MONTANA STATE FUND
BOARD MEETING
September 11, 2020

The Montana State Fund (MSF) Board meeting was held September 11, 2020 via Zoom.

Directors Attending

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

MSF Staff Attending

Laurence Hubbard, President/CEO
Verna Boucher, Special Asst to Pres/CEO
Kevin Braun, General Counsel
Mark Burzynski, Corporate Support VP
Sam Heigh, Insurance Ops Support VP
Rick Duane, Human Resources VP
Julie Jenkinson, Operations VP
Al Parisian, CIO
Kent Schlosser, Financial Analyst
Shannon Copps, Director, ESPM
Patti Grosfield, Internal Auditor
Darcie Dunlap, Senior Actuarial Analyst
Dan Gengler, Internal Actuary
Mary Boyle, Communications & Public Relations Specialist

Others Attending

Russell Greig, Willis Towers Watson
Rep. Derek Harvey, Butte
Alex Turrell, Willis Towers Watson
Rep. Joshua Kassmier, Fort Benton

I. Meeting Preliminaries

A. *Call to Order*

Chair Lance Zanto called the meeting to order at 8:33 a.m. He welcomed and thanked those present for attending. He reminded attendees this meeting was being live streamed and recorded and that public comment was to be submitted prior to the meeting. He added that public comment could still be submitted by emailing vboucher@safemt.gov.

He acknowledged and welcomed MSF's Consulting Actuaries Russell Greig and Alex Turrell from Willis Towers Watson. He then asked attendees to take a moment of silence to remember those who were lost on September 11, 2001.

B. *Approval of June 5, 2020 Board Meeting Minutes*

Chair Zanto called for a motion to approve the Board meeting minutes for June 5, 2020.

Lynda Moss made a motion to approve the June 5, 2020 minutes as presented. The motion was seconded by Jan VanRiper. Chair Zanto called for discussion from the Board, MSF staff and members of the public. There being none, he called for the vote and the motion was unanimously approved.

II. Miscellaneous – Laurence Hubbard, President

A. *Miscellaneous – Laurence Hubbard, President/CEO*

President Hubbard also welcomed attendees to the Board meeting and thanked the Chair for taking a moment of remembrance for the victims of 9/11.

He asked the Board to review the proposed 2021 Board meeting schedule and compare the dates to their schedules to determine any conflicts which he asked be shared with Ms. Boucher so that accommodations could be made. He noted that the schedule called for the first Board meeting of 2021 to occur on March 12 which is mid-legislative session and is also the rate making meeting. The other three mandatory Board meetings are slated for June 18, 2021, September 10, 2021 and December 10, 2021.

President Hubbard provided the Board with a review of the activities that MSF has been involved with since the COVID 19 pandemic. He noted that a large majority of MSF employees are working remotely with approximately 20-25 employees in the MSF facility. He said it is not expected that many more people will be on-site going forward. He clarified that on-site employees are comprised of document processors, facilities personnel and some information technology staff. He added that there was a small number of staff that found it too difficult to work remotely and an accommodation had been made to bring them back in to the building. He noted that all hygiene protocols are being observed to assure on-site employees remain safe and as healthy as possible. He reminded Board members that in early March there was a COVID 19 case of an on-site employee and disinfection of the building was rather pricy and keeping employees out of the building as much as possible is going to be the word of the day until at least the end of the year.

He reminded the Board that a premium deferral program had been implemented for MSF's policyholders which was then extended from June to the end of September. He noted that the end date of that extension was approaching and the determination had been made to terminate the deferral program at the end of September 2020. He said customers that had elected to defer their premiums since March will be invoiced and MSF will work with its customers to ensure they are able to make their premium payments that are owed to MSF and will be supportive of any customers that are struggling.

President Hubbard told the Board that MSF conducted a Q-12 Gallop employee engagement survey last year and the result of the survey saw leadership and staff participation in team-level discussions to determine ways to better engage employees. He said in July, during remote work, MSF conducted another survey and the results were very strong.

President Hubbard said Sam Heigh, Vice President of Operations Support, would be retiring on September 25, 2020 after 35 years of service. He said a socially distanced send-off has been planned to allow Ms. Heigh to bid her fellow coworkers good-bye. He noted that Ms. Heigh began her career with MSF as an administrative clerk and moved up very quickly amongst the ranks of the claims department to claims supervisor and then business leader. She then expanded into information technology as a leader within that department eventually serving in her Vice President role. He noted that Ms. Heigh had been a delight to work with and had one of the kindest hearts that he has met. He noted that Ms. Heigh was responsible for MSF's involvement in the Intermountain Children's Home Festival of Trees and that she led the team that built the trees for many years. He thanked Ms. Heigh for her service to MSF and wished her well in the next chapter of her life.

Ms. Heigh thanked Mr. Hubbard for the kind words and said she will miss all of MSF. She said it had been an enjoyable trip, yet she was looking forward to some new adventures and travelling but will likely stop by from time to time.
Chair Zanto mentioned that he had the luxury of working with Ms. Heigh for many years and he will miss her. He thanked her for her service to MSF.

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

Ms. Grosfield noted that all audits are progressing as planned and being conducted through remote reviews and audits. She said that the Eide Bailly field work for the calendar year 2020 statutory financial statement audit was scheduled for December 14-18, 2020 and will be performed remotely. The fieldwork will be completed in February 2021 and the report will be completed by April 2021. She stated the Legislative Audit Division (LAD) audit team will begin the calendar year 2020 governmental financial compliance audit or GASB in the spring of 2021.

She said the results of the 2019 Governmental Financial Statements Audit was presented to the Legislative Audit Committee (LAC) on October 6, 2020. This audit is required annually by statute and the results flow up into the State of Montana's Comprehensive Annual Financial Report (CAFR). She noted that she, President Hubbard, Mark Burzynski, Vice President, Corporate Support and Rene Martello, Controller, attended to answer any questions from the committee. She said MSF had received a clean audit report with an unmodified opinion and no recommendations.

Ms. Grosfield noted that internal audit activity has included policy and process reviews due to the move to remote work and a necessary update to the Data Confidentiality and Acceptable Use provisions, to include remote printer usage and safeguarding of the printed materials. She noted the Code of Conduct has been updated and will be released for employee's signatures in January 2021 with a few minor changes to cover remote work. She said employees are being cautioned to be mindful of other people hearing confidential information while they are on the phone or in a meeting. She also reported that access of internal claims is under review to determine the appropriate balance between business efficiencies and still maintaining rigorous confidentiality.

She noted that upcoming internal audit activity will include an audit of the MSF dividends, if declared including adherence to policy eligibility, calculations testing and distribution. She noted that ERM controls testing has been ongoing for many years and she participates in the discussions with various groups assigning the proper ratings. She noted that Board members will be notified of the Multiple Public Disclosure requirement, as are all MSF employees and those disclosure forms will be due to the Commissioner of Political Practices by December 15, 2020.

