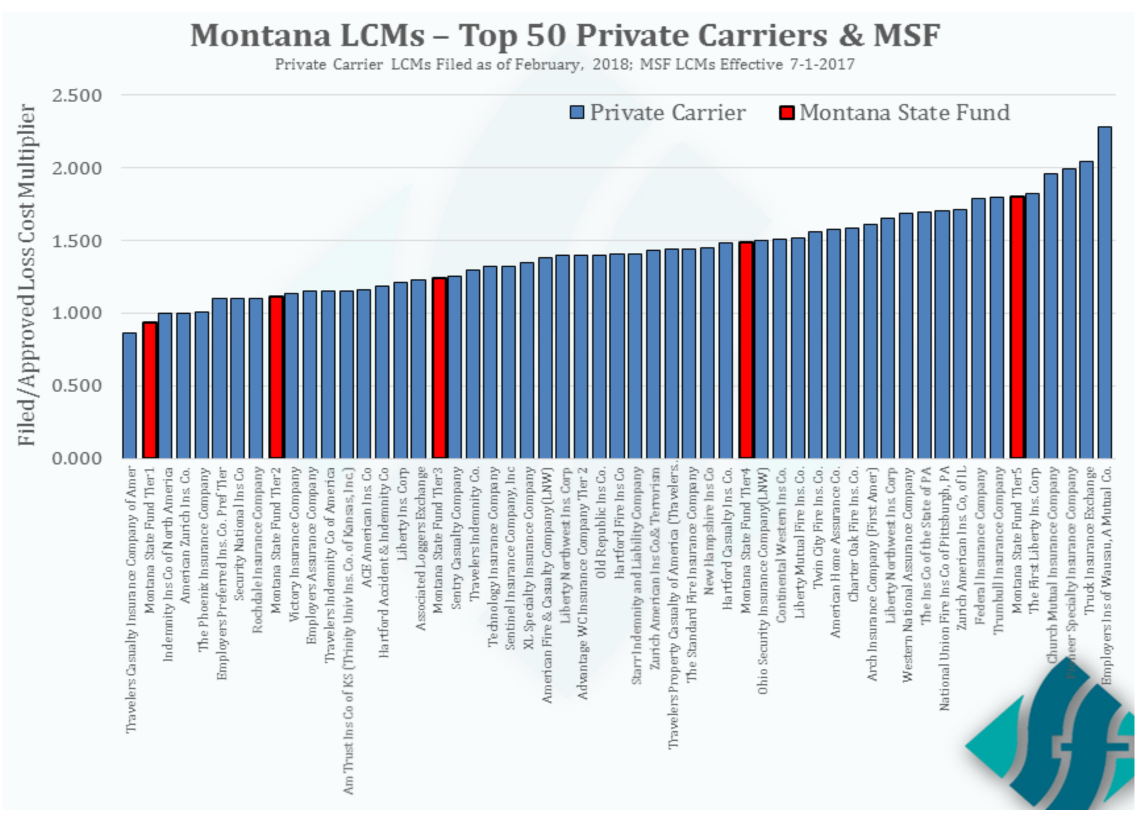
Chair Zanto called on Dan Gengler, Internal Actuary, to present on the rate setting process. He reminded Board members and the audience to speak into the microphones when addressing the Board so that those watching the live-stream would be able to hear.

II. Ratemaking Decisions for July 1, 2018 to July 1, 2019

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

Mr. Gengler provided an overview of the ratemaking process, explaining what a loss cost multiplier was and how MSF's current rates relate to the National Council on Compensation Insurance (NCCI) filing made this year. He also provided information on how MSF's rates benchmark to the market and reviewed the Board's key decision points in setting MSF's rates. He noted that the Board decisions at this meeting on filed-rates and MSF's rating programs will form the basis for what MSF will file with the Commissioner of Securities and Insurance (CSI) for rates effective July 1, 2018.

He said NCCI files a loss cost rate for each of about 600 class codes which is what the NCCI actuary estimates will have to be charged to cover the cost of benefits and claim administration for each of those class codes. The NCCI filing represents a statewide average which may be different from the loss cost experience of an individual carrier that may have losses that are above or below average. He said MSF writes business in about 400 class codes. He explained that the loss cost is the cost of benefits and claims management or loss adjustment expenses (LAE). In a loss cost state such as Montana, each carrier can evaluate what it thinks its loss costs are for the specific book of business it writes. Also, added to this calculation is an additional amount per hundred which represents the general overhead expense, acquisition or commission expense, profit and contingencies and offsets for underwriting programs and investment income on underwriting cash flow.



Mr. Gengler provided a historical comparison of MSF loss costs to NCCI's and showed that in the early 2000s the rates were very close; however by the mid-2000s a 21 percent gap had appeared, making NCCI's loss costs much higher than MSF's. He said MSF believes that NCCI's estimates were too high during that period and have reflected a steady decrease beginning in 2012 when HB334 was passed and became effective. He said the current filing indicates NCCI to be approximately four percent below MSF's loss cost level.

Chair Zanto requested that Mr. Gengler explain the comparison graph depicted on the previous page for the Board members and clarify where MSF's tiers fall within the top 50 private carriers. He asked if other insurers could place a policy based on the risk assessment.

Mr. Gengler said placement based on the risk assessment of the policyholder's experience is true for the top 50 as well as MSF. He said MSF has criteria by which it places an account in tiers one through five and other carriers utilize their own underwriting criteria which establishes the accounts that a particular private carrier is willing to write within their lost cost multipliers.

Mr. Hubbard further explained that private insurance companies may have multiple legal entities that are part of the same insurance group. When an insurance producer is looking for quotes, they may get several quotes from what is actually one umbrella company with multiple filed companies. The multiple filed companies under one umbrella-company are the equivalent of MSF's rate tiers.

Mr. Gengler said the private companies are listed by individual NAIC company code; however, several of the companies listed in his top 30 graph are related to a common parent company.

Mr. Molloy asked if each of the companies shown on the chart write workers' compensation insurance in Montana.

Mr. Gengler said yes. He said on average, MSF's filed rates are about five percent lower than the average for private carrier filed rates in Montana. Actual premiums employers pay may differ from the filed rates due to underwriting programs.

Mr. Gengler said the key Board decisions were: 1) the Board's formal adoption of the NCCI loss costs as the basis for MSF's rates, 2) establishment of MSF's tiered rating plan 3) establishment of the loss costs multiplier for MSF's five rate tiers and 4) a decision regarding various other rating programs such as minimum premium and expense constant.

Chair Zanto called for questions. There were none.

B. *NCCI Montana Loss Costs Filing Update Effective July 1, 2018 – Dan Gengler, Internal Actuary*

Mr. Gengler noted that the first step in the rate setting process is to formally adopt the NCCI loss costs as the basis for MSF's manual rates. He explained that Title 33 requires the use of approved NCCI loss cost filings for private carriers and MSF. Montana's Insurance Commissioner has approved the NCCI loss cost filing for use by carriers in Montana for July 1, 2018.

