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MONTANA STATE FUND
BOARD OF DIRECTORS MEETING
June 5, 2020

The Montana State Fund (MSF) Board of Directors meeting was held June 5, 2020 via Zoom.

Directors Attending

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

State Fund Staff

Laurence Hubbard, President/CEO
Verna Boucher, Special Asst to Pres/CEO
Sam Heigh, Operations Support VP
Julie Jenkinson, Operations VP
Mark Burzynski, CFO
Ethan Heverly, Dir Gov and Community Relations
Kevin Braun, General Counsel
Rene Martello, Controller
Patti Grosfield, Internal Auditor
Shannon Copps, Director, ESPM
Rick Duane, Human Resources, VP
Al Parisian, CIO

Others Attending

Rep. Josh Kassmier, Fort Benton
Pat Murdo, Leg. Services Division
Dave Glennon, Eide Bailly
Jon Putnam, Montana Board of Investments
Neville Kenning, Kenning Consulting
Rep. Derek Harvey, Butte
Bob Biskupiak, CSI
Jason Lindstrom, Eide Bailly
John Romasko, Montana Board of Investments

I. Meeting Preliminaries

A. Call to Order

Chair Lance Zanto called the meeting to order at 8:34 a.m. and thanked the Board and members of the audience for attending. He noted that Board Member Jack Owens was not able to attend this meeting and that Board Member Cliff Larsen would have be leaving the meeting at 1:00 p.m. He reminded attendees that this meeting was being live-streamed on YouTube and public comment was requested to be sent prior to the meeting. He noted that no public comment was received; however, after the meeting concludes, any additional public comment could be submitted to Verna Boucher at vboucher@safemt.gov and would be added to the meeting minutes. He also noted that the portion of the meeting set aside for President Hubbard's performance review would be closed to staff and the public.

B. Approval of March 13, 2020 and April 8, 2020 Board Meeting Minutes

Chair Zanto called for a motion to approve the March 13, 2020 and the April 8, 2020 minutes.

Matt Mohr made a motion to approve the March 13, 2020 and April 8, 2020 minutes as presented. The motion was seconded by Jim Molloy. Chair Zanto called 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 attendees and noted that this was MSF's first all-virtual-technology-enabled full Board Meeting to ever be held. He said for those viewing the meeting on live stream there may be glitches and begged the audience's indulgence should those occur. He noted that practice sessions with the presenters were completed prior to the meeting and thanked Verna Boucher and Melissa Iverson for their work prior to the meeting and behind the scenes to make this event successful.

B. *COVID-19 Update*

President Hubbard said much of the Board's discussion at this meeting would address some of the impacts that MSF anticipates experiencing for the remainder of the year due to the COVID-19 pandemic. He said MSF's response and the impacts to MSF's customers and the economy of Montana will need to be discussed.

He noted that just since the April Board Meeting, MSF has moved 95 percent of its employees to remote work locations with only about 25 employees at the MSF building. He said in very rapid succession after the stay-at-home order issued by Governor Bullock on March 16, MSF employees began working from home and have been operating very effectively and productively since. He noted that the Information Technology team had been, for a number of years, preparing MSF to operate with a virtual paperless environment for policy and claims systems. He said MSF employees have been able to take care of injured workers and policyholders from anywhere on the planet which is due to the IT architecture enabling that kind of data usage. He provided the Board with a review of many of the actions taken to enable remote work in order to continue operating effectively and maintain a high customer service level. He noted that he was very proud of the MSF employees who worked hard to make this new normal work and still provide high levels of service for the customers. He said there are consequences for employees due to the remote work situation; employees are missing their colleagues and have begun to feel isolated.

President Hubbard noted that Montana was just beginning to enter Phase II of the reopening plan to help Montana's economy. This phase allows more social gatherings; however, it also brings with it more risks of exposure if people do not wear masks and social distance. He said statewide and nationally an increase of COVID cases is being experienced partially due to increased and improved testing; however, this disease is highly communicable and safety precautions must be adhered to. He said that the Executive team and the Safety Services team have created a plan for bringing employees back to the building at some point in the future though not in the near term. He noted that the team taking care of the building had addressed some deferred maintenance. He said the return-to-the building plan calls for a very methodic approach and continued review of any possible employee exposure going forward.

He noted that MSF's Personal Protective Equipment (PPE) grants would soon be filled. MSF was able to purchase some KN95 and tri-fold surgical masks to send to qualified policyholders who are in high- risk industries such as front-line health care workers and grocery stores - people who have to go to work and are at risk of higher exposure to COVID-19. He said this small effort was to help address to some degree the needs of MSF's customers, particularly small employers who may lack access to needed resources. He said there were 380 grant requests which would far exceed the current level of PPE supplies; however, MSF may place another order for additional PPE to better fill the requests.

President Hubbard stated that the Corporate Governance Annual Disclosure (CGAD) which is required to be completed each year by May 30 and to be filed with the Commissioner of Securities and Insurance (CSI) has been completed. He thanked the legal and finance departments and the Compliance Officer for preparing those. He said Nick Mazanec did an excellent job of preparing the CGAD. He noted this report is intended to illustrate to the regulator that the insurance company has reduced systemic risk and higher accountability of executives and board members as well.

