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MONTANA STATE FUND
BOARD OF DIRECTORS MEETING
March 13, 2020

The Montana State Fund (MSF) Board of Directors meeting was held March 13, 2020 in MSF's Board Room at 855 Front Street, Helena, Montana 59601.

Directors Attending

Lance Zanto, Chair, Helena
Jan VanRiper, Missoula (via Skype)
Matthew Mohr, Bozeman
Lynda Moss, Billings (via Skype)
Jack Owens, Missoula
Jim Molloy, Helena

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
Dan Gengler, Internal Actuary
Darcie Dunlap, Senior Actuarial Analyst
Rene Martello, Controller
Will Anderson, Underwriting Services Leader
Shannon Copps, Director, IT Plans & Controls
Peter Strauss, Compliance Officer
Nick Hopkins, Marketing and Bus. Dev. Mgr.
Patti Grosfield, Internal Auditor

Others Attending

Rep. Derek Harvey, Butte
Tara Boulanger, CSI
Russell Ehman, CSI
Russell Greig, Willis Towers Watson (via Skype)
Neville Kenning, Kenning Consulting (via Skype)
Rep. Joshua Kassmier, Fort Benton
Kerri Emmons, IIAM
Troy Smith, CSI
Scott Tuxbury
Pat Murdo, LSD

I. Meeting Preliminaries

A. Call to Order

Chair Lance Zanto called the meeting to order at 8:35am. He welcomed and thanked all attendees for participating and noted that due to the need to social distance as a result of the COVID 19 virus Board members Jan VanRiper and Lynda Moss were participating via Skype as would two presenters; Russell Greig, Consulting Actuary from Willis Towers Watson and Neville Kenning. Board CEO Compensation consultant from Kenning Consulting. He noted that due to an emergent issue, Cliff Larsen was not able to attend. He said that despite Montana not currently reporting any COVID 19 cases, attendees were encouraged to limit contact and social distance as much as possible to limit their exposure.

B. Approval of December 13, 2019 Minutes.

Chair Zanto called for a motion to approve the December 13, 2019 minutes.

Jim Molloy made a motion to approve the December 13, 2019 minutes as presented. 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 took a moment to welcome Scott Tuxbury, a candidate for Commissioner of Securities and Insurance and also noted that Representative Derek Harvey, one of MSF's Legislative Liaisons to the Economic Affairs Interim Committee was also in attendance.

President Hubbard requested a moment to address the Board regarding MSF's actions to address limiting staff exposure to potential COVID 19 contractions. He said MSF has requested that staff practice social distancing and try to create space between people whether individual or in meetings. He noted there is a lot of information and misinformation on the internet and MSF leadership is utilizing guidance from state and local health officials as well as the Center for Disease Control (CDC) and the World Health Organization (WHO) on how to best limit exposure. He said COVID 19 is a worldwide pandemic and he was hopeful that the actions MSF had taken, such as social distancing, implementing disinfection procedures, limiting and restricting employee business travel and restricting building visitors, will help to slow the inevitable spread of the virus. He added that staff continue to explore work-from-home options and if an employee should exhibit symptoms while at work, they will be immediately sent home. He offered to address any questions Board members may have.

Chair Zanto reminded attendees that the meeting was being live streamed and to please speak into the microphone for comments or presentations.

II. Ratemaking Decisions for July 1, 2020 to July 1, 2021

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

Ms. Dunlap explained how a loss cost filing from the National Council on Compensation Insurance (NCCI) was used to establish MSF's rates effective July 1, 2019. 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, 2020.

She said NCCI recognizes nearly 560 different class codes in Montana and MSF writes business in approximately 430 of those codes. She explained that loss costs are what NCCI's actuaries estimate needs to be charged to cover workers' compensation losses and loss adjustment expenses in each state. She further explained how the rates are determined for MSF as well as for other carriers and provided a comparison of MSF's loss cost multipliers by rate tiers to the rest of the Montana market noting that MSF's rates are not the lowest or the highest. She said the majority of MSF's business is written in tiers 2-4. She said the loss cost multiplier is just the starting point for pricing a business and that scheduled rating, construction credit, volume discount and experience rating are all examples of other pricing variables that are included to impact the final premium for any account.

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 determine how accounts are assigned to tiers one through five, 3) 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 and 4) determine the loss cost multipliers for the five rate tiers. She noted that the decisions the Board makes at this meeting will determine what MSF files with CSI for rates and pricing effective July 1, 2020.

Chair Zanto called for questions. There were none.

B. NCCI Montana Loss Costs Filing Update Effective July 1, 2020 – Darcie Dunlap, Senior Actuarial Analyst

Ms. Dunlap 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. She 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, 2020.

She said NCCI filed an 8.1 percent decrease in loss costs in Montana. The decrease is a statewide average and the change varies by individual class code. She explained that NCCI determines the loss costs for each class code by reviewing the past payroll and loss experience within each code. The class codes are then categorized within five different industries which reflect varying average decreases from minus 7.4 percent to minus 9.3. NCCI limits the change allowed by industry to plus or minus 25 percent. She said for MSF's inventory of 428 class codes, the loss cost for 28 codes increased with a maximum of a little less than 16 percent and only four codes had no change in their loss cost from last year. She noted that all other class codes decreased and the largest decrease was 33 percent.

Ms. Dunlap explained that NCCI identifies overall loss cost change with three main components: 1) change in experience and trend which was minus 9.8 percent, 2) change in benefits which was plus 0.7 percent and 3) change in loss adjustment expenses (LAE) which was plus 1.2 percent. She said the 1.2 percent LAE increase is due to NCCI raising Montana's LAE factor from 14.9 percent last year to 16.3 percent for 2020. She noted that this was one of the largest LAE increases MSF had seen from NCCI in recent filings. She said MSF feels the NCCI increase was an acceptable change and going in the right direction.

She said NCCI experience and trend indications are developed using three years of losses and premium and also looking at 12 years of frequency and severity levels to determine the overall loss ratio trend. She said MSF has also observed that losses are in a declining pattern; however, NCCI applies their selected trend for three to five years beyond the experience years and that prediction for that many years may be a strong assumption. She explained the variations between NCCI's recommended loss costs for Montana and MSF's loss costs beginning in 2000. She also noted that over the past two years, MSF has been diverging upward from NCCI because MSF serves as the guaranteed market in Montana, we have higher estimates for LAE and our actuarial trends indications differ.

Ms. Dunlap said management requests the approval of the July 1, 2020 NCCI loss cost filing as the basis for MSF's upcoming rate year. She noted that the approval does not mean MSF's rates will match NCCI's loss costs; it simply means MSF will establish its rates using NCCI's most recent loss cost filing as its base or starting point. She added that MSF's variances will have to be justified with CSI when MSF files its rates.

Chair Zanto called for questions.

President Hubbard clarified that MSF's actuaries apply careful consideration of the nuances of medical trends and severity specific to MSF to determine rate levels that are more appropriate for MSF. He noted that NCCI files loss costs in more than 30 jurisdictions around the United States while MSF's actuaries concentrate on MSF's book of business to deviate, if necessary, from NCCI's loss cost levels.

Chair Zanto asked if MSF's book of business was seeing employers in Montana taking a more aggressive role in returning injured employees back to work to reduce the indemnity costs in workers' compensation.

Ms. Dunlap said that in terms of frequency, MSF is seeing declining patterns though those declines are tapering off a bit. She said over the past few years, declining decreases have been observed which could be attributable to businesses being safer in their behaviors. She said indemnity severity is relatively flat with a slight increase which is due to wage inflation.

President Hubbard asked about the trends in medical.

Ms. Dunlap said there have been some increases which are attributable to medical inflation. She said as the cost of medical expenses grow, that cost trend increases. She added that there is also information in MSF's medical severity levels due to the settlement activity that has been occurring over the past several years which causes the levels to appear higher until the settlement activity levels off.

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

C. *Adopt NCCI Filings/Loss-Costs Filing Effective July 1, 2020 – Darcie Dunlap, Senior Actuarial Analyst*
Chair Zanto called for a motion.

Matt Mohr made a motion the Board adopt the NCCI filed loss costs for rates applicable to new and renewable policies effective July 1, 2020 to July 1, 2021 for Montana State Fund classification codes. Mr. Molloy 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.

President Hubbard clarified that it would be necessary for the Board members who were Skyping into the meeting to indicate to Melissa Iverson, the monitor of the Skype meeting, what their vote would be via the Chat feature in that program.

Chair Zanto welcomed Rep. Joshua Kassmier, the other Legislative Liaison to the Economic Affair Interim Committee to the meeting and apologized for not seeing him earlier.

D. *Multiple Rating Tiers and Certification – Darcie Dunlap, Senior Actuarial Analyst*
Ms. Dunlap presented management's request for the approval of MSF's Tiered Rating plan for the July 1, 2020 renewal process. She said MSF's objective in pricing is to match the rate level with the insured's statistical tendency to generate loss; however, MSF provides coverage to anyone who needs it. MSF insures approximately 25,000 policies per year and three-quarters of those have premiums under $5,000. She said the tiered rating model, created by the external actuaries, works in conjunction with experience rating to help reach an appropriate starting point for all of those policies. The tiered rating process must be actuarially sound and is certified annually by MSF's independent consulting actuary, Willis Towers Watson. CSI's actuaries have approved past filings that have included this same tiered rating criteria.