Mr. Gengler said for July 1, 2018, NCCI has decreased their estimate of the cost of benefits and claims handling by an average of 10.7 percent; however, he clarified that increases or decreases would vary by class code. He explained the statewide changes in loss-costs by industry and the maximum and minimum changes for individual class codes in each industry and noted that individual class codes generally decreased as much as 34% or increased as much as 20%.

He said NCCI is seeing a declining trend in loss costs in Montana, which was also observed by MSF, primarily driven by a drop in claim frequency and combined with very moderate increases in medical costs. NCCI is looking at data through 2015 and then extrapolating that declining trend though 2016, 2017, 2018 and even 2019. That downward trend may or may not be continuing unabated over that fairly extended period of time.

Mr. Gengler said management requests the approval of the July 1, 2018 NCCI filing as the basis for MSF's rates.

Chair Zanto called for questions.

President Hubbard confirmed with Mr. Gengler that his comments reflected that the most recent period that data is valued by NCCI is up to December 31, 2015 and then asked if MSF's internal actuary or consulting actuary, Willis Towers Watson, evaluates MSF's data to a point a bit further to test the reasonableness of the trend or the selection that NCCI's loss cost represents.

Mr. Gengler said President Hubbard was correct; he and Willis Towers Watson had used MSF's internal data to review fresher or more recent indications.

President Hubbard added that if there were any major deviations between what MSF surmises from the review of its own data and what the NCCI loss costs would reflect, there could be a call for further discussion with the Board regarding a reasonable deviation from the NCCI filed loss costs.

Mr. Gengler agreed and added that it was fair to say that internal reviews are finding some degree of continuation of the downward trend; however, not quite as steep as what is reflected in the NCCI loss costs filings.

C. *Adopt NCCI Filings/Loss-Costs Filing Effective July 1, 2018 – Dan Gengler, Internal Actuary*

Mr. Gengler said management's recommendation is to approve the NCCI loss costs as the basis for MSF's rates.

Chair Zanto called for questions from the Board and the public. There were none.

Lynda Moss made a motion for the Board to adopt the NCCI filed loss costs for rates applicable to new and renewable policies effective July 1, 2018 to July 1, 2019 for Montana State Fund classification codes. Jack Owens seconded the motion. Chair Zanto called for further discussion from the Board and the audience; there was none and the Chair called for the vote; the motion passed unanimously

D. *Multiple Rating Tiers and Certification – Dan Gengler, Internal Actuary*

Mr. Gengler presented management's request for the approval of MSF's Tiered Rating plan for the July 1, 2018 renewal process. He stated that this plan works in conjunction with the NCCI experience rating plan so that together they formulate the pricing mechanisms to put policyholders in the correct rate given their risk profile. This plan creates pricing equity so that no particular class of business is subsidizing another. The rating plan also creates appropriate safety incentives for employers that are consistently producing lower losses. The tiered rating plan must be actuarially sound and Willis Towers Watson has provided a certification letter to the Board which concludes that MSF's tiered rating structure effective July 1, 2018 results in rates that are neither inadequate, excessive nor unfairly discriminatory, which is the same standard CSI has used for the past two years to review and approve MSF's rate tier criteria. On a technical level, those standards assure the Board that this process is appropriate.

Tiered Rating 2.2 - Table of Factors*

Claim Frequency	
Value	Factor
Insufficient History	1.100
0.00-0.00	1.000
0.01-0.10	1.020
0.10-0.15	1.060
0.15-0.20	1.090
0.20-0.25	1.110
0.25-0.30	1.130
0.30-0.35	1.170
0.35-0.40	1.190
0.40-0.45	1.210
0.45-0.50	1.240
0.50-0.55	1.260
0.55-0.60	1.290
0.60-0.70	1.320
0.70-0.80	1.360
0.80-0.90	1.420
0.90-1.00	1.460
1.00-1.25	1.520
1.25+	1.560

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

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

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

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

* No change in criteria from current tiered rating plan factors; rate tier swing limit proposed reduced from two rate tiers to one rate tier

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He said the tiered rating plan is based on three variables, 1) three-year claim frequency, 2) account size and 3) claim-free tenure. He explained the requirements for meeting these three criteria. Mr. Gengler provided the Board with specifics regarding the make-up of MSF's tiers and the manner in which policy placement is determined. He noted that the recommended table of factors (depicted above) contains no change from the prior year's table except for the proposed tier rate swing limitation. He said currently this plan allows any one account to move no more than two tiers. Management proposes the Board approve the rate tier swing be limited to one tier in order to give MSF customers a little more consistency in pricing.

Mr. Gengler said management's recommendation is to approve the tiered rating criteria as presented and noted that Board members had been provided the Willis Tower Watson certification letter.

Chair Zanto called for questions from the Board.
Ms. VanRiper noted that Mr. Gengler said a small employer can get into Tier 2; however, she wondered if they can get into Tier 1.

Mr. Gengler said it is possible; however, it tends not to occur. Tier 1 requires more statistical credibility which is difficult to determine with a very small account. It is difficult to tell if their lack of claims is "good luck" or "good management." The Tier 1 accounts tend to be larger accounts with determinable statistical credibility.

Ms. VanRiper asked how a small employer does get into Tier 1 given the difficulty in determining the statistical credibility.

Mr. Gengler said there are exceptions; however, a very small account that manages to go up to ten years without a claim and is on the higher side of the account size spectrum, could achieve the Tier 1 rating.

Chair Zanto called for further questions; there were none so he called for a motion to approve the multiple rating tiers and factors.

Ms. Moss made a motion the Board approve, for new and renewable policies effective July 1, 2018 to July 1, 2019, the Tiered Rating plan which consists of five rating tiers and that policies be assigned to the tiers based on the factors as presented by management. Ms. VanRiper seconded the motion. Chair Zanto called for questions or discussion from the Board.

Seeing none, Chair Zanto mentioned to the Board that the tier rating process has been a valuable and effective mechanism for MSF and he encouraged the Board to continue to monitor the process and implement it effectively going forward.

President Hubbard added that MSF annually reviews the tier rating criteria to determine that it is operating in an equitable manner and review from the past policy year resulted in the change to a one tier swing to assure MSF policyholders are not hit too hard in any given year.

Chair Zanto called for further discussion from the Board and public; seeing none he called for the vote and the motion passed unanimously.

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

Mr. Barry explained that management was requesting approval of the expense constant and loss based minimum premium for small accounts for the year. The expense constant is the amount charged to every account, regardless of size, for the costs incurred in issuing a policy. He explained that the expense constant is not inclusive of all expenses; just those common to renewing or writing a new policy. The current expense constant level is $180 and management's recommendation is to maintain that level for the July 1, 2018 policy year.