Chair Zanto asked how the process will work for injured workers and attorneys who need to come to MSF for a meeting.

President Hubbard said it is important that MSF be able to continue to support its customers in face-to-face meeting needs; however, that will need a long-term solution. For the immediate future, no members of the public will be allowed in the building and the meetings are being conducted virtually. He said MSF also needs to be creative and flexible going forward and creating social distancing opportunities going forward may be a developed solution.

Chair Zanto noted that MSF will have to be a bit fluid in addressing these needs going forward. He called for additional questions of President Hubbard; there were none.

C. *Report of Internal Auditor – Patti Grosfield, Internal Auditor*
Ms. Grosfield provided a report on internal and external audits and noted she would later introduce the statutory auditors for their presentation.

Internal
She said at the last Board meeting she had noted that the 2019 employee performance-based pay adjustments process and her audit of the process was concluding. She said both the process and her audit have been completed and were effective March 14, 2020 and employees saw those adjustments in their April 8, 2020 paychecks.

She noted that she and the legal and finance departments have been preparing for a potential market conduct exam in various areas. She said Peter Strauss's, Compliance Officer at MSF, retirement has encouraged various parties to meet with legal to determine current status and what needs to be completed.

She said she has also been completing internal control reviews as requested or as the need arises.

External
Ms. Grosfield said the field work for the legislative or governmental audit has been completed and was all conducted remotely which was a new and interesting process and was very successful despite a few communication bugs. She said a draft of the audit was anticipated soon; however, it will not be presented to the Board until the September meeting.

Ms. Grosfield introduced Dave Glennon, Partner of Eide Bailly, LLP and Jason Lindstrom, Audit Manager of Eide Bailly. She explained that Mr. Glennon and Mr. Lindstrom would be presenting the recently completed Calendar Year 2019 Statutory Financial Statements Audit Report. She noted that Board members received copies of the audit report in March 2020. 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 has 42 offices in 14 states and a presence in India. She added that as workers' compensation industry experts, 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 the 2019 financial statement audit marks Mr. Glennon's fourth year on the MSF audit which means he can serve for one more year as the lead partner before the audit standards require rotation to another partner.

She said Mr. Jason Lindstrom served as Eide Bailly Audit Manager on the MSF audit and works out of the Boise, Idaho office. She said he has been on the MSF audit team for nine years and is very familiar with MSF. She said he is skilled at overseeing and performing assurance services in accordance with professional standards and has a strong knowledge of financial reporting under both GAAP and statutory accounting principles and is knowlegeable regarding appropriate internal control frameworks. She added that MSF commended and thanked Mr. Glennon, his team and the MSF staff who assisted with the audit.

i. *Presentation of 2019 Statutory Financial Statements Audit Report – Dave Glennon, Partner, Eide Bailly and Jason Lindstrom, Audit Manager, 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 2019. Year-end field work was completed in February 2020 and the audit report was completed in March 2020 with on-going communication throughout the process.

President Hubbard requested Mr. Glennon clarify the reason MSF is required to conduct and file audits on a statutory and GASB basis.

Mr. Glennon said Eide Bailly provides the statutory audit; however, the GASB method is the result of having to absorb MSF's financial statements up a level to overall basis of the State of Montana financial statements.

President Hubbard said that while it is not efficient to prepare statements on the GASB and statutory basis, the two methods are intended for two different purposes. He noted that MSF is required by regulation to file statutory statements which is how MSF's annual report is presented.

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 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.
Chair Zanto called for questions; there were none and he welcomed Mr. Lindstrom.

Mr. Lindstrom provided an overview of the required communications and noted that there were no significant changes in 2019 and no initial selections of significant accounting policies that needed to be adjusted. He said three significant estimates were identified: reserves for losses and loss adjustment expenses, fair market value of investments and other-than temporary impairments. He noted that the Eide Bailly Internal Actuary, Mr. Healsy reviewed the methodologies used by Willis Towers Watson and he felt comfortable with the stated reserves that were ultimately determined and recorded as did the Eide Bailly auditors. He said the audit found that the fair market value of investments was appropriately recorded as illustrated in Note 2 of the audit and in Note 8, the other-than temporary impairment contained no significant security losses on investments that needed to be recorded as of December 31, 2019.

He provided further clarification on the audit required communications which indicate Eide Bailly did not encounter any significant difficulties, uncorrected or corrected misstatements and did not experience any disagreements with management. He noted that Eide Bailly did use the assistance of MSF's internal audit function to coordinate their data requests and collecting audit evidence and thanked Ms. Grosfield for her assistance in completing a successful audit.

Mr. Lindstrom thanked MSF management and staff for their preparation and responsiveness to Eide Bailly to assist in completing the audit efficiently.

Mr. Glennon provided a preview of items that will be impactful going forward. He noted that the second CGAD is being prepared and will be submitted to CSI upon completion. He also stated that there will be impacts from COVID-19 which will create financial considerations for MSF going forward and commended MSF for accepting the challenge to continue to serve policyholders and injured workers with remotely-located staff. He said accounting rule changes on leases were being discussed by NAIC; however, those discussions have been delayed due to COVID-19. The changes were to take effect January 1, 2021 and discussions are continuing; however, they will not be implemented until a late date. He also shared that the changes to audit standards for auditors has also remained quiet and are not moving as quickly as usual. He thanked MSF for the opportunity to work through the audit.