She said the rate tiers provide differentiation around MSF's average rate tier or Tier 3. She said the actuarial basis for the tiered rating program provides credits to Tiers 1 and 2 and debits to Tiers 4 and 5 which brings everything closer to average and provides pricing equity across MSF's book of business. She said the majority of MSF's business falls in Tiers 2, 3 and 4 while Tiers 1 and 5 are exceptions and contain very little of MSF's business. She noted that by policy count the distribution is different as MSF's book of business is dominated by small accounts. She said 52 percent of MSF's business has $1,500 or less in premium. She said businesses are most frequently assigned to Tier 2; however, businesses with no prior history generally begin in Tier 4 or 5. She noted that as they establish a sufficient track record of loss-free experience, they progress to lower-rated tiers.

Ms. Dunlap said the rate tier model that has been used since 2015 was developed by MSF's external actuaries. This model is based on three variables which the actuaries determined were statistically correlated with the potential risk of incurring loss. The variables are: 1) three-year claim frequency which is the count of three years of claims divided by the premium of those three years, 2) account size which is based on the premium for the upcoming year and 3) claim-free tenure, which is the numbers of years a policy has gone claim free up to ten years. She noted that only claims at the $500 or more level are considered for the three-year and ten-year considerations.

Montana State Fund

Tiered Rating 2.2 – Table of Factors

Effective 7/1/2020 **No Change from Prior Year**

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

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

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

Rate Tier Assignment Ranges		
	Overall Factor	
	Lower	Upper
Tier1	0.000	0.870
Tier2	0.870	1.100
Tier3	1.100	1.250
Tier4	1.250	1.600
Tier5	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.

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

She shared the table of factors depicted above and noted that there is a one-tier swing limit upon renewal each year.

Ms. Dunlap said management requests the Board approve the tiered rating plan 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 meets statutory standards of not being unfairly discriminatory.

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

Mr. Molloy made a motion the Board approve, for new and renewal policies effective July 1, 2020 to July 1, 2021, the Tiered Rating Plan which consists of five rating tiers and that policies be assigned to the tiers based on the factors as presented by management. Mr. Mohr 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 Burzynski, VP Corporate Support

Mr. Burzynski explained that management was recommending no changes to, and 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, maintaining and auditing policies. The cost is the same for every policy that MSF writes and the current level for the expense constant is $185 per policy.

He further explained that the minimum premium which is primarily charged to small accounts which have little or no payroll, would remain at $240.

Mr. Burzynski said MSF has approximately 5,000 policyholders that are affected by minimum premium, which is 21 percent of MSF's policyholders; however, it makes up only one-half of one percent of MSF's total premiums. He clarified that over the past six operating years, the loss ratio for this group of policyholders has been 1.03 which means MSF has spent three cents more than it has collected in premium; however, he said if you remove 2014, which had a loss ratio of 1.33, the overall loss ratio would be just below 1.0. He said MSF is serving these small accounts very well, consistent with its mission, vision and values.

He also noted that the expense constant 11 years ago was $155 and over that period of time, the increases to the expense constant reflect a 1.6 percent average annual increase. He said minimum premium is being held at a low level because over the past nine years, the average annual decrease in frequency is nine percent which more than offsets the medical costs and indemnity premiums.

He said management recommends continuation of an expense constant of $185 and the minimum premium level of $240 for a combined overall total would be minimum premium of $425 be maintained.

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

Chair Zanto made a motion that the Board approve an expense constant of $185 for all new and renewal policies effective July 1, 2020 to July 1, 2021. In addition, Chair Zanto moved the Board approve the amount of $240 for the loss-based portion of the Minimum Premium so that the total Minimum Premium is $425 for new and renewal policies effective July 1, 2020 to July 1, 2021. The motion was seconded by Mr. Owens. 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 – Will Anderson, Underwriting Services Director*

Mr. Anderson presented a number of additional ratemaking decisions the Board would be asked to address.

1. Schedule Rating

Mr. Anderson explained that the schedule rating plan is plus or minus 40 percent modification with a $15,000 threshold in premium for a policy to be considered eligible for scheduled rating.

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%

He said the graph depicted above illustrates the categories to which underwriters can apply schedule rating credits or debits, and the corresponding amounts.

He said there have been some significant changes to MSF's manual rates over the past ten years and for rate year 2021, MSF is recommending a change to its schedule rating premium eligibility threshold. He noted that manual rates have declined by 45.2 percent since 2010 which means a policy that generated $15,000 in premium ten years ago is now generating slightly over $8,000 and in most cases the characteristics of these accounts have not changed a lot but would no longer be eligible for scheduled rating. These accounts probably had return-to-work programs, safety programs, experienced management and other programs that could help them qualify. He said MSF is recommending a change from $15,000 in premium down to $5,000.

Chair Zanto asked if by making this change, MSF would be allowing more policyholders to qualify for the schedule rating opportunity, credit or debit?

Mr. Anderson said that was correct. He said MSF has approximately 3,000 policies between the $5,000 and $15,000 range and the majority of those policies will not meet the criteria; however, there are some smaller policyholders who have developed more sophisticated programs that would allow them to qualify.

He added that MSF's average weighted schedule rating factor on a net basis for last year was approximately a 4.5 percent credit or discount and this segment of business is not expected to cause much variation from that. He also noted that this segment of business has performed pretty well on a five-year basis with ultimate loss ratios of around 65 percent which indicates there will not be a lot of disruption in that book of business; however, MSF is missing out on opportunities to properly price some business in that premium range category.

2. *Employer's Liability*

Mr. Anderson explained that no change from the existing filing is being recommended. He said these NCCI tiers are adopted for employer liability charges and minimum premium. MSF does not have a charge for the basic limits and there is a slight premium charge for the optional additional limits.

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. Anderson said there was a change to the business practice regarding deposits in mid-2019. MSF had a business practice of charging a deposit when a policyholder selected a reporting-type policy which means their premium is derived from the payroll that is reported to us on a monthly, quarterly or semi-annual basis. He said historically, that deposit was collected as collateral to protect MSF from bad debt exposure; however, MSF analysis determined that this exposure did not actually warrant the need for the deposits. He said policyholders, agency partners and staff were indicating that the deposit policy was complicated and not appreciated in the marketplace. He said the analysis found that MSF does not have a bad debt exposure and that over a seven-year period the bad debt write offs were about six one hundreds of one percent. He said the decision was made to eliminate the deposits and approximately $1.6 million of deposits was returned to policyholders.

He said management was also asking the Board to continue to allow MSF to have the ability to charge deposits in the future should an unforeseen event in the economy make that necessary. He said should MSF elect to require a deposit, the premium will be held from year to year with appropriate adjustments and in the form of cash only.

Chair Zanto called for questions; there were none.

4. Short Rate Premium
Mr. Anderson there was no change from MSF's prior practices or filings. MSF has never used a short rate premium which essentially imposes a penalty to a policyholder who elects to cancel the policy before the expiration date. He said MSF uses a pro-rata approach to the day of coverage and there are no plans to change that.

5. Payroll Versus Per Capita for Domestic Workers
He said MSF diverges with NCCI on how the exposure of domestic workers are handled. He said NCCI made a change approximately 20 years ago as to how the premium is to be derived from a payroll-basis to a per-capita basis. MSF did not make that change primarily due to the current computer system not being able to support that rating functionality. MSF has been using payroll for the basis of calculating premium for these workers since inception and intends to continue to do so until the Policy Center, which will have the functionality, goes live. MSF has sought approval from CSI to continue this process through 2020.

Chair Zanto called for questions; there were none.

6. Volume Discount
He said the volume discount program is MSF specific and there are no requested changes in the rate filing recommendation from the prior year.

Mr. Gengler, when asked if these levels had ever changed, reported that they had not primarily due to them remaining consistent with the expense ratio needs.

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
Mr. Anderson said the retrospective rating parameters being proposed for 2021 are available for larger policyholders. The minimum premium to qualify for one of these plans is $100,000, which offers a risk-sharing policy to the policyholder. The policyholder may pay more or less than a guaranteed-cost type plan depending on their loss experience. The policyholder is taking the risk that their losses will come out more favorably than expected; if that is the case they will see a return, if not they will owe additional premium. He said MSF does not have a lot of policies in these programs. He said the parameter values are actuarially derived and the process follows the NCCI filed and approved rating methodology.
He said there were no substantive changes to what was approved last year; however, there are updates to items based on MSF's experiences; however essentially very minimal changes.

Chair Zanto called for additional questions; there were none.

Mr. Mohr moved the Board to adopt management's recommendations for the following additional ratemaking decisions to apply to new and renewal policies effective July 1, 2020 to July 1, 2021, as follows:

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

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 explained that Russel Greig, MSF consulting actuary from Willis Towers Watson was attending via Skype and would be completing his presentation through Skype.

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 a rate level change for policies incepting from July 1, 2020 to June 30, 2021. He said consistent with prior years, an analysis was conducted of rate level changes to provide management indications and support of targeting a reasonable contribution to policyholder equity for the financial risk of the cost of work-related accidents that MSF assumes from Montana employers. He noted that insurance is the only product where the price of the product is determined before the major costs are known.

He 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.

Mr. Greig noted after the ultimate actuarial central estimate is selected, the historical ultimate losses are adjusted so the future loss provisions for 2020/2021 can be selected. The selected low future loss provision is 66 percent expected loss ratio or ELR (based on manual premium at Tier 3 rates), the actuarial central future loss provision is 70 percent ELR and the high is 76 percent ELR. He said after projecting future loss amounts, expenses are then added in and for MSF the loss adjustments expense as a percent of loss is 18.6 percent and other expenses as a percent of earned premium is 26.2 percent. He said both expense components are lower compared to what is being seen for private carriers as listed in A. M. Best Aggregates and Averages information.