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

C. *Statewide Media Campaign Update – Mary Boyle, Communications Manager*

Ms. Boyle provided an overview of MSF's statewide media campaign. She noted that the "Signs of Safety" campaign was introduced a year ago and production was begun in March; however, due to the COVID 19 pandemic, it became clear that the campaign needed to be paused. She said in varying discussions with Partners Creative, a new approach to present the campaign was developed. The campaign was pivoted from the original concept to the "Unexpected" campaign. She said the campaign highlights that people do not know what to expect; however, the one thing people can count on is MSF and the service it provides.

She said Phase I of the reworked campaign was completed and rolled out June 29, 2020 and ran through August 16, 2020. Phase II began on September 7, 2020 and will pause on October 5, 2020 to account for the political campaigns that will be dominating the airwaves. Then it will restart on November 2, 2020 and run until December 14, 2020. She said the media cost for the entire campaign is $487,000 which would not typically be this high; however, the young workers campaign that typically runs in the spring was paused and those media dollars were applied to the "Unexpected" campaign.

Ms. Boyle walked the Board members through the media tactics and the creative elements, shared the television ad and explained how the ad was produced. She said the click-through rate was above average at .26 percent - a typically good average is around .10 percent. She noted that there were 7,900 new visits to the MSF website during the seven weeks the campaign ran. She further explained that “new” was comprised of people who had not been to safemt.com within the days prior to the campaign beginning. Once in the MSF site, the most popular link was MSF’s Safety Workshops. She said this campaign will continue in November with some additions covering remote work.

Chair Zanto called for questions.

Ms. VanRiper commented that she thought this looked really cool and said she loved the television ad. She thanked Ms. Boyle and the team for the work under these special circumstances.

Chair Zanto agreed that he was impressed and said he liked the changes to adapt to what we are currently dealing with in terms of the types of exposures that are being seen during the pandemic.

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

Ms. Copps provided the Calendar Year 2020 Business Plan performance update. She noted that the financial metrics are the year-end projections based on available information as of June 2020 and include anticipated impacts from COVID 19.

Montana State Fund

Key Success Measures

KSM	2020 Plan	2020 Projection
Net Earned Premium	$149.1M	**$127.8M**
Loss Ratio	74.2%	**71.5%**
Expense Ratio	39.0%	**40.9%**
Investment Income	$44.1M	**$50.3M**
Net Operating Income (prior to dividend)	$21.0M	**$31.2M**
Achieve Enterprise Wide Initiatives		

She said that though uncertainties remain, the forecast for net earned premium was at a fifteen percent decline in premium, placing the projection at $127.8 million. She said the decrease was due to reduced payroll as businesses scale back operations. She noted that these projections would be revisited and updated at the end of third quarter. She said new premium for July was $5.9 million and MSF was currently tracking closely for its retention goal. The loss ratio was estimated to be 74.2 percent; however, that ratio was projected to be at 71.5 percent. She said total incurred losses were projected to be $19.3 million below plan which is a result of the anticipated drop in premium as well favorable development on prior accident years.

Ms. Copps noted that loss expenses and underwriting expenses were projected to come in lower than planned. She said for COVID 19-related reasons, and with the lower premium, the expense ratio was projected to be 1.9 points higher than planned at 40.9 percent. She stated that projected net investment income was projected to be $6.2 million over the plan at $50.3 million due to realized gain on a sale that occurred shortly after the second quarter. Net operating income, prior to dividend, was projected to be $10.2 million over plan at $31.2 million.

Chair Zanto called for questions. There were none.

Ms. Copps said the three Enterprise-Wide Initiatives are all focused in the Customer Service category and include PBRI, WorkSafe Champions and Growing a Safer Montana.

She explained that 2020 was the fifth year of the PBRI project to replace MSF's policy and billing system with five modern applications that enhance MSF's customer service and efficiency. She reported that this project was off track due to the schedule. She said the team currently has good momentum and MSF is excited about the progress that is being made. She noted that with the core functionality development completed the team began system integration testing and completed the third and final cycle at the end of July 2020. She said the team was about a month into user acceptance testing and noted that specific MSF employees were using the system to determine that it effectively handles daily work. She said user testing was on track for the first few weeks and the team was finding, prioritizing and fixing defects. The other major piece of work was training preparation. The informal sign-in and on-demand training has prepared employees for the formal more in- depth training that will begin in late September and run for two months. She said Change Management has picked up as well and leaders were receiving training details to determine their staff's support needs. She said virtual training sessions were being planned for employees and as implementation nears, communication will become more frequent and include a variety of formats. Articles will be published in MSF's agent and policyholder newsletters to communicate implementation and transition to the new system. At a little over a month into the four-month user test phase, the team was seeing good progress to date. She noted there are risks that still remain; however, the team is working to mitigate them and MSF currently plans to implement in December. She said the implementation means MSF will be quoting business that is about four months into the future. She explained that going live in December means MSF will be quoting new business and renewing existing business for April 2021. She clarified that it will take a year for all MSF policies to convert to the new system as they renew.

She added that also of note was that the customer and agent portals had been developed and were being tested. They would be rolled out several months into 2021 which allows staff to become more comfortable and knowledgeable in the day-to-day use of the new applications before the additional customer support needed for accessing the portals.

Chair Zanto called for questions; there were none.

Ms. Copps explained that the WorkSafe Champions program was expected to complete as planned even though COVID 19 had impacted the delivery to some extent as policyholders and MSF put in-person training on hold. She said the team was performing virtual Zoom "on-site" and "central class" trainings for policyholders that are receptive to that platform. She noted there were six policyholders and 48 participants working virtually on-line with a Safety Management Consultant (SMC). She noted that there are nine participants from small employers attending virtual central workshops and the team expects to award 11 safety grants of up to $3,000 by the end of 2020. She said the grants are awarded to WorkSafe Champion graduates who apply and meet the eligibility requirements.

She said the Growing a Safer Montana project, also on track, expands MSF's efforts to reach young workers and invest in the safety future of Montana. The team has awarded personal protective equipment (PPE) grants to 37 high school classes. The instructors selected their equipment; however, rather than in-person delivery, the PPE was mailed out at the end of August. She noted that SMC's do plan to provide safety presentations via Zoom to each class.

Ms. Copps noted the second part of Growing a Safer Montana awards scholarship to students in college trade and occupational safety and health programs. She said the team was developing information packets for the colleges to generate the interest. She noted that up to 15 scholarships may be granted and the deadline for the applications is mid-November and the scholarships will be awarded in January 2021.

She noted that the PBRI project schedule was behind while the other two projects were on track for completion.