Chair Zanto thanked Mr. Lindstrom and Mr. Glennon for taking the time to present today.

ii. *Approval of Audited Calendar Year 2019 Statutory Financial Statements*
Ms. Grosfield provided a review of the items that had to be reconciled between the governmental or GASB statements and MSF's statutory basis financial statements that had just been audited by Eide Bailly. She explained 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.

Jan VanRiper moved the Board approve the statutory-basis financial statements as audited by Eide Bailly for inclusion in the Calendar Year 2019 Annual Report, along with a reconciliation of the audited statutory policyholder equity as compared to GASB net position, subject to audit. Mr. Mohr seconded the motion. Chair Zanto called for discussion from the Board and the public.

Ms. VanRiper thanked everyone for this presentation and the clarity that it provided to the Board.

Chair Zanto called for additional comments; seeing none, he called for the vote and the motion passed unanimously.

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

Ms. Copps provided the key success measures for the 2020 Business Plan and the projections to date.

Key Success Measures

KSM	2020 Plan	2020 Projection
Net Earned Premium	$149.1M	**$119.3M**
Loss Ratio	74.2%	**77.7%**
Expense Ratio	39.0%	**44.4%**
Investment Income	$44.1M	**$36.3M**
Net Operating Income (prior to dividend)	$21.0M	**$6.5M**
Achieve Enterprise Wide Initiatives		

Ms. Copps noted that the financial metrics were projections based on the year end projections as of March 31, 2020 and include the anticipated effects of COVID-19. She noted that a 20 percent decline in premium is expected and projected to be $119.3 million. She said as businesses scaled back operations in mid-March through the phased reopening, MSF determined that 20 percent was a reasonable assumption at this point based on the market share of various industries, the length of the downturn and the potential for a subsequent wave of COVID-19. She said these assumptions will be re-evaluated and the forecast updated as the year progresses.

She noted that a 74.2 percent loss ratio was planned; however, that is projected to be 77.7. She said total incurred losses are projected to be $18 million below plan which is heavily linked to the anticipated drop in premium, decreased exposure and fewer claims. Loss expenses and underwriting expenses are projected to be lower than planned for COVID-19 related reasons. She noted that with the projection of lower premium, the expense ratio is expected to be 5.4 points higher than planned at 44.4 percent. She said projected net investment income is $7.8 million under plan at $36.3 million which includes only $390,000 of realized gains as it is not expected that the Board of Investments (BOI) will sell any equities if market volatility continues through the year.

Ms. Copps added that operating income for the year is projected to be $14.5 million under plan at $6.5 million

Chair Zanto called for questions; there were none.

President Hubbard noted it was important to highlight that the first quarter of 2020 actually started very strong based on MSF's expectations for the year until mid-March when everything changed. He said when a number of businesses closed their doors, reducing MSF's premium payroll expectations, MSF did internal modelling for specific industries to determine the overall effect on MSF's book of business. He clarified that these first quarter financial results were highly speculative based on necessary assumptions to deal with the pandemic's effects based on a number of researched and reviewed factors. He noted that second quarter preliminary information in mid-July will provide a better understanding of the overall projections for the year.

Ms. Copps said the three Enterprise-Wide Initiatives are all focused in the Customer Service category and include the fifth year of the Policy and Billing System Replacement and continued safety initiatives to reduce workplace injuries.

She said the Policy and Billing System Replacement Initiative (PBRI) is in its fifth year of work to replace MSF's policy and billing system with five modern applications that will enhance MSF's customer service and efficiency. She noted that the PBRI project is off track. The PBRI team has good momentum and hit a major milestone in April by closing the first cycle of system testing. She said MSF is committed to delivering a quality product to its stakeholders which is the highest priority for MSF and the HCL team. She said the second round of testing is in progress and through the first several weeks, the work is on track and identifying and fixing defects. 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 program is expected to be completed as planned despite the disruption from COVID-19 and the hold placed on in-person training by MSF and policyholders. The team is expected to perform virtual training through Zoom for both the on-site and central class formats. Policyholders have been receptive to this change and the sessions are expected to begin more widely in the summer. She noted that the team will evaluate the Zoom delivery format and make necessary modifications to ensure the value is provided in educating policyholders on identifying and reducing safety challenges. She said there are still three options for participation:

- Safety Management Consultant (SMC) works exclusively with the policyholder who must commit at least three people to attend the modules. She said there are currently six policyholders interested in this option.
- The second option is for smaller policyholders to attend a central workshop. The team is continuing to recruit for these.
- The team also expects to award 11 safety grants of up to $3,000 by the end of the year. The grants are awarded to WorkSafe Champion graduates who apply and meet eligibility requirements and further support the organization's safe work development.

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 the team has awarded grants to 36 high school classes and the instructors will select from a variety of personal protective equipment for their class. She noted that including 2020, over the last four years, these grants have impacted nearly 8,000 students with the safety equipment and message. She added that COVID-19 may disrupt the delivery of in-person equipment; however, the team will monitor return-to-school plans and determine the best method of delivery in the fall.

