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MONTANA STATE FUND
BOARD OF DIRECTORS MEETING
June 7, 2019

The Montana State Fund (MSF) Board of Directors meeting was held June 7, 2019 in the Board Room of Montana State Fund, 855 Front Street, Helena MT 59601.

Directors Attending

Lance Zanto, Helena
Jan VanRiper, Helena
Matt Mohr, Bozeman
Lynda Moss, Billings
Jack Owens, Missoula
Jim Molloy, Helena

State Fund Staff

Laurence Hubbard, President/CEO
Verna Boucher, Special Asst to Pres/CEO
Kevin Braun, General Counsel
Mark Burzynski, CFO
Rick Duane, Human Resources, VP
Heigh, Operations Support VP
Al Parisian, CIO
Julie Jenkinson, Operations VP
Kris Anglin, Marketing Development Specialist
Rene Martello, Controller
Patti Grosfield, Internal Auditor
Shannon Copps, Director, ESPM
Peter Strauss, Compliance Officer
Sandy Leyva, Director, Insurance Applications
Mike Worden, HR Specialist
Tammy Lynn, Safety Services Director
Erika Ayers, Select Team Leader
John Carpenter, Senior Accountant

Others Attending

Rep. Josh Kassmier, Fort Benton
Pat Murdo, Leg. Services Division
Troy Smith, CSI
Russell Ehman, CSI
Dave Glennon, Eide Bailly
Joseph Cullen, Montana Board of Investments
Kris Wilkinson, Leg. Finance Division
Rep. Derek Harvey, Butte
Bob Biskupiak, CSI
Sonia Powell, LAD
Bill Wheeler, ERD
Neville Kenning, Kenning Consulting
Jon Putnam, Montana Board of Investments
Katie Guenther, Leg. Finance Division

I. Meeting Preliminaries

A. Call to Order

Chair Lance Zanto called the meeting to order at 8:40 am and thanked the Board and members of the audience for attending. He noted that as of June 6, the Board had two new Legislative Liaisons from the Economic Affairs Interim Committee (EAIC): Representative Derek Harvey from Butte and Representative Josh Kassmier from Fort Benton. He welcomed the Liaisons and invited them to address the Board.

Representative Harvey said he represented Butte’s House District 74 and said he was happy to have this appointment and was excited to learn more about MSF and determine how he can help out and work more with the MSF team. He noted that he had the pleasure of serving on the House Business and Labor Committee during the 2019 Legislative Session and working with Kevin Braun, General Counsel and Ethan Heverly, Director, Government and Community Relations. He said he was looking forward to this and offered to be of any assistance necessary.

Representative Kassmier said he was from Fort Benton and represents a fairly large area which includes Choteau County, Liberty County, most of Hill County except for Havre and a little bit of Cascade County. He said he served on the House Taxation Committee, the House Agriculture Committee and the House Transportation Committee during the 2019 Legislative Session. He said the House Business and Labor Committee was where he wanted to serve and he is excited to be on the EAIC and learn more about MSF and determine how we can help Montanans and MSF as a whole.

Chair Zanto thanked the Liaisons and offered the Board's availability in any way needed.

B. *Approval of March 8, 2019 Board Meeting Minutes*
Chair Zanto called for a motion to approve the March 8, 2019 minutes.

Matt Mohr made a motion to approve the March 8, 2019 minutes as presented. The motion was seconded by Jim Molloy. Chair Zanto asked for any questions or comments from those present, seeing none, he called for the vote and the motion was unanimously approved.

II. Miscellaneous – Laurence Hubbard, President/CEO

A. *Miscellaneous*
President Hubbard welcomed and thanked the attendees. He noted that Board member Cliff Larsen was unable to attend this meeting as he was at a once-in-a-lifetime opportunity attending the 75th Anniversary of D-Day Celebration.

He also welcomed the Liaisons to MSF and noted that past comments from liaison predecessors indicated that serving in this capacity provided a very interesting experience. He noted that, by statute, Liaisons are entitled to the same information that the Board members receive and he encouraged them to attend all of the events MSF provides to the public. He noted that the EAIC is the committee that connects MSF to the Legislature and said it was important that relationship be clear and transparent. He said MSF will strive to provide the Liaisons with a deep understanding of the business that MSF conducts.

President Hubbard said one key function of the Board is to determine the annual rates to be filed with the Commissioner of Securities and Insurance's office (CSI). He noted that Deputy Commissioner Bob Biskupiak was in attendance. He added that the minus 8.6 percent average manual rate reduction that was approved by the Board at the March 8, 2019 meeting had been approved by the Commissioner's office. That rate change will be implemented effective July 1, 2019 for all new and renewal business. He added that the Tier Assurance Program (TAP) that the Board also approved at the March meeting was rejected by CSI as being unfairly discriminatory; thus, MSF has chosen to withdraw that proposed filing. He said the TAP had no impact on the rate level change, it was simply a marketing program that MSF considered and asked the Board to adopt. He said future discussions with the CSI actuaries may be required to resurrect this program.

He reminded the Board that Julie Jenkinson and her team assembled a quarterly claim report to provide the Board with facts and statistics related to claim management at MSF. He noted that the Board's primary focus and discussion is often centered around rates and rate making; however, the Board also needs to know and understand that MSF is managing claims effectively in compliance with Montana law. He asked the Board to provide comments or improvement suggestions if they had any.

He said in 2017, the legislature passed a Corporate Governance Annual Disclosure (CGAD) bill that became part of the insurance code and requires domiciled insurance companies to file an annual governance disclosure with their regulator. The disclosure is a description of the governance process and the controls within an organization to ensure that the carrier is complying with law as well as with its own financial and business policies and controls. He noted that MSF filed its first CGAD with CSI by the due date of June 1, 2019. He noted that copies of the CGAD would be provided to Board members who desired to receive one.

B. *Legislative Update – Kevin Braun, General Counsel*

Mr. Braun then provided a review of the legislation that was proposed and passed that affected Montana State Fund. He added that though 2019 was a busy legislative session, that was not so in the workers' compensation realm. He said during the 2019 Session there were just over 3,300 bill draft requests, compared to 2,600 in the prior session. There were 1,300 bill drafts that were introduced while just shy of 1,200 were introduced in 2017. For workers' compensation issues in 2019 there were 16 introduced bills and 31 bill draft requests which was the same as 2017. He noted that he would provide an update on only those bills that made it into law.

House Bill 732 – sponsored by Representative Harvey and with assistance by House Minority Leader Casey Schreiner - provides a premium reimbursement to employers for work-based learning opportunities. This is a workforce development bill that hits in workers' compensation because of the funding source. The administrative expenses, up to a certain level, are expensed from the Employment Security Account which is a state special revenue account at the Department of Labor and Industry (DOLI); however, the premium reimbursement will be expensed from the workers' compensation assessment which is paid by all insured employers in Montana to DOLI. That assessment is designed to cover the costs of the workers' compensation system. There is an upper end cap at four percent of benefits paid; however, this will impact employers to the extent that people take advantage of the work-based learning opportunities. This legislation also requires safe working conditions as a prerequisite for the program and the first two hours of employment must be dedicated to safety training. The learning opportunity is designed to give on-the-job trainees a high-quality learning experience to develop technical skills. He noted that there is currently a worker shortage in the technical skills departments such as construction workers, framers, etc., and this program offers an incentive to employers to hire trainees that counterbalances the disincentive employers experience in having to pay for workers' compensation premiums for student learners.