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

III. Corporate Support – Mark Burzynski, V.P. Corporate Support

A. *Calendar Year 2020 Second Quarter Financial Report – Kent Schlosser, Financial Analyst*

Mark Burzynski, Vice President of Corporate Support took a moment to introduce Kent Schlosser, Financial Analyst. He noted that Mr. Schlosser would be presenting the 2020 results.

Mr. Schlosser said that invested assets had decreased by approximately $27 million since the prior year; however, that was due to an investment transaction at the end of 2019 that decreased cash by $30 million at the beginning of 2020. He said bond holdings had decreased slightly over $40 million; however, $20 million in equities and $20 million in real estate funds were purchased during the year. He noted that equity holdings had experienced an incredible turnaround since the first quarter which reflected an unrealized loss position of $38.3 million and that was expected to hold true or worsen throughout the course of the year. Quarter Two reflects a $6.4 million unrealized loss and the results as the end of August show $3.9 million realized gains. He said the Board of Investment's recommendation at the June meeting was to add some high-yield bonds to the MSF portfolio and those purchases were completed in the second quarter; however, their impact is not evident in this report.

He said total liabilities were down $44 million due to the pending investment purchase in late 2019. He noted that unpaid loss reserves were down $7.5 since the end of 2019. He noted that MSF does not normally see decreases in its reserve balances; however, in this case the $49 million incurred loss that was added to the current year is less than the six months of payments that were made on all of the accident years combined. There was some favorable development of $5.5 million which resulted in the $34.2 million decrease reflected in the liabilities and equity.

Mr. Schlosser highlighted the large variances in the income statement which reflected the differences of the 2020 projections and Annual Business Plan with the effects of COVID 19. He said a 15 percent decrease of planned net earned premium was expected and since the end of the second quarter there are some indications that is a conservative estimate. He noted that losses incurred were down significantly compared to plan and explained that generally speaking there are a certain amount of dollars for every dollar of associated premium, so since premium was projected to be down so were losses. In addition, this number reflects more favorable development on prior year's losses than the plan did, which further reduces the projection. He noted that expenses were down across the board for several reasons: 1) the decrease in losses causes a corresponding decrease in loss expenses. 2) underwriting expenses are down due to decreases in commission and travel and training expenses and 3) the postponement of some project expenses that were included in the plan. He said investment income was on track to be just below plan despite the low interest rate environment; however, realized gains were expected to be higher than planned due to a sale of equities in July. He said overall the second quarter net income before dividend was projected to be $31.2 million which was $10 million higher than planned.

He said without the dividend, the policyholder equity was projected to be $564 million by year's end; however, it remains to be seen what will happen with the equity markets through the remainder of the year. He added they were projecting an increase in non-admitted accounts receivable at year end with the expectation that some of the accounts that are deferring premium will still be unable to pay by December 31, 2020

He reminded the Board that the reserve to equity ratio indicates how many dollars of reserves MSF has for each dollar of equity and provided some background on past ratios.

Mr. Hubbard reminded the Board that the second quarter financial results assume a 15 percent decrease in premium with two more quarters to unfold before determining the actual impact to total premium for 2020. He said MSF's internal projections at this time, should the second quarter current trajectory continue, indicate premium might be down seven to ten percent.

Chair Zanto called for questions; there were none.

B. *Calendar year 2020 Second Quarter Budget*

Mr. Burzynski provided the second quarter budget report for calendar year 2020. He noted that management would be asking the Board to approve an expenditure expansion of $10 million driven by an increase in benefit payments. He said operational expenditures are significantly under budget by $2.6 million; however, the budget amendment request was due to an increase in medical settlements of $9.9 million He explained that the determination to proceed with a settlement begins with a thorough review of the claim to determine that any settlement steps taken are in the best interest of the injured employee. He clarified that settlements create a level of independence for the injured employee in terms of their medical care and finances which may have implications for the injured employee's family down the road. He added that for MSF, settlements create certainty and cap the risk. He said in the course of 2020, more settlement opportunities presented themselves than anticipated when the budget was projected. He added that indemnity was projected to be over budget by 4.7 percent or $1.6 million because settlements often include an indemnity component. He noted that medical non-medical settlements are underbudget due to COVID 19.

He provided an overview of operational expenditures to date and reported that personal services were under budget by $725,000 mostly due to vacancy savings. He further explained that operating expenses were $2.6 million under plan as commissions were down, the producer portal accelerator project was delayed, IT backfill for their department projects were not filled, actuary consulting on MSF's tier rating was placed on hold and postage and travel costs were down. He said capital expenditures were over budget by $1.5 million due to the need for additional resources for the PBRI project. He said overall, total expenditures were $2.1 million under budget.

Mr. Burzynski provided a review of the COVID 19 unplanned expenditures for MSF through June 2020.

Covid-19 Unplanned Expenditures

Building Sanitizing	$26,582
Remote Work	$117,829
Safety Supplies	$255,751
Computer Hardware	$98,550
Communications	$79,921
Total Projected Covid-19 Expenditures	$578,633

He noted that through July a total of $432,488 in actual expenses had been recorded as driven by COVID 19 and the projection had been increased to $578,633.

He asked the Board to consider a $10 million budget amendment to fund the proposed settlements through December 2020.

Chair Zanto called for questions or comments.

Chair Zanto asked what the percentage of re-openings of settlements for MSF was?

Julie Jenkinson said MSF had not had any settlements re-open or be overturned nor did she believe that there had been any litigation regarding MSF's settlements.

Kevin Braun said that occasionally there is a request to reopen a settlement; however, thus far, unless the settlement was based on mutual mistake of fact, any requests to reopen that go into litigation have not been successful. He said in the situation that the mutual mistake of fact is determined, such as missing the medical condition, MSF will take a second look at the claim and the settlement and reopen if necessary. He noted that the amount of litigation is minimal and MSF only sees these situations every couple of years.

President Hubbard added that medical settlement activity is driven by House Bill 334 (HB334) that was passed in the 2011 Legislation Session. That bill allowed insurers and injured workers to settle undisputed medical benefits. He noted that prior to this bill's passage, only disputed medical could be settled. He said he thought Mr. Burzynski's point about people having control of their lives and medical care was very salient. He said many of the settlements involve long-term care issues, and end-of-life type valuations regarding the needs for injured workers. He said settlement possibilities are pretty speculative on a recent claim; however, on the difficult and complicated claims, a settlement may be the most appropriate solution for the injured worker and their families. He added that the scrutiny of the settlements is very important. He said the Department of Labor and Industry (DOLI) or the Workers' Compensation Court must determine under statutory conditions that the settlement is fair and they must approve the same. He added that the consulting actuary analysis has not yet identified a shortening of the tail of workers' compensation claims due to these settlements; however, he said MSF is confident that will be identified in the future.

