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MONTANA STATE FUND
BOARD OF DIRECTORS MEETING
March 8, 2019

The Montana State Fund (MSF) Board of Directors meeting was held March 8, 2019 in Montana State Fund's Board Room at 855 Front Street, Helena, Montana 59601.

Directors Attending

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

State Fund Staff Attending

Laurence Hubbard, President/CEO
Verna Boucher, Special Asst to Pres/CEO
Kevin Braun, General Counsel
Mark Burzynski, Chief Financial Officer
Julie Jenkinson, Ops Vice President
Rick Duane, HR Vice President
Al Parisian, CIO
Sam Heigh, Ops Support Vice President
Mike Worden, HR Specialist
Sandy Leyva, Director, Insurance Applications
Nick Hopkins, Marketing Director
Suzie Shute, Underwriting Manager
Verena Mullins, Organizational Development Specialist
Mark Barry, Chief Financial Officer
Dan Gengler, Internal Actuary
Darcie Dunlap, SeniorActuarial Analyst
Rene Martello, Controller
Will Anderson, Underwriting Services Leader
Shannon Copps, Director, IT Plans & Controls
Mary Boyle, Communications Specialist
Peter Strauss, Compliance Officer
Erika Ayers, Select Team Leader
Tammy Lynn, Safety Services Director
Audrey Kroll, Underwriter
Suzanna Nordahl, Underwriter

Others Attending

Bob Biskupiak, CSI
Russell Ehman, CSI
Troy Smith, CSI
Russell Greig, Willis Towers Watson
Neville Kenning, Kenning Consulting
Mari Kindberg, CSI
Pam Koenig, CSI
Duane Preshinger, DOA
Tapio Boles, Willis Towers Watson
Bill Wheeler, DOLI

I. Meeting Preliminaries

A. Call to Order

Chair Lance Zanto called the meeting to order at 8:30 am. He welcomed and thanked all attendees for participating.

B. Approval of December 14, 2018 Minutes.

Chair Zanto called for a motion to approve the December 14, 2018 minutes.

Jim Molloy made a motion to approve the December 14, 2018 minutes. The motion was seconded by Jack Owens. Chair Zanto called for discussion from the Board, MSF staff and members of the public. Seeing none, he called for the vote and the motion passed unanimously.

Chair Zanto asked that anyone who would be addressing the Board please do so at the podium through the microphone. He clarified a slight agenda change which called for a longer lunch beginning at 11:50 a.m. until 1:10 p.m. to allow Board members and anyone else who wished to do so to attend the funeral services for Holly Luck. He noted that Board members Jan VanRiper and Matt Mohr were participating telephonically, which could result in a slight delay to their response time and he promised to give that appropriate consideration during discussions and votes on motions.

President Hubbard wished the women in attendance Happy National Women's Day and said he was very thankful for the women who serve MSF in various capacities.

He reminded the Board and attendees that Mark Barry, Chief Financial Officer for MSF was retiring at the end of March 2019. He said he wanted to publicly acknowledge Mr. Barry and mentioned that he and Mr. Barry had worked together for 25 years. Mr. Barry began his career at MSF in 1994 and is directly responsible for a lot of financial change in the management and leadership direction of MSF. When Mr. Barry began, there was a $61 million deficit; however; Mr. Barry's leadership as the CFO has brought MSF to a financially strong organization with just over $500 million in equity. Mr. Barry spearheaded that financial turn-around with high-quality leadership, and losing a key player like Mr. Barry will be felt by MSF. He said he wanted Mr. Barry to know how much he has made a difference to MSF and he thanked Mr. Barry for his leadership over the years and wished him happy trails for his future. President Hubbard thanked Mr. Barry very much for all that he has done for MSF.

Jan VanRiper also expressed her appreciation to Mr. Barry for his service and she acknowledged that his presentations were always very clear and he was always patient when answering her questions. She said she really appreciated him and wished him luck.

Chair Zanto told Mr. Barry that he would be dearly missed.

President Hubbard continued his comments and noted that he and Rick Duane, Vice President, Human Resources have worked with The Jacobsen Group to search nation-wide for Mr. Barry's replacement. He introduced and welcomed Mark Burzynski, MSF's new Chief Financial Officer and Corporate Support Vice President and asked him to provide some background on himself to the Board.

Mr. Burzynski told the Board that he has been in health care in Montana for three decades. He began his career at the Sister of Charities of Leavenworth health system and later moved to Blue Cross Blue Shield of Montana in a variety of executive level positions. He noted that those are the past chapters of his life and he is now focusing on this new chapter and is very excited to be part of MSF. He said the MSF leadership exhibited several features he was looking for in this opportunity such as the authenticity of the individuals, the camaraderie and caring spirits, and the ownership of leadership. He said he found those qualities prevalent at all levels of the organization. He said he also wanted to be part of a legacy where he was afforded the opportunity to help employers be successful through financial strength, education and predictable affordability while also helping injured workers and their families. He said he welcomes the opportunity to help his and MSF's neighbors and friends become their best selves. He noted that his biggest challenge will be to live up to the legacy of Mark Barry and his accomplishments at and for MSF during his career. He said he is thankful for the organization and the strength of the organization that Mr. Barry has created and he gets to inherit.

Mr. Molloy took a moment to welcome Mr. Burzynski to the team on behalf of the Board of Directors.

Chair Zanto also welcomed Mr. Burzynski and called on Darcie Dunlap, Senior Actuarial Analyst to provide an overview of the rate filing process.

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

A. Overview of Rate Filing Process – Darcie Dunlap, Senior Actuarial Analyst

Darcie Dunlap provided an overview of the ratemaking process, explaining what a loss cost multiplier is and how MSF's current rates relate to the National Council on Compensation Insurance (NCCI) filing for last year.

She provided information on how MSF's rates benchmark to the market and reviewed the Board's key decision points in setting MSF's rates. She noted that the Board decisions at this meeting regarding MSF's rating programs will form the basis for what MSF will file with the Commissioner of Securities and Insurance (CSI) for rates effective July 1, 2019.

She said NCCI recognizes nearly 600 different class codes and Montana writes business in approximately 435. She explained that loss costs are what NCCI's actuaries estimate need to be charged to cover losses in workers' compensation. She further explained how the loss costs are determined for MSF as well as for other carriers and provided a comparison of MSF's loss costs to the rest of the Montana market.

Ms. Dunlap said that MSF's loss cost multiplier is 2.3 percent below the average loss cost multiplier for over 200 private carriers who write workers' compensation insurance in Montana. She noted that this difference is not that large and is only at the manual rate setting level and does not take into consideration any underwriting credits or dividends or anything that happens after the manual rate. She further explained that the Board's key decisions would be: 1) to formally adopt the NCCI loss cost filing as a starting point for MSF's manual rates, 2) determine the key tiered rating plan criteria which determines how accounts are assigned through tiers one through five, 3) determine the loss cost multipliers for the five rate tiers and 4) adopt the other rating programs, such as minimum premium, expense constant, scheduled rating, retrospective rating, volume discount, employer's liability, deposit premium, short rate premium and domestic workers.

Chair Zanto called for questions. There were none.