He further explained that the minimum premium or loss base premium which is primarily charged to small accounts (those with little or no payroll) to cover the loss based portion of their exposure from medical and wage loss. He said this evaluation done for small policyholders addresses the high degree of volatility for this segment of business. A minimum charge of $240 provides coverage for that segment of the policies and affects approximately 5,000 policies.

Chair Zanto said he viewed this as a transparency tool but sought clarification that MSF could not charge the expense constant and build that into the rating to recoup the cost as opposed to simply setting a flat fee.

Mr. Barry said MSF could build the expense constant into the rating; however, the reason that is not done is because burying that into the rates would mean the larger customer would pay more and the smaller customer would pay less. By addressing it this way, the same amount is charged across the board because MSF incurs the same cost regardless of the size.

Mr. Barry explained how the expense constant and the minimum loss based premium are calculated and clarified MSF would be applying a proration used for cancellations as specified in Title 33. He said management is requesting approval of an expense constant of $180 to be charged to all new and renewal accounts effective July 1, 2018 and a loss based minimum premium of $240 for a total minimum premium of $420.

Chair Zanto called for questions or comments from the Board.

Ms. VanRiper commented that she was still trying to understand the difference between small employer rates and large employer rates and continued upon Chair Zanto's question about simply embedding the expense constant into the rates and why it created the disparity of large employers paying more. She said she would think that the larger employers would use more of our services.

Mr. Barry clarified that the expense constant is charged only for the cost of issuing the policy because that cost is equal to all of MSF's customers regardless of size. There are other costs that a larger account would incur and those are built into the rates.

Chair Zanto called for further questions.

Chair Zanto made a motion that the Board approve an expense constant of $180 for all new and renewal policies effective July 1, 2018 to July 1, 2019. In addition, Chair Zanto moved the Board approve the amount of $240 for the loss-based portion of the Minimum Premium so that the total Minimum Premium is $420 for new and renewal policies effective July 1, 2018 to July 1, 2019. The motion was seconded by Mr. Molloy. Chair Zanto called for questions or discussion from the Board and the public. Seeing none, he called for the vote and the motion passed unanimously.

F. *Additional Ratemaking Decisions – Christy Weikart, Underwriting Service Leader*

Ms. Weikart noted there were a number of additional ratemaking decisions the Board would be asked to address. Ms. Weikart requested that one inclusive motion be proposed unless Board members had specific issues with individual items that needed to be addressed separately. She also noted that all items that would be presented will be included in MSF's loss cost filing with CSI.

1. *Schedule Rating*

Ms. Weikart explained that the schedule rating plan is to allow modification of an insured's premium to reflect the characteristics of the risk that are not reflected in its experience. She noted that Montana is not unique; this program is filed nationally by NCCI. Seven categories are considered when determining any credit or debit and they are: 1) premises, 2) classification peculiarities, 3) medical facilities, 4) safety devices, 5) employees – selection, training, supervision, 6) management – cooperation with insurance carrier and 7) management – safety organization. NCCI has filed a plan in Montana that provides for a maximum modification of plus or minus 25 percent.

The NCCI plan also contains ranges of modifications by category based on the rate filed plus or minus 25 percent. MSF proposed that the NCCI file plan be modified to include the following changes:

- Expand the Classification peculiarities category to include "rating". This expanded category would enable MSF to consider limitations in our automated rating processes or other rating factors
- File a maximum modification of plus or minus 40 percent
- Expand the ranges of modification to support the 40 percent maximum modification and to allow more emphasis on management characteristics
- A policy must have $15,000 or more in annual premium at manual rates in order to be eligible for schedule rating

Ms. Weikart presented the graph depicting the categories and ranges of modification proposed by MSF:

Category	Maximum Credit	Maximum Debit
Premises	-20%	+20%
Classification & Rating Peculiarities	-20%	+20%
Medical Facilities	-10%	+10%
Safety Devices	-10%	+10%
Employees-Selection, Training, Supervision	-20%	+20%
Management-Cooperation with Insurance Carrier	-20%	+20%
Management-Safety Organization	-20%	+20%

Chair Zanto called for questions. There were none.

2. Employer's Liability

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

Bodily Injury by Accident – Each Accident	Bodily Injury by Disease – Each Employee	Bodily Injury by Disease – Policy Limit	Premium Charge based on Manual Premium	Minimum Premium
$100,000	$100,000	$500,000	None	None
$500,000	$500,000	$500,000	0.8%	$75
$1,000,000	$1,000,000	$1,000,000	1.1%	$120

Chair Zanto called for questions. There were none.

3. Deposit

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

4. Short Rate Premium

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

5. Payroll Versus Per Capita for Domestic Workers

NCCI uses classification codes #0908 and #0913 for domestic workers that base premium on a per capita basis. MSF uses classification code #9015 for domestic workers and bases premium on payroll. MSF's current policyholder system is not capable of basing premium on a per capita basis. This item was also included in MSF's transition plan that was submitted to CSI. CSI granted an exception to MSF to continue use of the payroll-based classification for domestic workers with the stipulation that the new policyholder system must provide for per capita capability for policies issued or renewed on and after July 1, 2019.

Chair Zanto called for questions; there were none.

6. Volume Discount

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

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

Chair Zanto called for questions; there were none.

7. Retrospective Rating Plan Factors – Dan Gengler, Internal Actuary

Mr. Gengler continued the presentation and explained that the retrospective rating plan was a pricing plan option for larger, more sophisticated employers. By mutual agreement, this plan is offered to an insured risk who pays the premium upfront while agreeing to take the risk of later paying more than that amount if losses are high. They also could share in the reward of paying less if losses are low. After the end of the policy period, a look-back at actual losses incurred determines if either a charge or return of premium is warranted. This rating option is attractive to employers that are confident in their ability to control losses. He shared the parameters with the Board and noted that they are applicable to individual policies and group association plans. He said there was no substantive change other than MSF updating its expense profit and contingency loads to be consistent with the general rates to assure equitable treatment of all policyholders. The loss development factors have a little bit of change from year to year as there are re-estimations utilizing newer data.

Chair Zanto called for questions. He asked if there were very many policyholders under this plan. Mr. Gengler said there were less than a dozen; however, he explained that this pricing process is used for MSF's group rating plans that cover quite a few more employers. He said a group rating plan is essentially a variant on a retrospective rating plan and the primary difference is the group does not have a maximum beyond 100 percent which means the group can get money back; however, MSF does not add additional charges if losses are higher.

President Hubbard clarified that the State of Montana state agencies are under this type of plan as well as the Montana Logging Association, and MSF's agriculture group program.

Chair Zanto called for additional questions; there were none.