Ms. Copps said the second part of this project awards scholarships to students in college trade and occupational safety health programs. The team is currently developing information packages for colleges to generate interest in the 13 scholarships which will be awarded in the first quarter of 2021.

Chair Zanto called for questions. There were none.

E. *Policy/Billing Replacement Initiative (PBRI) – Julie Jenkinson, VP Insurance Operations*
Ms. Jenkinson noted that this was the mid-year update on the Policy and Billing Replacement Initiative Project. She said the project is off track which is due to the development being so delayed. She said the team has had remarkable success this year though last year was rather fraught with challenges as the team tried to wrap up very complicated developments of the five different platforms. She said the success this year and progress made in spite of COVID-19, work-from-home and travel restrictions is exciting to talk about.

She said the planned work for 2020 was to complete development of core functionality, complete testing, conduct training for employees and agents, organizational change management continuation and implement core functionality. She provided a listing of the work that had been completed to date for 2020.

Montana State Fund

Policy and Billing System Replacement

2020 Progress Status

- Core functionality development complete
- System Integration Testing underway (SIT Cycle 2)
- Remaining testing planned for summer and fall
- Training for employees being planned and developed
- Organizational change management ongoing
- Implementation planned for end of year

Ms. Jenkinson said development is complete though not without additional challenges as the deadline to complete got closer. System integration has been completed for Cycle I and the team completed Cycle II the day before leaving only Cycle III to complete. She said the period between Cycle II and Cycle III will be used to wrap up the identified defects in Cycle II. She said there is remaining system integration testing before it will be possible to move into user acceptance testing which means most of the summer and into the fall will see some sort of testing occurring. In addition, training is being planned and developed for MSF employees though scheduling has been held off until closer to the end of testing. She noted that the team prefers the training to be as close to actual implementation as possible not just for MSF employees, but also for external customers that need training as well. She said the Organizational Change Management (OCM) continues with the use of the Voice of the Employee (VOE) and outreach through the portal updates and the newsletter, *Perspectives*, that MSF sends to its customers. She said the good news is that the team is still planning for implementation this year.

She reviewed the challenges the team has dealt with this year in more detail. She said the project team has had to be extremely diligent in being commited to quality and being successful by the end of the year. She said the project leadership team in managing the vendor has been even more dramatic as of last fall going into 2020. She said the leadership team made a demand at the end of 2019 that HCL replace some project management on their side which was done. She said the significance of that effort is quite dramatic. She said a couple of off-shore and on-shore project managers were replaced with very high level HCL managers who know how to properly manage and hold their staff accountable. She stated that the really dramatic piece is that they have a much more transparent and collaborative approach which has resulted in not just better planning and the speed of resolution of issues but there is much more sensitivity to being realistic in the planning. She said this has increased the confidence that the plan is achievable and resulted in the project team being much more results oriented vs. transactionally solving problems. The team has really been keeping their eye on the prize of keeping the project moving while resolving the issues that arise. She said this change has resulted in dramatic improvements such as better teamwork, much more accountability, better planning and better productivity. She added that the interesting thing about COVID-19 and work-from-home is that while we, here in Montana, may enjoy relatively short commute times, that isn't the case everywhere in the world and actually working from home in India has resulted in hours of extra development and work time for each of the HCL employees working off-shore. We have actually seen an increase in productivity after the work-from-home orders happened worldwide. She said over all the net effects of these couple of changes have improved the quality of the work and the confidence in achieving the plan resulting in a much higher degree of confidence for the MSF project leaders that the project will go live in 2020.

Ms. Jenkinson noted that Guidewire does a code review of every customer implementing one of their platforms to ensure proper code implementation and that it aligns with their coding standards so that future upgrades and changes that are made happen as easily as possible. She said this review uncovered a few issues with the rating engine that required some rework which, thankfully has been completed already. The issues were discovered in early fall and that repair work was completed through the beginning of 2020 and the team is now just cleaning up a few of the defects that were found from that work in the quality assurance process. She said lastly the other significant change recommended and implemented by the project team was to find additional Guidewire project management. She said with that additional help from Guidewire, additional expertise was identified to assure MSF could bring on some additional developers and testers to actually ensure that the quality was there and there was additional productivity to be able to implement in 2020.

She said there were some significant challenges but also some very dramatic responses that resulted in some great outcomes for the team and while overall, the team is off track for the project, they are feeling very good about the schedule. She added that since testing and the replan that happened in the fall and the beginning of 2020, the team is on track with the current plan to continue with testing and to hopefully go live by the end of 2020.

Ms. Jenkinson said there are several pieces to the project budget, some of which are still very much on track such as the systems software with Guidewire which will be underbudget. She said the project managers were able to negotiate a better deal than what they had planned for when the original estimate was supplied to the Board. The system integrator (HCL) budget is on target. She noted there have been a lot of debates and efforts to conform to a new statement of work with HCL that will not add any additional money to the budget. She said other consulting services such as the work with Sabot and the backfill with Cognizant and the additional Guidewire consultants did add some additional expense to the budget but it was critical to do that to add to the success of the actual project overall and will make the difference this year in being able to deliver as expected.

She said the key takeaways from this update are that while the development is complete and testing is going well, there were additional expenses that were necessary but it has resulted in better issue resolution and improved productivity pretty dramatically. It has resulted in much better teamwork and increased confidence that the project will be successfully implemented in 2020.