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

Mr. Gengler noted that the first step in the rate setting process is to formally adopt the NCCI loss costs as the basis for MSF's manual rates. He explained that Title 33 requires the use of approved NCCI loss cost filings for private carriers and MSF. Montana's Insurance Commissioner has approved the NCCI loss cost filing for use by carriers in Montana for July 1, 2019.

Mr. Gengler said for July 1, 2019, NCCI has decreased their estimate of the cost of benefits and claims handling by an average of 17.2 percent; however, he clarified that increases or decreases would vary by class code. He explained the statewide changes in loss-costs by industry and the maximum and minimum changes for individual class codes in each industry and noted that individual class codes generally decreased as much as 40% or increased as much as 10%.

He said NCCI reports that there are three components to the 17 percent change: change in experience and trend, change in benefits and change in loss-based expenses. He said the change in benefits is due to three actions 1) changes in fee schedules that were effective July 1, 2018, which was a minor increase, 2) an increase in the minimum/maximum wage loss benefits that are tied to the state's average weekly wage as determined by the Department of Labor and Industry, and 3) a minor decrease to the benefits based on NCCI's estimate of the impact of the implementation of a drug formulary effective April 1, 2019. The change in NCCI's loss-based expenses is the amount NCCI estimates needs to be charged to carry and manage all the claims incurred next year through resolution, which is a process that takes several decades. Last year NCCI estimated the loss-based expenses should be 14.4 percent of incurred loss, this year they have increased that slightly to 14.9 percent. MSF's consulting actuary has determined that MSF needs 18.2 percent of incurred loss as loss adjustment expenses for that time to adequately manage those claims. Mr. Gengler presented several benchmarks for loss adjustment expenses including workers compensation dominant private carriers, other state funds, and the top 10 private carriers writing workers compensation in Montana. These other benchmarks ranged from 24.5 percent to 26.1 percent of incurred loss compared to MSF's 18.2 percent.

Mr. Gengler provided a comparison of NCCI's loss cost estimate versus MSF's estimate from rate years 2003 to 2020. During the 2000s, NCCI's estimate was an average of 21 percent higher than MSF's estimate; however, NCCI's estimate has since come down and is now lower than MSF's estimate by a 17 percent differential. He said MSF's consulting actuary takes into consideration that MSF serves as the guaranteed market and must take all policyholders that seek coverage. Secondly, MSF estimates a higher loss adjustment expense provision of nearly 3.5 points which is a material amount of the difference. The last consideration is that MSF's consulting actuary has different actuarial estimates of the trend. Though Willis Towers Watson is also seeing a declining trend in loss costs, the trend they are observing is not as pronounced as NCCI. He provided a comparison of the loss costs from 2004 to 2015 forward based on current estimates and compared to MSF's and NCCI's estimates which indicated that had MSF strictly adopted NCCI's loss costs, MSF would have unnecessarily collected $300 million more than was needed to manage claims.

Mr. Gengler said management requests the approval of the July 1, 2019 NCCI filing as the basis for MSF's rate filing.

Chair Zanto called for questions.

Chair Zanto asked Mr. Gengler if MSF had followed NCCI over the course of the years would that have made MSF's financial position stronger or weaker?

Mr. Gengler clarified that without taking the dividend program into account, MSF would have earned an additional $300 million over and above the incurred losses. That would have all flowed to equity. Based on the dividend program, he believes all of that equity would have gone back to policyholders; however, that would mean MSF would have unnecessarily taken $300 million out of the Montana economy if MSF had followed the NCCI recommendation.

C. *Adopt NCCI Filings/Loss-Costs Filing Effective July 1, 2018 – Dan Gengler, Internal Actuary*
Chair Zanto called for questions from the Board and the public. There were none.

Mr. Molloy made a motion for the Board to adopt the NCCI filed loss costs for rates applicable to new and renewable policies effective July 1, 2019 to July 1, 2020 for Montana State Fund classification codes. Ms. Moss seconded the motion. Chair Zanto called for further discussion from the Board and the audience; there was none. The Chair called for the vote and the motion passed unanimously.

D. *Multiple Rating Tiers and Certification – Dan Gengler, Internal Actuary*
Mr. Gengler presented management's request for the approval of MSF's Tiered Rating plan for the July 1, 2019 renewal process. This involves the process, rules and criteria by which MSF assigns its insureds to the correct rate tier. The objective of this plan is to find the right price based on each insured's statistical propensity to generate losses. Insureds vary in their propensity to generate losses within their own industry type. He stated that this plan works in coordination

with other underwriting programs, specifically experienced rating. This process is annually reviewed by the consulting actuary, Willis Towers Watson, who has provided a certification letter to the Board which concludes that MSF's tiered rating structure effective July 1, 2019 results in rates that are neither inadequate, excessive nor unfairly discriminatory, which is the same standard CSI has used for the past several years to review and approve MSF's rate tier criteria.

Montana State Fund

Tiered Rating 2.2 – Table of Factors

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

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

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

LCM Relativities		
Value	Current	Proposed
Tier1	0.750	0.750
Tier2	0.900	0.900
Tier3	1.000	1.000
Tier4	1.200	1.200
Tier5	1.450	1.450

Rate Tier Assignment Ranges				
	Current		Proposed	
	Lower	Upper	Lower	Upper
Tier1	0.000	0.870	0.000	0.870
Tier2	0.870	1.100	0.870	1.100
Tier3	1.100	1.250	1.100	1.250
Tier4	1.250	1.600	1.250	1.600
Tier5	1.600	& Above	1.600	& Above

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

New Proposed Eff. 7-1-2019
New Business Rate Tier Cap
New business >=$15,000 will be written at a maximum of Tier3 for the initial policy period plus two renewals.

Mr. Gengler said the tiered rating plan is based on three variables, 1) three-year claim frequency, 2) account size and 3) up to 10-year claim-free tenure. He explained the requirements for meeting these three criteria. Mr. Gengler provided the Board with specifics regarding the make-up of MSF's tiers and the manner in which policy placement is determined. He noted that the recommended table of factors (depicted above) contains one change from the prior year's table and asked Ms. Jenkinson to present the proposal.

1. New Business Rate Tier Cap – Julie Jenkinson, VP Insurance Operations

Ms. Jenkinson said the proposed new business tier cap was a response to input MSF has received over time from its customers and agents requesting more predictability and stability. The working title for the cap is Tier Assurance and it guarantees that a new piece of business with manual premium of $15,000 that is placed with MSF will be assigned a maximum of tier three and remain capped at Tier 3 for three years. This will allow the agents to discuss placement with MSF without having to explain the complicated process of assigning a policy to MSF's tier rating. This program is only for new business which is defined as having not been with MSF for the previous 90 days and this program also allows for combinable smaller policies to participate. Should the policyholder leave MSF while in this program, reentry to the program is prohibited for 24 months. She said the consulting actuary, Willis Towers Watson, has reviewed the program and determined it to be actuarially sound.

Chair Zanto called for questions.

President Hubbard noted that this program caps the policy to tier three for three years but sought clarification as to whether it also capped the rate for three years.

Ms. Jenkinson explained that this is simply for the tier - it is not the base rates. The rates will continue to flow for the class codes and this does not affect MSF's ability to schedule rate the policy and experience modifications still apply. The policy will continue to be priced appropriately based on those factors; however, the policy will be capped in tier three while in this program.

