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MONTANA STATE FUND
BOARD MEETING
September 20, 2018

The Montana State Fund (MSF) Board meeting was held September 20, 2018 at Montana State Fund, 855 Front Street, Helena, Montana.

Directors Attending

Lance Zanto, Helena
Matt Mohr, Big Sky
Cliff Larsen, Missoula
Lynda Moss, Billings
Jack Owens, Missoula

MSF Staff Attending

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

Others Attending

Russell Greig, Willis Towers Watson
Kerri Emmons, IIABA
Jason Swant, DOLI
Tapio Boles, Willis Towers Watson
Russell Ehman, CSI

I. Meeting Preliminaries

A. Call to Order

Chair Lance Zanto called the meeting to order at 8:32 a.m. He welcomed and thanked those present for attending and reminded attendees that this Board meeting was being recorded and asked that all speakers come to the podium. He noted that Board members Jim Molloy and Jan VanRiper were unable to attend this meeting due to prior commitments; however, the members in attendance did make up a quorum.

B. Approval of June 15, 2018 Board Meeting Minutes

Chair Zanto noted that the first order of business was the approval of the Board meeting minutes for June 15, 2018.

Jack Owens made a motion to approve the June 15, 2018 minutes as presented. The motion was seconded by Lynda Moss. Chair Zanto called for discussion from the Board, MSF staff and members of the public. There being none, he called for the vote and the motion was unanimously approved.

II. Miscellaneous – Laurence Hubbard, President

A. Miscellaneous – Laurence Hubbard, President/CEO

President Hubbard also welcomed and thanked attendees for participating in this meeting.

Mr. Hubbard provided a review of Senate Joint Resolution 27 (SJ27) and the action taken to date by the Economic Affairs Interim Committee on September 6, 2018. He stated that SJ27 is the study of MSF's structure and includes several options, such as the elimination of MSF, conversion of MSF to a domestic mutual or a private entity and status quo of MSF with modifications.

He noted that in the prior EAIC meeting, the committee requested that their staff draft three bills for their consideration. One bill permits MSF to be exempted from certain Montana Information Technology Act (MITA) procurement and approval requirements as well as the State of Montana general procurement requirements. He noted that MSF has different needs than other state agencies that require quicker action than can be taken through the procurement process. The second proposed bill was to allow the State of Montana, which is currently a captive insured of MSF, to purchase workers' compensation in a more competitive context by allowing the State to solicit proposals from private insurers or to create a self-insurance program. The third bill was to allow the policyholders of MSF to elect a minority of the Directors of the Board. At the September EAIC meeting none of the draft bill proposals were approved and will not be brought forward by the Committee.

President Hubbard said the final report titled "The Future of Montana State Fund as Referenced by the SJR 27 Study" was prepared by committee staff and adopted by the Committee at the September EAIC meeting. He noted that page iv of the report offered several recommendations that he read into the report:

> "The Economic Affairs Interim Committee chose to devote most of its time to the SJR 27 study of Montana State Fund and workers' compensation in Montana. After spending three meeting days and portions of at least two other meetings on the subject, the Economic Affairs Interim Committee determined the following:
>
> Montana State Fund serves an important role as the guaranteed market in a state where the majority of workers' compensation policyholders pay less than $5,000 in premiums a year.
>
> Making major changes in the way that Montana State Fund operates would result in various impacts that a majority of the Economic Affairs Interim Committee is not ready to propose, although the members recognize that individual legislators may find that desirable.
>
> The best way to lower workers' compensation costs is by preventing accidents, which means that employers and employees ultimately hold the key to achieving a safe work environment; legislation alone cannot force businesses to have a safe workplace or employees to act safely."

He said the summary included a survey of all the materials and information that were provided to the Committee for SJ 27 consideration. He noted that MSF participated fully for the year-and-a-half effort to the best of its ability and he felt MSF staff performed admirably in providing and assimilating information so that committee could do its work.

President Hubbard said MSF is pleased that the EAIC found that MSF is vital to Montana's workers' compensation system. He said each legislative session brings new ideas and proposals and MSF fully expects that the issue of what to do with MSF in the future is going to be a matter of debate and discussion for some years to come.

Chair Zanto called for questions; there were none.

B. *Report of Internal Auditor – Patti Grosfield, Internal Auditor*
Ms. Grosfield provided the third quarter internal audit report on current activities:

Internal

- She said she had completed an audit of the agent base commissions which are paid monthly. She noted that the process and controls are working very well. She said most of the controls exist within the system; however, there are manual checks and balances in place. She performed tests on a sample basis to verify accuracy.
- She also completed the audit of the retrospectively rated plans which include the large group plans and some individual plans. There were no adverse findings and they found sound processes and controls in place. The controls that have been implemented in the past few years and the internal staff checks are impressive and working efficiently.
- She noted that if a dividend was declared at this meeting she would audit that process as well.
- She said the multiple public disclosure review notification will be issued soon and Board members will be notified of the need for completion and submittal by December 15 if they have multiple public activities.
- Ms. Grosfield said the agency incentive payments which are based on the agent's book of business retention and profitability will be audited.
- She noted that she is working with the Enterprise Risk Management (ERM) Office and the ERM Committee to develop a schedule and plan for testing of the controls for the CY2019 ERM top risks.
- She said she is reviewing the PBRI access roles and permissions for staff across MSF to assure adequate and appropriate access to systems.
- Lastly, she noted that external auditors will begin on-site visits to complete the legislative and the statutory financial basis statement audits.

External

- Ms. Grosfield said the calendar year 2017 GASB or governmental financial statements audit (the blue book audit) was presented to the Legislative Audit Committee (LAC) on June 25, 2018. MSF staff attended and provided responses to any questions that were asked. MSF received an unmodified opinion with no recommendations.

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

C. *Statutory-Basis Financial Statement Auditing Services – Renewal of Contract – Patti Grosfield, Internal Auditor*
Ms. Grosfield explained it was contract renewal time for MSF's external auditor, Eide Bailly, LLC. Eide Bailly provides the audit services for the required mandatory yearly statutory financial statements audit. She noted that MSF has been quite satisfied with the current audit firm and would like to renew the contract with Eide Bailly for three years. She explained that the Board contracts with MSF's external auditors and MSF staff recommended the extension to achieve consistency. She noted that the provisions in the current contract remain the same except for date changes and the standard pricing increase which is proposed at approximately 2.5 percent per year for the next three years.

Chair Zanto made a motion to approve the renewal of the contract with Eide Bailly for statutory basis financial statement auditing services for three (3) years. Jack Owens seconded the motion. Chair Zanto called for discussion from the Board and the public.