Matt Mohr moved the Board to adopt management's recommendations for the following additional ratemaking decisions to apply to new and renewal policies effective July 1, 2018 to July 1, 2019, as follows:

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

Jack Owens seconded the motion. Chair Zanto called for further discussion and questions from the Board and the public.

Mr. Bob Biskupiak, the Deputy Insurance Commissioner for CSI, suggested MSF may want to review the volume discount levels to determine if they are still relevant due to the significant rate decreases that have been occurring in recent years beginning with the passage of HB334.

Chair Zanto called for further public comment; seeing none, he called for the vote and the motion passed unanimously.

III. Actuarial Report – Russell Greig, Willis Towers Watson

Mr. Greig summarized Willis Towers Watson's analysis in support of MSF's management and Board selections of loss cost multipliers for policies incepting from July 1, 2018 to June 30, 2019. The recommended loss cost multipliers cover the expected losses and expenses and generate a reasonable contribution to policyholder equity to cover the risk that is assumed by MSF from the individual policyholders. He provided an overview of the items he would be addressing for the Board's consideration, including the background and purpose, and the methodologies and key management decisions. He said the key management decisions are to determine a selected loss projection, the anticipated investment yield, target the contribution to policyholder equity and the impact of rating programs.

Mr. Greig walked the Board through the process of estimating historical ultimate losses and the contingencies that can impact the analysis. He said the ultimate loss estimation is then used to project future ultimate losses. He said that because the aggregate amount of historical ultimate losses is an estimate, there are several contingencies that can impact the analyses such as development, medical costs, trends, benefit changes, court cases, attorney involvement and economic cycles. He said after the ultimate actuarial central estimate is selected, the historical ultimate losses are adjusted so the future loss provisions for 2018/2019 can be selected.

Mr. Greig explained that the loss adjustment expense ratios of MSF are much lower than those charged by the countrywide experience of private carriers as compiled by A.M. Best. He explained that the investment income on cash flow analyzes the premium revenue received during the year and the claims payout over many years. MSF recognizes the economic value of cash flow and reduces the premium accordingly, establishing a reasonable range of investment yields for this purpose.

He said the contribution to policyholder equity and the provision for adverse deviation both recognize the transfer of risk from the employer to MSF. Premiums are established before the ultimate number, severity, duration or cost of claims are known as well as before operating expenses are incurred. He noted that the provision for adverse deviation provides for contingencies and for when things go worse than expected. It is important for a workers' compensation insurer to maintain or build policyholder equity to target levels.

Mr. Greig provided a review of the policyholder equity ratio as a function of the proposed rate level changes. He said at a negative 8 percent rate level, the high for a projected contribution to equity would be six percent, the central estimate would be approximately zero and the low estimate would be negative 7.5 percent. He noted that the actuarial process reviews MSF's history and adjusts it to the expected economic conditions for the upcoming policy year.

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

IV. Ratemaking Decisions for July 1, 2018 to July 1, 2019 – Laurence Hubbard, President/CEO

A. *Rate level Recommendation and Contribution to Equity - Laurence Hubbard, President/CEO*

President Hubbard noted that this point in the meeting is the culmination of the information that has been provided by MSF staff and the consulting actuary. All the decisions made to this point end with the rate level change recommendation for rates that will go into effect July 1, 2018 and subsequent. He said there are three key decisions the Board will need to make to drive the rate level change, the first of which is the assumed rate of return associated with investment income for the underwriting cash flow. He said all dollars received on policies become subject to this rate and because a portion of the monies are not immediately paid out they are used to produce investment income. He noted that by law, the Board must discount rates based on anticipated investment income. The consulting actuary, as requested by management, has projected four levels of presumed investment income from 2.5 percent to 3.25 percent to provide the Board with a reasonable target amount for invested income. He said his recommendation to the Board is to adjust the investment return rate from 2.75 to 3 percent.

He noted that the second parameter the Board will be addressing is the amount of equity expressed as a percentage of earned premium which the Board seeks to generate from the July 1, 2018 to the June 30, 2019 rates; including investment income on the underwriting cash flow. He said MSF management recommends targeting a zero percent contribution to equity in the rate levels.

President Hubbard said the third item is the provision for adverse deviation. This provision is reviewed by CSI and MSF's internal actuary for reasonableness. MSF had a provision for average deviation of upwards of 5 percent for a number of years until 2014 because MSF was still seeing considerable adverse development on prior year losses which resulted in underwriting losses and a failure to grow equity to the targets. As adverse development began to stabilize and decreased, MSF felt comfortable advising the Board that less of this provision was necessary. He further explained that the last recommendation was for 2.5 percent and this year, management's recommendation is one percent provision for adverse deviation in the rate level indication.

He added that one of the guiding principles between the Board and MSF's CEO is to maintain a philosophy of stability of rates and operations for MSF. He said that stability matters because businesses, when making their plans for the future, have to anticipate what their costs will be and if their workers' compensation costs are unpredictable and volatile, that destabilizes and materially impacts MSF's customers. A philosophy of stability allows MSF and the Board to make appropriate adjustments over time as necessary. He noted that another important consideration for the Board is the statutory obligation that when a cost or expense is uncertain, the Board is required to adopt a prediction or selection that is more, not less than likely to meet the obligations. That means there is a statutory conservativism built into the actions the Board and management must apply.

President Hubbard said as a result of these considerations, he recommended the Board take a negative eight percent (-8) average manual rate change for rates effective July 1, 2018.

Chair Zanto called for any questions for Mr. Greig or President Hubbard from the Board and the public.

Mr. Richard Miltenberger, former MSF Board member, said Mr. Greig and Mr. Hubbard both spoke to the Board regarding the importance of the investment yield of the invested assets and consideration that must be given to the investment yield when determining rate levels. He said the Legislature has asked this Board to put itself in an untenable position by requiring that the Board essentially "make bricks without straw" or establish rates without considering the level of MSF's investment income; however, that is in essence what the legislature did in Senate Bill 4

(SB4). He asked if the additional $15 million charge by BOI had been taken into effect when considering management's recommendations to the Board for the rate setting decision?

Mr. Greig said no, that additional charge has not been taken into consideration when developing the projections as is required by the SB4 statute.

President Hubbard thanked Mr. Miltenberger for the question and noted that SB4 requirements have placed management and the Board in uncharted territory. He said there is no question that the aggregate equity level of MSF is affected as there is approximately $30 million over a two-year period that will be transferred under the SB4 management fee. He said SB4 sunsets in 2019 so the restrictions that apply will no longer be in existence after 2019 and the Board would be able to properly address the need to build capital, if necessary, at that time. He added that provisions of SB334 could also be deemed unconstitutional and could require MSF to take on more liability or any myriad of catastrophes could affect the equity or surplus level of MSF. He noted that the financial position of MSF and its equity is strong, which means MSF has the ability to weather these kinds of storms to a point. The Board has not been forced in any given year to take volatile rate action.