House Bill 757 – sponsored by Representative Harvey – benefits MSF policyholders directly. This bill requires claims examiner certification with DOLI, which replaces the claims examiner certification currently in place that is strictly voluntary. He said MSF has required its claims examiners to become certified to guarantee a certain level of competency in their positions. The impact on MSF is not notable; however, this will bring all of the claim examiners in the workers' compensation arena into requiring certification. He added there are two notable exceptions: claims examiners who were employed as of January 1, 2019 have one year to get certified and DOLI is working with MSF to address the certification process with MSF's claims examiner trainee program and new hires. DOLI will develop administrative rules that address those considerations. The second piece removed a sunset on Montana's extra territorial provision that deals with Montana employers who hire Montana workers to work exclusively in North Dakota. This provision was put into law in 2015 to address the Bakken activities that created situations where Montana employers with employees working in the Bakken were being required to purchase workers' compensation insurance from North Dakota and Montana. The provision provided an exception for the employers working in North Dakota to only purchase coverage in North Dakota so that the employers did not have to double pay.

Chair Zanto asked Mr. Braun if when the employer is domiciled in Montana yet has employees who perhaps work out of their house in another state, is the employer required to have workers compensation coverage in the other state or in Montana?

Mr. Braun said it would depend on the situation. He clarified that if they are directed and controlled by a Montana employer and are a Montana resident, the inference is they will be deemed to be an employee or worker in Montana for purposes of workers' compensation. In that situation, it is very likely that they will have to have Montana workers' compensation; however, if the employer really doesn't have any connection apart from being domiciled here and the employee works exclusively in another state, the other state is going to require coverage for them as they reside there. He added that MSF also has other states coverage through Zurich which allows a Montana employer to work elsewhere and our coverage will follow them through Zurich.

Mr. Braun said Senate Bill 160, sponsored by Senator Nate McConnell, was the major workers' compensation provision of the 2019 Session and established in law the recognition of presumptive disease for firefighters. SB 160 creates a statutory presumption in favor of claims for certain presumptive occupational diseases. The bill identifies 12 specific diseases for which the statutory presumption will exist. The coverage is for firefighters only with a distinction between volunteer firefighters, for whom coverage is not mandatory versus paid firefighters or volunteer firefighters when coverage is mandatory. He said purely volunteer firefighters who do not have to secure coverage, they can have elective coverage and can also chose optional presumptive disease coverage. He added that for paid firefighters and mandatorily covered volunteers, it will not be optional. He added that in the definition of firefighters, it identifies that these are individuals whose primary duty is spent extinguishing or investigating fires. He also said each of the 12 specific diseases have a requisite duration of service as a firefighter in order to qualify for this benefit:

Bladder cancer - 12 years
Brain cancer - 10 years
Breast cancer - 5 years with the special provisions of diagnosis before the age of 40 and is not known to be associated with a genetic predisposition for breast cancer
Myocardial infarctions/heart attacks - 10 years if there is a link to firefighting activities
Colorectal cancer - 10 years
Esophageal cancer - 10 years
Kidney cancer - 15 years
Leukemia – 5 years
Mesothelioma/asbestosis - 10 years
Multiple myeloma - 15 years
Non-Hodgkin's lymphoma - 15 years
Lung cancer - four years.

The years-of-service requirement has a retroactive component of July 1, 2014 for consideration of the years of service for the prerequisite to be eligible for presumption coverage. The bill is effective July 1, 2019 which means there will be five years on the books for the firefighters who worked in that profession during that period of time. He added that this bill only applies to diseases that are diagnosed on or after the effective date. The prerequisite component also contains a one-year Montana residency provision. The disease must manifest itself within 10 years of the last date of firefighting activity and the available benefits levels are the same as for any other workers' compensation claim. For filing purposes, this follows the standard occupational disease (OD) provision to file one year after the date the firefighter knew or should have known. The presumption is rebuttable by the insurer which requires proof that the individual is not suffering from a presumptive OD or establishing by a preponderance of the evidence that the firefighter was not exposed to sufficient quantities of smoke or particulate to reasonably give rise to the disease.

Board Member Jan VanRiper asked about the science behind the various waiting periods.

Mr. Braun said he did not know and that the language for Montana's bill was lifted from a similar bill that passed in Idaho before Montana's session. He added that there is also a hard limit of $5 million with regard to the amount of money that can be spent on any one claim. The presumptive disease coverage is specifically identified for those enumerated diseases and it cannot be expanded. Eligibility also includes a required baseline medical examination component which requires a physical for all new firefighters. Firefighters employed prior to the July 1 effective date are grandfathered in. There is also a requirement for a subsequent exam at least once every two years after employment with no requirement that the employer pay for the exam. The other major limitation is that the firefighter cannot be a regular user of tobacco products and cannot have a history of regular tobacco use or cohabitate with a tobacco user for the ten years prior to the date the claim is filed. He noted that companion bill SB171 sponsored by Fitzpatrick provides that for all newly hired firefighters cannot be tobacco users. SB171 calls for tobacco cessation programs for existing firefighters at least once every four years. SB160 has a contingent voidness clause due to opponent's concerns that presumptive disease would be expanded beyond firefighters. The contingent voidness clause states that if a court finds any part of the act to be in violation of the United States or Montana Constitution and applies the presumption to another class of occupation other than firefighters, the entire act will be void.

Mr. Braun said Senate Bill 351 specifies that the Montana State Fund Board members serve staggered four-year terms beginning on April 1 and ending on March 31. Currently, when there is a holdover Board member, the member serves until a replacement can be named. Under this provision which becomes law as of October 1, 2018, there will be no more holdover appointments. That means when a Board member's term is over, they are done. He noted that due to this bill being introduced after the general bill transmittal deadline, a $100 annual fee was imposed on MSF to make this a revenue bill. He added that this bill also requires the Governor to complete other appointments for expiring terms by February 1 of each odd year.

Mr. Mohr asked what became of the bill to require that volunteer firefighters have workers' compensation coverage?

Mr. Braun said that bill was assigned to the House Judiciary Committee and it died in process on a vote in that committee.

President Hubbard noted that MSF staff was still working through the language of SB160 to determine what changes this bill can and will mean going forward. The $5 million cap will mean MSF must craft an endorsement for coverage particularly for the volunteer fire departments that have elective coverage. He noted that part of the challenges the legislature had while debating the bill was the lack of evidence of the potential cost to employers. There was no one who could validate the price of what it will cost the employers and it will take up to a decade for the experience to develop to understand the true cost of presumptive disease coverage. He said MSF will begin tracking those claims through its claim system to be able to monitor how the payments were applied under the law. He did clarify that the cost of the presumptive disease provisions will largely fall within the 7704 Class Code classification that is used for paid and volunteer firefighters. That class rate, over time, will be adjusted and driven by the experience within that classification based on payroll and losses. MSF will be able to track it fairly specifically and the MSF legal department is developing draft language for the endorsement to address those changes. The endorsement will have to be filed with CSI and be subject to their review and approval.

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

Ms. Grosfield introduced Dave Glennon, Partner of Eide Bailly, LLP and explained that he would be presenting the recently completed Calendar Year 2018 Statutory Financial Statements Audit Report. She noted that Board members received copies of the audit report in March 2019. She said Eide Bailly is a regional certified public accounting and business advisory firm headquartered in Fargo, North Dakota. The firm was founded in 1917 and has grown to become one of the top 25 accounting firms in the nation. Eide Bailly just announced a signification acquisition in California, bringing the Eide Bailly office location count to 40 offices in 15 states. She added that Eide Bailly remains very active with the American Association of State Compensation Insurance Funds (AASCIF) as vendors as well as subject matter experts and presenters at the AASCIF meetings and conferences.