President Hubbard, Ms. Grosfield and Mr. Barry clarified for the Board that Eide Bailly has provided audit services to MSF for many years and this requested extension is an effort for MSF to maintain continuity within the scope of the contract term. President Hubbard added that the Board, at any time, could choose to go out for another competitive proposal as the contract has a convenience cancellation clause. He also said he felt the 2.5 percent price increase was very reasonable and if there are leadership transitions in MSF's finance department in the next few years, maintaining the continuity with Eide Bailly would be advantageous.

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

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

Key Success Measures

KSM	2018 BP	2018 Projected
Net Earned Premium	$162.4M	$157.5M
Loss Ratio	75.1%	80.3%
Expense Ratio	40.5%	42.5%
Investment Income	$40.7M	$49.2M
Net Operating Income (before dividend)	$10.7M	$9.7M

Achieve Enterprise Wide Initiatives

Management

Ms. Copps provided the Calendar Year 2018 Business Plan performance update. She shared the Key Success Measures outlined below.

Ms. Copps noted that net earned premium at $157.5 million was approximately $5 million less than planned due to an unanticipated eight-percent rate reduction that was effective July 1, 2018. She said the loss ratio was planned to be 75.1 percent and was projected to be at 80.3 percent driven by $6.5 million in adverse development on prior accident years. Expenses were projected to be $1.3 million over, which was driven by the loss expense increase.

Chair Zanto asked if medical costs were driving the adverse development.

President Hubbard said it was and that medical development remains the largest driver of MSF's incurred losses. He said about 70 cents of every claim dollar spent is on medical costs. MSF does not plan for prior year development though it has in the past; however, with economic recovery, those costs have stabilized and medical inflation has been relatively tame in recent years.

Ms. Copps said investment income was better than anticipated at $49.2 million. There was 13 million in net realized gains and only $5 million has been planned. Net operating income before dividend was planned at $10.7 million and was under by $1 million.

Chair Zanto called for questions. There were none.

Ms. Copps said the three Enterprise-Wide Initiatives are all focused in the Customer Service category and include the Policy and Billing System Replacement (PBRI), WorkSafe Champions and Growing a Safer Montana. She explained that the PBRI project was last reported as off-track; however, the project leadership team met extensively with HCL, the integration partner, over recent months to develop a new schedule. Three development sprints have been added which will accommodate the remaining development and extends the overall schedule accordingly. The multi-year project is back on track with implementation planned in late 2019.

She said there are several teams working concurrently to address data conversion/system integrations, policy center, billing center, rating, customer engagement portal, producer engagement portal, documents and organizational change management. She said there are increased needs for coordination between the development networks to eliminate manual processing. Project leadership is fulfilling the vendor management role by managing issues and risks, ensuring quality and achieving functionality. The project has experienced some challenges, one of which is the lack of Guidewire experts available in the market. The team is going direct to Guidewire for consulting on a focused and as needed basis. Another emerging issue is changes to the United States visa program. A lack of approval of visa requests can delay the start of on-site consultants and can require that people working on-site return to India and work from there. She said the transfers or amendments being denied by the U.S. Citizenship and Immigration Services will require a reasonable combination of mitigation actions to address this risk. She said the HCL employees with business visas can travel to MSF for the allowed shorter duration and those denied relocation to Helena could potentially work from Cary, North Carolina. There is also the possibility that a small number of MSF employees could be sent to India for a short period. She said it remains to be seen how this issue will materially impact the project.

Chair Zanto called for questions, there were none.

Ms. Copps said the Worksafe Champions project, which is on track, educates policyholders on identifying safety challenges at work and reducing those risks. There are two options to participate; one is an on-site training of eight modules from one of MSF's Safety Management Consultants. There are 10 policyholders with 75 employees working through the safety modules. The second option is for smaller employers to attend one of the regional workshops held throughout Montana, which is optimal for employers with less employee resources to dedicate to this process.

She said the Growing a Safer Montana project, also on track, is designed to reach young workers, specifically high-school-aged students. Twenty-two high school classes applied for the safety equipment grants and all were accepted. Each class was supplied with equipment worth up to $750 such as ear protection, safety googles, welding gloves or hard hats. This project has received quite a bit of press with programs in Missoula, Butte, Anaconda, Helena and St. Regis. She said the second aspect of this project is the scholarship award program for students in college trade and occupational safety health programs. Colleges have made the scholarship information available on their websites and the winners will be chosen in the first quarter of 2019.

Chair Zanto called for questions; there were none.

E. Dividend Rules and Policy Revision – Mark Barry, CFO

Mr. Barry noted that Rene Martello, MSF Controller was on the agenda to present this and several other items; however, had taken ill the evening before and would not be able join this session.

He then explained that MSF staff were requesting that the Board make a revision to the MSF Rating, Underwriting and Dividend Rules. He noted that the requested change will not affect the dividend, if declared, for 2018. It would impact next year and future years.
He said prior to the change in law that placed MSF under the regulation of CSI, MSF followed the administrative rulemaking process under the State of Montana Administrative Rules Procedures Act. We are requesting an update to the definitions and eligibility sections.

Mr. Barry said the first change was in Section 13. Dividend Definitions, (2). This change redefines the dividend year to "mean the period of time between July 1 and the succeeding June 30 unless a different period of time is adopted by the State Fund Board of Directors." This change is requested to provide the Board more options and flexibility to select a different year or period of time. He said if MSF should experience a windfall and the Board wanted to declare a special dividend distribution, a special meeting could be held and action taken at that time. This change does not give staff the ability to make that declaration, that sole authority remains with the Board.

He said the second change to (3) "Incurred losses" means:
(a) losses as reflected on the first report of the unit statistical reports including any corrections to the first report as provided to the National Council on Compensation Insurance (NCCI) for the dividend year, or
(b) incurred losses for the dividend year on a date, or on various dates based on policy period such that eligible policyholders' losses are captured at equivalent maturities, as selected by the State Fund board of directors.
The request is to remove sub-section (a) and only use sub-section (b). He explained that sub-section (a) is old language that is no longer used because MSF has its own current data to establish the measurement date.

Change three is in Section 14. Individual Loss Sensitive Dividend Distribution Plan. The change adds clarifying language to section (5) to determine which policies are eligible to receive a dividend. The added language is underlined in this section "(5) To be eligible for a dividend a policyholder must <u>not have any outstanding payroll reports or audits and must</u> have six continuous months of coverage with the State Fund in the policy period that is new or renewed within the dividend year." He explained that this change will remove non-compliant accounts from consideration of a dividend amount and increase the amounts granted to compliant accounts because those amounts would be returned to the dividend "bucket" and be redistributed.