Ms. VanRiper noted that she has always been a bit nervous about the medical settlements and she said she appreciated Mr. Burzynski's and President Hubbard's comments regarding how this can be beneficial for the injured worker. Yet, she noted that her concern arises from having represented injured workers for a long time prior to this bill's passage. She said in the course of her representation of injured workers, she found most of the injured workers to be very responsible with their settlements; however, there were a group of people who spent the settlement money on things other than continued medical care. She also said that people who have spent their settlements and no longer have medical insurance, go without medical care and their condition worsens or they go to providers and receive uncompensated care which as we know we all pay for. She said she just wanted to explain why she has a background concern about these settlements which was not to say that they could not be good for both parties in any situation. She asked if there were any guarantees or restrictions placed on the money that goes to injured workers who get the medical settlements to assure that the money does get saved for medical expenses. She said her understanding was that there were a couple of things in place, one of which was the Medicare set asides and sometimes these are done in terms of annuities. She said her question was whether there are other safeguards and what percentage goes into annuities verses a lump sum?

Ms. Jenkinson responded that although MSF believes settlements are prudent for both parties, management shares Ms. VanRiper's concerns. She said safeguards are taken, not on every settlement as some are in smaller amounts; however, on larger settlements such as for lifetime medical care, annuities are often looked at as the best solution. She noted that the issue cannot be forced; however, depending on the size of the future Medicare set aside, accepting the settlement in an annuity may be made a condition of the settlement. She said the reason for that is because there is that risk and the risk is greater than them just not getting treatment. She explained that when there is a Medicare set aside, Medicare approves the set aside which means not only is DOLI reviewing the settlements, Medicare is also reviewing the Medicare set aside piece. She said if the amount is approved, that means Medicare will not start to assume liability for their treatment until the injured worker can prove that they have spent that amount of money on their medical care. She noted that MSF is very careful in that situation in two ways, through the use of an annuity so we ensure that the injured worker has limited access to their medical dollars and use them for medical treatment. Also, MSF pays for the professional administration of the Medicare set aside which means it is not up to the injured workers to track how much they have spent and who they paid; the professional administrator will do that for them. She noted that there is a very good professional administrator that is reasonably priced that provides a debit card to the injured employee so that all of their medical care filters into an electronic record that provides proof to Medicare when the money is paid and that the money is used only for medical care. When that is done, it assures that the injured worker is protected as well as Medicare's interests are protected.

She said as to the percentage of annuities that are used, she estimated that on the larger settlements such as over $100,000, the option of an annuity is always looked at and whether the annuity can be funded in a way that protects the injured employee and is cost efficient. She told Ms. VanRiper that she was correct in that many of the injured workers want the lump sum and in some cases it is just to gain their own independence and in others to take care of other financial responsibilities. She said MSF is extremely careful if the injured worker is not represented by a lawyer. She said she wanted to share the percentages of what is represented and what is not because it shows MSF's prudence in this area. She said the overall book of claims has about 14 percent that are represented by lawyers, although they may not have been litigated yet because there has been no reason to go to the workers compensation court. That number that is the actual percentage of claims that are settled, i.e. the actual percentage that is represented in our settlement group is 52 percent. She said a good share of the settlements that MSF engages in are with a lawyer representing the injured employee. She said when the injured worker is not represented by a lawyer and the settlement figures are large, MSF actually pays for a settlement master to advise the injured employee to assure the employee is receiving the needed advice to make good choices about lump sums, annuities and what Medicare set asides mean. She said MSF engages in those conversations as well; however, the addition of an objective party to advise them is also encouraged. She said MSF takes an abundance of caution between the use of the settlement masters, the lawyers, the Medicare set aside education, the use of professional administrators and the use of annuities when the figures get rather large to ensure that MSF is not just protecting its own interest but primarily the injured worker's interests. She said at the end of the day some workers are going to make good decisions and some are not and MSF wants to ensure that we are giving the injured worker the opportunity to take advantage of those opportunities/settlements; however, we also want to be extremely judicious. She added there are times when injured workers want to settle claims and due to the facts of their claims MSF chooses not to as it is not believed to be in the best interest of the claimant. She reported that MSF has been in negotiation with one injured worker for over three years. The worker really wants to settle their claim; however, they have a bad head injury and lack family help and we don't believe a settlement is in their best interest. She noted there are also situations where the injured worker has a host of co-morbidities and may want a different approach to their treatment such as holistic or treatment that is not within the utilization and treatment guidelines. She said by agreeing to a settlement that protects the injured workers future interests through an annuity, the worker can pursue the treatment of their choice.

She said she hoped it assured Ms. VanRiper that most of the settlements MSF engages in have lawyers also protecting the injured employees and when that is not the case, MSF takes steps to assure they are getting objective advice to assist in making their decisions.

Ms. VanRiper said she really appreciated the thorough and comforting response. She said it sets her mind at ease a lot and this illustrates to her that MSF understands both sides of the coin with this.

Cliff Larsen asked how many claims have been settled in 2020?

Ms. Jenkinson said in 2020 MSF settled 609 claims.

Mr. Larsen noted that the average cost of these claims is not extraordinary then?

Ms. Jenkinson said he was correct the average cost is not extraordinary. She said there has been opportunity to settle some large dollar claims due to some of the extraordinary circumstances as she had explained earlier. She said on average the claims that settle are in the $10,000 to $20,000 range or much lower dollar settlements.

Chair Zanto called for additional questions.

C. *Budget Amendment – Board Action*

Ms. Van Riper made a motioned that the budget for Calendar Year 2020 be amended to increase the overall budget by $10,000,000 to cover higher than anticipated settlements. Ms. Moss seconded the motion. Chair Zanto called for discussion and questions.

Chair Zanto said he appreciated the discussion on this issue and noted that when HB334 passed there were concerns that insurers would be less than gracious and may force injured workers to settled claims; however, he believes MSF is leading by example in the proper approach to claim settlements and in providing adequate guidance for the injured workers. He thanked Ms. Jenkinson for her explanation and clarification about MSF's process.

Chair Zanto called for further questions or comments from the Board and the public; seeing none he called for the vote and the motion passed unanimously.

D. *Old Fund Funding Status – Fiscal Year 2020*

Mr. Burzynski provided the update on the Old Fund funding status. He noted that the fiscal year for the Old Fund was July 1, 2019 through June 30, 2020. He noted that claims benefit payments and operational expenses are under the funding estimate for fiscal year 2020. He said MSF's anticipated expenditures for the year were 27 percent under budget and operational expenditures 17 percent under budget.