He said premium is received during the year; however, claims are paid out over many years. MSF recognizes that the economic value of cash flow results in lower premiums. He said management considered a reasonable range of investment yields ranging from 2.75 percent to 3.5 percent.
Mr. Greig said the last piece that has to be rolled in is the contribution to policyholder equity. This recognizes the transfer of risk from the individual employer to MSF. He said the contribution to equity is there to build or maintain policyholder equity-to-target levels. He said rate making by definition is addressing future costs and coverage.

Jan VanRiper asked what Mr. Greig meant by the economic value of cash flow which allows MSF to reduce premium?

Mr. Greig said that is the fundamental principle in finance that a dollar that you receive in the future is worth less today or alternatively, a dollar that you get today is worth more than a dollar that you get in the future. He said they are essentially calculating and reflecting in the rate-level change the present value of MSF's losses coming from the 2020 year.

Mr. Greig presented the summary of indicated contributions to policyholder equity depicted below.

Summary of Indicated Contributions to Policyholder Equity

Projected Contributions to Policyholder Equity			
Rate Level Change	High Estimate	Actuarial Central Estimate	Low Estimate
-2.0%	2.3%	-2.1%	-8.7%
0.0%	4.1%	-0.2%	-6.7%
+2.0%	5.8%	1.6%	-4.8%
+4.0%	7.4%	3.3%	-3.0%
+6.0%	9.0%	4.9%	-1.2%
+8.0%	10.5%	6.5%	0.5%
+10.0%	12.0%	8.1%	2.2%
+12.0%	13.4%	9.5%	3.7%

Assumed Investment Yield on Underwriting Cash Flow: 3.25%

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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 said that in the past discussions on this topic the spread was not as large and asked why the rate-level change goes from negative two percent to positive 12 percent?

Mr. Greig replied that it is to highlight the variability and to essentially show the resulting contributions to equity that come from the rate-level change. He said, yes, this is going from a shorter range of rate-level changes to larger. He added that consideration must also be given to the NCCI filing versus MSF's filing. MSF's data is fresher and utilizes multiple methods. He added that in terms of positive rate-level changes, earlier reporting indicated that NCCI projected significant negative trends in frequency and loss ratio trend. He said he has observed that several clients that through last year when unemployment was running very low, he is seeing clients where frequency is beginning to tick up as well as medical severity costs increasing. He said the market was lulled into a very favorable environment knowing that it would eventually turn and there are questions now as to whether we are hitting that turning point. He said based on those considerations, he believes it is reasonable to begin to show that 10 to 15 year streak of no rate increases could be ending.

Chair Zanto commented that he thought it was important for the Board to understand that MSF has not seen a rate increase for 13 years. The rate has either been flat or decreased over that time period.

Ms. VanRiper asked for clarification about the assumed investment yield on underwriting cash flow of 3.25 percent?

Mr. Greig said in conducting their analysis, they used 3.25 percent to calculate the present value to discount the losses from when they are paid out in the future. He said that is an assumption that has not changed from last year.

Mr. VanRiper asked if that 3.25 percent represents an estimate of what kind of interest yield will be on investments?

Mr. Greig said she was correct; however, that 3.25 percent applies only to premiums coming in for July 1, 2020 through June 30, 2021.

Ms. VanRiper asked if in light of what has happened the last few weeks in the stock market Mr. Greig felt comfortable with that number.

Mr. Greig said that is a question for MFS's investment managers.

President Hubbard clarified that this discount rate management is recommending to the Board is the same discount rate as last year for rate making purposes. He said it is watched over time in terms of the actual yield on our cash flow that the Board of Investments manages for MSF. He said with the declining economy and market performance we can naturally expect downward pressure on the investment yield for any new dollars invested in the market. He said over time, we are looking at the discount rate that these underwriting dollars we receive during the policy period are actually held for an average of five to seven years which is our average duration of claims. He said he would anticipate that those returns would be invested at higher levels later which means these dollars are not spent just when the market is up or down. They are actually held over a longer period of time in the form of bonds and other securities. He said MSF is taking a longer view of the return; not just a moment in time view. He said that is a judgmental call and the effect of assuming a lower investment yield would put upward pressure on the rate indication to maintain a contribution to equity at whatever level. He said a lower investment yield assumption would put upward pressure on the manual rate indication for the Board to consider. He noted that this is one of the factors in management's recommendation that the Board will need to be comfortable with in order to take action today. He said he is an optimist and likes to believe that the average rate of return over a longer period of time might in fact be the average rate of return we can expect on these invested assets; however, he said Ms. VanRiper was correct, we are in very uncertain times right now and the markets recently dropped lower than they did the first year of the great recession in 2008. He said the economic uncertainty that is being seen now is not the assumption that MSF is making for purposes of the long-term return on the cash flow.

Ms. VanRiper asked if he was saying that this is a short-term estimation over five years or so?

President Hubbard said it is a longer-term estimation in recommending 3.25 percent, expecting that the markets will behave more in terms of historical levels which supported last year's recommendation of the same discount rate. He said he is encouraging the Board to think about the current economic downturn not being protracted for the next five years to seven years which is the average length of duration that MSF would have for its claim payments. He said if you consider the 85 cents we receive today from our customer, we are going to hold that for an average of five to seven years before it is paid out. He added that MSF's investment strategy is to look forward to what it is believed the markets might do in the next five to seven years and selecting an appropriate or reasonable discount rate. He said based on the performance of MSF's invested assets, that 3.25 is a reasonable assumption.

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

IV. Ratemaking Decisions for July 1, 2020 to July 1, 2021 – Laurence Hubbard, President/CEO

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

President Hubbard noted that the Board has taken action to adopt NCCI's loss cost filing as a basis for making a rate recommendation to the Board. He said the Board must now select the manual rate change on average that MSF will need to charge customers for the exposures to incur post July 1, 2020 for the policy year. He said based on that decision the Board will then make a decision on what are the loss cost multipliers to implement the Board-approved rate-level indication. He said he appreciated the Chair's comment on the number of years of no rate increases and those years indicate a positive result for MSF's customers, Montana's economy and for MSF. He said losses and loss trends move in cycles and there have been many years in MSF's history where such factors as rate pressure, medical inflation, and wage inflation have caused management and the Board to take into account the appropriate level of change that is necessary to cover the losses and operational expenses that MSF has for its customers.

He said this also puts into stark view the importance of policyholder equity when it comes to managing the rate level for MSF's book of business for customers over time. He said one of MSF's philosophies is to play the role of a stabilizing force in the workers' compensation market as much as possible. He noted that if there were tremendous economic reversals that took a dramatic impact on loss reserves and required the Board and management to raise loss reserves that would stress the level of equity, the savings that MSF has. The Board may then find it necessary to take rate action to replace and build the financial strength of the company. That could happen and has happened so it is reasonable that these trends could reverse. He said the important thing with regard to management's recommendation to the Board is to look at all of the mechanisms MSF has in place to absorb changes in trend, positive or negative. He said maintaining stability is an important policy for MSF.

President Hubbard said MSF has achieved and maintains its financial strength goals which is expressed as a reserve-to-equity ratio and the Board will have that discussion again in September when considering dividend declarations. He noted that MSF operates at an underwriting loss because our rates are discounted and investment income and changes in the asset values actually make up the difference. That allows MSF to maintain a stable and financially strong balance sheet, not a profit but a reasonable contribution to equity as the Board deems appropriate.

He noted that there are some trends that suggest there may be upward pressure on the rate level going forward. There have also been improvements to settling claims and shortening the duration of claims. He said the positive business operational results being seen today within MSF's book of business will ultimately wind into MSF's rate-level indications. He said it is quite possible that the recommended 70 percent loss ratio which is the same as last year, may go down due to our experience. He said he believed that MSF would see some future positive results of its actual experience; however, there is not enough in the data right now to observe that.

President Hubbard said on that basis, and assuming a 3.25 discount rate with the longer-term expected return on cash flow from the underwriting dollars that MSF receives, he recommended that MSF maintain rates with a zero change. He said he did not believe there was any necessary contribution to equity required for the policyholders and therefore would not recommend a rate increase. He said his recommendation is a zero percent manual rate change for MSF policyholders for the policy year beginning July 1, 2020.

Chair Zanto noted that this item was discussed by the Board quite a bit leading up to this meeting. He said the Board felt that the current market conditions needed to be watched and heeded if necessary; however, it was not necessary to be reactionary at this time. He said he felt the Board was in a good position to decrease or increase rates and said he agreed with a zero percent rate change given the stressors that employers would be dealing with over the next year and certainly over the next six months. He said this is MSF's effort to maintain the costs for employers.

Mr. Owens said he believed President Hubbard and the management team and the MSF employees do a great job in maintaining a good work environment, not increasing rates and keeping expenses low and he said he appreciated it.

Mr. Molloy said he agrees with the zero percent recommendation and said that holding rates constant for the coming year is a benefit for the policyholders and did not believe a rate decrease could be justified at this point.

Ms. VanRiper commented that she believed there were a number of liberal assumptions built into the considerations not the least of which was the investment yield and not making a contribution to equity. She said she realized this was being done in order to keep the rates level as long as possible which she thought was laudable. She said she will support the recommendation. She added that given the liberal estimates and no contribution to equity and the uncertainty of the market, she would hope that the legislature does not again, during the next session think that it would be prudent to take any money out of our equity for other purposes.

Mr. Mohr said he had no comments other than that he supported management's recommendation of zero percent.

Ms. Moss thanked Mr. Greig for his informative presentation and said she supports the recommendation. She said it is very important for MSF and the expertise of the staff and the decisions that the Board makes over the year to really provide some stability to our small policyholders and the majority of our customers who are small business owners during this time. She said perhaps we will see in six months what the impact of the latest pandemic will be on our investments at BOI. She added that BOI has a very conservative approach to investing so hopefully their management will also help us with the equity that MSF currently holds.