Cliff Larsen asked if Ms. Jenkinson thought this program would "glue" the agency to MSF a little tighter and the policyholder to the agency? He asked who benefits most?

Ms. Jenkinson said the aim in the development of this program was that it be beneficial to all parties. It does solidify the relationship with the agency while allowing the agent to be in a better position with their policyholder. It also gives the policyholder the opportunity to enjoy more rate stability.

Mr. Larsen asked if this program will impact cash flow going forward according to estimates from staff? Will this lose money or will it be a neutral effect?

Ms. Jenkinson said staff estimates that the impact to MSF's current book will mean increased placement by agents; however, this program does have a minimal cost attached to it if MSF is unable to attract new business with this program. She assured the Board that she believed it would be successful.

Mr. Molloy asked if this would cause current problems with policyholders with a $15,000 policy who learn that MSF is offering this to new customers; however, it is not being offered to current insureds.

Ms. Jenkinson said she expected current policyholders will question that. She said staff has discussed how to evaluate those policies and chose $15,000 because it is the level at which MSF schedules rates. She said she is hopeful that staff will be able to even out the impact to current customers as much as possible; however, they had to draw a line because if this is applied to MSF's entire book, MSF would essentially be saying that it is abandoning the tier program. She noted that the tier program works on average for the entire book. The other thing to remember is that most of MSF's new business over $15,000 is already in tier three and there are very few policies that would have been affected by this. MSF always has the ability to schedule rate, so while they may not need to have their tier capped, MSF still has the ability to right price the policy and competitively price it.

Chair Zanto called for additional questions; there were none.

Mr. Gengler reaffirmed Ms. Jenkinson's points from an actuarial perspective. He noted that what makes this proposal work actuarially, is the fact that it has almost a trivial impact on the assignment of the rate tier. Virtually all larger business goes to tier three which is a reflection of the fact that at the larger account sizes the NCCI experience rating modifier is sufficient to find the right price. The main impact of this program is to assure our agents for that submission for quotes will be worth their time and effort.

Mr. Gengler said management's recommendation is to approve the tiered rating criteria as presented and noted that Board members had been provided the Willis Tower Watson certification letter that affirms that MSF's tier rating structure including the Tier Assurance Program meets regulatory standards, improves the equity of pricing and is not unfairly discriminatory.

Chair Zanto called for questions from the Board. There were none and he called for a motion.

Ms. Moss made a motion the Board approve, for new and renewal policies effective July 1, 2019 to July 1, 2020, the Tiered Rating Plan which consists of five rating tiers. Further, that policies be assigned to the tiers based on the factors as presented by management to include that for new business policies effective on and after July 1, 2019, with $15,000 or more in manual premium at tier 3 rates, assignment at tier 3 or lower for the first year and two subsequent renewals. Mr. Molloy seconded the motion. Chair Zanto called for questions or discussion from the Board and the public; seeing none he called for the vote and the motion passed unanimously.

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

Mr. Barry explained that management was requesting approval of the expense constant and minimum loss based premium for small accounts for the year. The expense constant is the estimate of the cost that MSF will incur for issuing, servicing and maintaining a policy regardless of policy size. The cost is the same for every policy that MSF writes and the current level for the expense constant is $180 per policy.

He further explained that the minimum premium or loss-based premium which is primarily charged to small accounts (those with little or no payroll) to cover the loss-based portion of their exposure from medical and wage loss benefits. He noted that this affects approximately 5,500 of MSF's policies and the current minimum charge is $240 per policy.

Mr. Barry explained how the expense constant and the minimum loss-based premium are calculated and clarified that MSF would be applying a proration used for cancellations as specified in Title 33. He said management is requesting approval of a slight increase for the expense constant to move it to $185 to be charged to all new and renewal accounts effective July 1, 2019 and a loss-based minimum premium of $240 for a total minimum premium of $425. He noted that since 2009 MSF has increased the expense constant by $30 which is an average annual increase of 1.8 percent and matches the Consumer Price Index (CPI) changes over that same period of time.

Chair Zanto called for questions or comments from the Board. There were none and he called for a motion.

Jack Owens made a motion that the Board approve an expense constant of $185 for all new and renewal policies effective July 1, 2019 to July 1, 2020. In addition, Mr. Owens moved the Board approve the amount of $240 for the loss-based portion of the Minimum Premium so that the total Minimum Premium is $425 for new and renewal policies effective July 1, 2019 to July 1, 2020. The motion was seconded by Chair Zanto. Chair Zanto called for questions or discussion from the Board and the public. Seeing none, he called for the vote and the motion passed unanimously.

F. *Additional Ratemaking Decisions – Mark Barry, Chief Financial Officer*

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

Mr. Barry explained that these ratemaking processes have not been changed from the year before; however, good industry practice is to provide the Board the opportunity to review and change if they deem it appropriate.

1. Schedule Rating

Mr. Barry explained that the schedule rating plan is to allow modification of an insured's premium to reflect the characteristics of the risk that are not reflected in its experience. He noted that

Montana is not unique; this program is filed nationally by NCCI. Seven categories are considered when determining any credit or debit and they are: 1) premises, 2) classification peculiarities, 3) medical facilities, 4) safety devices, 5) employees – selection, training, supervision, 6) management – cooperation with insurance carrier and 7) management – safety organization. NCCI has filed a plan in Montana that provides for a maximum modification of plus or minus 40 percent.

The NCCI plan also contains ranges of modifications by category based on the rate filed plus or minus 40 percent. Mr. Barry presented the graph depicting the categories and ranges of modification proposed by MSF:

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

2. Employer's Liability

Mr. Barry explained that employer's liability coverage is included on all of MSF workers' compensation policies. NCCI publishes many different limits of liability that can be chosen by an insured with specific premium charges and minimum premiums applicable to each set of limits of liability. He said that MSF recommends basic limits continue to be included on all MSF workers' compensation policies for no additional premium or minimum premium.

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

3. Deposit

Mr. Barry said that NCCI publishes a rule about crediting a deposit premium to the final earned premium or to the renewal policy subject to the approval of the insurance regulatory authority. The rule is not mandatory. MSF's current practice is to keep a deposit premium from year to year with appropriate adjustments. The deposit premium is only applied to an outstanding balance after policy cancellation. MSF accepts deposits in the form of cash, a surety bond, certificate of deposit or letter of credit. This specific issue was included in the MSF transition plan submitted to CSI and if the Board concurs, MSF will file this information with CSI. He noted that this process may change once the system from the Policy Billings and Replacement Initiative (PBRI) has been put in place.

4. Short Rate Premium

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

5. Payroll Versus Per Capita for Domestic Workers

NCCI uses classification codes #0908 and #0913 for domestic workers that base premium on a per capita basis. MSF uses classification code #9015 for domestic workers and bases premium on payroll. MSF's current policyholder system is not capable of basing premium on a per capita basis. This item was also included in MSF's transition plan that was submitted to CSI. CSI granted an exemption and extension to MSF to continue use of the payroll-based classification for domestic workers with the stipulation that the new policyholder system must provide for per capita capability for policies issued or renewed on and after July 1, 2020.

6. Volume Discount

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

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

Chair Zanto called for questions; there were none.