He noted that medical settlements for the Old Fund were $3.5 million under what had been projected; however, indemnity was over budget due to two settled cases where indemnity had a significant influence. He stated that during the past 26 months, there had been 147 Old Fund claim settled which is 23 percent of those claims. He clarified that COVID 19 impacts on the Old Fund were minimal as it was likely that the Old Fund injured workers were probably not part of the workforce anymore and are beyond acute care such as surgery. He said given their health status, telemedicine is certainly a viable option for them. He said he believed COVID 19 has had little impact on Old Fund claimants.

Mr. Burzynski reported that operational expenses and administrative costs were approximately 10 percent under budget and relative to cost effectiveness, this was the second year in a row that MSF "beat" the funding estimate for the Old Fund for administrative costs. He said the allocated loss adjustment expenses are also significantly under budget. He said it was a very good year relative to MSF's performance and relative to the needs of the Old Fund and from a cash perspective the state had $3.5 million less expended from the General Fund.

Chair Zanto called for questions from the Board or the public, there were none.

Chair Zanto reminded attendees that if they had questions or comments to email Verna Boucher at vboucher@safemt.gov and she would assure those questions are answered. He noted that he believed MSF was serving the state very well with the management of the Old Fund for the State of Montana.

E. *Analysis of Equity Adequacy and Policyholder Dividend Program – Russell Greig, Senior Director – Willis Towers Watson*

Mr. Greig congratulated Ms. Heigh on her impending retirement and wished her the best on her next phase. He said he would be guiding the Board through Willis Towers Watson's analysis in support of the payment of a policyholder dividend. He provided an overview of the items Willis Towers Watson would be presenting that summarize their analysis of MSF's policyholder equity adequacy and MSF's policyholder dividend program. He noted that they are asked each year to provide a review of how much policyholder equity MSF needs to support its long-term viability and stability for Montana employers and MSF's long-term business plans and projects. He said the review included an analysis of whether MSF's financial situation supports a dividend and he noted that their analysis believes it does.

Mr. Greig said their annual rate level analysis supports MSF's objective of producing modest operating income which refers to the contribution to policyholder equity for each underwriting year. He noted that MSF's operating income recognizes the transfer of risk from the individual policyholder to MSF and reflects the apparent uncertainty in predicting the future when pricing future business. It also makes on-going contributions to growing policyholder equity as needed and supports the Board's dividend strategy. He said policyholder equity is not "extra", not "excess" and not un-needed funds and stated that if insurers retained no equity, potentially half of insurers would become insolvent each year and rates would be much higher than employers are willing to pay.

He said MSF has several characteristics that highlight the importance of policyholder equity to withstand current and future adverse financial results: extremely long-term obligations associated with workers' compensation claims, MSF writes one line of highly regulated insurance in a single state and provides the guaranteed market. He added that there is uncertainty from significant Montana benefit changes, such as the repeal of HB 334 and the increased risk of a future political budget appropriation from MSF's policyholder equity. He said that due to the characteristics unique to MSF, a stronger-than-average policyholder equity is needed for MSF stability.

Ms. VanRiper asked if Mr. Greig was aware of a future political budget appropriation that the Board should be concerned about?

Mr. Greig said he did not know of any planned appropriations; however, he stated that there have been statements made by politicians that MSF's $500 million of equity "was just too much" for MSF. He said if a politician believes $500 million is too much, they may be inclined to take the amount that they believe is unneeded. He said that assertion missed the point that the $500 million of policyholder equity supports close to a billion dollars of reserves.

President Hubbard added that the Moody's decision from the Montana Supreme Court leaves unresolved the issue of the transfer of $28 million from MSF's assets for the purpose of the fire suppression account. He said he reads that point as being an endemic risk to MSF that may not exist for other carriers in other states. He said these are unique attributes of the system that MSF exists in that put an exclamation mark on the importance of policyholder equity.

Mr. Greig continued his presentation and noted that policyholder equity exists to give management time to take corrective action in a carefully planned and balanced manner and to provide a cushion for variability in estimates and other unexpected events.

He said policyholder dividends are an important element of the long-term strategy to improve worker safety and add an incentive value to the employer focus on safety and a quick return to work. The incentive value aligns with MSF's mission and it builds long-term relationships/partnerships.

He said their analysis concurs with MSF management that MSF needs to maintain strong policyholder equity relative to loss reserves. He explained how MSF has achieved its long-term goal over many years to achieve a strong equity level to assure continued health of the company and continued operations. He provided an example that illustrated how quickly a strong company can become insolvent in a few short years due to inadequate rates and adverse medical development. He noted that their analysis includes the heightened awareness of potential exposures to terrorism and other catastrophes.

He said MSF's policyholder equity of $551 million exceeds the "regulatory solvency perspective" equity benchmarks. He provided a review of the perspectives and explained that MSF's company-action-level Risk Based Capital (RBC) is four times the authorized-control-level RBC versus two times for other insurers. Projected December 31, 2020 equity of $529 million will also exceed the 2020 regulatory equity benchmarks by a substantial margin.

Mr. Greig explained the comparison depicted below and noted that MSF's December 31, 2019 equity position of $551 million placed MSF below the middle of the range indicated by A- and A state funds and by the workers' compensation industry.

SUMMARY OF ANALYTICAL RESULTS

Comparisons to A- and A rated State Funds and the workers' compensation industry (assumes reserve adequacy) suggest a 12/31/19 MSF policyholder equity range of approximately $365 - $955 million

	Peer Group				
	Private Carriers			A- and A State Funds*	Workers' Compensation Industry
	Mean of Lower Quartile	Median	Mean of Upper Quartile		
Premium-to-equity ratio	1.3	0.7	0.3	0.4	0.4
Implied MSF equity	$118 million	$219 million	$512 million	$384 million	$365 million
Gross leverage **	4.3	2.7	1.5	1.7	2.1
Implied MSF equity	$300 million	$478 million	$860 million	$758 million	$614 million
Net leverage **	4.4	2.8	1.6	1.7	2.1
Implied MSF equity	$292 million	$459 million	$803 million	$755 million	$603 million
Reserve to equity ratio	2.5	1.5	0.7	1.0	1.3
Implied MSF equity	$383 million	$638 million	$1,367 million	$957 million	$722 million
Equity to RBC ratio **	1.9	2.8	6.3	6.4	N/A
Implied MSF equity	$245 million	$361 million	$811 million	$824 million	N/A

MSF's December 31, 2019 equity position of $551 million places MSF below the middle of the range indicated by A- and A state funds and by the workers' compensation industry

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

** Gross Leverage =(Gross Written Prem + Gross Loss Reserves + Other liabilities)/equity, Net Leverage = (Net Written Prem + Net loss reserves + other liabilities)/equity using MSF's CY2019 statutory financial statements, Equity to RBC ratio = Policyholder Equity / Risk-Based Capital

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Mr. Greig noted that though the likelihood, or frequency, of terrorism events with workers' compensation implications in Montana is low, the potential severity of a very extreme event could exceed $139 million. He said MSF's current equity is available to withstand the workers' compensation cost of terrorist events and MSF also is covered for terrorism through its reinsurance program.