President Hubbard said he believed the only liberal assumption built into this recommendation was the discount rate and the other factors were rather conservative. He said later in the meeting, the Board, with the guidance of BOI, will be considering ways to increase some of the rate of return on MSF's portfolio.

Chair Zanto called for further comments or questions; there were none.

Mr. Mohr made a motion that the Board adopt a zero percent overall change in rates with no additional contribution to policyholder equity for new and renewal policies effective July 1, 2020 to July 1, 2021. Mr. Owens seconded the motion. Chair Zanto called for discussion, questions or comments from the Board and the public. Seeing none, he called for the vote and the motion passed unanimously.

B. Loss Cost Multipliers and Components – Darcie Dunlap, Senior Actuarial Analyst

Ms. Dunlap presented the proposed lost cost multipliers based on the zero percent rate reduction from current rates. She explained that each of the rate tiers begins with a comparison to the NCCI loss costs. She noted that the loss costs variances will need to be justified to CSI in MSF's rate filing. She said to get to the manual rate other expenses must be included: general and acquisition expenses, offsets for underwriting credits/debits, contribution to equity and offsets for investment income. She said the proposed rates have been expressed in relation to the NCCI lost costs as five LCMs. She explained that whatever the loss cost is for a particular code, say Tier 3, the loss cost for that class code is multiplied by 1.525 to attain the tier rate. She further explained that though MSF is not making a rate change, the LCMs will not be the same as last year's because the NCCI benchmark has changed.

Montana State Fund

Recommended Loss Cost Multipliers

(0% Rate Change)

Analysis of LCM Components

	Tier1	Tier2	Tier3	Tier4	Tier5
Loss & LAE	0.950	1.139	1.266	1.519	1.836
Offsets for UW Pricing	0.102	0.122	0.136	0.163	0.197
Genl & Commission Expense	0.233	0.280	0.311	0.373	0.451
Profit & Investment Income	-0.141	-0.169	-0.188	-0.226	-0.273
Loss-Cost Multiplier	**1.144**	**1.373**	**1.525**	**1.830**	**2.211**

Ms. Dunlap provided the above summary of the LCMs that will be filed with CSI. She noted that MSF requested that the consulting actuary review the proposed LCMs and Willis Towers Watson also approved them. She said these are the LCMs that the Board would need to approve to implement the zero percent rate change.

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

B. *Adopt Loss Cost Multipliers for new and renewal policies effective July 1, 2020 to July 1, 2021.* Chair Zanto called for a motion.

Mr. Molloy made a motion the Board adopt loss-cost multipliers as recommended by management to be applied to the loss-costs as approved by the Board, resulting in rates for new and renewal policies effective July 1, 2020 to July 1, 2021 as follows:

For Tier 1, a loss-cost multiplier of 1.144
For Tier 2, a loss-cost multiplier of 1.373
For Tier 3, a loss-cost multiplier of 1.525
For Tier 4, a loss-cost multiplier of 1.830, and
For Tier 5, a loss-cost multiplier of 2.211
Chair Zanto 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. Presumptive Disease Coverage – Kevin Braun, General Counsel

A. *Optional Coverage for Volunteer Firefighters*

Kevin Braun introduced the Board to the presumptive illness coverage issue for firefighters. He said there are some issues that would need Board attention and potential action. He said Senate

Bill 160 (SB 160) which passed in the last legislative session provides presumptive disease coverage for firefighters provided that they satisfy the pre-requisites. He said there are several different criteria, including no smoking for paid firefighters and service requirements such as terms of years. He said this bill went into effect on July 1, 2019 and applied immediately to paid firefighters and there was a retroactive applicability to the years of service component to give credit if they were working as a firefighter back to July 1, 2014. That meant when the bill went into effect, a person with five years of service credit could potentially go in to satisfy the prerequisite years of service to qualify for the presumptive disease.

He said the presumptive diseases are 12 enumerated conditions that are largely cancers and myocardia infarction or heart disease. He clarified that upon effectiveness of the bill only three of the diseases had immediate applicability, which included breast cancer, leukemia and lung cancer. The remaining conditions require additional years of service before they go into effect. He clarified that MSF does write coverage for both paid and volunteer firefighters; however, there is a very notable difference with regard to the presumptive disease coverage. He said that for paid firefighters, coverage is mandatory and on-going; however, for volunteers, the employer of the volunteer firefighters must elect coverage. They also must elect to have the presumptive disease endorsement in order to have that coverage. The insurance company, at its discretion, can either write the presumptive disease coverage or not. He added that the final consideration is the cost which has been a key issue and was just recently discussed at the Economic Affairs Interim Committee (EAIC). He noted that Representative Harvey sits on that committee and may have interest in this issue as well.

Mr. Braun said for the first time in the workers' compensation act for insurance companies in modern time, there is a limitation as to the maximum amount that would have to be spent on a claim and that is limited to $5 million.

B. *Actuarial Analysis for Firefighters, Russell Greig, Willis Towers Watson*

Mr. Greig presented the actuarial impacts of SB 160. His presentation summarized the Willis Towers Watson analysis of the loss cost impact on MSF related to SB160 Disease Presumption legislation. He said passage of this bill established presumptive workers' compensation coverage for firefighters for certain diseases due to their firefighting activities.

He said MSF management requested that Willis Towers Watson provide analysis to aid management and the Board in evaluating the cost impacts to apply to full-time and volunteer firefighter rates that reflect the increase loss and allocated loss adjustment expenses (ALAE) exposure resulting from SB 160. The report dated January 24, 2020 that was provided to MSF contained a range of reasonable estimates of the loss and ALAE impact. He explained that the range does not reflect a best-case or worst-case scenario, the range of the estimates is a function of things like varying the medical inflation rates ranging from three percent per year, five percent per year or seven percent per year. The years of care were varied from one year, three years or five years and survival rates were also varied from 70 percent to 50 percent and down to 30 percent.

He said the inflation rate for cancer treatments going forward is the largest source of uncertainty. They relied on cancer treatment cost statistics that were published by the Oxford University Press in a 2011 study which provided projections of cancer care costs in the U.S. from 2010 to 2020. He added that there is also uncertainty in the incidence of cancer between firefighters and the general population.

Mr. Greig explained to the Board the methodologies that were used to establish Willis Towers Watson's estimated overall costs for the presumptive disease coverage by MSF. He also provided a review of the key assumptions used to complete their analysis such as average salary, smoker or lives with smoker, and exposure to carcinogens.

Results of Analysis

EXPECTED ANNUAL ULTIMATE LOSS AND ALAE DUE TO DISEASE PRESUMPTION ACTUARIAL CENTRAL ESTIMATE GROSS OF REINSURANCE RECOVERIES			
Exposure Group	**Annual Ultimate Loss and ALAE**	**Rate per $100 of payroll**	**Indicated Surcharge**
Full Time Firefighters	$180,211	$1.147	0.182
Volunteer Firefighters	$489,519	$12.855	2.044
Total	$669,730		

- On a low reasonable basis, our ultimate loss and ALAE estimate is $425,281
- On a high reasonable basis, our ultimate loss and ALAE estimate is $1,022,948

Willis Towers Watson 77

He provided the final analysis depicted above and reviewed it with the Board. He noted that the 18 percent surcharge for volunteer firefighters is consistent with although slightly lower than a comparable study that was completed for North Dakota. Mr. Greig offered to take questions.

Chair Zanto called for questions.

Mr. Mohr thanked Mr. Greig for the report and asked if the annual ultimate loss estimate of $670,000 included all 11 cancers and the myocardial infarction?

Mr. Greig said it did.

Mr. Mohr noted that as of July 1, 2020 this year, only three cancers would be covered, breast cancer leukemia and lung cancer. Mr. Greig agreed and Mr. Mohr asked if it would be possible to create an estimation for just what is covered today?

Mr. Greig said that it would be possible to pare down this cost to reflect just those three cancers. He said the analysts would also need information about the experience for each covered firefighter full time as well as volunteer. He said if the proposed approach is to phase in the covered cancers over time, the tenure would also have to be reflected. He said the thought process in the current analysis was essentially that this is what the mature costs would be.

Mr. Mohr said his concern is the surcharge level. He noted that in Montana, not all volunteer firefighters are covered under workers' compensation because there is no requirement to be. He said he would like to see as many people covered as possible and was concerned that the surcharge could be something that could hinder that effort. He said he was hopeful that rolling it out in steps would lower the surcharge with the knowledge that it would increase in the future as more cancers are covered. He said that approach would get four years of experience before the next few cancers were covered. He asked Mr. Greig if that was a reasonable approach?

Mr. Greig said it was a reasonable thought and it would just be necessary to strike the balance of the impact. He said the most appropriate way to go forward with this coverage is something the

Board and management would need to determine. He added that the increases over multiple phases of the rollout would have to be explained moving forward.

Ms. VanRiper thanked Mr. Greig for the analysis. She said it was her understanding that this law had a statutory presumption about wage loss for volunteer firefighters that is pretty low. She said she would expect that most volunteer firefighters would have concurrent employment and asked if that is part of the consideration in the estimations.

Mr. Greig said it is; however, he does not know the intricacies of the law and asked Mr. Braun to address it further.

Mr. Braun made a point of clarification that if a volunteer firefighter has concurrent covered employment, then the wage loss benefit is based purely on the covered concurrent employment. He said if the firefighter was earning $20,000 in concurrent employment, that would be the basis to compute the wage loss benefit.

Mr. Greig confirmed that was reflected in his analysis as well.