Chair Zanto asked for the targeted date for implementation?

Ms. Jenkinson said the team is planning to go live in 2020 but said the way they are implementing the system is that from the moment of go live, MSF will be quoting business that is about four months out into the future. She said due to the cycle of how MSF quotes and renews business, that lead time is required to populate our tiered rating system and actually quote the policies. She said if the project goes live in December of 2020, MSF will be quoting business, likely for March 2021. From the moment we go live, we will be quoting policies that will be four months out.

Ms. Moss asked how long the training takes? She noted that it sounds like a very robust and complicated software program so wondered if it was lengthy or a one-day fast-track learning?

Ms. Jenkinson said there are a couple of components to training. She said the effort began with OCM and Simon which was a simulated environment of the new system that began at the start of 2019. She said the project team encouraged our staff to attend the Simon sessions to begin familiarization of the platform a year or more in advance of go live. She said the simulated environment is still live on everyone's desktop and employees can access that at any time. She said in addition to that, there is a platform that actually takes the Guidewire platform and allows simulated work activity as well as, post go-live, in-the-moment assistance when something does not make sense. She added that when the training is conducted, each employee will have a skills assessment and will be watched to make sure they know how to function in the new system. She said the training will be very intensive and will be done in modules based on what the work activity is. The training is being developed to show specifics; for example, how to input a policy or how to correct a billing problem. The training will be very task oriented and the project team is in the middle of developing that; however, the training is expected to begin a full month before the go-live date.

President Hubbard emphasized the point about implementation, go-live and the policies being written out more than 45 days from renewal. He said that under the terms and conditions of MSF policies, any changes must be provided at least 45 days in advance of a policy period effective date. He said the important point is in the conversion of the policies from the old system to the new policy and billing system of Guidewire. The new version is a very complex process and very high risk as many projects fail with data conversion. He said an approach has been chosen that essentially rolls in policies as they renew and as MSF begins to write new business on the system to mitigate the risk of conversion errors and can address them in a much more refined manner. He noted that beginning with a smaller policy base means much less risk to MSF's entire system support.

Chair Zanto asked what percentage of MSF's business renews in December, January or March as opposed to July?

Ms. Jenkinson said most of MSF's business renews in July followed by January on the quarter. January, April, July and October are the highest months and she noted that the project team is trying very hard to stay off of one of those particular dates so that the conversion can ease in. She said March is a much smaller percentage, July may be 30 percent, January 25 percent and then it eases off from there. She said March is a very safe time to begin this process.

Chair Zanto sought clarification on the conversion, noting that his understanding was that the system will go live in 2020; however, all policies being rolled into the system will take a full year.

Ms. Jenkinson said it would take a year to roll all of MSF's policies into the new system on each policyholder's renewal date. A mass conversion would put the project system at risk of failure.

Chair Zanto called for additional questions. There were none.

Chair Zanto added that in 2021 there will be new Board members who will have to be brought up to speed on this process.

Ms. Jenkinson said it is complicated and the current Board has paid such rapt attention to it all that updates can currently just be a continuation of past updates. She said it is easier to tell the sordid story after there has been some success behind it.

III. Corporate Support – Rene Martello, Controller

A. *Board of Investments Update – Jon Putnam, Chief Investment Officer and John Romasko, Director of Fixed Income – Board of Investments*

Rene Martello, MSF Controller, introduced Jon Putnam, Chief Investment Officer and John Romasko, Director of Fixed Income from the Board of Investments (BOI) to provide an investment update. She noted that BOI attended the March Board Meeting to provide the updated investment policy statement and they have returned for this meeting to provide the yearly investment update.

Mr. Putnam reported that BOI successfully implemented teleworking on March 17 for a two-month period. They began phasing back into the office on May 18 and are approximately 75 to 85 percent back in the office to date. He said some employees with higher-risk family members and/or child-care issues are still working remotely. He noted that BOI had implemented some office changes to accommodate current circumstances.

He said the Board of Investments approved the updated MSF investment policy at the April 14 Board Meeting. He reminded the Board that the big changes were to add high-yield investment allocation within the policy up to seven percent and the change for the benchmark from investment grade to intermediate benchmark which is a broader benchmark. Once approved by the Board, BOI completed the initial investment of $25 million into high-yield bonds on April 17.

Chair Zanto called for questions; there were none.

Mr. Putnam provided a review of the investment environment. He noted that the COVID-19 Pandemic brought the economic activity globally to a halt and to compound the issues in the market, Saudi Arabia and Russia initiated an oil price war in early March. He noted that oil prices plunged to unprecedented lows. During that timeframe, particularly in the fixed income markets, credit spreads widened dramatically as the market anticipated higher levels of defaults. He said the Federal Reserve reacted by cutting interest rates to zero. In addition, they initiated a number of programs to prop up the market to counter the increase in liquidity in the market. He noted that it was difficult to trade almost anything, including treasuries at times. He said inflation expectations dropped precipitously in line with the economy. He added that this was the quickest decline since the Great Depression and noted that since February the market dropped 20 plus percent in both domestic and international equities. He said volatility jumped to levels not seen since the financial crisis of 2008 and a key difficulty was determining a valuation metric for companies due to the uncertainty of what business would look like going forward. He noted that the impact on core real estate fundamentals varied significantly by property type and sectors such as retail and office space may be particularly impacted by the COVID-19 pandemic. He said price discovery is slow to materialize as transaction volumes have dropped and assets are repriced infrequently. He noted that though there is still some caution to be taken, the market has bounced back fairly quickly overall.