Mr. Glennon is the lead partner on the MSF audit engagement and is responsible for the oversight of the quality of services delivered and has been the main contact on any items identified for further discussion. She said 2018 financial statement audit marks Mr. Glennon's third year on the MSF audit which means he can serve for two more years as the lead partner before the audit standards require that a new partner be rotated in. She added that we commend and thank Mr. Glennon, his team and the MSF staff who assisted with the audit.

i. Presentation of 2018 Statutory Financial Statements Audit Report – Dave Glennon, Partner, Eide Bailly

Mr. Glennon then presented a review of the audit report. He introduced the Eide Bailly service team that prepared MSF's audit. He said as the lead partner, he is responsible for oversight of the quality of services delivered and the main contact on any items identified for further discussion. Team members were Jason Lindstrom, Senior Manager; Madeline Moran, In Charge Auditor and McKay Heasley who supports the Eide Bailly actuarial review of loss and loss adjustment expense reserves. He said the audit process began with preliminary planning and procedures after the third quarter National Association of Insurance Commissioners (NAIC) report was filed in November/December of 2018. Year-end field work was completed in February 2019 and the audit report was completed in March 2019 with on-going communication throughout the process. He noted that though the Eide Bailly team works with MSF staff, their primary responsibility is to the Board of Directors and the Board members can reach out to them at any time throughout the year.

He provided a review of a several statutory accounting practices and further explained how they are applied when the audit is performed.

Mr. Glennon said the audit was performed in accordance with auditing standards generally accepted in the United States and clarified that the audit's purpose is to obtain reasonable, not absolute, assurance that the financial statements are free of material misstatement on a statutory principle basis. He said MSF had received an unmodified opinion on the statutory principle basis of accounting and then explained that due to the application of a varying set of standards for the Generally Accepted Accounting Principles (GAAP) or governmental basis, MSF received an adverse opinion on that basis. In the audit opinion, this is standard boiler plate language for an insurance company using the regulatory (statutory) accounting basis.

Mr. Glennon provided the Board with a review of the accounting estimates and disclosure communications, as well as the significant accounting policies review, that are employed to complete the audit. He said the accounting team encountered no significant difficulties or uncorrected and corrected misstatements; adding that there were also no disagreements with management. Upon completion of the audit, an auditor qualification letter and an auditor awareness letter were filed with the Montana Department of Insurance.

Chair Zanto called for questions.

Ms. VanRiper thanked Mr. Glennon for the audit report and for providing documentation that allowed her a clearer understanding.

President Hubbard thanked Mr. Glennon for travelling to Montana to present the audit results to the Board. He also thanked the MSF Finance Team and Rene Martello, MSF Controller and Patti Grosfield, Internal Auditor for a job well done.

Ms. Moss also thanked Mr. Glennon for the presentation and asked what an appropriate question would be that the Board may pose in communication with the auditor.

Mr. Glennon said the auditors always welcome input from the Board and noted that the Board members are at MSF more often than the auditors and might identify some areas that are sensitive and need to be conveyed to the auditors. He added that if a Board member should identify a risk or item that they believe the auditor should spend more time on, that would be welcomed as well. He indicated that the auditors would be happy to provide clarification if there are items that are unclear to a Board member in the financial statements.

Ms. Moss also asked if the general public has the ability to access MSF's audits through a website or can it be provided to the public if requested?

President Hubbard said the GASB statements (governmental accounting basis) are presented to and reviewed by the Legislative Audit Committee. The statutory financial statements are part of MSF's Annual Report which is also made public and posted on the MSF website and is sent to the legislature and the Governor's office and are available to the public. They are filed with the Commissioner of Securities and Insurance (CSI) on a quarterly and annual basis.

ii. *Approval of Audited Calendar Year 2018 Statutory Financial Statements*

Ms. Grosfield noted that management would now request that the Board approve the statutory basis financial statements that had just been presented. She reminded the Board that MSF completes two sets of financial statements, which are then individually audited; the statutory audit that Mr. Glennon had just presented and the legislative or governmental audit. She noted that in the legislative audit process for 2018, the field work has been completed and the opinion date was set for June 5. The final report was not available for this Board meeting; however, Ms. Grosfield said it is anticipated that there are no recommendations contained in the report and it will result in a clean audit report.

Ms. Grosfield explained the how the statutory vs. governmental financial statements reconcile and clarified that the statutory statements are a more conservative basis of accounting in that they look more for liquidation value or what could be sold if liquidated in order to be able to pay claims.

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

Jack. Owens made a motion to approve the statutory-basis financial statements as audited by Eide Bailly for inclusion in the Calendar Year 2018 Annual Report, along with a reconciliation of the audited statutory policyholder equity as compared to GASB net position, subject to audit.

Ms. Moss seconded the motion. Chair Zanto called for discussion from the Board and the public; 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 Management*
Ms. Copps provided the key success measures for the 2019 Business Plan and the projections to date.

Key Success Measures

KSM	2019 BP	2019 Projected
Net Earned Premium	$151.1M	$152.8M
Loss Ratio	80.9%	71.6%
Expense Ratio	35.2%	35.9%
Investment Income	$43.4M	$50.7M
Net Operating Income (before dividend)	$16.0M	$36.5M
Achieve Enterprise Wide Initiatives		

Ms. Copps noted that net earned premium is currently projected to be above projections by $1.7 million at $152.8 million and the loss ratio is better than projected. She said expenses are expected to come in $1.6 million higher than planned which makes the expense ratio 35.9 percent. Net investment is projected to be higher than planned due to $13 million of realized gains which is difficult to predict and had been planned for at $6.6 million. She said net operating income is projected to be $36.5 million and the $20.5 million increase is driven by decreases in losses and investment results.

Chair Zanto called for questions; there were none.

Ms. Copps said the three Enterprise-Wide Initiatives are all focused in the Customer Service category and include the Policy and Billing System Replacement, Worksafe Champions and Growing a Safer Montana. She said the Policy and Billing System Replacement Initiative (PBRI) is in its fourth year of work to replace MSF's policy and billing system with a modern application that will enhance MSF's service and efficiency. She noted that the PBRI project is off track due to development continuing five months past HCL's planned completion date. She said HCL owns the schedule and they have not yet committed to a new plan. The schedule slip is a large risk and MSF does not believe this new system will be implemented by the end of 2019. The reasons for extended development are increased complexity when developing to ensure that the applications work together as opposed to single functionality within a stand-alone application. There are also increased defects which calls for developers to spend increased time on outstanding work as well as reworking those defects. She also noted that the Agile development process is designed to discover requirements along the way that may not have been originally planned for but do need to be included. She said project leadership is committed to delivering a high-quality product for MSF's customers and the vendor is held accountable for that quality even if it drives a schedule change. She noted that Ms. Jenkinson would provide the Board with more information on this project later in the meeting.

Ms. Copps said the Worksafe Champions project is on track. This program educates policyholders in identifying safety challenges at work and then reducing the safety risks. There are three options for participation:

- Safety Management Consultant (SMC) works through the project on-site with the policyholder. Each policyholder must commit three people to the program and current participants include 10 policyholders and 72 employees,
- The second option is for smaller employers to attend one of the regional workshops – 42 people from 24 policyholders will attend workshops in Billings, Bozeman, Great Falls, Glasgow, Helena, Kalispell and Missoula.
- The third option, which is newer to MSF, is the Elite program which is designed to be the next level of engagement to continue education for our WorkSafe Champion alumni. Nine policyholders have earned the Elite designation thus far in 2019 which makes them eligible for additional training and safety grants.