President Hubbard provided some clarification for the Board. He noted that there are two decisions the Board will need to make and the first is whether or not to offer coverage for volunteer firefighters. He noted that the law is clear that paid professional firefighters are covered by the presumptive disease laws under SB 160. He said all insurance companies that insure an entity or fire department with paid professionals will be required to cover those presumptive diseases according to the law and they will have to set rates according to their exposure. He noted that during the legislative process, MSF did not weigh in on the legislation.

He noted that the Board could determine to not offer presumptive disease coverage to volunteer firefighters based on any number of unknown concerns; however, the Board still must determine an assessment so that the Board has a basis for determining the possible financial implications to MSF.

President Hubbard said that MSF has virtually 100 percent of the voluntary fire departments that have workers' compensation insurance on their firefighters; private companies have no interest in taking on this exposure or even for typical injuries for firefighters. He said this Board may make the decision that this is important enough to the people of Montana to make that happen. He said he, frankly, recommends that MSF offer the coverage for volunteer firefighters because he believes it is the right thing to do in terms of implementing public policy. He said it is also the right thing to do in terms of protecting our firefighters that are there for us when the alarm goes off. He added that he wished the policy makers had allowed a mechanism that the people who are served by the volunteer firefighters would pay for this coverage. He said the cost has become an issue for volunteer firefighters; however, it is not right that the over-riding cost be born by other rate payers, such as restaurants.

He noted that the actuarial analysis is based on reliable industry data studies on both medical costs, frequency and severity, average population occurrence of these cancers and the additional incremental propensity for firefighters to be exposed to cancer. He complimented MSF staff and Willis Towers Watson on the analysis completed to develop the 18 percent increase recommendation for paid firefighters. He clarified that for the volunteer coverage, the 7704 class code rate would never be adequate to cover that cost which is why there is a proposed 200 percent surcharge.

He said there is a way to phase in the coverage costs as long as MSF's customers and the industry know that the surcharge will increase as more cancers are covered. He said he feels confident that the analysis is correct; however, the Board must determine how the coverage should be implemented. He said there could be unintended consequences of the volunteer fire department dropping the coverage when the surcharge increases in the future.

Chair Zanto called for questions. There were none.

C. *Rate Determination for Presumptive Disease Coverage – Dan Gengler, Internal Actuary*

Mr. Gengler presented MSF's recommended rate actions to be effective July 1, 2020 for the cost of providing presumptive disease coverage. He said it would be reasonable for the Board to approach this with either a fully phased in effect of SB 160 or be approached in a piecemeal fashion. He said either approach may be reasonable; however, there are pros and cons and considerations that the Board will need to take into account.

He covered what the key considerations were in developing the recommended cost estimations. He said the most important consideration is that by actuarial and regulatory standards, to the extent that they are estimable and deemed actuarially credible, every industry bears its own cost. In the absence of that principle, the cost of SB 160 would be spread to all other insureds in all other industries. He said essentially that is the policy choice that is before the Board today. He said the second consideration is the timing issue. MSF's recommendations are from the standpoint of the fully manifested losses as well as rate effects of SB 160. He added that even though we do recognize that, for example, the ten-year requirements will kick in over time, we also recognize that it will take a number of years for the effects of SB 160 to work its way into the NCCI loss cost. He said MSF took the approach of the fully manifested impacts rather than the phased in; however, both are reasonable considerations for the Board.

Mr. Gengler said it is anticipated that the NCCI loss cost will eventually respond to the losses resulting in a 20 percent increase as a result of SB 160 losses which is a process that may take five to ten years to work its way out.

He said there is a key difference in the payroll assumption between professional firefighters and volunteer firefighters. He added that premium is a function, not only of the rate, but also the payroll of which that rate is applied to. He said the average professional firefighter is reporting $80,000 per year in payroll; however, volunteer firefighters, as described in statute, is a flat rate that is filed by NCCI which is essentially $250 per quarter or $1,000 per year. That means, all things being equal, a volunteer firefighter pays 1.2 percent of the premium that a paid firefighter does. The implications of that for SB 160, we believe is that whatever the response in the NCCI loss cost rate eventually is, it will be reasonably adequate for professional firefighters; however, it will be grossly inadequate for the SB 160 costs for volunteer firefighters due to that payroll differential.

He said the final consideration was the matter of pricing equity. He said for insureds that elect the optional coverage versus those who do not there should be a price difference.
Mr. Gengler presented MSF management's recommended rate actions:

1) No additional rate action for professionals
2) 20 percent discount for volunteer firefighters who decline the optional coverage
3) 200 percent surcharge for volunteer firefighters who elect optional coverage

Premium Impact for Volunteer Firefighter:

- Assumes current Tier3 rate for CC 7704 ($6.29 per $100 payroll)
- Base rate prior to any applicable premium modifications
- $250 per quarter payroll rate

	Quarterly	Annual
Current Rate	$15.73	$62.90
Decline Coverage 20% discount	$12.58	$50.32
Elect Coverage 200% surcharge	$47.18	$188.70

Mr. Gengler described management's rationale for a fully phased in approach. He said if MSF were consistent about it for both paid and volunteer firefighters, a phased-in approach would mean an immediate 20 percent increase for professional firefighters because the NCCI loss cost has not risen yet which will take a number of years. There would not be a recommendation for the 20 percent discount for the volunteer firefighters who decline the optional coverage for the same reason. The 200 percent surcharge would be revised downward in relationship to the three conditions that are currently covered and would then increase in four years to the additional covered conditions and would increase again as other ten-year requirements are met. However, the Board is not necessarily constrained on this issue and can assume a fully phased-in approach for paid firefighters while adopting a phased-in approach for volunteers.

He quantified that the premium impacts for volunteer firefighters based on these recommendations assumed at the Tier 3 rate of $6.29 per $100 of payroll, currently costs approximately $16 to cover a volunteer firefighter for a quarter or $63 per year. He said with the 20 percent discount those amounts would be $13 per quarter and $50 per year. With the 200 percent surcharge, the cost to cover a volunteer firefighter would be $47 per quarter or approximately $189 per year.

Mr. Gengler said management asks for the Board's consideration of these recommendations and offered to answer any questions.

Chair Zanto called for questions or comments.

Mr. Mohr said he is in favor of slowly phasing in the surcharge to cover just the cancers that are actually covered at the time. He asked if this is slowly phased in and charges are for covered conditions only, would Mr. Gengler recommend an immediate 20 percent increase on career firefighter premiums?

Mr. Gengler said management has not determined exactly what its recommendations would be; however, that is something that would need to be considered. He said if the fully phased in approach is taken, it is assumed that the NCCI loss costs would eventually rise so no additional rate action would be needed. He said if the phased-in approach is taken, then MSF would have to recognize in the coming year the NCCI loss cost does not yet reflect those losses so then we would need to consider a surcharge for professional firefighters and phase that down over time as the NCCI loss costs rises.

President Hubbard said that feels a little like a “sucker’s choice” there. He asked for clarification on the reasoning. He said if we are going to wait on the data for the professional firefighters’ experience to develop, what would be the actuarial harm of allowing that approach to continue? He said it seemed to him to be discounted from the consideration of the surcharge for volunteer firefighters.

Mr. Molloy said he had the same question.

Mr. Gengler said he believed it is entirely possibly for MSF to consider taking the full phased-in approach for professional firefighters while taking the phased in approach for volunteers. He said there are a number of options on the table; however, he was describing a situation where the adopted approach was to be consistent one way or the other. He said that does not mean that differences cannot be considered for the approach the Board would take.

President Hubbard noted that the debate revolves around trying to ease the impact on all customers or policyholders. He said his greatest concern with not fully loading the surcharge for the volunteer firefighters is it will give people the impression that this is it and as the further implementation of the coverages occur and the surcharge increases, there will be the same reaction and push back. He also urged the Board to give serious consideration to the cost of the coverage not just the percentage increases and noted that the current cost of $62.90 per year moving to $188.70 per year would be a worthy investment for a fire department because it is that significant of a coverage addition. He said he prefers the fully implemented approach; however, said if the Board feels compelled to take a phased in approach, he did not believe they were locked in to having to take an immediate action on the paid firefighters and asked if Mr. Gengler agreed.

Mr. Gengler said he wanted to clarify that it was not his intention to suggest that, he was simply trying to describe for the Board a consistent across-the-board approach for one or the other perspective. He said that does not mean the Board is locked into only that option.

President Hubbard added that he would not recommend a discount for those volunteers that opt out of presumption coverage right up front because that should phase in also as the diseases do.

Ms. VanRiper asked what the rationale was for the 20 percent discount for declining the coverage?

Mr. Gengler said the rationale is to the extent that it is expected an eventual 20 percent increase in the NCCI loss cost, for those who decline that coverage that 20 percent increase should be mitigated.

Ms. VanRiper said she understood the goal is to have the industry bear the cost of this; however, she was a bit hung up on concurrent employment because she believed there would be a lot of that. She said she was wondering if it was fair and appropriate to expect this particular industry to bear the cost of the presumptive coverages?

President Hubbard said the principle of concurrent employment and indemnity benefits being paid if someone has two jobs, which a lot of Montanans do, is already embedded in the system. To the extent that any given industry is bearing additional costs it is already happening within our current classification system. Offering this coverage does not add anything new in terms of the concept of concurrent employment falling on the various industries. He said he thought what made it acute here is that volunteerism is truly that; there is no real wage and when someone is disabled or incurs a disease as a volunteer the regular law kicks in where concurrency of employment also applies. He said it is only fair like it is for every other classification if there is concurrent employment and the industry that the person is working in when they are injured ultimately bears the cost of that concurrent experience.