He said that MSF's policyholder equity has done its job extremely well. It has withstood adverse loss and LAE reserve development and has absorbed retroactive benefit changes reflected in court decisions and volatile investment climates. It has also allowed for relatively stable rates since 2005 and lower rates via a smaller profit and contingencies provision. Willis Towers Watson views MSF's financial position as financially strong; however, it remains important for MSF to maintain equity relative to loss reserves.

Mr. Greig said that the Willis Towers Watson analysis concluded that MSF has the financial performance and financial strength to declare a large dividend this year.

Chair Zanto called for questions. There were none.

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

President Hubbard noted that although the Willis Towers Watson recommendation was for a large dividend, management view "large" with a more conservative approach. He said dividend declarations have been made in a very deliberate way over the long term to assure MSF's solvency. He said there have been no great increases in equity caused by rate level increases or decreases caused by excessive returns to policyholders. He clarified that MSF defines large as anything within the range of what has been declared over the last several years.

This is the twenty-second consecutive year that the MSF Board has explicitly considered these questions

Fiscal Year Ending
($000s)

	2012	2013	2014	2015	2015.5	2016	2017	2018	2019
Net Premium	$150,482	$156,062	$165,272	$164,557	$88,495	$169,677	166,768	161,259	156,871
Net Operating Earnings**	29,803	41,423	53,746	83,440	22,477	45,816	50,071	34,023	41,921
Net Loss & LAE Reserves	889,941	902,848	924,598	895,543	900,296	921,532	919,690	941,638	956,594
Policyholder Equity	317,668	372,277	443,853	516,905	505,158	526,466	554,701	512,475	550,665
Reserve to PH Equity Ratio	2.80	2.43	2.08	1.73	1.78	1.75	1.66	1.84	1.74
Dividend*	6,001	10,005	12,003	20,005	35,003	35,001	40,002	39,998	30,007
Policyholder Dividend Percentage	4.0%	6.4%	7.3%	12.2%	19.8%	20.6%	24.0%	24.8%	19.1%

Note:
- Workers' Compensation market soft (other commercial lines firm)
- MSF's large market share
- MSF operations and financial strategy strengthened
- MSF loss reserves have stabilized over the last several years
- Equity has generally grown, with fluctuations; 2019's loss reserve leverage is approximately two-thirds of 2012's

* The dividend declared is payable to policies written in a prior policy period. For example, the dividend of $30.0 million declared in 2019 was payable to policies written from July 1, 2016 to June 30, 2017. Actual dividend paid may vary slightly from board declaration due to rounding in the table of dividend factors. 2015.5 has been adjusted for the half year.
** Net operating earnings prior to dividend. Net operating earnings for FY2015 includes a $36 million board directed reserve reduction.

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Mr. Hubbard referred to Willis Towers Watson's slide depicting the history of MSF's financial considerations and dividend percentages. He said the most important leverage ratio for MSF and the one that management spends the majority of its time working on, is the reserve-to-equity range of 1.5 to 2.5 to one. He said closer to the 1.5 range is stronger and the 2.5 is weaker. He said the history reflects that back in 2008 MSF's reserve-to-equity was at the 2.8 range; however, since 2015 the reserve to equity hovers right around 1.7 reserve to equity ratio range. He said management's evaluations have determined a $20 million to $30 million dividend declaration range would be appropriate this year.

He provided comparisons of past dividend declarations to the net operating income that illustrated that MSF has been operating as a non-profit and adding small amounts during that time to its equity. He added that MSF operates at an underwriting loss and without investment income, MSF would be dipping into equity every year to pay for and cover the losses and operating expenses. Over the long term, that is a very untenable solution. He noted that investment income is not doing the heavy lifting that it used to do within the current low-interest-rate environment and underwriting cash flow invested in lower corporate bonds, lower fixed equities, and lower rates of return. He said MSF is seeing, over time, a diminution of the lift MSF gets out of its invested assets.
He noted that MSF has been leveraging the investment returns as much as prudent over the past several years as the markets have been eating away at an otherwise strong investment portfolio. MSF relies upon investment income to even be in a position to consider a dividend program for our customers.

He noted that the Board has the Dividend Policy which is a guidepost for the discussions today and pointed out a couple of key points. He said the Board shall consider the current year's financial performance and those results had been presented earlier in the meeting. Those reports indicated that MSF had net operating income of $31 million which would grow the equity position to around $560 million. He said if all things work out MSF will have strong financial performance this year. He added that the Board must consider the level of underwriting and operating profitability for the period in which the dividend is declared. He noted that for 2017 and 2018 there was strong net operating earnings which would mean a dividend declaration would be appropriate. He said the Board also needs to consider what MSF's ability to contribute to equity in the future. He noted that there has been no contribution to equity explicit in the rate level for the past several years. He said rates are discounted up front for the anticipated investment cash flow and the discounted rate is simply MSF's best guess at the time which may or may not be correct. He said another consideration is MSF's role in stabilizing the marketplace which means measured decisions to prevent volatile increases or decreases in MSF's financial results. He added that Montana has a very competitive workers' compensation market and MSF has competed with those insurers for high quality accounts. He noted that rates have remained stable and losses have been managed very well due to the effective management of the claims by the operations department. There are a number of items the legislature has put into place that assist MSF in containing liabilities. He also said consideration should be given to additional legislative actions that take money from MSF's policyholders as well as retroactive court decisions that could adversely affect MSF. He noted that MSF does not discount its loss reserves which is a best practice and guards against betting there will be investment returns at certain levels. He said there is also $32 million of additional reserve strengthening from our actuary's central estimate which is leaning toward the higher end which is in excess of $1 billion. He said a consideration also must be given to the market in terms of COVID 19 effects. Currently the long-term consequences in the claims arena or the economic impact to policyholders are unknown. He said economists are finding 2020 to not be as bad as was anticipated; however, they are concerned that the severe economic impacts will happen in 2021 and 2022.

He said his recommendation to the Board is cast with old experience and new emergent unknowns that are potential risks. He noted that MSF is strong financially and his recommendation was for a dividend declaration of $20 to $30 million. He said the average over the past several years has been $25 million per year. He recommended a dividend of $20 million be declared at this time. He said he would rather be conservative at this time and see what happens over the next year to then consider MSF's position and the economy and the state of COVID 19. He added that MSF's peer comparisons indicate that MSF is at the lower end of the strong range and MSF should move to the stronger end of the range. He said a $20 million dividend would be issued to 95 percent of MSF's customers and would represent a 15 percent return of premium which is significant at a time when small businesses in Montana and safe businesses in particular could use a shot in the arm.