She said the Growing a Safer Montana initiative is on track and this project expands MSF's efforts to reach young workers and invest in the safety future of Montana. She said 24 applications for the high school safety grants have been received and are currently under review. The instructors select from a variety of personal protective equipment for their class up to a max of $750. Depending on the class needs it could include ear protection, safety googles, welding gloves or hard hats which are all branded with the MSF logo. MSF has impacted approximately 4,500 students over the past three years with this safety equipment and message. This project also awards 13 scholarships to students in college trade and occupational safety and health programs which will be awarded in the first quarter of 2020.

Chair Zanto called for questions. There were none.

E. *Policy/Billing Replacement Initiative (PBRI) – Julie Jenkinson, VP Insurance Operations*

Ms. Jenkinson noted that the PBRI project is off track and promised to provide the Board with details regarding that as well as the challenges that the team has experienced and what the project team is doing to manage the project. She assured the Board that the management team is being very aggressive about how they manage the project to specifically assure that they have a quality product when it is completed and they are applying pressure to the schedule. She said they do not want to take any longer than is necessary; however, they do want to take as long as it takes to get the quality right. She also added that their attention to detail on the project, to the consternation of their partners, has been very focused. She said the project managers, Sandy Leyva and Erika Ayers, do the heroes work every day and are monitoring the details in a very hands-on approach. She noted that they have multiple meetings each day to accomplish that while still providing information to the project sponsors and President Hubbard when requested. She said there are multiple meetings a week with Mr. Hubbard to provide updates and discuss the challenges and what their answers to the challenges are. Kevin Braun, MSF General Counsel, also assists and there are lots of people assuring that everything stays committed to the guiding principles of the project, that the project stay true to the Guidewire product while assuring that everything is on track, and working to make sure that they deliver the quality. She said the key part of this is not just that they deliver a system but that they deliver a system with business value by the end of the project.

She reminded the Board that this project is replacing five core applications where other funds have done this project type and replaced two or three platforms. Replacing five core applications adds to the complexity of the whole process. She said the project is currently in Sprint 16 and reminded the Board that the original plan called for 13 Sprints. She said she would illustrate how the schedule grew to 16 Sprints and added that with a stroke of brilliance they negotiated a flexible

Sprint 16 to take as long as needed to deliver the final development and with the quality they expected. She said they are currently in week 21 of Sprint 16, though sprints typically only run four weeks. She then reviewed the history of the development schedule to date. She noted that the Request for Proposal was issued on December 30, 2016 and the Board approved a motion to proceed with the RFP process on June 9, 2017. The formal selection of the system integrator (HCL) and software (Guidewire) was completed on July 31, 2017. She said it was important to note that by the end of 2017, there was already some jitter in the picture. The planning of how the project was going to go from mid-September to mid-November. The project team had some pretty serious concerns that the planning provided was very aggressive and almost too optimistic in what could be accomplished. She said the Board may wonder why they did not push back against that and she assured them that they certainly did; however, she said when you hire a system integrator, it is like hiring a general contractor. The schedule and the planning belong to them and it is important that be the case because that is how the team can hold them to the terms of the contract. She said that MSF is a partner in that process and therefore did push back which resulted in some early discussions about the effect this planning would have.

Ms. Jenkinson said Sprint 1 began right before Thanksgiving 2017 and then the process moved to 2018. She said that entire year was all about the development of the product; however, there were a few key points during that year as well. She said HCL replaced some key executives on the project; Gordon Sanders, who was responsible for the customer relationship and sales force was replaced by Ravi Bhagwat. She said in addition the discussion that began with HCL in December 2017 resulted in a breach letter in May of 2018 noting that HCL was failing to bring the correct resources to the project and the failure to plan the project properly was causing the MSF team to have concerns about their ability to deliver the product. She said the team worked through some of the issues they had raised with HCL and they admitted there was some faulty planning on their part and by August a new Statement of Work (SOW) was signed that added additional sprints (14, 15 and a flexible 16) to the development work. She said it was important to note that when HCL first put Sprint 16 in, they were fully committed to that sprint not being necessary and that they would have the development work done by the end of Sprint 15; however, that was not the case. Negotiating a flexible Sprint 16 was to MSF's benefit and will actually help the team deliver the quality that they need. She said at the end of 2018, the team told the Board about the additional sprints and what that meant to the schedule; however, it was too soon to know what net effect it would have on the eventual schedule.

She said the project then moved to 2019 and is currently in Sprint 16 which HCL did not believe would be necessary at all. She said this is the beginning of week 21 and the good news is that they are getting very close to the end of development. She noted that the most complex work is at the end because everything must work before the project can move to testing. She also said that though they are very close, she did not want to make any promises that completion of development would happen any time soon because as things are being tested, defects are being discovered and those must be resolved before moving to testing. She pointed out that when the project was begun with 13 weeks of development, the team expected to be able to go live by September 2019; however, they now know that is not possible. When the SOW was renegotiated, a new go-live date of December 31, 2019 was formulated. She said the team is not very confident this deadline will be met. She said that based on the results of other sister funds having to take between six and eight months to get through system integration testing for two or three platforms as opposed to MSF's five platforms. MSF's System Integration Testing (SIT) by HCL's schedule is planned to take three months; however, the team does not have a lot of confidence that that will happen. She said best case scenario is that SIT would last through Thanksgiving 2019 or perhaps through the end of the year. It is necessary to begin SIT in order to know what to expect. After SIT, User Acceptance Testing (UAT) will have to be completed as well; however, that work is controlled, organized and carried out by MSF staff. Once the project has progressed to UAT, the team will have a better idea of when the go-live date will be. She noted that when specifically talking about a project of this size and complexity, it is not completely unrealistic to expect that schedules can slip. As the project progresses the team is learning things that they did not know when they planned them years before that; however, again, stressing that even in the midst of feeling this pressure to complete this product by the end of the year, MSF wants to stay committed to the overall goal and assure that the team delivers the quality that is expected. She added that it is important that the product can actually perform the way the team wants it to perform which is necessary to realize the business values that MSF wants to realize. She said HCL is now becoming skeptical about the December 31, 2019 date and the team and HCL continue to have those discussions.

Ms. Jenkinson then provided an update on the Organizational Change Management (OCM) component of PBRI. She said this is MSF's effort to assure that the whole company is ready when the new system is implemented. The SIMON or simulated environment is now on every employee's desktop so that in addition to the informational sessions, they can self-navigate to become more familiar with the system. She added that these opportunities have been offered well in advance of the actual user training that will occur. Another component to change management that was recently added is the Voice of the Employee (VOE) which is a group of employees from each area of the company who are available to their peers to help answer questions or get information for them and advise the project team on the things employees need to understand and be communicated with and what the training needs are. This is to assure that people will be ready on multiple levels.

She then addressed the Board to help them understand the efforts the team is making to assure they measure and judge whether the project hits those measurements so that they realize the business value that is wanted from this product. She noted that this is not an inexpensive endeavor so they must assure that they get the realization they need. That is measured in one of three ways: 1) either on the cost or expenses we are saving or what kind of value we are bringing business value realization, 2) through efficiency, what kind of value we are bringing for our customers or ourselves and 3) quality, which means are we improving the quality, not just of the data, and our own transactions but are we improving the quality for our customers. She added that this new platform will open up the door for new capabilities for MSF and our customers.