Chair Zanto asked if dividends were paid to policyholders who have cancelled yet were active during the declaration period? And if so, if there is an incentive to MSF in protecting its business to change that to send the message that if a policy is cancelled the policyholder would no longer be eligible for the dividend thereby increasing the pool for existing policyholders.

Mr. Barry responded that because the policyholder contributed to the results of that policy year, they are eligible and due the dividend for that period. He added another aspect is that it creates an opportunity to communicate with a cancelled account and encourage them to look at us again for possible renewal.

President Hubbard added that the dividend payouts apply to policies two years back so that losses have a chance to matriculate and mature so there is greater confidence in the results of that year. He said if the look-back time were reduced that would interject more volatility and risk in the prediction of whether a dividend should or would be declared. He assured Chair Zanto that management understood his point; it is smart to reward those people who are loyal and stay in good standing. He noted that this approach has worked well in terms of marketing even though dividends cannot be guaranteed. He said the marketplace is aware of the consistency of MSF's dividends.

Mr. Mohr sought clarification on the outstanding payroll report or audit change and asked if that applied to current year payroll reports or only the dividend year?

Mr. Barry confirmed that the outstanding payroll report or audit must have occurred during the dividend year, not the current policy year.

Mr. Barry continued the requested changes to the dividend rules. He said the last item is part of the MSF Dividend Policy, in Section 4. Loss Valuation Dates are considered final for dividend declaration purposes with respect to the incurred losses ~~at 18 months~~ for the period adopted by the Board after the close of the ~~policy~~ dividend year being reviewed." The changes are underlined and struck through. He explained that this would allow for consistency with terminology now used regarding dividend and policy year.

Mr. Barry said management requests Board approval for the changes.

Chair Zanto called for questions. There were none.

Matt Mohr made a motion to approve the revisions to the dividend portion of the Montana State Fund Rating, Underwriting and Dividend Rules and the revisions to the Montana State Fund Dividend Policy as proposed by management. Mr. Larsen seconded the motion. Chair Zanto called for additional question, discussions or public comment. There were none and the motion passed unanimously.

III. Corporate Support – Mark Barry, VP Corporate Support

A. *Calendar Year 2018 Second Quarter Financial Report – Mark Barry, V.P. Corporate Support*

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

For the second quarter of 2018, Mr. Barry said bond holdings had increased by $26.7 and equity holding decreased by $12.8 million. He supplied the comparison of the two first quarters of 2018 with 2017 and noted that total admitted assets were down by $52.8 million. He noted that the markets have rebounded since June 30 and there has been some increase in gains on the equity side. He said MSF's market value to book value on the equities was plus 152 percent on June 30. At the end of August, that had moved to plus 163 percent. He added that other admitted assets have decreased by $47 million which is primarily due to commuting four contract years of MSF's aggregate stop loss reinsurance program. He said total admitted assets are down about $53 million; however, there are changes that have occurred since this reporting date.

Mr. Barry said unpaid losses are estimated to have increased by $20.5 million. The review is based on internal actuarial estimates; however, the next Board meeting in December will provide the consulting actuaries' reserve estimate for MSF to determine what will be used for the final

report. The internal actuary estimated $6.5 million in prior year development primarily on the medical side. He further explained that when MSF commuted the aggregate stop loss program for 2009, 2010, 2011, 2012, two of those years had seen recoverables of $11.8 million. This does not affect policyholder equity or MSF's income statement as these funds were held in the assets and are funds due to MSF from the reinsurer.
Chair Zanto asked if that commutation would roll over to 2013?

Mr. Barry explained that due to the uncertainties of the enactment of HB334, a different contract for 2013 to 2018 was negotiated and put into place.

He continued and noted that the unpaid loss adjustment expense increased by $1.7 million; however, other liabilities were down $68.7 million which played a role in total liabilities decreasing $46.5 million through June 30 and a $6.3 million decrease in policyholder equity due to prior year development. He noted that last year's reserve to equity ratio was 1.66 which was after a $40 million dividend; however, last year MSF earned $50 million of income prior to the dividend declaration due to very healthy investment markets. Staff is projecting, before any consideration of dividend to come in it at 1.71 to one on the loss reserve to equity ratio for 2018 which means any dividend the Board might declare would increase that ratio. He provided a comparison to other states that indicates that the lower the reserve to equity rate the more financially strong an organization will be. He noted that MSF reserve to equity ratio indicates that MSF in not the strongest or the weakest of the state funds represented in his demonstration. He said MSF's improved reserve to equity was due to MSF's investments; however, the returns on invested assets has been reducing because of reinvesting into lower return bonds and assets.

He reviewed the income statement and mentioned that net earned premium was about 5.5 percent below the 2017 premium; however, the target was set without consideration of the eight percent rate decrease. He said MSF is experiencing a minor loss in business and incurred losses are being driven by adverse development of $6.5 million. Mr. Barry said last year saw positive development and expenses year over year have increased primarily due to increased PBRI related consulting costs which are expensed over time.

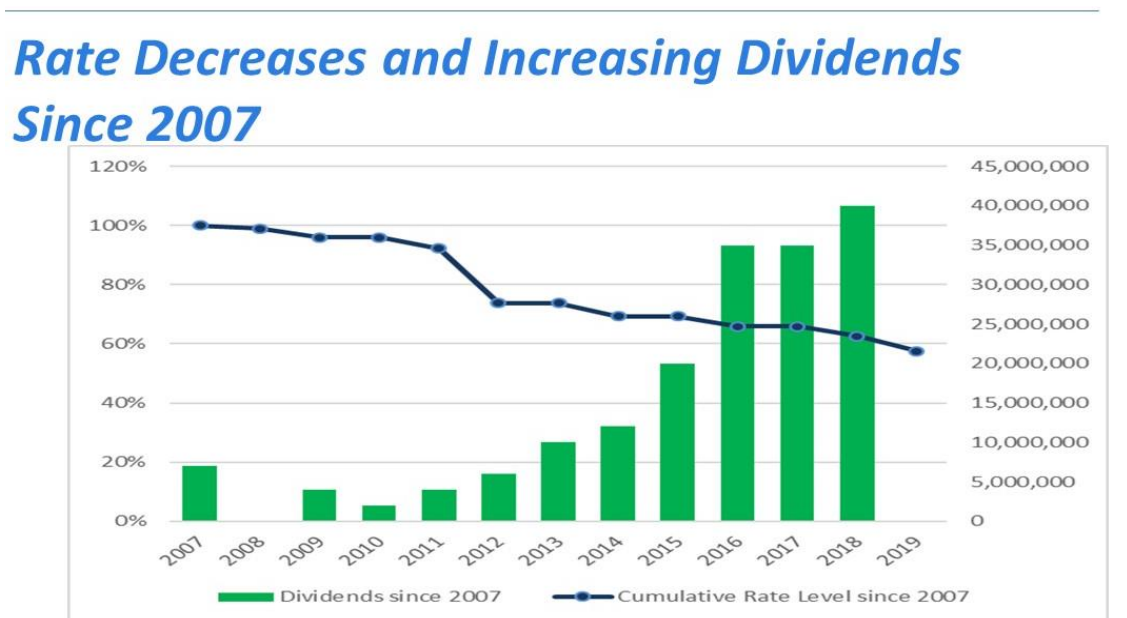
President Hubbard sought clarification whether the underwriting expenses incurred included the $13.8 million SB4 expense.