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

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

He said there are no substantive changes to what was approved last year; however, there are updates to items c through g to match the expense levels profit and contingencies applicable to MSF's general rates. There are also immaterial changes in Item one to update them with fresher data each year.

Chair Zanto called for additional questions; there were none.

Mr. Larsen moved the Board to adopt management's recommendations for the following additional ratemaking decisions to apply to new and renewal policies effective July 1, 2019 to July 1, 2020, as follows:

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

Mr. Molloy seconded the motion. Chair Zanto called for further discussion and questions from the Board and the public. Seeing none, he called for the vote and the motion passed unanimously.

Chair Zanto recognized Bob Biskupiak, Deputy Insurance Commissioner with CSI and asked if he had comments to share with the Board.

Mr. Biskupiak took a moment to introduce the CSI attendees in the audience: Troy Smith, Market Conduct Examiner, Pam Koenig and Mari Kindberg, from the actuary team and Russ Ehmann, from the financial examination team. He then provided an update on changes that have occurred with the Classifications and Review Committee. He said, as required in statute, the Commissioner was scheduled to appoint members as of March 1, 2019. Three members termed out and the new appointees are: Brenda Miller, Liberty Mutual; Lindsey Lockner from Employers Insurance Group and David Seitz from Seitz Insurance in Montana will be the agent representative. Already on the committee are Jay Duce from MSF, and Greg Rodifer, the employer representative.

He also welcomed Mark Burzynski to a strong MSF team and offered a personal thank you to Mark Barry. He said they have worked closely over the past 20 years and from his role as an agent, his role on the Independent Agents Association and now as a regulator. He said he appreciates all of the collegiality and professionalism that Mr. Barry brought to the table for all those years.

III. Actuarial Report – Russell Greig, Willis Towers Watson

Mr. Greig summarized Willis Towers Watson's analysis in support of MSF's management and Board selections of loss cost multipliers for policies incepting from July 1, 2019 to June 30, 2020. The recommended loss cost multipliers cover the expected losses and expenses and generate a reasonable contribution to policyholder equity to cover the risk that is assumed by MSF from the individual policyholders. He provided an overview of the items he would be addressing for the Board's consideration, including the background and purpose, and the methodologies and key management decisions. He said the key management decisions are to determine a selected loss projection, the anticipated investment yield, target the contribution to policyholder equity and the impact of rating programs.

Mr. Greig walked the Board through the process of estimating historical ultimate losses and the contingencies that can impact the analysis. He said the ultimate loss estimation is then used to project future ultimate losses. He said that because the aggregate amount of historical ultimate losses is an estimate, there are several contingencies that can impact the analyses such as development, medical costs, trends, benefit changes, court cases, attorney involvement and economic cycles. He noted after the ultimate actuarial central estimate is selected, the historical ultimate losses are adjusted so the future loss provisions for 2019/2020 can be selected. The selected low future loss provision is 60 percent, the actuarial central future loss provision is 64 percent and the high is 70 percent.

Mr. Greig explained that the loss adjustment expense ratios of MSF are lower than those charged by the countrywide experience of private carriers as compiled by A.M. Best. Though the loss adjustment expense estimate did not change from the previous year, the other expenses estimate increased slightly due to a decrease in collected premiums. He said premium are received in a given year; however, a claim from that year must be paid out over many years and even decades. MSF recognizes the economic value of investment income cash flow and therefore reduces premiums accordingly, establishing a reasonable range of investment yields for this purpose.

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

Summary of Indicated Contributions to Policyholder Equity

Projected Contributions to Policyholder Equity			
Rate Level Change	High Estimate	Actuarial Central Estimate	Low Estimate
-14.0%	-0.8%	-5.7%	-13.2%
-12.0%	1.3%	-3.5%	-10.8%
-10.0%	3.3%	-1.5%	-8.6%
-8.0%	5.2%	0.5%	-6.4%
-6.0%	7.0%	2.4%	-4.4%
-4.0%	8.8%	4.3%	-2.4%
-2.0%	10.4%	6.1%	-0.5%
0.0%	12.0%	7.7%	1.3%

Assumed Investment Yield on Underwriting Cash Flow: 3.25%

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Willis Towers Watson

Mr. Greig provided a review of the contribution to policyholder equity as a function of the proposed rate level changes and offered to stand for questions.

Chair Zanto called for questions.

President Hubbard asked what the difference was between the expected loss rate from last year?

Mr. Greg did not recall the exact loss rate; however, he noted that it would have been close to 60 percent because not much has changed in terms of MSF's experience.

Mr. Gengler added that following Mr. Greig's central estimate last year and after MSF took an 8 percent rate reduction, the current expected loss ratio would have been 68.5 percent. He said Mr. Greig's finding of 64 percent is actually reflective of finding lower losses. He added that MSF is concluding that losses are decreasing.

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

IV. Ratemaking Decisions for July 1, 2019 to July 1, 2020 – Laurence Hubbard, President/CEO

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

President Hubbard noted that this point in the meeting is the culmination of the information that has been provided by MSF staff and the consulting actuary. He said that by law, the Board is required to adopt a rate level that will be more than likely to cover costs than less than likely. Lessons learned from the resulting uncovered Old Fund liabilities due to political rate setting led the legislature in Section 39-71-2311 to establish that when an expense is uncertain or difficult to predict, the Board should choose a more conservative approach.

He reminded the Board that MSF has only two means of raising capital or growing MSF's equity to assure MSF is financially sound: setting the rate appropriately to collect enough premium and investment income.

He said there are three primary decisions the Board will need to make to drive the rate level change, the first of which is the assumed rate of return associated with investment income for the underwriting cash flow. He said all dollars received on policies become subject to this rate and because a portion of the monies are not immediately paid out, they are used to produce investment income. He noted that by law, the Board must discount rates based on anticipated investment income. He said the Board has an equity target of 1.5 to 2.5 to 1 reserve to equity ratio that was modified at the last Board meeting. He said as of December 31 MSF currently has a 1.84 to 1 reserve to equity ratio. He said with that reserve to equity ratio, he will once again recommend the Board take a zero percent contribution to equity. The investment yield is anticipating 3.25 percent and though there has been a slight increase in inflation, over time there will likely be more, that is why he recommended a 3.25 percent discount rate on the indication.

Mr. Hubbard referred to Willis Towers Watson's projected contribution to equity chart and discussed the effects the differing rate level changes could have on MSF's equity. He noted that MSF's equity for the past year endured a couple of stresses such as Senate Bill 4 (SB4) which was passed during the Special Legislative Session in 2017. In 2018, MSF paid an additional $13.5 million based on SB4 for an approximate total of $28 million over the two-year period. That management fee came from MSF's equity because if it did not come from equity it would have to come from rates which would have to be increased. He added that MSF also paid a $40 million dividend that was consistent with SB4 requiring that dividends not be reduced. MSF also realized a net unrealized loss of $29.2 million in invested assets. He said that is a $42.2 million loss between December 2017 and December 2018 which illustrates why it is important to maintain an adequate equity level. He noted that MSF is now at a 1.84 to 1 reserve to equity ratio which means we do not need a contribution to equity.

President Hubbard said he recommends the Board adopt a minus 8.6 percent rate change with a zero percent contribution to equity.

Chair Zanto called for questions.