She said this system has been designed to provide reduction in manual steps, increase on-line capabilities and provide a reduction in operating costs through improved efficiencies or the elimination of rework. She said a lot of the current process is all manual and obviously, we want as little of that as possible. The real alignment to actually measure against our actual key success metrics are to determine if we are going to get more premium when this is done or save some money on our expenses - that is the goal.

Ms. Jenkinson said that before the system is even implemented, they have identified the elimination of 643 manual steps, which is just over 70 percent of the manual steps that MSF currently has. She said they believe that will save over 7,800 hours for MSF staff; that, is time spent on low-value data entry will be moved to high-value customer interactions and solving problems. That could mean potentially moving positions around where there is more value for them which speaks to the efficiency that can be gained for MSF. The self-service ability will equate into the ease of doing business – how easy we are to do business with, which equates to the speed for customers to get answers and agents to work with MSF to sell insurance and service their customers. That is the net effect to our net earned premium. She added that due to the manual processes that are involved in working with MSF, MSF does not have access to some markets. She clarified that when speaking about the ease of doing business, they are really looking for new capabilities that actually open MSF up for new opportunities.

She took a moment to acknowledge the project team and their efforts to replace a 20-year-old system and how it has evolved into an approach of constantly looking into new and better ways to do things. She said they have implemented some improvements to processes even ahead of the new system implementation. The team is constantly looking for a better way which happens to also be one of MSF's guiding principles. She said the pride in the project has dimmed slightly due to the schedule delays; however, the commitment to quality and to finding a better way is something the team can be proud of.

Chair Zanto asked the Board if during their preparation for today's Board meeting, they feel comfortable with and understand the project?

Ms. Moss said she was; however, she had a couple of questions she wanted to ask. She said she appreciated the complexity of the work and MSF's internal team. She asked about the integrity of HCL and how the Board can be sure that they will follow through and not continue with extending Sprint 16 into infinity?

Ms. Jenkinson said management shares Ms. Moss's concern; however, the conversations with HCL's project leadership team indicate that they are committed to delivering this project. She said though the discussions can include disagreements on how the process will unfold, there has never been an indication from them that they are considering walking off of the job. She said MSF does have a contingency plan should that occur; however, this is a fixed price contract and they must deliver before the price that they committed to will be paid. She said their commitment to us is that they plan to do so. She said their team is working diligently with our team every day and we have not noticed any shrinking in their commitment. She noted that they may be as dismayed as the MSF team that progress is not moving as quickly as hoped; however, there are also specific points in the Guidewire platform that contribute to the delays. She said worker's compensation is incredibly complicated and some of the platform pieces, such as mid-term changes, weren't envisioned by Guidewire so those problems have to be addressed as well.

Mr. Hubbard added that there is always a risk of any multi-year, multi-million dollar engagement not going as well as planned. He said there are good lessons to be learned by observing other entities undertaking similar projects in how to approach and structure a relationship like this. He said that HCL was also MSF's partner in installing the Guidewire Claim Center in 2007 project. It was a phenomenal success in terms of projects - it stayed within budget and timeline. He said that as an organization, HCL has the technical ability with the general platform of Guidewire which made them a natural contender for implementation of this project. He added that they are also suffering from a lack of Guidewire skills due to Guidewire's property/casualty software's extreme popularity. He said so many companies are buying it and the ability to support it with the needed skill sets to build and timely implement are challenged at a macro level. He said even if MSF did not have the relationship with HCL, there would have to be a relationship development with another company which would likely suffer from some of the same risk factors. He said management's view is that the delayed period that we are currently experiencing in not unheard of or at the point of going on forever. He said Ms. Moss's point was subtle, but worth noting that the longer the project takes the more it will cost MSF. There is staff burnout and actual costs to backfill and contingencies, etc. He noted that time is of the essence and this three-month delay has been managed and addressed earlier rather than later. He said management does not believe that December 31, 2019 will be the go-live date and he did not commit to a date; however, based on his experience and evaluation, he believed it could be mid-year 2020.

Ms. VanRiper remarked that in a past report, there was in indication that HCL has experienced some staffing issues due to new immigration policies and she asked Ms. Jenkinson if that was still the case?

Ms. Jenkinson said the impact of visa difficulties on staffing is very real. She said there have been some very, very qualified staff that were here at the beginning of the project and filed for extended visas and were denied so had to return home to India. She said they have not been able to come back. The visa issue is very real, though not unique to this project, and the team is working through that by trying to match up schedules and overlap as much as possible and remain in daily contact with the resources in India. Some staff members are planning to return on a business visa during testing because they have been gone long enough to qualify to do that; however, they will not be able to stay here. This also impacted some acquisition of talent that they had identified as being available if their visas could be approved and the visas were not approved. The visa issue is a very real issue and discussions with other funds and other integrators have indicated they are experiencing the same issues. She noted that the reason extended visas were requested is due to the need for their talents on the project; however, immigration seemed to take the position that that particular type of talent is also available in the United States.

Chair Zanto said he was fully confident in the ability of this team and what the team is doing to hold HCL accountable to get the work done that needs to be completed. He also took a moment to recognize Sandy Leyva and Erika Ayers, the project managers and noted that if there was something from the Board that they should need, he asked that they not hesitate to call upon them.

Ms. Jenkinson said Ms. Leyva and Ms. Ayers are relied upon daily by the project sponsors and she thanked them for the support and noted that they are doing exceptional work.

III. Corporate Support – Rene Martello, Controller

A. Board of Investments Update – Joseph Cullen, Chief Investment Officer and Jon Putnam, Director of Fixed Income

Ms. Martello introduced Joseph Cullen, Chief Investment Officer and Jon Putnam, Director of Fixed Income from the Board of Investments (BOI) to provide an investment update. She noted that they last addressed the Board in June 2018.

Mr. Cullen provided a review of BOI's organizational chart and stressed that their staff is very capable and manages MSF's assets quite well. He noted that the majority of MSF's assets reside with the Fixed Income unit and one additional accountant will be added to that team in the coming months. He said their objective is to attain investment returns that assist MSF in meeting its liabilities as well as maintaining stable, cost effective rates for workers' compensation insurance. BOI takes an active management style with a long-term focus to assure consistent, steady results while also managing the downside risk and controlling costs. He said BOI expects to see capital market assumption returns for 2019 across most asset classes; however, they are expected to be lower over the next ten years than what MSF has been seeing in recent years.

Chair Zanto called for questions.

Mr. Putnam noted that the report he was providing was based on the end of the first quarter 2019; however, even since that report was written then had been some fairly significant changes. He said MSF's asset allocation is within all approved ranges and then provided an overview of some of the transactions that have been completed this year to manage MSF's investment exposures in various markets. He said MSF's yield curve flattened over the past year as the Federal Reserve raised short-term interest rates and the market became concerned about future growth and declining inflation. He said MSF's asset allocation is within all approved ranges. He said a $25 million sale to reduce MSF's weight in domestic equities due to increased volatility in recent quarters was made. Core real estate has continued to perform over the last year; however, returns have moderated. The bond portfolio duration has remained near neutral throughout the year.

Chair Zanto called for questions.

President Hubbard asked if MSF had any impaired security investments at this time?

Mr. Putnam said MSF does not have any impaired securities at this point and there are currently no securities that have dropped below investment grade; however, that does happen once in a while and each case is handled according to best practices.