Mr. Barry said the $13.8 million SB 4 expense was included in the $52.7 million underwriting expenses incurred. The $51.6 million for 2017 included the $14.8 million of SB expenses incurred in that year.

He further explained the aggregate stop loss commutation program for contract period 2009-2012 and described the process management used to determine if the program would continue to benefit MSF. He noted that beginning on June 30, 2018 there would have been a maintenance fee of $375,000 per year for a four-year period which would result in a total of $1.5 million. That cost made it prudent to commute the program which resulted in no impact to the policyholder equity or net income.

Mr. Barry reported that the year-end for policyholder equity for 2017 was $554.7 million and projections for 2018 call for $9.7 million in net income and unrealized losses on investments of $8.7 million which is expected to be reversed given current market condition. In addition, there was a change in non-admitted assets related primarily to PBRI projections of $3 million. The final projection for policyholder equity before dividend for 2018 was at $552.5 million which indicates a reserve to equity ratio estimate of 1.7 before dividend.

He addressed several items regarding projections versus Annual Business Plan (ABP) and noted that net earned premium was down $4.8 million primarily due to the eight percent rate decrease, a slight net loss of business and higher schedule credits. He said losses increased $4.5 million over projection due to prior year development. Overall, actual projected net income is approximately $1 million off the estimate or approximately a ten percent difference which is anticipated to change by the third quarter due to changes in the investment markets. He noted that the combined ratio for 2018 is projected to be 122.8 percent before any consideration of dividend and reminded the Board that if a dividend is declared the combined ratio will increase.



Mr. Barry provided the graph depicted above and noted that rates have decreased 42 percent since 2007 and during that same period $175 million in dividends have been returned to MSF's policyholders and customers.

Chair Zanto asked Mr. Barry to restate the dividend total.

Mr. Barry said that since 2007 the total dividend declarations have been $175 million; however the MSF Board began declaring dividends in 1999 and total dividend declarations since then have been $216 million.

President Hubbard also noted that as of the last rate level adjustment, the rates for MSF are lower than they were in 1990 when the New Fund was created. He said that rate level achievement was pretty impressive given medical and cost inflation over the years. He congratulated the entire team for doing a great job and remaining vigilant, improving outcomes and reducing costs for Montana businesses.

Chair Zanto called for questions.

Mr. Barry took a moment to recognize that Tapio Boles, from Willis Towers Watson, MSF's consulting actuary firm, was recently recognized in the Hall of Fame of the Casualty Actuarial Society for a reserving paper that he co-authored.

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

Mr. Greig thanked the Board for the opportunity to present on Willis Towers Watson's support of a dividend declaration for 2018. MSF management asked that Willis Towers Watson address several interrelated questions; a) how much policyholder equity MSF needs in order to support its long-term viability and stability for Montana employers and MSF's long–term business plans and projections, b) how is the required amount of policyholder equity affected by changes in the business environment and c) does this year's financial situation support a policyholder dividend?

Mr. Greig said policyholder equity plays a vital role in the Montana economy to provide a stable environment for businesses and a stable and competitive business market. He stated that policyholder equity does not really belong to MSF or the State of Montana, it belongs to the policyholder as a prudent safeguard for unforeseen adverse events. He noted that MSF operates as the insurer of last resort so must write all businesses including those that private insurers choose not to cover. He said the MSF Board and management have addressed dividend considerations and discussions for twenty years. He noted that net premiums declined approximately seven or eight years ago and have been stable at about $169 or $170 million per year for several years. Net operating earnings have increased over time in proportion to greater investment income and favorable results on the loss reserves. Further review of MSF's fiscal status from 2008 provided an illustration that MSF's financial strength has improved relative to the reserves and resulted in increasing dividend declaration amounts as the reserve to equity ratio declined. The level of policyholder equity has more than doubled and reserve to equity ratio has shown improved financial strength. Last year, MSF paid a record $40 million or 24 percent of net premium which is a huge discount. He said steps have been taken to improve MSF's financial strength and it has paid off.

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

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

Mr. Greig said MSF, as a workers' compensation state fund, has several characteristics that highlight the importance of policyholder equity to absorb adverse financial results: extremely long-term obligations associated with workers' compensation claims especially as medical continues to grow, MSF writes only one line of highly regulated insurance, MSF writes in a single state and provides the guaranteed market. He added that there is also the uncertainty from significant Montana benefit changes such as HB 334. He said should HB 334 be repealed, there would be no way for MSF to retroactively collect $271 million from policyholders for year 2012 to 2018. He said MSF's equity must be adequate not only to cover current and next year's obligations, but also to support the long-term strategy. Therefore, MSF needs stronger-than-average policyholder equity to address these unique issues.

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

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

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

He said Willis Towers Watson's annual pricing review supports MSF's objective of producing modest operating income. He said operating income recognizes the risk and uncertainty inherent in pricing future business, makes ongoing contributions to growing policyholder equity as needed and supports an ongoing dividend strategy. He compared MSF's equity levels to three regulatory benchmarks and explained that these benchmarks are levels established to identify when a company is weak and potentially in a spiral towards insolvency. He noted that the projected December 31, 2018 equity of $545 million will also exceed the 2018 regulatory equity benchmarks by a substantial margin.