He added that when the Board considers whether or not to declare a dividend in the fall of each year, the Board first reviews with Mr. Greig from Willis Towers Watson some modeling of potential catastrophic stressors that could occur, creating a hard market in which MSF would have to absorb more business than it is prepared to do currently. Saying that this statutory requirement of SB4 would not affect decisions somewhere in the future is not correct; there will be $30 million less dollars in the investment portfolio.

Ms. VanRiper said she was still confused about the clause in SB4 that calls for the Board to not take the management fee into consideration so that it cannot affect the rate or dividends. She said she does not understand how that could possibly be done. She said when the Board is determining what the projected investment yield is, it would seem that if the $15 million reduction were not taken into consideration, the Board would have to pretend that they had another $15 million when they did their investment yield. She said that is her question; do these recommendations pretend that there is still $15 million more than MSF has?

She continued by saying that in fact, the Board is taking that $15 million into consideration.

Mr. Molloy said it is just being ignored.

Mr. Hubbard cautioned the Board to distinguish a rate level decision and contribution to equity factors and investment income and cash flow versus MSF's overall financial performance which includes investment income off reserves or investment income off the already existing equity. He said statute limits the amount of investment income MSF can build and assume which must be reflected when the rates for the coming policy year are considered.

Ms. VanRiper said she believed there is still that question; however, but perhaps it is not part of this conversation.

President Hubbard said he could not disagree with her.

Mr. Zanto reminded the Board that this process was to set rates for policy year 2019. He said rates are prospective and returns to policyholders are respective so when the Board looks back at its ability to issue a policyholder dividend, "that is when we are going to determine whether or not what the results of the outcome of that lawsuit are and whether or not it has an impact on our ability to provide a dividend or how much that dividend might be."

President Hubbard concurred and said that bridge will need to be crossed at the September Board meeting. He said it is best to see what the status of the lawsuit is and what impact there may be. He explained that management's current approach to the restriction in SB4 to not reduce dividends is to not address it as to the total amount. The statute states that the Board is not to take into account this transfer in the dividend decision making, whatever the decision ends up being. He said "As I view it, this one approach would be for us to, at the time that the equity level is evaluated in September that the Board does not take out the $15 million transfer. In other words, we assume it is still in the equity level for purposes of the analytics that are done by our actuary and considered by the Board. Because we are going to have to expressly state that it was not taken into consideration for us to have a defensible-we complied with the law perspective."

Ms. VanRiper said she understood that; however, she said it seems like a fiction to her.

President Hubbard agreed that it is a fiction; however, he said MSF is legally forced to have that fiction. He noted again that all of that changes after the bill sunsets and the Board will have the ability to rebuild equity if necessary after that.

Chair Zanto made a motion the Board adopt a minus 8.0 percent overall change in rates and a zero percent contribution to policyholder equity for new and renewal policies effective July 1, 2018 to July 1, 2019. Ms. Moss seconded the motion. Chair Zanto called for discussion.

Chair Zanto began the discussion by noting that he supported the minus eight rate reduction and was concerned that anything more than that would be too risky. He noted that since 2007, MSF rates have been reduced 44 percent; with the minus eight percent reduction, rates will have dropped 52 percent, which places the rates lower than they were in 1991. MSF and the management team have done a very good job managing the portfolio and he said he believed the Board could give the 8 percent reduction. He also noted that Montana employers have taken a step forward with regard to safety to reduce accident frequency which has allowed MSF and the Board to be in this position. He said there is still work to be done; however, this shows that employers are beginning to listen.

He called for further discussion; there was none. He called for public comment; there was none. Ms. Moss added that over her years of tenure on the Board she appreciates the smoothing and the predictability that MSF has been able to offer to Montana's small business owners. She said she supported the Chair's motion.

Chair Zanto called for further discussion. Seeing none, he called for the vote and the motion passed unanimously.

Chair Zanto asked Mr. Gengler to walk the Board members through the recommendations for the tier multiplers.

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

Mr. Gengler presented the loss cost multipliers that will essentially implement the minus eight percent rate change the Board had just approved. He explained how the loss cost multipliers were derived and offered clarification regarding the availability of the investment income in MSF's financials and explained how that interplayed with the rates. Mr. Gengler presented the proposed lost cost multipliers based on an eight percent rate reduction from current rates. He explained that each of the rate tiers begins with a comparison to the NCCI loss costs; then provisions for offsets to underwriting programs, general and acquisition expenses, and profit and contingency are added. Profit and contingency is a negative number because it is offset by investment income.

Proposed Loss Cost Multipliers

-8% Rate Change

Analysis of LCM Components

	Tier1	Tier2	Tier3	Tier4	Tier5
Loss & LAE	0.778	0.934	1.038	1.245	1.505
Offsets for UW Programs	0.101	0.122	0.135	0.162	0.196
Genl & Acquisition Expense	0.181	0.217	0.241	0.290	0.350
Profit & Contingency	-0.099	-0.119	-0.132	-0.158	-0.191
Loss-Cost Multiplier	**0.961**	**1.154**	**1.282**	**1.538**	**1.859**

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

Chair Zanto called for questions from the Board and the audience; there were none.

C. *Adopt Loss Cost Multipliers for new and renewal policies effective July 1, 2018 to July 1, 2019*

Mr. Molloy made a motion the Board adopt loss-cost multipliers as recommended by management to be applied to the loss-costs as approved by the Board, resulting in rates for new and renewal policies effective July 1, 2018 to July 1, 2019 as follows:

For Tier 1, a loss-cost multiplier of 0.961
For Tier 2, a loss-cost multiplier of 1.154
For Tier 3, a loss-cost multiplier of 1.282
For Tier 4, a loss-cost multiplier of 1.538, and
For Tier 5, a loss-cost multiplier of 1.859

Mr. Moss seconded the motion. Chair Zanto called for questions or discussion from the Board; there were none. Chair Zanto called for discussion and comments from the public. Seeing none, he called for the vote and the motion passed unanimously.

V. Reserve and Financial Reports – Montana State Fund – Mark Barry, VP Corporate Support

A. *Loss Reserve Year-End Reconciliation and Calendar Year 2017 Financial Report Update*

Mr. Barry thanked the Board for approving management's rate level recommendation. He explained that he would be providing an update on the loss and loss adjustment expense (LAE) reserve as approved by the Board at the December 2017 meeting. He said the Board approved the loss and LAE reserves subject to the changes in actual paid amounts on claims through the end of the year. MSF's consulting actuary's analysis presented in December was based on claim payments through September 30, 2017 so a quarter's worth of payments were not included in that report. Subsequent to December 31, 2017, MSF completed the annual statement and the consulting actuary did another analysis of losses based on the 2017 full year paid amounts. Under insurance regulation, MSF is required to file its annual statement with CSI by March 1.