Ms. VanRiper said that helps; however, she said she wondered if it was adequate due to the fact that it seems there is just such a likelihood of higher percentages of concurrent employment to cover.

President Hubbard asked Mr. Greig to speak to how he considered concurrent employment in his analytics.

Mr. Greig said across the board there is a low frequency of incurring cancer; however, on the medical side, there is a high average cost per claim for different types of cancers. He said when all of that is considered with the indemnity piece of it, the numbers do reflect expectations. He said in this analysis, they did not assume that every firefighter, at some point in their career, will have cancer and accrue these benefits. He said taking into account the probabilities of getting a cancer and the probabilities around the cost get us to the appropriate annual cost. He added that at the end of the day, we are estimating what is reflected in the Montana law.

Mr. Gengler added with regard to concurrent employment, the expectation is that most of the cancer cases will tend to be, because cancer diagnoses are related to age, occurring in retired people. He said there will be far more 65-year olds than 45-year olds diagnosed with cancer so the predominant expected trend is most of the cases will occur in retired people for which concurrent employment is not an issue.

Mr. Molloy said this seemed like this is an all or nothing thing. He cited an example where an area had 50 volunteer firefighters; however, when there is a fire only 10 show up. He asked if he would be compelled to pay for all 50?

Mr. Braun said the firefighters have to be on a roster of service that is maintained in order for the coverage and the premium to flow from that. He said if they are not on the roster of service, they are not covered and the employer maintains the roster of service.

Mr. Mohr said the roster of service varies across the state. He explained that when he began firefighting he was a volunteer and the roster of service was based on the firefighters ability to do the job. It required passing physicals and proving ability through testing which was referred to as becoming “hot zone” certified which meant he could perform the job of a firefighter which meant he was on the roster. He said he did not know if that exists in other areas in Montana.

Rep. Harvey said that was a consideration that they thought about putting into the bill. He said for the volunteer firefighter’s retirement system, there are a set of parameters that they need to have which is roughly 30 hours of training per year. The roster must be submitted to get a year of eligibility towards that retirement credit. He said that is the standard across the state as the benchmark to get a year of eligibility towards retirement.

Chair Zanto called for further discussion.

Mr. Mohr agreed with President Hubbard that the presumptive coverage for an additional $120 a year did indicate a good value; however, for some of these organizations, that is still a lot of money. He said for instance if there are 50 firefighters that would mean $6,000 more per year which is significant. He added that some organizations have a difficult time paying at just the $62 per year level. He said his biggest concern is that if we begin charging them 200 percent on July 1, they are only covered for about a quarter of the cancers at that time. He said he understands the concern about increasing the cost over the years as new cancers are covered; however, he was hopeful the issue of coverages being dropped due to that could be combatted with education, communication and the great customer service MSF is known for. He said he believed MSF would be charging more appropriately by phasing in the charges and it will allow MSF to develop a history of frequency and severity for the next four years.

President Hubbard said he generally agreed with Mr. Mohr that the phased in approach was a reasonable option and saw no reason to put stakes in the ground on this particular option. He did caution the Board that there is a very high side in terms of severity and even at 200 percent with the low payroll assumptions, the amount being charged is going to be inadequate. He said waiting for experience is going to be five to 20 years and noted that if it is underpriced from the beginning it will build a pretty significant deficiency in terms of rate adequacy. He reminded the Board that by statute, when a factor for rates is not easily or readily calculable or basically has a high degree of uncertainty, the Board should pick a selection that is more than likely to cover the risk, not less than likely. He said the reason for that is based on worker's compensation history in Montana which has a legacy of inadequate rates that resulted in an Old Fund liability for the people of Montana of over $500 million. He noted that this one decision will not create that kind of issue for MSF now; however, it is the philosophy behind it that matters the most. He added that was the reason the communication regarding the phased-in increases would be so important. This could eventually price volunteer fire departments out of the marketplace until the legislature takes action to allow the fire districts to be supported by the taxpayers who are served by the district. He said the Board should understand that the phased approach will mean all of MSF's policyholders, not private insurance company's policyholders, will pay for everyone's volunteer firefighter coverage in the state that elects that coverage even if they do not live there.

Ms. Moss asked if based on Montana's older demographic did the analysis identify a diminishing segment for the part of the workforce to draw from for volunteer firefighters?

Mr. Greig said that was considered in the analysis and they did see a declining population to draw from in terms of finding volunteer firefighters.

Ms. Moss commented that MSF must have rates that are fair and predictable and she thought it was important that MSF be consistent in its messaging. She said she was unsure at this point that it was MSF's responsibility to provide this underlying support for the volunteer fire departments.

Chair Zanto called for further questions or discussion; there was none.

Mr. Mohr moved the Board to postpone making a decision on whether to offer a presumptive disease coverage endorsement to the employers of volunteer firefighters and the related surcharge until a later date. Mr. Molloy seconded the motion.

Chair Zanto asked what that later date would be?

President Hubbard said in that event, management would ask Mr. Greig to make an analysis with the covered diseases that are currently there and come back after the analysis was completed. He asked Mr. Greig when that could be done.

Mr. Greig said it would take less than two weeks to complete the analysis.

President Hubbard noted that adequate public notice of a Board meeting must also be made which is typically two weeks. He suggested to the Board that a telephonic meeting be held with only the presumptive disease coverage and surcharge as agenda items in two weeks depending on Board member availability.

Chair Zanto clarified that this discussion would be postponed until the additional analysis could be completed and then he would call a special Board meeting to make a decision on this.

Mr. Molloy asked if the motion could be modified so that the decision whether MSF will offer presumptive disease coverage to volunteer fire departments could be made now and the surcharge issue could be discussed and decided in the telephonic meeting?

President Hubbard said this is a global discussion and the two should probably be tied together. He explained that if the Board was inclined to not charge at all, he would vigorously argue against offering the coverage because it would be inadequate.

Mr. Mohr explained that the reason he proposed this motion was to explore a phased-in approach with our surcharge for volunteer fire departments that do elect the coverage which obviously would cover the three covered cancers and add the other cancers as they become covered so there are only charges for what is covered at the time.

Mr. Molloy asked if this was an internal base rate that could be passed by the Board and not included in any sort of filing?

President Hubbard said that was correct.

Mr. Gengler clarified that if the Board should approve any kind of rate discount or surcharge, that would have to be filed with CSI for their approval for it to go into effect.

President Hubbard said he misunderstood the question and MSF must file any charge on any endorsement that we offer and added that CSI actuaries will also review the charges to assure the rates are not inadequate, excessive or unfairly discriminatory.

Chair Zanto called for further discussion. There was none.

Chair Zanto added that anyone who follows the EAIC would know they spent a lot of time on this bill and it is a concern for them. He said for the Board to take a measured approach, gather all of the information to look at the phased in approach and hopefully make a decision on how best to move forward is a prudent decision and he supports the motion.

He called for additional discussion and input from the public.

Rep. Harvey thanked the Board for taking this approach and said he appreciates the Board's careful consideration of this issue.

Pat Murdo, Legislative Services and the EAIC, said she just wanted to clarify that when it says decline coverage, it means decline the presumptive coverage because an employer still must have workers' compensation coverage.

President Hubbard said yes, the declination is only for the optional presumptive disease coverage.

Mr. Tuxbury asked if the declination would be made by the fire department or if that goes down to the individual firefighter level.

President Hubbard explained that workers' compensation coverage is by policy so all employees would be covered by a decision or endorsement. It is not the individual who choses or pays for the coverage, it is at a policy level.

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

VI. Reserve and Financial Reports – Montana State Fund – Mark Burzynski, VP Corporate Support

A. *Loss Reserve Year-End Reconciliation and Calendar Year 2019 Financial Report Update*

Mr. Burzynski 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 2019 meeting. He said those numbers were based on estimates and he would now present the actual numbers for 2019.

He noted that Eide Bailly has completed its audit of MSF and he sought feedback from them about the MSF financial and actuarial teams. The Eide Bailly representatives said MSF's teams are as good as they come. They said MSF's books are closed and there is not one audit adjustment or one managerial comment, that simply does not happen in large insurers. He said they mentioned how well MSF's books are maintained and the reports and various functions are completed.

Mr. Burzynski said there was one major immaterial change for the loss reserves of $1.4 million due to the paid amount being lower than reported which represented .2 percent of MSF's reserves. He said CSI requires an actuarial opinion from Willis Towers Watson certifying those loss reserves and that certification has been supplied to the Board.

He provided some clarification on the equities. He said MSF has a diversified portfolio and only approximately 12 percent of MSF's investments are in equities and approximately 80 percent are in fixed investment assets. He said MSF may have taken a significant hit over the past few weeks; however, equities are only 12 percent of our portfolio. He said given the fact that MSF has bonds in hand with better rates of return than are currently available in the market, they are actually worth more, which more than offsets the impact. He said MSF can be fairly confident in expecting the 3.25 percent return even if on a short-term basis.

He said unpaid losses have increased by approximately $10.3 million. He explained that with each operating year, more claims are incurred and there is another year of operations. He said only 20 percent of claims are filed in a year and 80 percent come subsequent to that so there is a moderate increase in liabilities almost every year. He noted that was the main change on the liability side of MSF's balance sheet. He also said with the continued investment in PBRI, there is a $2.2 million reduction in non-admitted assets and there is a change in unrealized gains which was a swing of almost $58 million since last year. He said MSF's financial performance reflects that net earned premium is down which is a result of the 8.6 percent rate reduction that was implemented July 1, 2019. He said the new premium that was expected was down approximately $1.7 million; however, retention was higher by 1.2 percent which offset the loss. He noted that since the 2006-2007 operating year, MSF's rates have decreased 47.4 percent. He added that losses incurred saw improved development for MSF of approximately $5 million and the large difference between 2018 and 2019 is a result of the contribution to fire suppression contribution MSF made. For perspective, he equated that to nine percent of our premiums.