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

SUMMARY OF ANALYTICAL RESULTS

Comparisons to A- and A rated State Funds and the workers' compensation industry (assumes reserve adequacy) suggest a 12/31/17 MSF policyholder equity range of approximately $330 - $835 million

	Peer Group				
	Private Carriers				
	Mean of Lower Quartile	Median	Mean of Upper Quartile	A- and A State Funds*	Workers' Compensation Industry
Premium-to-equity ratio	1.4	0.8	0.4	0.5	0.5
Implied MSF equity	$118 million	$207 million	$414 million	$331 million	$331 million
Gross leverage **	4.5	2.7	1.9	1.8	2.8
Implied MSF equity	$292 million	$487 million	$692 million	$731 million	$470 million
Net leverage **	4.6	2.8	2.0	1.9	2.3
Implied MSF equity	$282 million	$463 million	$648 million	$682 million	$563 million
Reserve to equity ratio	2.5	1.6	1.0	1.1	1.4
Implied MSF equity	$368 million	$575 million	$920 million	$836 million	$657 million
Equity to RBC ratio **	1.8	2.8	5.6	6.8	N/A
Implied MSF equity	$218 million	$338 million	$677 million	$822 million	N/A

MSF's December 31, 2017 equity position of $555 million places MSF toward the middle of the range indicated by A- and A state funds and by the workers' compensation industry

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

** Gross Leverage =(Gross Written Prem + Gross Loss Reserves + Other liabilities)/equity, Net Leverage = (Net Written Prem + Net loss reserves + other liabilities)/equity using MSF's CY2017 statutory financial statements, Equity to RBC ratio = Policyholder Equity / Risk-Based Capital

willistowerswatson.com

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Willis Towers Watson

He noted that terrorism is a concern for all markets, though not as acute in Montana, and strong equity is needed to address that concern.

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

SUMMARY OF ANALYTICAL RESULTS

Evaluation of policyholder equity levels - recap

	Indicated 12/31/17 MSF Equity
▪ Quantify marginal equity perspective	
▪ Traditional rules of thumb	$56 - $83 million
▪ NAIC Risk-Based Capital – Company Action Level	$242 million*
▪ Quantify strong equity perspective	
▪ Peer company comparisons	
- A- and A State Funds	$331 - $836 million
- Private carriers (average of median and upper quartile)	$311 - $748 million
- Insurance industry (WC dominant)	$331 - $657 million
▪ Policyholder Equity Model results	
- Six scenarios: VaR (99.5%)	$414 - $1,000 million**

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

** Based on MSF's estimate of December 31, 2017 net loss and expense reserves of $919.7 million.

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

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

Mr. Greig concluded from Willis Towers Watson's analysis that MSF has enough policyholder equity and financial performance to pay a large dividend.

Chair Zanto called for questions.

Ms. Moss thanked Mr. Greig for his report and asked President Hubbard to clarify HB 334 and asked how long that will unfold and would be something the MSF would need to be concerned about.

President Hubbard explained that as long as the constitutionality of the statute is in question and finally determined by the Montana Workers' Compensation Court and ultimately through the Montana Supreme Court, certain provisions of HB 334 will remain uncertain in terms of permanency. Based on the NCCI loss cost reductions projected in the 2011 legislation, the MSF Board decreased MSF rates by 20 percent. That reduction is embedded in the rate levels from that date forward. He said if any of those provisions are unwound the effect, based on Montana law, is retroactive for any open claims which could mean additional liabilities.

Mr. Greig added that there will also be potential increases for attorney fees, even for claims that are closed and settled, due to the challenge of revisiting if the injured worker is entitled to more support. He said even if it is determined that the claim was legitimately closed, MSF will still have to incur the attorney fees. He said this is a very real concern and a statute change in other states has had these effects.

Mr. Mohr said he agreed with Mr. Greig's dividend position; however, questioned, based on premiums reducing, investment income reducing, adverse development and medical cost concerns, possibly HB 334 being reversed, whether MSF should be decreasing its reserve to equity goals and ratio.

Mr. Greig said he believed the current target of 2 to 2.5 remains reasonable due to the very factors Mr. Mohr had listed because they are legitimate risks that MSF must be concerned about. He added that on the other side, MSF has had a couple of good years where medical severity trends have stabilized and frequency is continuing to drop. He said MSF must be concerned with risks and things going badly; however, there are a lot of things that have gone well. We did quantify that the 2 to 2.5 is still reasonable and his analysis revisited that this year.

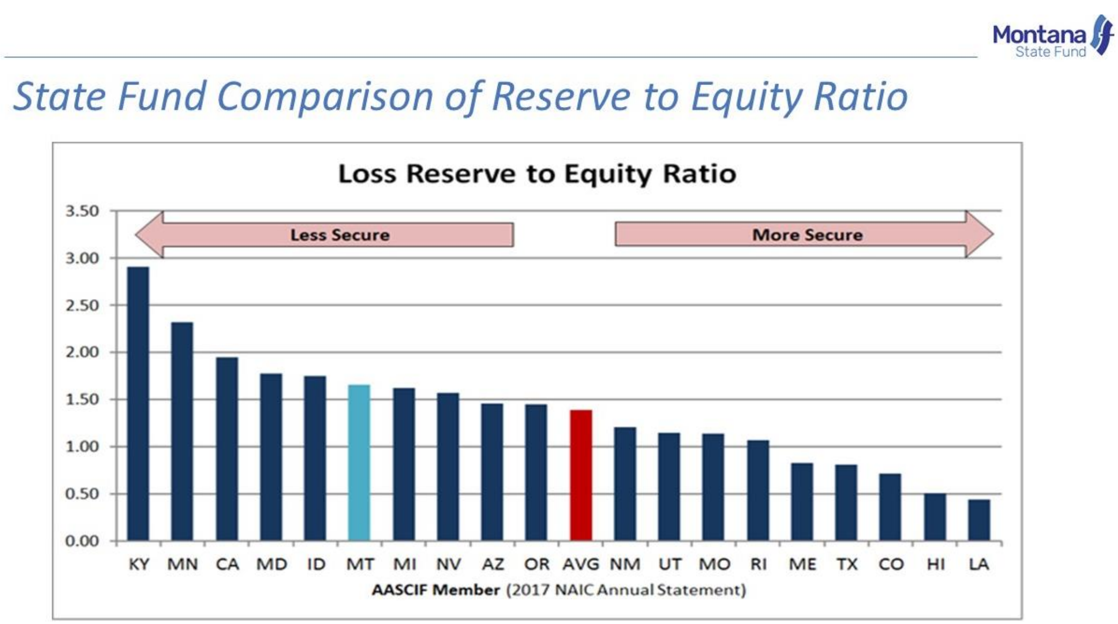
President Hubbard noted that Mr. Greig's presentation had indicated over the years that ratios for private carriers are closer to the 1 to 1.5 ratio and asked if it was reasonable for MSF to discuss a more stringent target of 1.5 to 1 as opposed to a 2 to 2.5 ratio.

Mr. Greig said over time, the equity amounts in the industry have definitely gotten stronger and when discussing the degrees of strength, he believes the 2 to 2.5 is reasonable; however, it is also within the Board's purview to determine the risks the MSF faces in calling for a stronger ratio. He said most reasonable people who understand insurance operations, would recognize the value of being more conservative and moving with the rest of the industry.