Mr. Molloy said he appreciated the recommendations; however, wanted to bring to the table the discussion about whether a further reduction of rates would be prudent. He said that for several years the Board has been able to decrease rates, which is very positive and has also been able to declare a dividend. He said there is a constituency that says "why would you not reduce rates up front when historical trends tell us that you are giving back money" because MSF's losses are lower than what had been projected. He asked why the Board should not consider a rate reduction up to approximately 11 percent?

Mr. Hubbard said the Board could consider a bigger reduction; however, he cautioned that rates need to be prospectively developed based on expected losses going forward. He agreed MSF has seen positive trends and said MSF has been decreasing rates since 2007. He said one of MSF's objectives is to be a stabilizing influence in the market place and the economy of Montana, knowing that the volatility in rates, up or down could be disruptive to business. A construction contractor bidding jobs for the next year needs the stability of their workers' compensation rates to price appropriately to win the bid. The more that MSF can keep costs predictable over time, the better. The Board has maintained a stable approach to rate changes and MSF's actuaries, historically, have been far more accurate than NCCI's. He added that the ability of the Board to declare dividends has been driven by investment income and it has not been because of underwriting results.

Mr. Greig added that policyholder dividends engender an incentive for safety. He said if there is a bigger rate level decrease, every policyholder benefits from that; however, there will be policyholders that are, on average, worse in believing in safety and preventing injuries. Dividends incentivize policyholders to invest in safety. He also noted that this pricing is prospective and should investments come in lower than expected or rates come in much higher than expected, there is no means of charging policyholders more to make up for those miscalculations.

Chair Zanto asked Mr. Greig if he thought NCCI was over estimating the reduction in claim development?

Mr. Greig said he did. He said NCCI is essentially handcuffed due to the limitation of the available data they use to determine the rate level analysis. Their rate level analysis is based on one type of data and one projection method. He said they have the benefit of looking at several projection methods of ultimate losses such as the paid loss development method, reported loss development method, and variations to reflect the acceleration of closure rates and adjustments to reflect the medical settlement initiatives. NCCI cannot do that for the largest 50 writers in Montana and their methods are mechanical due to the nature of making rates for 36 other states. He commented that he was once told that things are different in Montana and he takes that into consideration when he is developing rate recommendations. The biggest driver of this 17.2 decrease is the loss ratio trend. Frequency continues to decrease, which is a great thing; however, because NCCI has to use an exponential trend that has fit across the last eight to 10 years, they will miss a turning point. Mr. Greig's analysis includes exponential trends; however, it also includes econometric trends, used to find the turning point. He said because the economy is doing so well, workers are working longer hours and there are more new employees being hired without appropriate training. Trends are showing new claims are coming from new employees which means frequency is beginning to turn and in his humble opinion, NCCI is missing that.

Chair Zanto asked Bill Wheeler, Deputy Administrator with the Employment Relations Division at the Department of Labor and Industry if he recalled where Montana placed on the states list of workplace injury frequency.

Mr. Wheeler said he did not recall Montana's exact placement; however, he said Montana is definitely at the top for frequency.

Chair Zanto asked Mr. Hubbard what was the policyholder equity reduction between 2017 and 2018?

President Hubbard said the equity level was $554.7 million as of December 31, 2017 and at the end of December 31, 2018 it is $512.5 which is a $42.4 million decrease in equity. He earlier summarized the large transactions that affect the equity level: the SB4 transfer of $13.5 million, the $40 million dividend, as well as a net unrealized loss of $29.2 million. He noted that in the past five years that is the first unrealized loss MSF has had in its portfolio that impacted equity levels. There are changes in the economy and it is difficult to predict everything precisely. He addressed Mr. Molloy and said his proposed change is not irresponsible. The important thing is for the Board to feel comfortable with management's recommendation. He noted that should the Board adopt management's recommendation, the actual manual rates would be 11 percent lower than they were in 1990 when MSF was created. He said that is despite medical inflation and wage inflation and all of the factors MSF has had to deal with over the years. He said this is a tribute to Mr. Barry as MSF's CFO working with the actuaries to give the Board good recommendations to keep MSF financially strong.

Mr. Molloy made a motion the Board adopt a minus 8.6 percent overall change in rates and a minus 2.5 percent contribution to policyholder equity for new and renewal policies effective July 1, 2019 to July 1, 2020.

President Hubbard corrected Mr. Molloy's motion and noted that it should be a zero percent contribution to equity not a minus 2.5 percent.

Mr. Molloy noted for the record that he read from the wrong set of draft motions and restated his motion. He made a motion that the Board adopt a minus 8.6 percent overall change in rates with no additional contribution to policyholder equity for new and renewal policies effective July 1, 2019 to July 1, 2020. Mr. Owens seconded the motion. Chair Zanto called for discussion.

Chair Zanto commented that by his calculations the policyholder equity loss was a 7.6 percent reduction in policyholder equity in one year. He added that with the $29.2 percent of unrealized losses he would support the motion as stated to protect MSF from possibly taking a bigger hit to MSF's equity position in the future.

He called for further discussion; there was none. He called for public comment; there was none.

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

President Hubbard took a moment to introduce Will Anderson, Underwriting Services Leader at MSF. He has accepted the position that was held by Christy Weikart following her retirement late last year. He welcomed him to meeting and indicated that Mr. Anderson will be presenting to the Board in the future.

Chair Zanto asked Mr. Anderson what was the function of the Classification Review (CR) Committee that Mr. Biskupiak mentioned earlier in the meeting?

Mr. Anderson said he was not adequately prepared to answer that question, he was only in week four of his employ with MSF and he came from a mid-west, non-NCCI market. He said he has been spending a lot of time immersing himself in NCCI manuals, rules and class codes and the plan is for him to eventually transition into that committee.

Chair Zanto commented that this is a small precursor as to what the Board is and will be dealing with going forward with retirements and personnel changes throughout the company. He asked Mr. Biskupiak to provide the answer to his question about the CR Committee.

Mr. Buskipiak said the Classification Review Committee is the voice of Montana employers as far as challenging, updating and deleting classification codes for workers' compensation insurance. He said he believes there are about 600 classification codes available and this committee handles disputes through a formal process that includes a hearing or could even go to the workers' compensation court. This committee allows Montana to adapt the classification codes to what works best for the employers in Montana.

B. *Loss Cost Multipliers and Components – Dan Gengler, Internal Actuary*
Mr. Gengler presented the proposed lost cost multipliers based on the 8.6 percent rate reduction from current rates. He explained that each of the rate tiers begins with a comparison to the NCCI loss costs; then provisions for offsets to underwriting programs, general and acquisition expenses, and profit and contingency are added. Profit and contingency is a negative number because it is offset by investment income.

Recommended Loss Cost Multipliers

(-8.6% Rate Change)

Analysis of LCM Components

	Tier1	Tier2	Tier3	Tier4	Tier5
Loss & LAE	0.878	1.054	1.171	1.405	1.698
Offsets for UW Programs	0.089	0.107	0.119	0.143	0.173
Genl & Acquisition Expense	0.222	0.266	0.296	0.355	0.429
Profit & Contingency	-0.129	-0.154	-0.171	-0.206	-0.249
Loss-Cost Multiplier	**1.061**	**1.273**	**1.414**	**1.697**	**2.051**

Mr. Gengler said the proposed loss cost multipliers depicted above were management's recommended loss cost multipliers. He noted that MSF requested that the consulting actuary review the proposed loss cost multipliers and Willis Towers Watson also approved of the proposed LCMs.