Chair Zanto called for questions.

Ms. VanRiper asked how clear and present a danger that there will be a repeal of HB334?

President Hubbard said there was a recent court decision, the Hensley case, that did challenge the constitutionality of the Class I Impairment. That part of the statute was held to be constitutional; however, there are other challenges to portions of the law including choice of physician.

Mr. Braun clarified that the Hensley decision had been fully submitted and oral argument occurred on July 8 and is ready for decision at the Montana Supreme Court. There have been occasional challenges with regard to treating physicians though none have culminated court decisions.

Ms. VanRiper clarified that she was questioning if MSF foresaw a repeal by the legislature rather than individual court actions?

President Hubbard said he was very hopeful there would be no repeal by the legislature; however, legislative changes are typically prospective from the effective date of the law not retroactive. Court decisions are retroactive to any claim that has not been settled which means what were considered finite liabilities when the law was in effect could in fact not be.

Ms. Moss asked if the $25 million average President Hubbard had mentioned would be a bigger assist to the small businesses of Montana.

President Hubbard said the $20 million would return approximately 14.8 percent of premium, if the declaration were $25 million the average return would be 18.2 percent. He said on a small policy that would not be a lot of nominal or real dollars; however, every bit is meaningful and would help to incentivize businesses to invest in safety.

He added that he had failed to mention that MSF management has been discussing the remote work environment shift and paying for those costs have been coming out of the operational expenses. Management has been developing discussion points to address with the Board regarding setting aside certain amounts of equity for strategic initiatives whether they are system investments so that management does not have to go to the single operating year budget to plan for and be prepared for investing in these major technology changes, remote work support, or deferred maintenance on the building. He noted that MSF has not historically reserved a portion of equity for strategic investments.

Mr. Burzynski said there are a number of things that are applications of equity such as the unfunded pension liability of approximately $24 or $25 million. There is accumulated depreciation in the building which is about $6 million. Over time there will be necessary investment in IT tools such as the producer portal which could easily take $5 million when the PBRI project is completed. There are COVID 19 pandemic considerations and any other natural disasters and what amount should be set aside for things of that nature. He said when reserving for the future, of MSF's equity approximately $40 to $45 million should be considered to be set aside for these considerations. He added that an additional consideration was what the level of equity should be to situate MSF as a competitive force in Montana 50 years from now and what it will take to play that game.

President Hubbard said there are so many things that MSF could use and deploy its assets to that are important to MSF's customers too. Returning money is important; however, retaining it and using it wisely is also very important.

Ms. Moss said she thinks its important to look at MSF's values and how the resources are managed in a way that reflects the values of small business owners as well. She said she was trying to find the middle ground to say yes, MSF manages its resources wisely and has excellent talent and practices and we want to assure that we provide support and resources and dividends to our policyholders so they can mirror the same values and best practices as MSF. She said the reality is that Montana is going into a legislative session and many of those small business owners and main street businesses are important constituents to consider as we approach 2021.

Chair Zanto asked if he was correct in his math that an additional $5 million in dividend would mean an additional $202 per policyholder?

Mr. Burzynski said he was correct though his back of the envelope math came out to $208.
Darcie Dunlap pointed out that not all 24,000 policyholders would not be receiving a dividend. She explained that it was 95 percent of policyholders that are eligible and to be eligible for a

dividend this year there has to be coverage effective between July 7, 2017 to July 30, 2018 and they have to have at least six months of continuous coverage in that date range. That would mean closer to 23,800 policyholders would be eligible and it would be 95 percent of that.

Chair Zanto said the reason he wondered about that was to provide some perspective. He asked the Board to recall the past few times this process has been undertaken and indicated that he would support somewhere in between the 20 and 25 which then becomes a rounding issue. He also reminded the Board that dividends are a respective analysis while rates are looking prospectively at what the losses are going to be. Dividends are a reflection of the money, if any, that can be returned due to favorable results in MSF's investment portfolio. He said it is evident that a dividend can be declared this year. He said in considerations of COVID 19 and the unknowns that will occur in 2021 and 2022, he believed it was important to keep those issues in mind while determining how to preserve MSF's equity position and the ability to address the unknowns should they occur in the coming years.

Mr. Mohr said he was leaning toward the $25 million dividend which he believed would keep the reserve-to-equity ratio the same as it was last year. He asked if it was correct that the ratio would be at 1.74 to one?

President Hubbard said that was correct based on the second quarter financial estimates which are still variable. He said it was within spitting distance.

Mr. Mohr said he would be happy with a $20 million dividend; however, he would prefer a $25 million dividend because he believed now was a good time to help out MSF's policyholders with a return.

Ms. VanRiper commented that she was leaning towards a $20 million dividend mostly because of the incredible uncertainties we are facing. She asked about that average $202 or $208 dividend with the $25,000,000 dividend and what the spread would be like for small employer versus large employers. She said she believed that small employers might not be seeing a lot of extra bucks there.

President Hubbard said that as a percentage of premium paid for the dividend years, the smallest policyholder's would receive an average of 19.5 percent with the $25 million dividend and an average of 16.3 percent with the $20 million dividend.

Ms. Dunlap responded that President Hubbard was correct and asked if the Board wanted the dollar amounts?

Ms. VanRiper said she did want the actual dollar amounts and then also the amounts on the high end and what that would look like in terms of dollars. She said she was trying to get a sense in terms of supporting MSF's small employers and whether the extra $5 million dividend would be that meaningful.

Chair Zanto clarified that with the $20 million dividend the policyholders would get 16.3 percent of their premium back and at $25 million they would get 19.5 percent back.

Ms. Dunlap reported that at the $4,500 to $6,000 range, the policyholder would receive $918 on average for the $20 million dividend versus $1,100 for the $25 million dividend.

Ms. VanRiper noted that she did some calculations based on the three percent difference and for the very small employers with $450 premiums the bump would be $13.50 bump with the $25,000 dividend.

Mr. Burzynski commented that with the help of the Board of Investments (BOI), he and Mr. Schlosser had done some modeling of MSF's $1 billion bond securities and many of the maturity coupon rates are 2.6 to 4.5 percent. It is very likely that the reinvestment over the next four to five years will be several points below that. When they modeled 2020 to 2026, they estimated that the reduced bond yields would probably be in the range of $65 to $75 million. He said when reflecting on this dividend, a greater dividend could be declared later; however, given the current uncertain environment, it might be helpful to see how MSF's investments and the economy comes back to life down the road.

Chair Zanto thanked Mr. Burzynski for a very salient point.