President Hubbard said he knows that BOI handles a number of funds and asked what was the rank order of MSF's portfolio versus all of the funds managed by BOI.

Mr. Putnam said the entirety of the assets at BOI is approximately $19 billion and MSF is $1.5 billion. He said $11 billion of the total is the state pension plan. He added that MSF is their largest separate account client. He said MSF is one of very few accounts that has a much more detailed policy statement and a broader range of investments than in the other managed funds. He noted that their other biggest portfolio, outside of pensions, is the state trust fund pool which is a lot of agencies that have longer-term money for whatever reason and they are pulled together like a mutual fund. He said MSF is at least third.

President Hubbard ask to what extent if any are the MSF assets co-mingled with other portfolios or funds.

Mr. Putnam said the funds are not mingled. There are investment opportunities where money from two different funds are invested; however, that is only to achieve a fee break to give the funds the advantage of scale.

He said MSF's asset allocation is within all approved ranges. He stated that the MSF investment pool continues to perform well, though returns are expected to be lower in most asset classes over the next ten years.

Chair Zanto called for questions; there were none. He thanked the BOI representatives for their time and presentation.

B. *Calendar Year 2019 First Quarter Financial Report*

Ms. Martello said she would be presenting the first quarter financial results, the budget variance report, the dividend declaration measurements and some discussion on the Old Fund. She took a moment to introduce John Carpenter, Senior Accountant on the Finance Team and said he is one of the key reasons why there are such good results on MSF's audit and he works with BOI frequently to account for MSF's investments.

She provided the financial report for the quarter that ended March 31, 2019. She said total admitted assets were at $1.629 billion which is a $25.3 million increase from the end of 2018. She said bonds were up as a result of purchases of $149.1 million and sales and maturities of $153 million. Equity was up as of March 31 due to unrealized gains of $8.9 million offset by a sale of $4.3 million. She noted that cash was increased to handle the $13.6 million management fee charge due to SB4 that occurred in February and MSF purchased a $15 million short-term bond in March. The STIP balance was higher than normal due to the sales expected at the end of the quarter. She said liabilities and policyholder equity saw total liabilities decrease by $4 million, making total liabilities $1.087 billion, within that the largest is the loss reserves. Overall policyholder equity increased $29.2 million in the first quarter.

She said the income statement indicated the net earned premium is projected to be $152.8 million for the year which is better than planned; however, it is still about $8.5 million less than the prior year. She said losses incurred decreased from $117 million to the now projected $109 million. She said underwriting expenses also had a notable difference from 2018 which included the accrual for the SB4 transfer. She said the contingent commission could be seen as a reward to MSF for keeping losses under a certain amount. She noted that investment income earned was projected to be $37.5 million which is about $1 million more than planned. She said the projected net income before consideration for dividend is $36.5 million.

Ms. Martello said policyholder equity is projected to be $556 million at end of 2019 and for 2018 was $512 million. She did clarify that there are a lot of moving pieces that will impact the actual ending balance.

She provided further information on the Annual Business Plan versus projection report that Ms. Copps provided, noting that the loss and underwriting expenses incurred often experience variances that typically occur more in the first quarter than the rest of the year. Items that are over such as medical fees paid will tend to even out as the year proceeds. She said the increase in net income is a combination of increased net earned premium of $1.6 million, favorable development decrease in net losses of $6.5 million and the realized gain being $6.5 million above plan.

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

C. *Calendar Year 2018 First Quarter Budget Report*

Ms. Martello said based on the completed first quarter of 2018, budget is projected to be under by about five percent or $8.2 million below. That is due to decreased claim benefit payments, (which are typically about 62 percent of MSF's overall budget expenditures) that are forecasted to be $8.5 million below original budget. She noted that three quarters of the way into the second quarter, that variance has been narrowed to about $7.4 million below budget. She said total indemnity was also under planned budget by $2.2 million. She said the major variance is in the medical categories that do not relate to settlements and is projected to be $11.2 under budget and is a direct result of the effects of medical settlements. She said medical severity is also down and medical costs have not grown as much as in the past. Medical settlements are offsetting some of the underbudget variance and are projected to be over budget by $4.9 million based on the activity in the first quarter although that has slowed some in the second quarter months.

She said operational expenditures category is made up of a number of categories such as personal services, operating services, operating expenses, equipment and intangible assets and ALAE. She said personal services was primarily on track; however, noted there are 17 vacancies as of March 21 that are currently being recruited for. Operating expenses were under by $124,000 and allocated loss adjustment expenses (ALAE) is $444,000 over budget primarily due to higher expenses associated with the new medical invoicing processing. A new vendor was hired in January 2018 to pay medical vendor bills and increased services were requested and expected to increase the cost; however, the final cost was more than MSF had anticipated. The new vendor is completing more hospital reviews, more nurse reviews of bills and charge a percentage of the savings for those additional services. There were also new charges due to prior bills being readdressed through the new vendor that were not budgeted for. Adjustments have occurred and this variance is expected to be $360,000 for 2019.

Ms. Martello provided the breakdown of MSF's safety expenditures as of March 31, 2019. She noted that the only item that was over budget was in the Growing a Safer Montana scholarships because management determined to increase the cost of the scholarships to $3,000 rather than the originally planned $1,500. That budget was increased for 2019.

Montana State Fund

MSF Budget Status 2019

As of March 31, 2019

Safety Expenditures	2019 Projected	2019 Budget	2018 Actual	2017 Actuals
Operations - Safety Services Team	$1,603,282	$1,576,760	$1,497,058	$1,497,873
Communications - Safety Support	879,805	879,805	641,876	832,594
Facilities: workstations, SMC's cars & field offices	263,064	263,064	306,290	137,456
Operations Support - Safety Workshops	133,044	133,044	129,815	124,610
WorkSafe Champions	123,195	123,832	33,668	70,932
Growing a Safer Montana	66,083	52,667	42,895	34,560
Brand (safety material updates)	n/a	n/a	50,652	n/a
ACE Grants & Safety Committee	25,000	25,000	26,021	27,086
Total	**$3,093,474**	**$3,054,173**	**$2,728,276**	**$2,725,111**

Chair Zanto called for questions. There were none.

D. *Data Measurement Criteria for Premium & Incurred Losses for Potential Dividend Declaration*
Ms. Martello explained that the Board will be asked to approve a table of dividend factors at the September Board meeting. She said management recommended the Board establish the measurement criteria for when losses in premium will be valued utilizing June 30, 2019 for policies with coverage effective between July 1, 2016 and June 30, 2017. She clarified that action will allow for the analysis to be prepared for the September 13, 2019 Board meeting.

Chair Zanto moved the Board approve management's recommendation to utilize June 30, 2019 as the date to value premium and incurred losses on new and renewal policies from July 1, 2016 through June 30, 2017 for potential dividend calculation purposes. Ms. Moss seconded the motion. Chair Zanto called for discussion and questions from the public; there were none. He called for the vote and the motion passed unanimously.

E. *Old Fund Variance Report – State Fiscal Year 2019 Third Quarter*
Ms. Martello provided the status as of the third quarter for the Old Fund which ended on March 31, 2019. She said the overall funding estimate for State Fiscal Year 2019 was forecasted to be $2.3 million over what was estimated. That overage has decreased slightly; however, MSF staff have been working with the budget office to assure there will be adequate funding to fully fund the expenses for the Old Fund for FY19. She said the Budget Change Document (BCD) was processed in April 2019 for $790,000 and more recently another BCD was submitted for $775,000 to get through June 30, 2019.