Mr. Romasko provided a review of MSF's portfolio characteristics for the March quarter end and allocation as of May 28, 2020 due to occurrence of the changes to the policy statement. He highlighted the high-yield investment and the increase of 9.8 percent in domestic equity due to the result of the market's overall recovery. He also covered the items in the portfolio that had not performed very well and covered the actions BOI took to address the losses. He said real estate returns were modestly positive for the year; however, core real estate pricing lags by at least a quarter given the illiquid nature of the asset class. He added that MSF's investment portfolio has had solid performance over longer time frames; however, underperformance vs. the benchmark in the first quarter of 2020 was driven by the underweight to U.S. Treasuries.

Mr. Putnam summarized that MSF's investment pool continues to perform well despite volatile markets. He noted that BOI will continue to diversify the portfolio over time by increasing exposure to mortgage backed securities and high yield bonds. He said BOI takes a long-term view of the portfolio with a focus on managing the downside risk.

Chair Zanto called for questions. There were none.

B. Calendar Year 2020 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 would provide a report on the Old Fund.

She provided the financial report for the quarter that ended March 31, 2020 with a comparison to 2019. She said bonds decreased by almost $18 million; however, for statutory accounting MSF's bonds are recorded at book value. She said this is not representative of a decrease in value, it is due to the purchase of $68 million in bonds and $86 million in maturities. She said equity securities are recorded at market and did decrease $38.3 million over the quarter. She said that while the markets were down, BOI completed a purchase of approximately $20 million which is reflected in the financials with the $18.3 million variance. She said cash and short-term investments is a $45.7 million decrease; however, at the end of 2019, extra cash was held to purchase a security in early January. She said total cash and invested assets decreased by $65.1 million. The premium deferral announcement was not made until early April, thus those impacts are not reflected in this financial report.

Chair Zanto asked how many employers actually chose the deferral option.

Ms. Martello said staff have been evaluating that closely. Cancellations have been blocked for the time being and there are approximately 500 policies that elected to defer their premium which is not as significant as was expected. Those deferrals account for about $1.1 million in premium.

She noted that the major change in total liabilities was $30 million in other liabilities which is related to the cash used to purchase the securities in early January. She said policyholder equity was at $520 million. She said the income statement showed a projection of net earned premium decreasing 20 percent for the year. She said that projection is based on unemployment considerations, the current state of MSF's book of business and the reduction in new claims compared to previous years. She said loss expenses were down in relation to less payroll and less exposure. Underwriting expenses were down due to agent commissions being down. She said the net underwriting loss is projected to be at $26.3 million compared to the $9.3 million loss at the end of 2019. She added that net investment income is projected to be almost $36 million by year end as compared to $38.6 million at the end of 2019. She noted that there is a slow-down in MSF's normal reinvestment due to deferring premium and not seeing premium come in as quickly as anticipated. MSF is relying on its investments to maintain its cashflow; however, it is a very gradual and slow reaction due to the size of MSF's portfolio. She said net realized capital gains at the end of 2019 were $16.2 million and for year end 2020 that is projected to be $394,000. Bonds are still seeing some gains and the good news is that a loss is not being forecasted due to the positioning and diversification of the portfolio. She said total net income is projected to be $6.5 million before dividend declarations for the end of the year compared to $41.9 million at the end of 2019.

Mr. Martello said projected policyholder equity for end of year 2020 is $500.9 million compared to $550.7 million at the end of 2019. She said the policyholder equity includes the 6.5 million in net income, net unrealized losses of $38.1 million and a decrease in non-admitted assets of $18.8 million. She further explained the change in non-admitted assets. She said an $8.1 million reduction was forecasted due to the premium deferral option. She said for financial reporting purposes, uncollected premiums cannot be counted as an asset which increases non-admitted assets and reduces policyholder equity for the year.

She provided a review of the projection vs. the annual business plan noting that the annual premium, assuming the 20 percent reduction, would be $29.8 million less than planned. The net income of $6.5 million is a $14.4 million variance from the 2020 plan. She said there has been a significant impact in the results and projections; however, she reminded the Board that the current crisis is the reason that MSF maintains the strong policyholder equity base and why the investments are structured the way they are. She added that those approaches will allow MSF to weather through this recession and the impacts there.

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

C. *Calendar Year 2020 First Quarter Budget Report*

Ms. Martello provided a review of the first quarter budget. She noted that as of March 31, 2020, the budget was estimated to be $2.2 million under budget or 98.7 percent of the budget spent for the year. She reported that claim benefit payments were under by $780,000 and total operational expenditures were also $1.5 million under budget. Further review of the claim benefits payments reflected that indemnity was higher than expected by $854,000 which was then counterbalanced due to the budget being under in medical costs by almost $1 million. She noted there was a slowdown in elective procedures, medical appointments and doctor visits which was evident in the reduced number of medical bills being received. She said medical settlements were down $667,000 for the first quarter; however, based on the activity in April and May, those settlement categories are running slightly higher and projections are that if the trend continues, MSF would be over budget by the end of the year. She said that would be reviewed closely at the end of the second quarter.