MSF Reserve Reconciliation

Montana State Fund Loss and LAE Reserves (in 000's)	Approved at Dec. Meeting	Reported at 12/31/2017	Change
Current Accident Year Ultimate Losses	117,500	117,500	-
Prior Accident Years Ultimate Losses	3,094,933	3,094,933	-
Less: Projected Cumulative Paid	(2,430,078)	(2,431,175)	1,097
Net Loss Reserves	782,355	781,258	1,097
MSF Management Adjustments			
Est. Reinsurance Recoverable - Excess of Loss	(1,445)	(1,438)	(7)
Est. Reinsurance Recoverable - Agg Stop Loss	(11,647)	(11,647)	-
Other States Coverage and EL	3,391	3,391	-
Reserve Strengthening	32,100	32,100	-
Total Losses	804,754	803,664	1,090
Loss Adjustment Expense Reserve	116,150	116,026	124
Recommended Loss and LAE Reserves	$ 920,904	$ 919,690	$ 1,214

He provided the reconciliation depicted above and explained that MSF filed its Calendar Year 2017 financial statement with CSI before the deadline of March 1, 2018. He said the submission included a required filing of a statement of actuarial opinion from Willis Towers Watson that certified MSF's loss reserves. He noted that the loss and LAE change amounted to approximately .13 percent which is immaterial. He added that the actuary provided an addendum to the Board members which includes the review and changes and an opinion on the loss reserves by MSF. Willis Towers Watson's opinion is that the financial statement filing meets the legal requirements under Montana law, is consistent with casualty actuarial society principles and makes a reasonable provision for loss and LAE for MSF.

Mr. Barry provided a review of the 2017 results comparison to the 2016 results which indicated total admitted assets for 2017 increased over 2016 by $20 million. He said total liabilities saw a decrease in unpaid losses and other liabilities, creating a decrease in total liability for the year of approximately $8 million. As a result the policyholder equity increased by approximately $28 million to $554.7 million.

He provided a reconciliation of the income statement presented to the Board in December 2016 as compared to the actual results which indicated that net income was $10 million after the $40 million dividend declaration and the $14.7 million increase in expenses for SB4, was $10 million.

He said overall 2017 to 2016, premium was down $2.9 million or 1.7 percent; however, MSF took a five percent rate decrease that was effective July 1, 2017. For the six month period it was applied it would be 2.5 percent which indicates some premium growth for MSF for the year. He said losses incurred are down by 5.6 percent and LAE is about even and the $17 million increase in underwriting expenses incurred is driven by the SB4 management fee of $14.7 million. Earned investment income was down slightly primarily due to higher returning investments rolling off and purchase of lower returning investments.

Mr. Barry provided a comparison of the Annual Business Plan projections and the actual results noting that net income for 2017 was $50 million before the $40 million dividend which is $21.8 million higher than the business plan, primarily driven by unplanned for realized gains

Mr. Barry reminded the Board that MSF had filed its annual financial statement by the deadline and would now move into the process of auditing the statutory statement. Those results will be reported to the Board later in the year and the audited financial statement must be filed with CSI by June 1, 2018.

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

VI. Public Meeting on Calendar Year 2017 Annual Business Plan

A. Presentation of Results – Shannon Copps, Director of Enterprise Strategy and Project Management

Ms. Copps presented the summary of the results of the Calendar Year 2017 business plan, beginning with a report of the Key Success Measures (KSM) depicted below.

Key Success Measures

KSM	CY17 Plan	CY17 Result
Net Earned Premium	$167.0M	$166.8M
Fiscal Year Loss Ratio	79.0%	71.5%
Expense Ratio	30.3%	36.1%
Investment Income	$48.1M	$66.7M
Net Operating Income (before $40M dividend)	$28.3M	$50.1M

Ms. Copps said net earned premium was slightly below target due largely to the five percent rate reduction that was approved by the Board in March 2017. She said loss ratio was under plan due to a better result in accident year performance and $4.2 million of favorable prior period development. She added that the expense ratio was above target; however, the investment income was $18.6 million better than expected. Net operating income was targeted at $28.3 million before dividend and achieved $50.1 million; the major driver of the increase was the investment income from unrealized gains. She noted the premium to equity ratio was planned to be 0.31:1; however, the result was 0.30:1.

Chair Zanto called for questions.

Ms. VanRiper requested clarification on the expense ratio coming in over planned.

Ms. Copps said the overall total for expenses was $39.6 million which did include the management fee of $14.7 million; had that not occurred, the total would have been better than target at about $25.9 million.

President Hubbard noted that the Annual Business Plan report is required by statute and specific to that is the requirement to provide the premium to equity ratio. He said there are a number of leverage ratios that test a company's financial strength. MSF and the Board have utilized the reserve to equity ratio and targets as the best indicator of MSF's financial health - not the premium to equity ratio. He said the reason for that is MSF, as the guaranteed market, has no control over the volume of premium that it writes. He said if the regulator were to say to an insurance company that their financial status was dangerously close to the company action level and a management plan to reduce premium volume in certain classes of business must be developed; MSF would not be able to take that corrective action.

Chair Zanto called for additional questions; there were none.

Ms. Copps provided a review of the Enterprise-Wide Initiatives which were focused on customer service. The Customer Service Initiative includes a Policy and Billing System Replacement (PBRI) project that has been partially met and is multi-year. She said the first phase called for completion of the request for proposal process, selection of a system, vendor and implementation partner; completion of the initial plans and beginning the core functionality implementation phase of the initiative. The PBRI project deadlines were met later than planned due to delays from vendor contract negotiations. Phase One sought to engage the stakeholders to produce high level requirements and establish an estimated schedule and budget based on improved understanding of the regulatory environment and other relevant system decisions.

The second customer service project was WorkSafe Champions and 100 percent of the onsite customers and central workshop attendees developed a safety action plan and demonstrated progress to MSF's Safety Management Consultant (SMC) to implement the plan by December 31, 2017. The onsite program called for the identification and enrollment of up to ten policyholders; the result was eight policyholders dedicated a total of 57 employees to attend all and complete all of the sessions; 98 percent of which rated the content good or better.

The third customer service project was Growing a Safer Montana which sought to positively impact the safety culture for the next generation of employees by addressing challenges for young workers in targeted high-risk trades.

- Eight Montana high schools were selected to receive classroom equipment in September 2017 including safety glasses, hearing protection, safety materials for the instructor and follow-up presentations form the MSF SMC. This impacted over 600 high school students in Helena, Three Forks, Belgrade, Livingston, Manhattan and Boulder.
- Four scholarship recipients in the targeted trade/industry and six in the safety/health program were selected by December 31, 2017 and presented with the scholarships at a ceremony at the Museum of the Rockies in January 2018.