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

C. *Adopt Loss Cost Multipliers for new and renewal policies effective July 1, 2018 to July 1, 2019.*
Chair Zanto made a motion the Board adopt loss-cost multipliers as recommended by management to be applied to the loss-costs as approved by the Board, resulting in rates for new and renewal policies effective July 1, 2019 to July 1, 2020 as follows:

For Tier 1, a loss-cost multiplier of 1.061
For Tier 2, a loss-cost multiplier of 1.273
For Tier 3, a loss-cost multiplier of 1.414
For Tier 4, a loss-cost multiplier of 1.697, and
For Tier 5, a loss-cost multiplier of 2.051

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

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

A. *Loss Reserve Year-End Reconciliation and Calendar Year 2018 Financial Report Update*
Mr. Barry explained that he would be providing an update on the loss and loss adjustment expense (LAE) reserve as approved by the Board at the December 2018 meeting. He said the Board

approved the loss and LAE reserves subject to the changes in actual paid amounts on claims through the end of the year. MSF's consulting actuary's analysis presented in December was based on claim payments through September 30, 2018 so a quarter's worth of payments were not included in that report. Subsequent to December 31, 2018, MSF completed the annual statement and the consulting actuary did another analysis of losses based on the 2018 full year paid amounts. Under insurance regulation, MSF is required to file its annual statement with CSI by March 1.

Montana State Fund

Loss and LAE Reserves Reconciliation *($000 omitted)*

	Reported at 12/31/2018	Approved at Dec. Meeting	Change
Current Accident Year Ultimate Losses	$ 118,000	$ 118,000	$ -
Prior Accident Years Ultimate Losses	3,208,262	3,208,262	-
Less: Projected Cumulative Paid	(2,536,862)	(2,538,373)	1,511
Net Loss Reserves	789,400	787,889	1,511
MSF Management Adjustments:			
Est. Reinsurance Recoverable - Excess of Loss	(1,328)	(1,297)	(31)
Est. Reinsurance Recoverable - Agg Stop Loss	-	-	-
Other States Coverage and EL	4,595	4,595	-
Reserve Strengthening	32,100	32,100	-
Total Losses	824,767	823,287	1,480
Loss Adjustment Expense Reserve	116,871	116,657	214
Recommended Loss and LAE Reserves	$ 941,638	$ 939,944	$ 1,694

Mr. Barry provided the reconciliation depicted above and explained that MSF filed its Calendar Year 2018 financial statement with CSI before the deadline of March 1, 2019. He said the submission included a required filing of a statement of actuarial opinion from Willis Towers Watson that certified MSF's loss reserves. He noted that the loss and LAE change amounted to approximately .18 percent which is immaterial.

Next Mr. Barry provided an update on 2018 financial results. He said total cash and invested assets decreased by $53 million from the end of 2017 due to equity securities declining causing an unrealized loss of $29 million. MSF's equity securities decreased by $35 million. Cash and short-term investments were decreased by $28 million due to holding onto additional cash for the second payment resulting from SB4 which was paid to the fire suppression fund and then swept into the General Fund on Valentine's Day.

He said loss reserves increased due to the addition of a new accident year and the commutation of the Aggregate Stop Loss contract. Other liabilities decreased mostly due to the ASL commutation which was a $47 million decrease and securities lending collateral change of $20 million. He said the actual premium ended up slightly higher than the amount that was projected at third quarter by $2.3 million. He said at third quarter, a $22 million underwriting loss was expected; however, the underwriting loss ended up at about $20 million instead. The net loss was expected to be $9 million; however, the actual loss was $6 million.

Mr. Barry noted that overall earned net premium was projected to be $168 million but came in at $161 million. He noted that midyear 2018, the Board approved an eight percent rate reduction which accounts for about 30 percent of $6 million variance which means MSF did see some net loss of business. He said investment income did not change that much from the prior year; however, there were fewer realized gains than the prior year. He compared actuals to the Annual

Business Plan and noted that net income from before dividend was expected to be $11 million but driven by the realized capital gains ended up at $34 million.

MSF has already filed its annual statement with CSI as is required by law. MSF is currently going through an Eide Bailly audit of statutory statements that should wrap up in mid-March. The governmental audit by Legislative Audit Division will begin shortly. He provided a review of the statements and filing requirements that will be occurring in April and May and noted that the statutory financial results and reconciliation to the GASB financial statements will be presented at the June 7 Board meeting.

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

VI. Public Meeting on Calendar Year 2018 Annual Business Plan

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

Ms. Copps presented the summary of the results of the Calendar Year 2018 business plan, beginning with a report of the Key Success Measures (KSM) depicted below.

Montana State Fund

Key Success Measures

KSM	2018 Target	2018 Result
Net Earned Premium	$162.4M	$161.3M
Loss Ratio	75.1%	72.6%
Expense Ratio	40.5%	39.6%
Investment Income	$40.7M	$57.3M
Net Operating Income (before dividend)	$10.7M	$34.0M

Achieve Enterprise Wide Initiatives

Ms. Copps said net earned premium was $1.1 million below target. She said loss ratio was under plan due to a better result in accident year performance and $4.2 million of favorable prior period development. She added that the expense ratio was slightly below target and investment income was at $57.3 million rather than the targeted $40.7 million. Net operating income was targeted at $10.7 million before dividend and achieved $34 million; the major driver of the increase was $28 million of realized gains. She noted the premium to equity ratio was planned to be 0.30:1; however, the result was 0.31:1.

Chair Zanto called for questions. There were none.

Ms. Copps provided a review of the Enterprise-Wide Initiatives which were focused on customer service with initiatives in the Policy and Billing Replacement Initiative (PBRI), WorkSafe Champions and Growing a Safer Montana.

She said the PBRI project is a large undertaking and was purposely planned to be completed in phases. In 2018 the team focused on development of the five new applications which are policy, billing, rating, the customer portal and the agent portal as well as continued organizational change management and engagement activities. The road map to direct change management was completed in May and approved by the Executive Team in August. The roadmap is designed to organize MSF's change management activities. She said for each phase in the change process, the purpose is documented, the message, the targeted behaviors as well as communication opportunities for key stakeholders. The second project goal was for the Independent Verification and Validation (IV&V) vendor, Sabot, to certify by early October that the system functionality that had been developed to that date did support at least half of the defined business value metrics. Sabot completed the analysis and found the business value as defined was being delivered; however, it was completed in late November which was later than the target date. Development work on the project was not dependent upon completion of this goal so the team continued to make progress.

Ms. Copps said the budget forecast provided to Executives in December indicated that the project spend was on track for the major budget items that were identified in the June 27 Board meeting.

She said WorkSafe Champions is in its 10th year and is a cornerstone program to impact workplace safety through consultancy and education. There are two ways for policyholders to participate: 1) a Safety Management Consultant (SMC) works with MSF's customers on-site and 2) a Safety Specialist provides training in a centralized class. Nine policyholders completed the on-site program and graduated 75 people. The central workshops saw 15 people complete workshops held in Helena, Missoula, Miles City and Kalispell. All 2018 participants developed safety action plans specific to their workplace needs and made progress on the plan. The safety action plan is developed from the State Fund Dashboard tool. The customer and an MSF SMC use the tool to score the practices within 10 broad safety categories, such as management commitment or hazard identification. The policyholder then plans to improve on lower scored categories. Participants rate the content and quality of each module in a ten-question survey and over 99.6 percent rated the content as good or better.