Chair Zanto asked Ms. Jenkinson if during the COVID-19 crisis, doctors were putting off procedures such as a meniscus tear or a shoulder repair due to the demands on hospitals to address COVID-19 patients? He also asked if that meant the claims would drag on longer?

Ms. Jenkinson said staff has been tracking the impact to MSF's claims through a manual process since March 18, 2020. She said there have been 376 claims impacted either by extending indemnity because the employer sent the employees home or medical treatments for optional surgeries that doctor's offices were not doing. She said there have also been delays due to the inability to investigate the claim for various reasons such as the person is not at work anymore or the difficulty in reaching people. She said on the medical piece, there were a total of 59 claims impacted by having surgeries delayed and 45 of those have now been resolved due to doctor's offices opening back up. She said there were eight claims that needed an Independent Medical

Exam (IME) that were not able to be scheduled; however, those have now been scheduled and completed. She added that there were 32 claims where maximum medical improvement (MMI) or return to work was delayed due to an inability to see a doctor for release. She noted that 25 of those claims have been resolved. She said the medical side is seeing about 75 percent resolution of the issues that were created when everyone closed down. She said since Phase II has begun, the issues are getting resolved and on the indemnity side, she believed 80 percent have been resolved. She noted that the increased use of telemedicine has helped to keep the claim processes moving.

Ms. VanRiper asked if there are any new problems associated with determining if new claims are actually occurring in the workplace which is now their home?

Ms. Jenkinson reported that MSF has not seen basic injuries at home or ergonomic issues yet; however, she noted that even in the MSF staff, there has been an increased need for ergonomic help and support. She said MSF is currently not seeing a lot of those issues yet but she does expect to begin seeing an increase in those claims.

Ms. Martello continued her report and provided a review of the operational expenditures. She noted that with vacancy savings, lower agent commissions, reduced postage and travel and the postponement of the production of the Producer Port Accelerator, operating expenditures were under overall by $3 million. She said that was offset by capital expenditures which were estimated to be $1.9 million over due to the need for additional resources for the PBRI project to get to the implementation phase. She said overall total expenditures for the first quarter of 2020 were approximately $1.5 million under budget.

She provided a review of the unplanned expenditures MSF experienced due to the COVID-19 crisis.

Montana State Fund

MSF Budget Status 2020

Covid-19 Unplanned Expenditures	
Building Sanitizing	$37,500
Remote Work	$20,000
Safety Supplies	$126,310
Computer Hardware	$30,000
Communications	$24,250
Total Projected Covid-19 Expenditures	$238,060

She noted that the safety supplies were personal protective equipment (PPE) that was purchased to supply masks and thermometers to essential workers through grants offered to MSF's policyholders. She also noted that the computer hardware that had to be purchased in order to equip MSF employees to work remotely was $30,000 at the first quarter; however a more recent review of those costs places the amount at $84,000 which includes laptops, jet packs and necessary connection cables. She said the overall cost for first quarter 2020 for COVID-19 unplanned expenditures was $238,060. She said more recent projections place the total amount at $290,000 for the year; however, more than a third of that is related to the purchase of PPE for the grant fulfillments.

Ms. VanRiper noted that President Hubbard had indicated that MSF may buy another round of safety equipment for policyholders and she wanted to go on record that she encourages MSF doing that, particularly for small employers who have been hit particularly hard by the pandemic.

President Hubbard thanked Ms. VanRiper and said her point about purchasing more PPE was well taken.

Ms. Moss said there was a 20 percent adjustment to MSF's projections based on the current reality and asked how MSF will manage the budget projections and the decisions that will have to be made?

Ms. Martello said staff has been looking very closely at the 2020 budget and the changes that have occurred. She noted there were a number of things that have not occurred such as training, travel and conferences which has provided MSF with additional funds to cover the unexpected costs that have arisen. She added that staff is also reflecting on the changes made and will be made to determine what has been learned from this and what opportunities there are to do business a little differently going forward.

Mr. Burzynski added that the financial projections for the next seven to eight years have been completed and for the recovery of the economy, the assumption is that the lost 20 percent for this year will be recovered gradually over the next three years. He said the executive team has begun the conversation of what the new norms will be based on the new reality and how MSF's resources will be deployed.

Chair Zanto called for additional 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, 2020 for policies with coverage effective between July 1, 2017 and June 30, 2018. She clarified that action will allow for the analysis to be prepared for the September 11, 2020 Board Meeting.

Mr. Mohr move the Board approve management's recommendation to utilize June 30, 2020 as the date to value premium and incurred losses on new and renewal policies from July 1, 2017 through June 30, 2018 for potential dividend calculation purposes. Ms. Moss seconded the motion. Chair Zanto called for questions or comments from the Board and the public; seeing none, he called for the vote. The motion passed unanimously.