She said the variance was primarily on the claim benefit payment expense. Indemnity was approximately $43,000 over and medical costs were just slightly under budget. Medical settlements made up the majority of the overage at $2.3 million. Activity in this area increased sharply in January and February 2019. She noted that this is a small bucket of claims which makes a large variance occurrence more likely. The settlement discussions have been on-going for quite some time; however, interest in actually settling claims was slow to take hold and did not increase until January and February. As these negotiations occurred and staff realized that this could create an overage, the steps were taken to address those funding concerns and move them to FY20. She said the budget office recognizes the value in saving future payments and liabilities by closing claims through the settlements though some of those settlements include increased costs now.

She noted that operational expenses were projected to be over due to the increase in the DOLI assessment and the ALAE expenses due to increased Medicare set aside analysis for medical settlements.

Ms. VanRiper asked if the medical settlements were being driven primarily by claimants or by MSF?

Ms. Martello said it was a combination of both. She clarified that with the passage of HB334, claims examiners began changing their approaches with injured workers and having the discussions that could offer the claimant to settle. Claimant's attorneys also began seeking settlements for their clients and the discussions began to happen for all claims. Settlement activity began to pick up for the New Fund first and later for the Old Fund.

Ms. VanRiper asked if most of the Old Fund claims had attorney help on their settlements or not?

Ms. Jenkinson said attorney involvement was about the same for New Fund claims and Old Fund claims. She noted that the claimants who did not have attorneys hesitated longer before responding with their interest in a settlement than those with attorneys.

Chair Zanto called for additional questions; there were none.

F. *Old Fund Funding Estimate – State Fiscal Year 2020*

Ms. Martello provided the FY20 funding estimate which, once approved, will be provided to the Governor's Budget Office and the Department of Administration to establish the spending authority on the state's accounting system for the next fiscal year. She said the total FY20 Old Fund funding estimate was $12.8 million. She said this estimate takes into consideration the claims benefits payments and the claim settlement activity currently taking place. She said this is a window of opportunity for settlements; the case load has been analyzed and staff has determined which claims have the potential to settle or are in the works for discussion. Seizing on that opportunity is the reason for the increased funding estimate which is higher than has been previously submitted. MSF staff had met with the budget office regarding the increased request and the budget office will load the funding requests as settlement activity occurs.

President Hubbard clarified MSF expects the annual number of Old Fund claims to reduce once settlements are completed and that this action will cut off considerable future liability which would be a future cash flow burden on the General Fund. This process accelerates the settlement process now which will decrease funding needs from the General Fund in subsequent years. He noted that discussions with Budget Director, Tom Livers have been productive and he understands the implications, the benefits and the need for the proposed actions.

Ms. VanRiper said she was interested in the relationship of settling a medical workers' compensation claim to other third-party payers. She said for example, a medical claim is settled with the MSF and she assumed there was no restriction on how the money could be spent.

Ms. Jenkinson said that was correct there are no restrictions; however, there are settlements that also include a Medicare set aside which has different restrictions. When a settlement includes that money, the settlement is reserved to pay the cost of medical up to a certain amount that Medicare has agreed upon as an appropriate amount based on the person's medical condition. She provided an example of a settlement that included a $100,000 Medicare set aside which means that before Medicare would continue to pay, the claimant would need to show Medicare that she had spent $100,000. She clarified that MSF does not place any restrictions absent the Medicare set asides.

Ms. VanRiper sought clarification for claimants who were not at Medicare age and had third party health insurance. Does MSF know what their position is going to be if a claimant settles a workers' compensation claim and runs out of money or spends their money, will the third-party health insurance jump in when they would not normally?

Ms. Jenkinson asked for clarification as to whether Ms. VanRiper's question was about the transfer of liability. Mr. VanRiper said it was. Ms. Jenkinson said when MSF enters into a settlement, the claim is valued at the cost of the claimant's workers' compensation future benefits and they are given that money; how they spend it is up to them. The relationship the claimant may have with another payer in their insurance portfolio is entirely separate from the worker's comp discussion with the only exception to that being Medicare.

Chair Zanto added that from the State of Montana health insurance side, any health plan that he has looked at, aside from the State health plan, contains a provision in every summary plan document that restricts payment for work-related conditions on the health plan.

Ms. VanRiper said that was why she was wondering what the implications are with a medical settlement because if the restriction exists in the health insurance, can that private carrier then respond that the claimant must spend their money on medical before the health insurance will cover.

Ms. Jenkinson said that is not the case. She said the settlement is not an arrangement that the private insurer would be privy to so they may not even be aware that the settlement has occurred. She added that all settlements have to be in the best interest of both parties and the settlements are reviewed by DOLI and MSF has never had one returned as being unjust. The proper use of the settlement money is up to the claimant once the settlement is completed.

President Hubbard added that settlements are being pursued on a body of claims that occurred before July 1, 1990, so many of those issues were likely resolved years ago.

Ms. VanRiper said her concern would be that a claimant gets a medical settlement and spends it on other things or exhausts it and then if they do not have third party insurance or their carrier will not pick it up, then either they will go without treatment or the cost will be spread.
Chair Zanto called for additional questions. There were none.

Ms. Martello continued her presentation and provided information on the Old Fund tail since 1991. She noted that in FY91 there was $98 million paid out in Old Fund claim benefit payments and noted that by 1997 claim benefit payments were under $20 million. She said from 1997 the

Old Fund costs went up and down a bit but mostly continued in a downward trend over the long term. The current expectation is that by FY21 we will see the end of settlements and closed claims and that future years will have lower annual paid losses.

She provided a review of the Old Fund claim counts and noted that from 2011 to May 31, 2019, 808 claims closed during that time period; however, 469 were reopened in that same period.

That indicates a net reduction of claim closures of 339 claims. She noted that settlements are the most effective way to permanently close the claims. She said there are currently 554 claims in the Old Fund.

She said the FY20 funding estimate for the Old Fund forecasts indemnity to be down slightly from the prior year by $1.2 million and medical costs are also trending down and are projected to be at $4 million as opposed to $4.7 million for 2019. She said settlements do contain an increase to $6.5 million for FY20 with an overall funding estimate for benefits of $11.7 million. She said operational expenditures are projected to be $1.1 million for FY20 with the administrative cost estimated to be $650,540, the assessments to be $142,331 and the ALAE to be $310,950.

She said overall, MSF is requesting the Board's approval for a funding estimate of $12.8 million which will be submitted to the Budget Office for payment from the General Fund.

Ms. Moss made a motion the Board approve the executive staff recommendation of $12,816,227 for the FY20 Old Fund estimated benefit payments and administrative costs for reporting to the State of Montana for funding from the general fund. Mr. Molloy seconded the motion. Chair Zanto called for discussion or questions; seeing none, he called for the vote and the motion passed unanimously.

IV. President/CEO Compensation Update and Succession Planning

A. Compensation Update – Neville Kenning, Kenning Consulting

Mr. Kenning said the President/CEO performance review is a good governance practice that the Board adopted 19 years ago to provide analysis for the Board's consideration. This process includes utilizing an independent compensation consultant to provide comparative market data and present analysis and recommendations. That provides the Board with the context and information to consider President/CEO compensation and make a sound and defensible decision.

Up until FY2014, the compensation of the CEO had both base salary and variable compensation in the form of an incentive plan. The incentive plan was eliminated in 2014 and there is an impact from this on the competitiveness of the CEO's total compensation.