Ms. Copps said the Worksafe Champions Elite program is designed as the next level of engagement with the Worksafe Champion alumni. This program recognizes and rewards the alumni with additional formal training and after meeting the eligibility requirements, six applicants earned this designation in 2018.

She said 2018 was the second year of the Growing a Safer Montana initiative. This project expands MSF's efforts to reach young workers and invests in the safety future of Montana. The project expanded in scope in year two; however, it is still expanding slowly to build positive relationships with schools, provide a benefit for students and establish a quality process. She said 22 classrooms were awarded the safety grants to receive classroom equipment in September 2018. The instructors were able to select from a variety of personal protective equipment to fill the need for their specific class up to $750. Close to 2,000 students were impacted by the equipment and safety message in 2018.

The second component awarded scholarships to students in trade and industry and safety and health programs beyond high school. Eleven recipients were chosen in late 2018 and the scholarship awards took place in early January 2019. President Hubbard doubled the scholarship amount from $1,500 to $3,000 which made a bigger impact on funding education for those students.

Ms. Copps said with the exception of a late delivery of one of the items for the PBRI project, all of the projects met the goals as planned.

Chair Zanto noted that he personally attended the scholarship award presentation and was very impressed. He called for questions; there were none.

Chair Zanto noted that several Board members had a funeral service to attend and the Board would take an extended lunch break for that purpose. The meeting broke at 11:40 am and reconvened at 1:23 pm.

VII. Miscellaneous – Laurence Hubbard, President/CEO

A. Miscellaneous

President Hubbard had no agenda items to cover. He noted that he had kept the Board apprised of the legislation and issues that have arisen this Legislative Session and had nothing further to report at this time.

B. Report of Internal Auditor – Rene Martello, Controller

Ms. Martello provided the internal auditor report on behalf of Patti Grosfield, MSF's Internal Auditor.

She reported that the Eide Bailly auditors were on-site at MSF February 4-15, 2019 completing their field work that was begun in October 2018. They are currently finalizing the audit report and the statutory financial statements audit and at this point have provided an unqualified opinion which means it is a clean audit with no recommendations or issues. She said the report is expected to be completed by the end of March 2019.

She said MSF will now move into the GASB audit of MSF's governmental financial statements. An entrance conference is being arranged and the Legislative Auditors from the Legislative Audit Division (LAD) will be inviting Chair Zanto to attend that meeting. The auditors are expected to be on site in the April and May timeframe with the expectation of completing the report and presenting the results to Legislative Audit Committee in June 2019.

Ms. Martello said Ms. Grosfield's first quarter 2019 audit activity included completion of an audit of the agent incentive program, coordinating with the external auditors and supplying data as necessary. She said Ms. Grosfield also completed an audit of the MSF employee leave programs for excess personal and holiday leave. She is also in the process of completing the audit for the merit-based pay for performance program. At this point, all employees have had their performance meetings with their supervisors and Ms. Grosfield will be testing the calculations before the adjustments are implemented. She is completing on-going work with Enterprise Risk Management (ERM) as an advisor and testing audit controls for that program. Ms. Grosfield has also been working with Human Resources and MSF's General Counsel in updating the Code of Conduct and Data Confidentiality and Acceptable Use policies and completes follow up if items are noted on the forms to determine if there are concerns or other actions that must be completed.

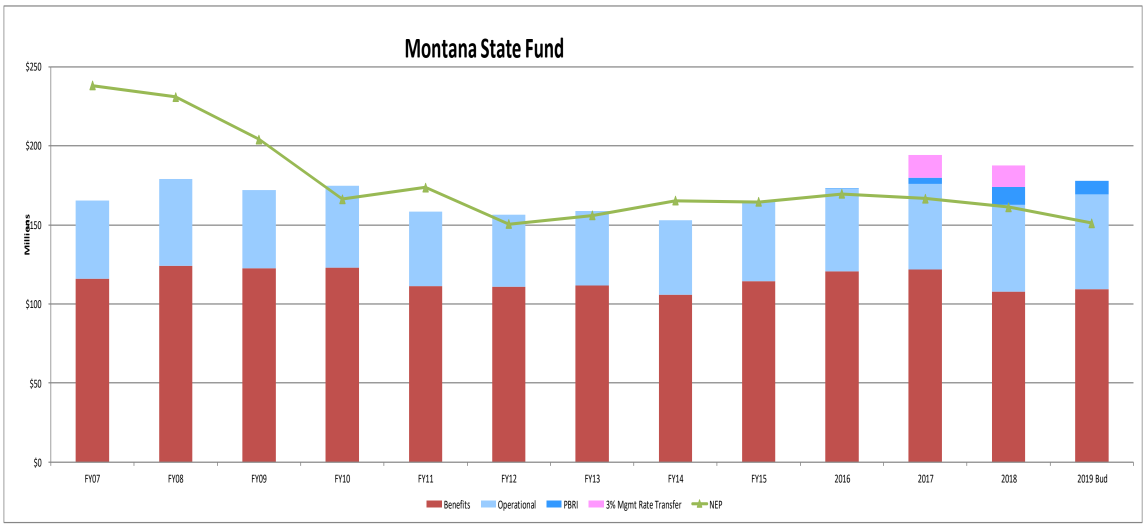
Mr. Martello provided further information on the Agent Incentive Audit and noted that the payments were issued in January 2019 to the master agencies. This is a separate program from base agent commissions that looks at profitability and retention factors at the agency level. Based on the targets for 2018, the actual payout was exceeded significantly at $2.81 million for the year. She said 14 agencies received a payout and PayneWest, the largest agency, receiving the largest share. She noted that their loss ratios were much better than their targets and their retention factor was higher than target.

She reported that upcoming audit activity for Ms. Grosfield included a review of Service Organizational Control (SOC 1) reports which are audit control reports that MSF requires from its vendors such as Pharmacy Benefit Managers, medical bill provider, etc. She will also be completing the employee performance audit and completing on-going ERM testing and will continue to support external auditors.

Chair Zanto called for questions. There were none.

C. *Budget Variance Reports as of December 31, 2018 – Rene Martello, Controller*

Ms. Martello provided a review of the year-end variance report for 2018. She said overall, the budget was planned for $208 million for 2018 and actual expenditures as of December 31, 2018 were $187.6 million or $20.4 million under budget. The savings were in both operational expenditures and claim benefit payment categories. She provided a historical overview of expenditures and noted that over the past 10 years, MSF's net earned premium (NEP) has been in the $150 to $160 million range.



She noted that the 2019 budget and Annual Business Plan are depicted on the above graph and the projected NEP was to be $151 million for 2019; however, with the rate reduction action taken at this Board meeting, the NEP will probably come in at $145 million. She further explained that prior to 2017 the expenditures split was 70 percent to operational costs; however, the last three years the split has been closer to 60/40. In 2016, the dark blue portion was added to indicate the expenditures of the PBRI project. In 2017 the PBRI project cost added to the budget was $3.7 million, in 2018 the costs were $11.2 million and in 2019 the costs are budgeted at $8.3 million. The pink portions on the graph are the SB 4 management fee transfers and those were only applicable to 2017 and 2018.