Mr. Hubbard added that Mr. Greig's scenarios indicated that MSF's current equity level of $551 million placed MSF at just slightly worse than baseline. Should one or more provisions of HB 334 be repealed with a hard market, the suggestion would from the consulting actuary would be that MSF would need a billion dollars of equity. He said that is a considerable range and indicated to him that currently MSF is in the middle of the pack: however, the Board could determine they would prefer to be in the upper quartile of strength compared to other state funds. He said if that were the case, he would suggest the Board consider a more stringent target of 1.5 to 1 or 1 to 1.

Mr. Greig said he agreed with that assessment and said it is reasonable and fair for the Board to consider being stronger rather than not as is stated in the statute.

Mr. Owens referred to a graph provided by Mr. Barry and noted that Hawaii and Louisiana fall in the financially strong range. He said he assumed that meant they were over capitalized and asked what may be the reasons that they feel the need to be in that position.



Mr. Greig said he did not know the reasoning for choosing to be in that position; however, he was aware that Louisiana has been taking steps to reduce their amount of policyholder equity by paying dividends of over $100 million per year for the past couple of years.

Mr. Larsen said that in the environment that MSF lives in, the more the Board reaches to achieve a higher level of financial security, the bigger a political target MSF becomes. He asked what is the magic break point for MSF so the Board can work to prepare for a tough scenario and yet, people who do not understand insurance or risk management look at MSF's equity levels and say "They have a couple hundred million extra dollars." He asked Mr. Greig how the Board addresses something like that and finds the balance point?

Mr. Greig said that is exactly what the Board has done over time in terms of having a consulting actuary do the analysis and assuring there is an independent recommendation that the range of equity is valid enough. He said there is no one correct amount, so once MSF is within its target range or even stronger than its target range, the Board can rest better knowing that it is in good shape. He said he does not know how the Board can deal with the politicians that believe that equity is unnecessary. A few years ago, there was word floating around that MSF should pay a $100 million dividend or even more. Unfortunately, he said he knows today that the $920 million of loss reserves are incorrect and there is a real possibility that at $920 million it could develop by 10 percent in the next couple of years. He said there are people who continue to believe that running an insurance company is an exact science and unfortunately it is not. He said getting to a point where there is too much equity is accomplished by reviewing comparables within the insurance industry such as Louisiana and Hawaii. He offered that politicians be referred to the Insurance Department because he said he would bet the Insurance Commissioner would not agree with paying a $150 million policyholder dividend.

Chair Zanto called for further questions. There were none.

Chair Zanto noted that given the discussion about the reserve-to-equity ratio, he agreed with other Board commenters and felt this deserved further Board discussion. He asked that staff bring additional information to the December Board Meeting for the Board's continued discussion to determine if changing the target ratio is necessary.

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

President Hubbard thanked Mr. Greig for his excellent presentation that provided both the reason that policyholder equity is necessary and the risks that are in the environment for eroding that surplus. He said the Board must also consider SB4 and the provision within that law that requires the MSF Board of Directors to not reduce dividends because of the transfer fee. He said it is to make a good record on the consideration of the dividend that in fact, the $13.7 million transfer that occurred is not an explicit consideration in the dividend declaration and that dividends will not be reduced due to that.

He said the Board adopted dividend policy indicates that the Board annually review management's recommendation regarding the potential for a dividend. The basis for a dividend declaration encompasses the current levels of surplus, the accident year financial results, trends and losses, workers' compensation market conditions and the potential impact on future dividend declarations. He noted that dividends cannot be guaranteed; however, the Board has adopted a policy that is intended to maintain the ability to declare dividends over a long period of time both in terms of structure and amount.

President Hubbard said over time, equity has grown at a rate that has allowed the Board to declare record level dividends three years in a row which has been driven by the return on invested assets. The financial statements show that MSF actually operated at an underwriting loss and that was investment income that provided the ability to grow equity on the balance sheet and to declare record level dividends. He said in considering a dividend this year, MSF's Board should consider the current year's financial results which currently reflect $9.7 million more in net operating income than projected for the year. He noted that the $9.7 million is much less than 2017 financial results of $50 million; however still a positive gain with current projections. He said SB 4 was an expense that was incurred by MSF and when that consideration is included, the reserve to equity ratio moves to 1.7 to 1 before any dividend declaration. By contrast, if the Board were to pretend, which for statutory purposes the Board cannot do, that would imply projected policyholder equity of $556 million and net income of $23.4 million. That would imply a reserve-to-equity ratio of 1.67 to 1, which would be stronger than current results. He said taking into consideration that MSF is expecting modest net operating income and essentially the 2017 end of year budget unreserved surplus of $554,701, 083 plus the $9.7 million net income that is projected, he believed the Board would be well positioned to declare another large dividend. Given the target ratio range of 2 to 2.5 to 1 and the current ratio of 1.67, he recommended the Board declare a $40 million dividend of unreserved surplus to policyholders with policies in effect between July 1, 2015 and June 30, 2016 which was the same dividend declaration as 2017.

He noted that on its face, the Board would not be reducing dividends as required in the SB 4 mandate. He added that he also recommends this level based on the prudent financial management of MSF. This recommendation brings the level of unreserved surplus to $514,701,083 which is well within the $300 million to $800 million range the consulting actuary recommends. He said he did not see the financial strength of MSF continuing to improve unabated unless the markets continue to improve which he believes is unreasonable to assume. He said all of MSF's balance sheet numbers will be stressed going forward as the markets continue to drop. He explained that if the Board did declare a $40 million dividend, including the $13.8 million fee, it will result in a $30.3 million net loss on operations for MSF which is a release of equity for this year. That will render a reserve to equity ratio of 1.84 to 1 moving closer to that 2 to 2.5 to 1 target. He noted that if the fee from SB 4 were not considered the net income would be $23.4 million before dividend and after would result in a $16.6 million operating loss. Mr. Hubbard said management recommends the Board adopt an unreserved surplus level of $554,701,083 as of December 31, 2017 and declare a dividend of approximately $40 million.

Chair Zanto called for a motion to begin Board discussion on this item.

Mr. Mohr made a motion the Board, based on the unreserved surplus of $554,701,083 as of December 31, 2017, declare a dividend to dividend year 2016 policies of approximately $40 million dollars, not to exceed 2% above or more than 2% below the declared dividend, exclusive of any uncashed warrants. Ms. Moss seconded the motion. Chair Zanto called for questions or discussion from the Board.