Mr. Burzynski stressed the importance of MSF's net investment income earned to MSF's ability to build equity and make dividends happen. He said when you consider that MSF has reduced rates 47.4 percent over the past 13 years, we have maintained our expenses in line with our budgeted numbers.

He also addressed building equity and noted that in 2019 MSF had net income of approximately $11.9 million after the dividend distribution as opposed to last year which is a swing of $17 million. He commented on the importance of building and maintaining equity for MSF. He then provided a review of the financial reporting timeline for MSF.

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

VII. Public Meeting on Calendar Year 2019 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 2019 business plan, beginning with a report of the Key Success Measures (KSM) depicted below.

Montana State Fund

Key Success Measures

KSM	2019 Target	2019 Result
Net Earned Premium	$151.1M	$156.9M
Loss Ratio	80.9%	70.6%
Expense Ratio	35.2%	35.3%
Investment Income	$43.4M	$54.8M
Net Operating Income (before dividend)	$16.0M	$41.9M

Achieve Enterprise Wide Initiatives

Ms. Copps said net earned premium was over the targeted amount by $5.8 million at $156.9 million. She said the loss ratio target was 80.9 percent; however, overall losses resulted in a loss ratio of 70.6 percent which is 10.3 percent under plan. The expense ratio target was 35.2 percent and MSF's 2019 result was 35.3 percent. She said investment income was targeted at $43.4 million and the total investment income result was $54.8 million driven mostly by $16.2 million in realized gains. The net operating income result was $25.9 over the target for a result of $41.9 million. She reported that the key driver of this result is an $11.6 million decrease in losses and $11.3 million in investment over the plan.

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 multi-year PBRI project continued through 2019 to replace the 20-year-old policy and billing system with a more modern application to help MSF improve its service and efficiency. She said replacing a core insurance application is a large undertaking and to complete this project the team planned it in phases. She said in 2019 the team planned to complete development and testing of the five applications; policy center, billing center, rating, customer portal and the agent portal. She noted that change management and communication activities were also planned as well as training and go-live by the end of 2019.

Ms. Copps said development of the five applications was nearly complete by the end of 2019 and system integration testing began in August; however, the applications were not implemented in production last year. She said the final development work included the most complex functionality so the slow down at the end was not completely unexpected. She said MSF is committed to delivering a quality product for our stakeholders so it is the highest priority for HCL and the MSF project teams. Major work continues on system testing, defect resolution and new test case building for the next round of testing. MSF continues to work in good faith with HCL to plan the remaining work and to implement the applications.

She said with the new systems in development, formal training for the users also did not occur in 2019. The informal training environment of SIMON has been available on employees' computers and they are encouraged to become more familiar with the applications. Formal training will occur closer to implementation; however, work has begun to tailor those training plans as specific to each role.

She added that the budget forecast provided in December, indicated that the project spend was on track for those major budget items that were presented to the Board in June of 2017. That includes the system integration vendor costs for HCL, the software and infrastructure or hardware costs; however, MSF knows that as the schedule extents, other project support costs are incurred that had not been anticipated.

Ms. Copps said 2019 was the 11th year of WorkSafe Champions which is a cornerstone program to impact workplace safety through education and consultancy. 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 57 people. The central workshops saw 31 people complete workshops held in Billings, Bozeman, Great Falls, Glasgow, Helena, Missoula and Kalispell. All 2019 participants developed safety action plans specific to their workplace needs and demonstrated progress on meeting those goals. Participants rate the content and quality of each module in a ten-question survey and over 98.7 percent rated the content as better or good.

She said 2019 was the third 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 continues to expand its scope and the team is focusing on building positive working relationships with the schools, providing benefits for students and developing a quality process. She said 23 classrooms were awarded the safety grants and they received the equipment and materials by the end of September as planned. Instructors selected from a variety of personal protective equipment based on their class needs up to a total of $750. She said 2,041 students were impacted by the equipment and safety message in 2019 and overall in the three-year duration it is closer to 5,000 students who were impacted. She noted there was also press coverage of this program in Butte, Helena, Missoula and Havre.

Ms. Copps said the second component of Growing a Safer Montana included awarding scholarships to students in trade and industry and safety and health programs beyond high school. The team selected 15 recipients for the $3,000 scholarships in late 2019 and the ceremony was held in January 2020 in Butte.

Ms. Copps said while two of the policy and billing project goals were not met all of the other projects completed as planned.

Chair Zanto called for questions; there were none.

VIII. Miscellaneous – Laurence Hubbard, President/CEO

A. *Board of Investments – Proposed changes to MSF's Investment Policy – John Putnam, Deputy Chief Investment Officer and John Romasko, Fixed Income Investment Officer – Board of Investments*

Rene Martello said the finance team meets regularly with BOI and over the past year has been discussing some changes in MSF's portfolio allocation and exploring how best to diversify more and be able to achieve more yield from MSF's portfolio. She said BOI is here today to speak to the Board about its proposal. She introduced John Romasko, the Fixed Income Investment Officer and John Putnam who was recently promoted to Chief Investment Officer with BOI. She noted that John Putnam was not expected to attend this meeting; however, his travel plans were cancelled.

President Hubbard congratulated Mr. Putnam for being appointed to the Chief Investment Officer position and noted that it was good news for the people of Montana.

Mr. Putnam said Rande Muffick was promoted from Director of Public Markets to Deputy Chief Investment Officer at BOI. He was going to address the Board but due to the volatility in the markets he has remained there to monitor their activity.

Chair Zanto congratulated Mr. Putnam on behalf of the Board as well.

Mr. Putnam commented on the state of the markets. He said obviously things have been extremely volatile with the coronavirus and the issues that has created in the economy. He said the market had begun to react to it a few weeks ago and now it has snowballed. He said it is difficult for the markets to quantify this and as large closures continue to occur the economy is coming to a sudden standstill. He said the markets hate uncertainty and the inability for them to determine how long this will continue to have an effect is difficult to predict. He said this has a much greater impact on the U.S. economy due to this economy being extremely service oriented. He said manufacturing is important; however, it makes up a small percentage of the U.S. economy. He said coming up to this event, the market looked pretty good as their reporting to the Board over the years has reflected. BOI could not imagine what would shut the economy down; he said apparently this was it.

He also noted that last weekend saw Saudi Arabia and Russia not coming to an agreement on OPEC in terms of oil production. Rather than holding the production level which was the market's expectation or a small cut, instead they created a large supply shock which dropped the price of oil dramatically. He said those two things combined have caught the market off guard in a big way.

He noted that most of MSF's portfolio is in investment grade fixed income which is relatively insulated to this type of shock. Interest rates have gone down over the past few weeks to unprecedented levels which means higher bond prices, although there are a lot of corporate bonds within the portfolio, so spreads widen which increases the risk of default. He said overall, the bond portion of MSF's portfolio is up a bit.

Mr. Putnam said equities are down and real estate holdings are flat which is a bit of a lag indicator because it does not really reprice for a period of time. All in, MSF's portfolio is doing well; however, in the longer term, if rates remain at the current levels, the yield will likely decrease. He said as things mature over time, having to reinvest at lower rates, were this environment to persist, will have an effect.

President Hubbard asked Mr. Putnam to speak about the yield and what BOI is expecting. He said MSF assumes a discount rate, an investment return rate, for the upcoming underwriting cash flow and he asked what MSF's normal rate of return on its cash flow is?

Mr. Putnam said the majority of MSF's portfolio is in investment grade bonds. He said the returns over a 20-year period were 5.5 percent and over a five-year period were 4 percent, last year was almost a ten percent return overall; however, that was driven by interest rates coming down steeply. He said when BOI reinvests, it will be at the lower rate and the basic theme over the last 30 years is interest rates coming down. He said the Fed was increasing rates slightly after coming out of the 2008-2009 crash; however, that has reversed and there is a strong expectation in the market that rates will cut again next week.

President Hubbard said MSF offers a discount to policyholders based on the expected earnings from investments. He asked if what is being seen in the general trend now could somehow be reversed and interest rates could increase again and that is one of the reasons BOI is recommending to the Board that the investments be diversified into higher yield securities.

Mr. Putnam said it is one of the reasons for the high yield discussion with the Board and MSF. He said he would not say that it is impossible that rates will rise and it is hopeful that they do. He said it is hoped that we can return to a stable economic environment that has decent growth and allows this. He said we want the Fed to raise rates to assure that we do not overheat the economy. He said he does not recommend a short-term change to rates based on what BOI is seeing in the market today.

He then addressed the proposed changes to MSF's investment policy. He said the first proposed change is a new format with greater detail which is consistent with their treatment of all their other policies. He said this is an effort to have more detail within the investment policy which BOI uses as a tool for them as well as MSF and the greater detail would be a guide to make it easier to understand the complexities of the portfolio.

He said the second change would be to change the benchmark to the Bloomberg/Barclays U.S. Intermediate Aggregate Index. He said it is a better match to MSF's portfolio composition, it better reflects the fixed income market and it is a slightly higher return hurdle compared to the current benchmark.

Mr. Putnam said the third change would be to add an allocation to high yield bonds which would be 0-7 percent of the total portfolio.