She noted that the largest variance for the claim benefit payment was due to indemnity being approximately $2 million below projected. Medical costs were $500,000 over and medical settlements were $11.3 million below the estimate due to the slowdown of settlement activity in New Fund claims. The budget for settlements has been reduced for the 2019 planning cycle as well. She said operational expenditures were under by $8.1 million due primarily to a two-month suspension of the health insurance benefit payments by MSF and for all state agencies in January and February 2018 as well as vacancy savings of 5.8 percent.

Ms. Martello provided the largest variances areas for the PBRI project for 2018. She said personal services includes the 20 MSF staff that are working on and assisting in the development of the new policy system. Their time is being recorded and tracked as part of the work in progress for that system and will be expensed later because that will be capitalized. It is included in MSF's total personal services budget; however, there is a transfer completed to assess those charges or expenses to the project. The total variance for the PBRI project was $4.2 million below target for 2018.

She said the other significant under budget variances included the three percent management fee which was $1.4 million under expected, personal services were down about $1.2 million, ALAE under by $1 million and consulting services, excluding the PBRI project, were under by $774,000. The significant over-budget items included agent-based commissions and the agent-based incentive program at $748,000 and computer software and hardware was over by $323,000. The computer software/hardware overage is due to the purchase of some planned for and budgeted purchases being completed in 2018 rather than 2019 due to realized savings in the 2018 budget.

Ms. Martello provided a variance report on the safety- related items that MSF supports. She noted that the variance in the category was fairly close at about $65,000 under budget.

Chair Zanto asked why the Worksafe Champions spend was so low. The budget called for $106,000; however, the actual dollars spent were $33,668.

Rick Duane, Vice President, Human Resources and one of the Executive Sponsors of the Worksafe Champion Program said there were some expenses that he thought the team would be doing that were more expensive; however, they found less expensive ways of doing things such as newspaper advertising being consolidated.

Ms. Martello summarized the comments that were being shared from the audience. She said there were publications/communications that did not occur that were planned for the project which reflects some of the savings.

Sam Heigh, Vice President, Operations Support and Executive Sponsor of Worksafe Champions added that the program did not do the Worksafe Champion Elite grants portion of the program in 2018 due to the groups not getting started. She said they will be completing those this year.

Chair Zanto called for questions. There were none.

Ms. Martello provided a budget variance review of the Old Fund funding estimate based on the state's fiscal year of July 1 through June 30. She noted that the funding for the Old Fund claims comes from the General Fund and this is simply an informational overview for the Board of second quarter of 2019 and as of December 31, 2018, the total Old Fund was $785,000 over what was forecasted as the funding estimate. The two primary categories are the claim benefits payments at $626,000 and operational expenses being over $158,000. She said the claim benefit payments clearly indicated that the overage is due to medical settlements being over $648,544. She said that when the New Fund was increasing settlement activities the same approach was adopted for the Old Fund claims as well. When first approached, Old Fund claimants did not express an interest in settling; however, that interest has increased in the past few months which has driven the costs in this category up. She noted that when the funding estimate was determined, Old Fund had 640 claims and most recently the total count is at 575 which means 65 claims have closed during this period of time. Ms. Martello said as a result of the overage, MSF will have to meet with the budget office to make them aware of this overage and to request additional funding before the end of the state's fiscal year. She said this action does not need a motion or Board approval and is just informational. MSF will submit a budget change document requesting the increase in funding.

She said the administrative costs of the operational expenses are capped at $625,000 per fiscal year and MSF will be under that cap by $2,775. She said the DOLI assessments were spot on and the ALAE was over by $161,011 due to the increased settlement activity, which results in more Medicare set-aside evaluations and other things that are related to the claim and charged as costs.

Ms. Martello said in summary, the budget was $780,000 over the funding estimate and with increased activity it could be around the $1 million range; however, staff will be monitoring that and addressing it accordingly.

Chair Zanto asked for clarification on the request to the Budget Office to provide more General Fund dollars.

Ms. Martello said that was correct and the request will be made before the end of the fiscal year which ends on June 30.

President Hubbard said the Board annually sets a funding estimate based on the actuaries' projection of the cash flow necessary to fund the Old Fund claim payments. Since HB334 was passed, there have been opportunities to go through the Old Fund book of business and determine if there were opportunities to resolve and settle some of those claims. That effort has pushed the actual payments up a bit. In the long term, it is anticipated that ultimate liabilities would be reduced due to the settlements, which is a good thing: however, it will require a conversation with the Budget Office. It is mandatory that the General Fund cover the costs of the Old Fund but we must include the Budget Office in the discussion that the settlement activities are in the best interest of both parties, including the State of Montana. We will manage it as closely as possible to the funding estimate; however, at this point it is over and a budget change document will be necessary to assure the money is available to pay those bills on behalf of the state.

Chair Zanto commented that essentially the discussion will be that the claims are being settled earlier and the tail is getting shorter, the claims are being closed quicker and we are doing a better job.

Ms. Jenkinson added that overall the reserves are reducing as well.

Chair Zanto called for questions. There were none.

VIII. President/CEO Calendar Year 2018 Performance Review and Determination of Calendar Year 2019 Performance Goals

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

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

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

Chair Zanto closed the meeting at 1:46 p.m.

<u>CLOSED MEETING</u>

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

Chair Zanto reconvened the meeting at 4:52 pm. He said the Board had completed the performance review and had made slight changes; however, the Board will continue with the same assessment process that has been utilized for the past couple of years from Executive Staff and the Board. He added that the goals were slightly changed; however, the CEO succession planning process will continue. There is also a goal to measure stakeholder relations as well as one that measures claim handling and effectiveness. He added that there will be Board training to work on how the Board manages itself as well as MSF. The slight change is that President Hubbard, Mr. Duane and Chair Zanto will meet to work on an employee engagement assessment tool for the next year. The Key Success Measures will continue as part of the President/CEO's performance goals and have already been defined. President Hubbard will continue to apprise the Board on the projects that are in place as well as any new ones that are developed.

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

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

A. Introduction – Lance Zanto – Chair of the Board

Chair Zanto said the calendar year 2019 performance goals have been set. He clarified that the goals would be refined.

B. Calendar Year 2019 Performance Goals of President/CEO

Chair Zanto made a motion that the Board accept the 2019 goals for Laurence Hubbard by the Board. Mr. Molloy seconded the motion. The Chair called for the vote and the motion passed unanimously.

X. Old Business/New Business

Chair Zanto called for old or new business. There was none.

XI. Public Comment

Chair Zanto called for public comment. There was none.

Chair Zanto took a moment to reiterate that MSF will miss Mr. Barry and thanked his for his service and said the Board looks forward to Mark Burzynski's service going forward.

The meeting was adjourned at 4:55 p.m. The next regularly scheduled Board meeting will be held on Friday, June 7, 2019 at Montana State Fund, 855 Front Street, Helena, Montana.

Respectfully submitted,

Verna Boucher
Special Assistant to the President/CEO