Chair Zanto called for questions.

Ms. Moss sought clarification on demand generated for the onsite safety program; who was seeking that kind of training?

Ms. Copps said that project will be continued in 2018 and there are currently nine or 10 policyholders signed up. MSF's SMCs solicit particular policyholders; however, MSF does not have the capacity in the SMCs to fulfill all of the demand.
Ms. Moss commented that what MSF was doing with younger workers was great; however, she had attended a presentation on the daunting challenge of the workforce shortage. She said this may mean new workers entering the community for whom English may be a second language. She asked if MSF is doing something to address that within the workforce and for workers safety.

Ms. Jenkinson said MSF has representatives from safety that speak Spanish and one presenter just recently did a complete presentation in Spanish for a policyholder in Kalispell. MSF is exploring the possibility of expanding that capability and does currently use videos and other materials that can be sent when a representative is not available.

Ms. VanRiper commented that the group of students depicted in the high school grant program was not very diverse and asked about the selection criteria and how the students for that program are recruited.

Tammy Lynn, MSF Safety Services Director, said the high school program participants are not selected on an individual basis; rather, a class basis focusing on trades and industries. The other scholarship program does have a selection process which was a little more diverse with three of the ten scholarships being awarded to young women in welding programs. She said the program is looking for ways to expand the diversity in the programs.

Ms. VanRiper asked if high risk industries were targeted?

Ms. Lynn said the focus has been on the construction trades and industries including carpentry, electrical, welding, etc., as well as on Occupational Safety Health Industrial hygiene component.

Chair Zanto called for additional questions; there were none.

VII. Miscellaneous – Laurence Hubbard, President/CEO

A. *Miscellaneous (SJ27, SB4, Branding Refresh)*

President Hubbard provided a brief update on SJ27, which is the study of MSF's structure by the EAIC. He said there had been two meetings of the subcommittee; the most recent was February 8, 2018. The agenda included the review of historical cash flows and transfers between MSF and the General Fund and the Old Fund since the inception of MSF in the early 90s. The agenda also included questions that the committee needs to answer to determine what direction they want to proceed with regards to structure changes. One key question is "Whose assets are they?" He did not address the assets question due to the on-going pending litigation. He noted that one of the criteria of maintaining a Federal tax exemption is that the state either provides financial backing or start-up capital to the organization. The State of Montana did provide start-up capital to the New Fund; however, that had been paid back by the Board of Directors in subsequent years. He said these are the issues the committee wants to explore to determine what the parameters of future discussion will be. The committee also wants to know what the impacts of separating MSF from state government would be. There are a number of touchpoints such as: warrant writing; checks paid to employees, injured workers and providers are tied to the state accounting system; MSF employees participate in the Public Employee Retirement System (PERS); information technology support; and transfers and services. He said all of the touchpoints have an economic impact to MSF and state government and the committee received a number of reports from agency representatives on the estimates of the impacts, including from David Ewer, BOI and Mark Bruno, the Finance Manager from the Department of Administration. Also provided was a review of the case study completed on the Montana University System in the 90s and the changes and laws that eventually resulted in the system becoming self-insured as well as developing their own retirement system.

He said Bri Lake and Kristen Ediger, Research Analysts at DOLI, provided an excellent analysis of the Oregon Workers' Compensation Premium Rate Ranking Study. He said this study is often the common public discussion around why Montana's rates are too high and by how much, or what Montana's ranking is. This study prompts much of the dialogue around how to reduce costs for Montana's businesses more towards the median or as far down as it could go. The analysts provided very good critical analysis on why this study should not be relied upon too heavily in determining whether or not the Montana system is good or bad. He said there was also a discussion regarding workplace safety and why Montana ranks among the top states in the nation on workplace fatalities. He said the committee looked at all that information and discussed next steps. The next meeting is April 27 and at that time, they will try to come to a conclusion on which direction the committee is going to take with regard to any structural changes to MSF.

Chair Zanto noted that the EAIC and SJ27 Committee meetings are televised if people wanted to view them.

President Hubbard said he would limit his comments on SB4 due to MSF being a defendant in the pending litigation that has been filed. He did notify the Board that the funds transfer has not yet been made by BOI. He said he believed BOI is monitoring the fire suppression fund balance and at such point that the transfer is needed, that is when the transfer will be triggered, otherwise the transfer will be completed by April 1.

President Hubbard told the Board that MSF has been reviewing and developing the mission, vision and values of MSF that have been in existence since the 1990s. He said MSF's demographics have changed since that time period and the words that resonated for employees then do not necessarily speak to the younger workers of today. He said an internal employee project team led by Mark Barry and Rick Duane considered refreshing and upgrading our mission, vision and values. He said there will be a roll-out and celebration for the internal launch of the brand campaign, which involves new mission and vision statements as well as new guiding values and an updated logo. The logo is very similar to the old logo but different enough to put emphasis on the things that our employees value most which is that we are here for Montana.

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

Ms. Grosfield reported there were two on-going external audits: 1) Eide Bailly, MSF's independent auditing firm, was completing the statutory financial statements audit and 2) the Legislative Audit Division (LAD) auditors were beginning their process to complete the governmental audit and were expected to be on-site in a couple of weeks. She said Eide Bailly had completed their on-site field work and were completing the audit off-site components. MSF is expecting a clean and unqualified statutory-basis opinion with no recommendations, which is expected by late April. Eide Bailly auditors will present the results of the audit at the June Board meeting.

She provided a first quarter report of the 2018 internal audit plan.

- She said the agent incentive payouts have been completed; $2.2 million in agent incentives were paid out with 15 master agencies earning and receiving the awards. The incentives earned are based on profitability and retention of the agency's book of business. The actual result was profitability at 1.25 percent compared to the target of 1.0 percent and the retention multiplier at 1.44 also exceeded the target of 1.25.
- Employee leave plan payouts were calculated and completed. She explained to the Board that this process allows MSF to control future costs by making payouts at current salary levels rather than time earned now paid at future salary levels. She said there were 35 employees that received a personal leave plan payout and six employees that received a payout on the banked holiday pay plan.
- The medical bill RFP has completed the initial reviewing process of seven proposals and two vendors have been invited on-site to present further.
- The merit-based pay-for-performance program and annual adjustments which are based on employees' work performance are nearing completion and any adjustments will be reflected in employees' base salaries effective at the end of March.
- She reported that she has been unable to audit a lot of the risks in the Enterprise Risk Management program this quarter due to the number of audits currently underway; however, she hopes to increase that activity in the next quarter.

- She said the Data Confidentiality and the Acceptable Use policies annual audit had been distributed, signed off on by employees and she is in the process of reviewing and completing any necessary follow up.