He said high yield bonds generally have a higher credit risk which also means they have a higher financial leverage or debt on the balance sheet and have more volatile operating results than other companies. He added that smaller or emerging companies with less proven track records also have a higher credit risk and are in this category as well as companies experiencing financial difficulties. He said high yield bonds are below the investment grade credit rating; however, they have higher yields to compensate for the increased risk the investor is taking. These bonds are short to intermediate-term maturities of typically less than ten years. He said high yield bonds are sensitive to economic conditions and business prospects and they also have a higher credit risk than investment grade bonds. He said these bond prices may change in reaction to change in the market interest rates, although that is not a huge risk. In addition there is liquidity risk due to smaller issue sizes and smaller trading volumes, which may lead to diminished ability to sell a high-yield bond.

Mr. Putnam said BOI is recommending allocation of higher yield bonds, which when properly managed can increase current income. He also said these bonds have a higher yield than investment grade bonds and provide a capital appreciation and/or improved credit ratings. This proposal will offer some diversification. High yield bonds are correlated with equities; however not perfectly. He noted that the majority of MSF's peers own the high yield assets. He said the work BOI has done with MSF staff revealed that MSF staff believe risk-based capital levels can be maintained at an appropriate level with the proposed allocation to high yield.

Chari Zanto called for questions.

Mr. Putnam noted that the Board of Investments would have to vote on this at their mid-April meeting to make it official.

Chair Zanto said the proposal is to take a little more risk in a relatively low-risk environment.

Mr. Putnam said the low-risk environment was much more solid a month ago; however, now is actually a great time to begin adding to this space.

Mr. Molloy said though he recognized it was the Board of Investment's decision, he felt this made a lot of sense and Mr. Putnam's presentation convinced him to support this move.

Mr. Mohr made a motion the Board approve the proposed changes to Montana State Fund investment policy as presented by the Board of Investments. Mr. Owens seconded the motion. Chair Zanto called for discussion and public comment; there was none. He called for the vote and the motion passed unanimously.

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

Ms. Grosfield took a moment to echo Mr. Burzynski's kudos to the finance department and others throughout the company who do an exceptional job with respect to producing MSF's financial statements. She said year after year MSF receives unqualified audit opinions with no recommendations for control improvements and it really is no small feat.

She reported that the calendar year 2019 statutory financial statement audit by Eide Bailly was complete and the opinion date was set for March 11, 2020. Eide Bailly is finalizing the report which will be provided to the Board when the reports become available. She said if the Board desires she and a representative from Eide Bailly can be available at the June Board meeting to answer any questions the Board may have.

She said the Legislative Audit Division (LAD) has indicated the governmental audit will begin next week, with auditors working offsite next week and coming on site the week after for two plus weeks.

Mr. Grosfield said the first quarter internal audit activity covered agent incentives and payouts and employee leave plans payouts. She said every year, the excess personal and holiday leave amounts are calculated and paid out. Employees can accrue up to two times their annual accrual. If that is exceeded, MSF pays it out yearly to maintain the accruals at a manageable size. On the personal leave side there was a total of approximately $168,000 paid out to 40 people. Excess holiday leave of approximately $12,500 was paid out to ten people.

She said MSF Internal Audit was in the middle of auditing the merit-based pay-for-performance for 2019. President Hubbard will have results next week for approval and the adjustments will then be applied to employee's paychecks.

She said the MSF Code of Conduct annual review was completed and the policy distributed to employees in January and for 2019 she was not aware of any staff code of conduct violations or instances of fraud. She said the Data Confidentiality and Acceptable Use form is also distributed annually and MSF does prioritize and demonstrate strong controls and holds its employees to high ethical and confidentiality standards.

Ms. Grosfield provided more information on the agent incentive program. She said MSF enters into contracts with its producers of record and the incentive plan contract is an agreement signed annually by MSF and the producer. The agreement details definitions, eligibilities and parameters of the plan. The covered audit period referred to in her report was accident year July 1, 2018 to June 30, 2019. The accident year means all claims with an accident date within that period and all premiums earned during that period. The payment of an agent incentive is based on the producer's profitability achieved and the retention of the book of business within that time period. The contract sets forth a predetermined agency incentive profitability table based on the premium tier and the loss ratio as determined at December 31, 2019. There is also a predetermined retention factor table. She said in early January of 2020, the MSF internal actuarial team calculated the results of the agency incentive payouts and forwarded those to her for audit. She said she reviewed the calculations and MSF's adherence to policy and parameters and found no exceptions. The results yielded slightly over $1.99 million in agent incentives paid which were sent to 12 master agencies receiving, on average, 1.7 percent of gross earned premium versus a target of 1.2 percent. The agencies achieved a stronger profitability of 1.28 percent compared with the 1.2 percent target and the retention multiplier was also higher than target at 1.32. Overall their premium retention rate on the Fiscal Year 2019 agent book was 92.2 percent which indicates strong retention.

She reported that upcoming audit activity includes 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-pay vendor and BOI. She noted that MSF just received the SOC 1 from Rising Medical Solutions, MSF's new medical bill pay vendor, for the first contract year which was 2019 and had no exceptions at all. She commented that this report is another source of assurance that Rising Medical is doing a good job for MSF.

Chair Zanto called for questions. There were none.

Chair Zanto congratulated Ms. Grosfield on a clean audit.

C. *Budget Variance Reports as of December 31, 2019 – Rene Martello, Controller Montana State Fund*

Ms. Martello provided a review of the year-end variance report for 2019. She said overall, the budget was planned for $177.8 million and actual expenditures as of December 31, 2019 were $164.2 million or $13.5 million under budget. She said approximately 92.4 percent of the budget was expended. She said claim benefit payments were under budget $8.5 million and that contributed to the savings most significantly and operational expenditures were $5 million less than planned.

She reported that claim benefit payments, which include other states coverage benefits as well, were $2 million under the forecasted amount for the year at $33.1 million. She said this was very comparable to 2018 as well and what was budgeted for 2020. Medical categories without settlements was $6.3 million under budget and medical settlements was very close to plan at $213,570 under. She noted that as the settlements are closed out some of the medical costs are also being closed off.

She said the operational budget was approximately $5 million under budget. The personal services/staffing category was the largest source for savings at $1 million due to average vacancy rate of 6.8 percent which equates to 21 FTE; however, there was a lot of employee turnover with 31 terminations that include retirements and people who left their positions and 17 new hires and eight promotions.

Ms. Martello said operating expenses were $2.5 million under budget due primarily to IT and technical consulting services having difficulty in getting resources in for the PBRI project and Data Analytics and backfill for technical positions that have been put on the PBRI project. She said equipment and intangible assets was about $1.5 million under, mostly due to the PBRI project costs associated with development not being paid out to the consultants. Those costs have been carried over to the 2020 budget and are expected to be paid this year. She said ALAE which relates to the medical invoicing fees was slightly over budget due to additional nurse and hospital bill reviews which resulted in the medical benefits savings that MSF is seeing.

Safety Expenditures	2019 Budget	2019 Actuals
Operations - Safety Services Team	$1,576,760	$1,607,476
Communications - Safety Campaigns	879,805	886,952
Facilities and cars	263,064	160,717
Operations Support - Safety Workshops	133,044	131,765
WorkSafe Champions	123,832	87,403
Growing a Safer Montana	52,667	59,788
ACE Grants and Safety Committee	25,000	27,288
Total	**$3,054,173**	**$2,961,389**

She noted that MSF's safety expenditures were right on track with the budget and came in very close to what was planned.

Chair Zanto called for questions; there were none.

Old Fund
Ms. Martello said as of December 31, 2019 or end of second quarter for the Old Fund, we saw a projection to be approximately $2.7 million under what was originally estimated. The savings are mostly in the claim benefit areas at $2.6 million under projections. The majority of the variance is in the medical settlement area. She said there were a few large settlements included in the funding estimate for this year that were expected to take place; however, they have not occurred and there is uncertainty that they will occur in the Old Fund's FY20.

She said the operational expenses for Old Fund are $74,000 for ALAE which is for legal and Medicare set aside work that hasn't taken place as planned. She reported that at the beginning of the Old Fund fiscal year, there were 555 claims; at current reporting that total is 518. She said that reduction is due to some settlements and some loss of life as well. There are also claims that reopen and close; however, the claim count continues to trend down.

Chair Zanto called for questions. There were none.

D. *MSF History*
Chair Zanto reported that this agenda item would be deferred to the June Board meeting and would not be discussed at the meeting.

IX. President/CEO Calendar Year 2019 Performance Review and Determination of Calendar Year 2020 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 2019 Performance Review and Determination of Calendar Year 2020 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 2:15 p.m.

CLOSED MEETING

B. Call to Order

C. President/CEO Performance Review

D. President/CEO 2020 Performance Goals

Chair Zanto reconvened the meeting at 4:10 pm. He said the performance review was completed and the President/CEO goals for 2020 had been set. He also noted that the Board is very happy with President Hubbard's performance and he does a very good job. He said they heard what each Vice President said to them and paid attention. He added that they are very happy with where things are going and mentioned that their biggest concern from the Board level is the PBRI project. He said the Board does not want to rush into something that is not correct; however, it needs to be completed.

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

X. President/CEO Determination of Calendar Year 2020 Performance Goals

A. Introduction – Lance Zanto – Chair of the Board

Chair Zanto clarified that these agenda items were completed during the Board's closed session.

B. Calendar Year 2020 Performance Goals of President/CEO

XI. Old Business/New Business

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

XII. Public Comment

Chair Zanto called for public comment. There was none.

The meeting was adjourned at 4:12 p.m. The next regularly scheduled Board meeting will be held on Friday, June 5, 2020 at MSF, 855 Front Street, Helena, Montana.

Respectfully submitted,

Verna Boucher
Special Assistant to the President/CEO