Chair Zanto commented that he personally agrees with management's assessment. He said he has looked at the numbers and is concerned about MSF's reserve-to-equity ratio given the Board's earlier conversation and Mr. Greig's presentation. He said MSF is moving closer to the target; however, obviously the Board still needs to give consideration to changing the target. He said looking at the past year, if we didn't have the SB 4 impacts, we would be looking at maybe a $50 million dividend declaration. Or somewhere in that area. He added that he believed the Board's consistent approach from last year to this year given the financial performances is good and he believed the Board was in a position to move forward with $40 million; however, he would entertain any other recommendations by the Board.

Mr. Larsen said he did not dispute President Hubbard's logic and believed that his experience was indicating to the Board that after a lot of fine analysis and the consulting actuaries' support of this approach, he believed it made sense to declare a dividend. He said his only concern was that given the legislative activity in the past couple of years, and this declaration bringing MSF to a reduction in its resources, from a political standpoint, there gets to be a lot of uproar about MSF's huge operation by comparison to other organizations in the state and these numbers are not small. He said he supports what management is trying to do and as a policyholder for 15 years, he believes that this money going back to policyholders is really a legitimate idea. He said it was a much better solution than legislators dipping into MSF's operating reserves. He said he thinks that if the Board passes this motion there should be a public service statement that is really articulate in addressing the few things that were just enumerated that makes the dividend possible with emphasis on the unpredictability of the marketplace. He said somehow, with his positive vote, he would really urge the Board to come up with a really definitive public press release that speaks to why the Board can do this in favor of the policyholders and to at least, put the politicians on notice that this is not a "candy store" and you cannot come in and just put your hand in the cookie jar.

Chair Zanto called for further comment; there was none. He added that he believes the Board has messaged back to the employers that this is a return that the Board is able to give to help support their efforts around safety and taking care of their employees. That message is not lost on the legislators either; they have mentioned during SJ27 that the best means of managing workers' compensation is not to have injuries in the first place. He said he would like to see the safety component included in the message that Mr. Larsen recommended.

Mr. Hubbard added that the "declaring a dividend" versus "just reducing rates" discussion often comes up particularly with legislators. He said the dividend is so impactful because it is based on strong safety records. Only employers who are investing in the safety of their employees with safety equipment and training earn a dividend. One approach is that less dividends could be declared and MSF could spend more money on safety services; however, the wonderful thing about the dividend is that employers receive the money to reinvest in safety. He said he really believed that the dividend is the best way for MSF to improve the safety culture. He thanked Mr. Larsen for his comments and noted that MSF delivers that very message at the legislature whenever given the opportunity to do so.

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

Kevin Braun, MSF General Counsel approached the podium and addressed the Board. He said he wanted to make sure that the record is crystal clear that the declaration of a $40 million dividend is without consideration of any of the monies that were taken as a result of SB 4 and asked the Board to please confirm that.

Chair Zanto said that was confirmed.

Chair Zanto called for further comments from the public; there were none. He called for the vote and the motion passed unanimously.

Chair Zanto asked President Hubbard to work with him jointly to prepare a statement on behalf of the Board.

IV. Dividend Distribution – Mark Barry, CFO

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

Mr. Barry provided the parameters used to distribute the dividend to MSF's customers. He requested that the Board approve a proposed minimum payment amount of $10, and a minimum warrant amount at $100. He said that would mean anything less than $100 would be applied to the account; anything over $100 would trigger a warrant or check. He said within the dividend distribution parameters there is a requirement that the dividend be applied to the account if the following exist:

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

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

Chair Zanto called for questions. There were none.

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

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

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

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

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

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

Mr. Gengler presented the table of dividend factors for the $40 million declaration. He noted that there would be some variance around the $40 million amount due to rounding, which is why the motion contains plus or minus language. The dividend is payable to policies written July 1, 2015 to June 30, 2016 with at least six months of continuous coverage. He explained that the table is derived from the level of contribution of each account to the underwriting results of that policy year. He further explained that it takes the profit on profitable accounts to support the losses on unprofitable accounts which is simply the way insurance works. He provided the Board with an overview of the methods used to establish the table and utilized to assure the table distributed the dividend equally to all qualifying acvtuarial standards. He noted that the table of dividend factors was reviewed and certified by the consulting actuary, Willis Towers Watson, and the certification letter was provided to each Board member. He said that out of 24,394 eligible policies, 95 percent or 23,175 will received a dividend. That ranges from 98 percent of small accounts to 50 percent (3 out of 6) of the largest accounts. He said these general patterns are very normal and have been observed year after year and would be true for most any property casualty insurance company. He said management requests that the Board approve the table of dividend factors for the $40 million dividend declaration.

Chair Zanto called for questions.

Ms. Moss made a comment that she attends the safety workshops in Billings that MSF puts on with Kirk Smith and she has sat side by side with small business owners and she noted that she is very glad to see that so many small business owners will benefit from these dividends and those payments go into the balance sheets and the checkbooks of so many small businesses from Broadus to Miles City to Whitefish. She said the dividend declarations are really grounded in rural Montana and small businesses.

Chair Zanto made a motion to approve the recommendation of staff to approve the table of dividend factors as presented and as certified by the independent actuary; and distribute the dividend to all qualifying policyholders with new or renewal dates within the dividend year of July 1, 2015 through June 30, 2016, and who had at least six months continuous coverage during their policy period. Mr. Mohr seconded the motion. Chair Zanto called for discussion or questions from the Board and the public; there being none, he called for the vote. The motion passed unanimously.

V. Reserve Report – Old Fund

A. Overview of Old Fund statutes – Mark Barry, CFO

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

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

Chair Zanto called for questions; there were none.

B. Old Fund Fiscal Year 2018 Reserve Report – Tapio Boles, Senior – Willis Towers Watson

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

Mr. Boles provided an overview of the methodologies used to determine the actuarial estimate and range of estimates of the unpaid liability of the Old Fund as of June 30, 2017. He noted that in recent fiscal years, actual medical payment activity has been above expectations and those higher activity levels have been weighted into their projections. He noted that there have been more claims closures in the last 12 months than was expected. He said Old Fund payments have not been declining as expected over recent fiscal years and as a result estimated unpaid losses have been increased. He explained the factors and considerations that Willis Towers Watson applied to the Old Fund to determine their final projections for FY2018.

Mr. Boles said the Old Fund forecast for the next fiscal year is $6.1 million and the total undiscounted benefits-only related unpaid actuarial central estimate is $26.7 million timed out to Fiscal Year 2050-2051. He said Willis Towers Watson's total claim-related unpaid amounts including claim management expenses estimates of the Old Fund are at $31.1 million.