E. Old Fund Variance Report – State Fiscal Year 2020 Third Quarter

Ms. Martello provided the third quarter status report for the Old Fund which ended on March 31, 2020. She said the overall funding estimate for State Fiscal Year 2020 was forecasted to be $2.9 million under the annual funding estimate or only 77.2 percent of the funding to be spent. She said there were some large settlements that did not occur as planned and explains the forecasted variance.

She said indemnity was slightly over the estimates; however, the medical variance offset that. She said operational costs are expected to be $25,000 under the estimate and noted that there is no longer the expense limit on administrative expenses. She said that was set at $625,000 for two prior years; however, with more claims closing operational expenditures are running close to that amount. She added that the Department of Labor and Industry assessments are based on the claim benefits paid and those were on track with what was expected. She said allocated loss adjustment expenses were $10,000 under due to the need for less legal costs.

Chair Zanto called for additional questions; there were none.

F. *Old Fund Funding Estimate – State Fiscal Year 2021*
Ms. Martello provided the FY21 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 to be paid out of the General Fund. She said the total FY21 Old Fund funding estimate was $8.6 million. She said claim benefits comprise approximately $7.7 million and total operational expenses are projected to be $896,000.

She provided a review of the 31-year life span of the Old Fund from 1991 to date. She said the first year, almost $100 million was paid out in benefits by 1997 when benefit payments dropped to under $20 million. She said since that time, the average benefit costs have been around $10 million per year. She said there were fluctuations year to year due to claims reopening and new claims that were filed in the Old Fund and the most recent fluctuations beginning in FY16 were increased based on settlement activity that was occurring. She noted that current estimates are for that total to decrease again.

Ms. Martello said there is a decreasing trend in total claims in the Old Fund and noted that at the beginning of 2020 there were 554 Old Fund claims, one new claim during 2020, 20 that reopened, 66 that closed and as of April 30, 2020 there were 509 total claims.

She provided the funding estimate for the FY21 Old Fund claims and noted that the cost of administering the Old Fund was estimated at $594,500 with total operational expenses at $896,684.

State of Montana – Old Fund
FY21 Funding Estimate

Claim Benefit Payments	$7,691,956
Operational Expenses	
Administrative Cost	$594,500
Assessments	141,792
ALAE	160,392
Total Operational Expenses	$896,684
Total Old Fund	**$8,588,640**

Chair Zanto called for questions; there were none.

Chair Zanto moved the Board approve the executive staff recommendation of $8,588,640 for the FY21 Old Fund estimated benefit payments and administration costs for reporting to the State of Montana for funding from the general fund. Mr. Larsen seconded the motion. Chair Zanto called for questions or discussion from the Board and the public; there were 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 20 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 business, economic and political environment impact of the COVID-19 pandemic since March 2020 has been dramatic and is likely to be felt for the foreseeable future. He provided additional information to be considered during the Board's compensation considerations. He said the compensation review is for the performance review period January 1, 2019 to December 31, 2019. The AASCIF survey data was effective December 31, 2019 and was based on changes in compensation in the 2019 calendar year. He reported that over 70 percent of AASCIF Group A CEO's have their compensation reviews conducted in the January 1 to March 1 period each year and accordingly, the majority received their 2019 incentive pay outs and their 2020 base salary changes before the impact of COVID-19. He added that it is anticipated that more of the impact of COVID-19 on AASCIF CEO compensation will be seen in the December 2021 survey.

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.

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 as it relates to the setting of his compensation?

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.

B. *Meeting Closed to the Public*

Chair Zanto announced the closure of the meeting at 11:59 am and stated that it would be reopened after the discussion of the President/CEO's individual performance as it relates to the setting of his compensation.

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 1:54 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. He noted that the session included discussion about goals and objectives for MSF.

B. *President/CEO's Annual Compensation*
Chair Zanto said they spoke about his salary and his goals called for a motion to set President Hubbard's annual compensation.

Mr. Molloy moved that the Board defer consideration of the CEO's compensation package to the December 2020 Board Meeting. Ms. VanRiper seconded the motion. Chair Zanto called for questions or discussion.

President Hubbard thanked the Board for consideration of the market data that Mr. Kenning presented and the letter he had submitted requesting deferral of his compensation review. He noted that given the times and circumstances where many Montanans and Montana businesses are struggling to make ends meet, he felt it was in the best interest of MSF to defer that consideration.

Mr. Molloy thanked President Hubbard for voluntarily taking that position and noted that he and the Board appreciated his action on this issue.

Chair Zanto thanked President Hubbard as well.

Chair Zanto for further comment from the Board and the public; there was none. He called for the vote and the motion passed unanimously.

C. *Budget Amendment for the Calendar Year 2020*
President Hubbard explained that this agenda item was not necessary based on the deferral of the President/CEO's compensation consideration to a later date.

VII. Old Business/New Business

Chair Zanto called for Old or New Business; there was none.
He noted that the new business was COVID-19 and commended and thanked MSF's vice presidents for working strong and hard to work MSF's way through it. He said the Board was keeping its finger on the pulse of MSF and would continue to do so throughout this process.

VIII. Public Comment

Chair Zanto called for public comment. There was none. He reminded attendees that they could still submit public comment after the meeting by emailing vboucher@mt.gov.

The meeting was adjourned at 1:58 p.m. The next scheduled Board Meeting will be held on Friday, September 11, 2020 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