He provided an in-depth review of the comparison he completed regarding varying similar state funds as well as private-industry insurance companies. The data collected relies heavily on the number of responses received and allows Kenning Consulting to build a visual of the industry pay for similar positions throughout the country. He also explained that MSF has discontinued the incentive program; however, the use of incentive plans continues to be a common practice for comparative AASCIF organizations. Organizations that have a targeted incentive opportunity have an increased leverage to recruit top executives. He provided a comparison to the private sector based on the Property and Casualty Insurers' executive salary survey which allows him to cut data by size and direct premium written thus comparing a size-to-size insurance company. Typically, because of the company size, their location is in less prominent cities which provides a geographic neutralizer as well.

Mr. Kenning told the Board there were a number of factors to be considered in the President/CEO compensation review:

- Current pay relative to relevant comparator markets;
- Mix of fixed and variable compensation (to the extent to which variable compensation does not exist can have an influence on the level of base salary set);
- Time in position (specifically the experience and organizational knowledge that brings);
- Investment in retention versus the cost of replacement;
- The business and political environment and the need for "political pragmatism" ; and
- Performance of the incumbent against the performance objectives and measures for the period under review.

He said the MSF Board does have a formal performance management process in place that takes into consideration the President/CEO's performance as the primary driver of the assessment.

Chair Zanto called for discussion and comments from the audience; there were none.

B. *Succession Planning Update- Richard Duane, VP Human Resources and Myriam Michaels, Senior Principal, Korn Ferry*

Mr. Duane provided a report on the CEO and overall succession planning that has been occurring at MSF. He said succession planning is one of the important things an organization can do, particularly in the executive ranks. He said over the past ten years, MSF has been focused on overall succession and in 2010 MSF engaged Hay Group to provide guidance on CEO Succession Planning. Since that time, President Hubbard has been working with his executives on the elements that were highlighted and has been working to develop current executives. He said President Hubbard and the executives have also been focusing on overall succession planning. A leadership development program was installed as well as an executive development program and a concentration on knowledge transfer was undertaken. Training programs have also been built such as the Claims Examiner Training program, to continue to build the resources in the organization to help cover for retirements and transitions. The CEO succession work was done with Hay Group in 2010 and over that time, particularly from retirements, there has been turnover in the executive level so another review was taken in 2018 as to how to build for the future. In 2018, MSF engaged Korn Ferry to continue this work due to the merger of Hay Group and Korn Ferry in 2016. He said by staying with the combined organization, the work completed for CEO succession planning in 2010 was carried over and is now part of the property for Korn Ferry. MSF has continued its work with Korn Ferry and has been consulting with Myriam Michaels, a Senior Principle who works out of the Washington, D.C. office. He introduced Ms. Michaels and Connie Shroyer, a Senior Partner at Korn Ferry to present the progress that has been completed to date.

Ms. Michaels said Korn Ferry has identified that succession management within this organization is very critical and will remain so in the future. She said Korn Ferry sees this as the supply and demand side of the talent equation which goes beyond just identifying the high performers and organizations should be asking what they are a higher performer for. She said many organizations miss the mark because they are only looking at high performers in their current role and not assessing individuals for future roles. She said the process Korn Ferry has been engaged with is identifying potential for the CEO role. Preparing for future leadership requires thoughtful assessment and identification of certain competencies. She added that succession planning is not an event or about "making a plan"; it is an ongoing process, a risk management strategy to ensure the sustainability of an organization.

She said succession planning considerations include having a planned approach, the capability and proper placement of the management team and attracting and retaining talent to deliver against current or future business plans.

Ms. Michaels said Korn Ferry's approach to succession planning utilizes their guiding principle which states that CEO succession planning is about business continuity. She said the specific CEO role profile for MSF was developed against the demands of the position and involved the Board of Directors and MSF's current CEO. Korn Ferry, using various tools, has been assessing individuals in the organization against those demands and the role profile and then providing feedback to those who went through the process. She noted that the findings Korn Ferry provides can be used for internal and external assessment in the future from the succession planning process approach. She provided an overview of their six basic leadership competencies and how Korn Ferry applies them to their assessments of future candidates. She further described the assessment process and highlighted for the Board members how the assessment was applied and balanced.

She said after the CEO assessment components are complete, Korn Ferry has a development process that they recommend. She said where many organizations fail is in not completing the development piece. The on-line assessment tools and the behavioral interview process provide a lot of great tools to help the organization develop individuals and create individual development plans.

Ms. Michaels said the CEO successor is the single most important decision a Board will make, thus the succession planning must be done right. That means a long-term plan to develop a cadre of leaders, a holistic approach looking at multiple impacts of decisions about roles and consideration of succession for other members of the executive team. The CEO is responsible for the development of the executive team and Korn Ferry recommends that this process be completed every two to three years to assure the proper process in in place when needed.

V. President/CEO Compensation Review and CEO Succession Planning

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

Chair Zanto noted that the Board would now go into a closed session to complete the compensation review and asked President Hubbard if he wished to waive his right of privacy to his individual performance review for Calendar Year 2018.

President Hubbard said he did not wish to waive his right to privacy; however, he would waive his right if the Board wished to consult with Neville Kenning, Rick Duane, VP Human Resources and/or Kevin Braun, General Counsel. He also mentioned that during CEO succession planning there may be other individuals who need to be included and he would waive his privacy right for that inclusion as well.

Chair Zanto announced the closure of the meeting at 12:34 pm and stated that it would be reopened after the discussion of the President/CEO's individual performance review.

B. Meeting Closed to the Public – Board of Director's Working Lunch

C. President/CEO's Performance Review

Neville Kenning took the minutes and upon completion of the closed meeting, provided the completed copy to Mr. Duane.

VI. President/CEO Performance

A. Introduction – Lance Zanto, Chair of the Board

Chair Zanto reconvened the meeting at 2:10 p.m. and thanked the attendees for their patience while the Board conducted a performance analysis and salary review of President Hubbard during the Board's closed session.

B. President/CEO's Annual Compensation

Chair Zanto called for a motion to set President Hubbard's annual compensation.

Ms. Moss thanked President Hubbard for his leadership and thanked everyone at MSF.

Ms. Moss made a motion that the annual base compensation of Laurence Hubbard, President and CEO of Montana State Fund, be set by the board at $395,000, effective March 16, 2019. Mr. Owens seconded the motion. Chair Zanto called for discussion; there was none.

Mr. Molloy said he too wanted to thank President Hubbard and said the Board appreciates the work he is doing and hoped that this action is at least some indication of that.

Chair Zanto said the Board very much appreciates President Hubbard's work.

Chair Zanto called for comments and discussion from the Board and the audience; seeing none, he called for the vote and the motion passed unanimously.

C. Budget Amendment for the Calendar Year 2019

Chair Zanto made a motion that the budget for Calendar Year 2019 be amended to acknowledge the Board approved adjustment to the President/CEO's base compensation. Mr. Molloy seconded the motion. Chair Zanto called for further discussion; there was none. Chair Zanto called for discussion from the audience; there was none. He called for the vote and the motion passed unanimously.

VII. Old Business/New Business

Chair Zanto called for Old or New Business; there was none.

VIII. Public Comment

Chair Zanto called for public comment. There was none.

The meeting was adjourned at 2:12 pm. The next scheduled Board Meeting will be held on Friday, September 13, 2019 at 8:30 a.m. in the Board Room at Montana State Fund, 855 Front Street, Helena, Montana.

Respectfully submitted,

Verna M. Boucher
Special Assistant to the President/CEO