Chair Zanto called for questions.

Mr. Hubbard asked Mr. Boles to provide the Board with a sense of the total ultimate potential liabilities from the low to the high estimate, all of which are a reasonable range for potential outcomes.

Mr. Boles explained that medical costs make up the biggest component of the liabilities which range from approximately $20 million to $66 million and indemnity is the smaller portion ranging from $4 million to $6 million. In total it is $28.3 to $84 million when including loss adjustment expenses and the Department of Labor charge. The central estimate is $31.1 million.

President Hubbard asked if he was correct that the report stated that 24 large claims account for 43 percent of case reserves. He said there are 600 claims that remain open; however, the very large claims tend to take up a disproportionate impact on the liability.

Chair Zanto called for further questions.

Mr. Barry then provided management's recommendations based on the Willis Towers Watson report for the loss and LAE for the Old Fund. He said loss and LAE reserves for FY2018 for the Old Fund are $31.1 compared to $32.2 million from FY2017. He said approximately $7 million in benefits were paid in FY2017, ALAE was $124,000, the Department of Labor assessment was $104,000 and administrative costs were $605,000 which is below the cap set during the special legislative session. He said management requests the Board's approval for the Old Fund loss and LAE so that staff can send that information over to the State Accounting Division so the amounts can be included in the State's Comprehensive Annual Financial Report.

Chair Zanto called for questions.

Chair Zanto asked if there have been any kind of a significant change due to the $625,000 maximum on administration of benefits?

President Hubbard said he did not believe so. Obviously we apply our best resources on claim management regardless of whether it is New Fund or Old Fund. He added that staff does have to manage the expenses that are allocated to the Old Fund so there are some services that were reduced such as legal and nurse case management.

Chair Zanto said this was a concern for him because he knew that the services would be impacted and questioned what that would do to the tail of the claim.

President Hubbard added that the Willis Towers Watson reports indicate multi-year adverse development, even before the cap legislation. That has been the nature of the Old Fund liabilities - the benefit levels are completely different than those of the New Fund and the Old Fund contains very complex medical claims. Administration of those claims has indicated over time that the liability or payment stream will plateau until the injured worker passes away. The dialogue with stakeholders, particularly the State of Montana who is ultimately responsible for paying the liabilities, is that the $31 million estimate is the central estimate and the pattern has been that people are living longer and medical technologies are increasingly expensive and more upward development is likely to occur.

C. Old Fund Fiscal Year 2018 Reserve Recommendations – Laurence Hubbard, President/CEO

D. Adoption of Old Fund Fiscal Year 2018 Unpaid Loss and Loss Adjustment Expense Reserve Estimate – Laurence Hubbard, President/CEO

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

Chair Zanto made a motion to adopt for the Old Fund, based on the actuary's best estimate of unpaid losses and loss adjustment expenses for Fiscal Year 2018, the amount of $31,108,975 undiscounted as of June 30, 2018. Ms. Moss seconded the motion. Chair Zanto called for questions or comments from the Board and the public. Seeing none, he called for the vote and the motion passed unanimously.

VI. Corporate Support Mark Barry, CFO

A. Calendar Year 2018 Second Quarter Budget Report

Mr. Barry provided a summary of the second quarter budget report. The total budget was $208 million and current projections indicate expenditures are under by approximately $8 million or four percent under the budget. He said claim benefits for indemnity payments are expected to be right on budget at $36.4 million. He said medical benefit payments were budgeted at the same level of medical settlements as previous years; however, that has slowed down and medical settlements are expected to come in at about $11.5 million below the budget. The non-medical settlement costs are projected to be $6 million above the level set in the budget. He said indicators show total medical benefits will be $5.2 million under budget. He said the operational expenses are projected to be $2.8 million below budget for 2018 and expected to come in at $85 million. He explained that approximately $934,000 of the ALAE cost has been shifted to medical and will be reported there.

Mr. Barry then provided a breakdown of the safety services that MSF budgets for and provides. The 2018 budget is $2,729,913 and is made up of the safety services team, communications, facilities, safety workshops, WorkSafe Champions classes, Growing a Safer Montana college scholarship program, a brand update on the safety materials and ACE Grants.

Chair Zanto asked what an ACE Grant was.

Mr. Barry explained that ACE is Assisting Charitable Endeavors (ACE) which is an MSF program that has been in place for a number of years that is geared toward providing matching funds to assist non-profit organizations improve or replace safety related equipment. A non-profit can submit an application for a safety grant of up to $2,000 that shows the request is safety related and that they have matching funds to complete the project. For instance, a recent request was for a piece of lift equipment for moving patients safely in a nursing home or hospital facility.

Chair Zanto called for questions. There were none.

B. Old Fund Funding Status – Fiscal Year 2018

Mr. Barry then provided the closing report for the Old Fund Fiscal Year 2018 as of June 30, 2018. Overall total payments (benefit payment and operating expenses) were $500,000 under the funding estimate or a total of $7.8 million. Claim benefits were under by $333,000 and operational expenses were under by $167,000. He said benefits payments variances were due to medical non-settlement being under the funding estimate by approximately $652,000 which offset the slight increase over the funding estimate for indemnity by $304,000. He said operational expenses were also under plan by $167,000. He noted that claim management was limited to the $625,000 cap and staff managed to that level. He added the legislation sunsets in 2019 when the amount will return to $1.2 million; however, staff does not anticipate using that level of funding.

Chair Zanto called for questions. There were none.

President Hubbard took a moment to publicly acknowledge how much he has enjoyed working with Mr. Barry since 1994. He told Mr. Barry that the level of competency that he has exhibited every day in terms of the financial management of MSF has been nothing less than stellar. He said he has so much enjoyed working with him and thanked him for all that he does for Montana State Fund.

Chair Zanto moved to close the meeting for the President/CEO Performance Review and asked President Hubbard if he wished to waive his rights to a privacy.

President Hubbard said he would waive his rights to privacy to include conversations that Board may wish to have with Mr. Rick Duane, Vice President, Human Resources and Kevin Braun, General Counsel.

The meeting was closed at 12:20 p.m.

VII. President/CEO Performance Review

A. Call to order
B. President/CEO's Performance Review

Chair Zanto reconvened the meeting at 1:40 p.m.

VIII. Old Business/New Business (1:40 pm)

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

IX. Public Comment (1:40 pm)

Chair Zanto called for Public Comment. There was none.

Ms. Moss made a motion to adjourn the meeting. Mr. Larsen seconded the motion. Chair Zanto adjourned the meeting.

The meeting was adjourned at 1:41 p.m. The next scheduled board meeting will be held on Friday, December 14, 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