Ms. Grosfield said the upcoming internal audit activity includes the agent monthly commissions program which is based on written premium volume by month. She will be coordinating with external auditors and staff. She explained that she reviews the Service Organization Control reports or "SOC 1" reports that are submitted by MSF's vendors such as the pharmacy benefit manager vendor or medical bill review vendor. For a SOC 1 audit, an independent auditor will visit the vendor on-site, check the company's controls dealing with financial reporting including certain information technology processes. She said MSF management and the MSF external auditors rely on the information from the SOC 1 reports for additional controls assurances over MSF's vendors.

Chair Zanto called for questions. There were none.

C. Budget Variance Reports as of December 31, 2017 – Rene Martello, Controller

Ms. Martello provided a review of the year end results variance report for 2017. She said net earned premium came in at about $200,000 below expected. The total expenditures associated with premium were approximately $10.4 million or five percent below budget. A $15 million budget amendment was approved in December 2017 and is reflected in the operational expenses of $72.5 million.

She provided a ten year historical look back at expenditures associated with premium compared to net earned premium and noted that 2016, 2017 and 2018 will also see increased expenditures for PBRI. And 2017 and 2018 will include the management transfer fees.

Ms. Martello said the claims indemnity was under budget by $1.6 million, medical without settlements was $5.3 million under and medical settlements was just slightly over at $100,000. She said management believes MSF is seeing the benefit of closing claims and not having continued medical payments. She said other states coverage (OSC) was about $400,000 over planned due to a couple of settlements that drove up the costs. She said overall total claim benefits payments were under by $6.4 million or five percent.

She provided a comprehensive review of the operational expenditures and noted this category was under budget overall by $4 million. She said the significant over-budget items included agent commissions at $540,621 over; non-capitalized software, such as the virtual desktop environment was $184,547 over; Oracle licensing increases were $74,947 over and payroll audit costs were $54,896 over due to a backlog of audits from 2016 that did not occur until early 2017. She noted that these overages were offset by areas in the operating expenses that fell below budget. She reported that allocated loss adjustment expenses, which are the costs for managing the defense and cost containment of claims; investigative job analysis; medical invoice processing; legal, investigation and prosecution; medical consultants; and photocopy and miscellaneous were under $349,300. She said the transfer to CSI was under budget by $157,531 because management was anticipating the costs of a market conduct exam and a financial condition exam in 2017; however, CSI conducted a financial condition exam only.

Ms. Martello said overall, the MSF budget for 2017 was 10.4 million under for the year or about 5 percent under budget.

Chair Zanto called for questions.

Ms. Moss asked about the expenditures allocated by MSF regarding staff training and education of the safety programs provided to small businesses and workers in Montana.

Ms. Martello said that spend was approximately $2.8 million in 2017 and promised to provide the Board with a breakdown of the expenditures in that category.

Chair Zanto called for additional questions; there were none.

Ms. Martello provided a budget variance review of the Old Fund. She noted that the Old Fund reports will remain on a fiscal year basis and this report was for the second quarter of the 2018 fiscal year. Funding for the Old Fund will continue to come from the General Fund. She said the Old Fund funding estimate was $8.3 million and the current projection is expected to come in $118,710 under the total estimate amount. She explained to the Board that due to the SB261 trigger cap of $625,000, MSF will be administering the claims to that cap rather than the originally estimated $722,289. Claim benefit payments were estimated at $7.3 million and the current projection is expected to come in just slightly above that at $43,293 over. She said the Old Fund seems to be performing as expected and management is not expecting to have to come to the Board to request a funding increase. She reported that there were 641 claims open at December 31, 2017 and the DOLI assessment is expected to be at the projected rate.

Chair Zanto called for questions.

Chair Zanto asked if it was safe to say that due to the cap in SB261, the efforts MSF is putting forth in aggressively managing the Old Fund claims will not be at the same level it was prior to the bill passage.

Mr. Hubbard noted that MSF had to identify services that were provided to the Old Fund claim management that had to be reduced due to the prohibition of utilizing New Fund assets for the Old Fund, including administrative expenses. MSF management and staff identified approximately $100,000 of services such as legal and nurse case management review that could be cut back.

Chair Zanto called for additional questions; there were none.

President Hubbard offered two additional items:
1) He asked Board members who had not yet completed their disclosure forms to complete and submit them to Ms. Boucher.
2) He asked Board members to check their calendars and let Ms. Boucher know if they would be available to attend the Board meeting on September 21 rather than September 14 due to a conflict of President Hubbard's. He also asked Board members to review the proposed 2019 Board meeting dates of March 8, June 7, September 13 and December 13, 2019.

Chair Zanto then explained that the Board meeting would break for lunch and return at 1:00 pm at which time the Board would immediately begin a closed meeting.

Chair Zanto reconvened the Board meeting at 1:02 pm. Chair Zanto announced the closure of the meeting for the President/CEO Calendar Year 2017 Performance Review and Determination of Calendar Year 2018 Goals. He asked President Hubbard if he wished to waive his right to privacy for the performance review.

President Hubbard said he did not wish to waive his right to privacy with the exceptions of Neville Kenning, the Board's CEO compensation consultant; Rick Duane, Vice President, Human Resources, and Kevin Braun, General Counsel.

VIII. President/CEO Calendar Year 2017 Performance Review and Determination of Calendar Year 2018 Performance Goals

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

CLOSED MEETING

B. Call to Order
C. President/CEO Performance Review
D. President/CEO 2018 Performance Goals

REOPEN MEETING

Chair Zanto reconvened the meeting at 4:20 pm. He thanked the Board for a very good discussion and the information they developed in their session. He thanked the MSF staff for their hard work.

IX. President/CEO Determination of Calendar Year 2018 Performance Goals

A. Introduction – Lance Zanto – Chair of the Board

Chair Zanto said the calendar year 2018 performance goals have been set. He clarified that the goals would be refined.

B. Calendar Year 2018 Performance Goals of President/CEO

Chair Zanto made a motion that the Board accept the 2018 goals for Laurence Hubbard by the Board. Matt Mohr seconded the motion. The Chair called for public comment; there was none. He called for the vote and the motion passed unanimously.

Chair Zanto noted for the record, that Mr. Larsen's cell phone battery died during the closed discussion and he was no longer participating in the meeting; however, there was still a quorum to pass the final motion.

Ms. VanRiper said she wanted MSF management and staff to know that the Board evaluated President Hubbard and were very much appreciative of his work and his leadership.

Chair Zanto called for further comments from the Board. There were none.

X. Public Comment

Chair Zanto called for public comment. There was none.

The meeting was adjourned at 4:23 p.m. The next regularly scheduled Board meeting will be held on Friday, June 15, 2018 at Montana State Fund, 855 Front Street, Helena, Montana.

Respectfully submitted,

Verna Boucher
Special Assistant to the President/CEO