Mr. Larsen said he appreciated all of the commentary. He noted that he has been an MSF customer for over 30 years and he has seen the highs and lows and has seen what the legislature can do and has seen a lot of the variables from 2008 and all of the problems that his customers had experienced in dealing with some of the unpredictable variables. He said at this time, he believed Mr. Burzynski's point was very good because if a dividend is declared it cannot be taken back. His other point was that the concern about the pandemic was real and was affecting everyone and it adds a layer of uncertainty about what is going to happen. He said as a conservative businessman, we would really like to stay at the bottom of this dividend because it is money that is going out the door. He said maybe $5 million does not seem like a lot; however, it could make a difference if we are in recovery mode. He said he appreciated all of the thought that went into this discussion and thanked Mr. Greig for his analysis and presentation. He said he will support $20 million and would even go lower if it were practical.

Chair Zanto called for additional comments.

President Hubbard noted that this dividend declaration would be based on unreserved surplus as of December 31, 2019 of $550,665,280.

Chair Zanto called for a motion.

Mr. Molloy made a motion that based on the unreserved surplus of $550,665,280 as of December 31, 2019, the Board declare a dividend to dividend year 2018 policies of approximately $20,000,000 not to exceed two percent above or two percent below the declared dividend, exclusive of any uncashed warrants. Jack Owens seconded the motion. Chair Zanto called for discussion or comments.

Ms. Moss commented that she thought it was important to acknowledge the risks that MSF is facing with COVID 19 and the uncertainty. She said would support the motion with the hope that as MSF, as the expert, develops best practices and shares the knowledge base and expertise. And as the economy improves, there will be an opportunity, as a Board, to reassess the dividend amount. She said she knows that MSF has a diversified portfolio. The bond market may not be the best for returns; however, when the market is not doing great it is a good time to invest in equities which would happen with BOI.

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

Chair Zanto thanked the Board for the good conversation and the analysis.

President Hubbard took a moment to acknowledge Ms. Moss's requests and noted that MSF is happy to share any best practices that are developed. He also promised that should things turn out better, management would bring this back at the Board's discretion for further consideration.

IV. Dividend Distribution – Kent Schlosser, Financial Analyst

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

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

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

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

Chair Zanto called for questions. There were none.

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

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

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

C. *Table of Dividend Factors and Actuarial Certification of Approved Table of Dividend Factors – Darcie Dunlap, Senior Actuarial Analyst*

Ms. Dunlap presented the table of dividend factors for the $20 million declaration distribution. She noted that this dividend was for policies that had coverage written effective between July 1, 2017 and June 30, 2018 with at least six months of continuous coverage. She said the factors of the table represent a percent of premium to be returned as a dividend to each of MSF's eligible policyholders. She noted that this table distributes the dividend pro rata to the actuarially-determined underwriting results and the process itself is quite complex. She said this table is fair, actuarily sound and the total dividend returned is as close to the declared amount as possible. The calculations are highly technical, so they are reviewed by the Board's independent consulting actuaries at Willis Towers Watson. They certify to the Board that the process is consistent with generally accepted actuarial principles and represents a fair distribution.

She said that of the approximately 23,800 eligible policies approximately 95 percent will receive a dividend. She commented that with the larger dividend declarations in recent years, about 95 percent of the eligible policyholders have been receiving a dividend for the past eight years. She said that 98 percent of the smallest accounts will receive a dividend which is about 14,000 customers. She said of the largest policyholders, 86 percent or six policies will receive a dividend.

She noted that for eligible policyholders who receive a dividend, the average percent of return of premium for this time period comes to about 14.8 percent though the smaller account sizes will be closer to 16 percent. She reported the applicable dividend table requirements in MSF rules are that the table be based on loss ratio and account size, the table be consistent with generally accepted actuarial principles and the table be certified by an independent consulting actuary. The Willis Towers Watson certification letter's key finding was that the proposed distribution was fair and equitable. [An electronic copy of the $20 million dividend table and the Willis Towers Watson's certification letter was emailed to Board members.]

Ms. Dunlap asked the Board to approve the recommended $20 million Dividend Factors Table.

Chair Zanto called for questions. There were none.

Chair Zanto made a motion to approve the recommendation of staff to approve the table of dividend factors as presented and as certified by the independent actuary; and distribute the dividend to all qualifying policyholders with new or renewal dates within the dividend year of July 1, 2017 through June 30, 2018, and who had at least six months continuous coverage during their policy period. Mr. Mohr seconded the motion. Chair Zanto called for discussion or questions from the Board and the public; there being none, he called for the vote. The motion passed unanimously.

V. Reserve Report – Old Fund

A. Overview of Old Fund statutes – Mark Burzynski, V.P. Corporate Support

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

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

Chair Zanto called for questions; there were none.

B. Old Fund Fiscal Year 2020 Reserve Report – Alex Turrell, Director – Willis Towers Watson

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

He provided an overview of the methodologies used to determine the actuarial estimate and range of estimates of the unpaid liability of the Old Fund as of June 30, 2020. He noted actual medical payment activity has been above expectations for the last five years. He said long-term patterns are still given considerable weigh in their selections. He said there have been more claims closures in the last 12 months than were expected. He said Old Fund payments have not been declining as expected over recent fiscal years and as a result estimated unpaid losses have been increased. He explained the factors and considerations that Willis Towers Watson applied to the Old Fund to determine their final projections for FY2021.

Mr. Turrell said the Old Fund forecast of unpaid benefits has increased to $42.4 million and the total undiscounted benefits-only related unpaid actuarial central estimate is now estimated at $48.3 million timed out to Fiscal Year 2050-2051. He said as of June 30, 2020 there are 495 open claims in the Old Fund which are less than was forecast by Willis Towers Watson in last year's analysis. In addition, the unpaid claims administration expense and DOLI assessments drive the overall conclusion as of June 30, 2020 for estimated unpaid losses and claims administration to $48.3 million.

Chair Zanto called for questions; there were none.

C. Old Fund Fiscal Year 2020 Reserve Recommendations – Laurence Hubbard, President/CEO

President Hubbard asked Mr. Turrell to clarify his comment on the percentage of claims that make up the majority of the Old Fund costs. Mr. Turrell said there are 22 claims that are responsible for almost 50 percent of the liabilities. President Hubbard said that highlights the potential volatility in these Old Fund liabilities; just a life ending sooner than currently expected or extending beyond what is currently expected could drive the ultimates even more. He noted that by statute, the MSF Board, in consultation with the independent consulting actuary, must establish an unpaid reserve liability for the Old Fund though the payments are made from the General Fund. He noted that at the end of June 30, 2019, the Old Fund liabilities were estimated at $44.3 million with the new reserves analysis which included some adverse development that is projected to be $48.3 million remaining liabilities. He requested a motion adopting Willis Towers Watson's recommendation for total loss and LAE reserves unpaid and undiscounted of $48,279,563.

D. Adoption of Old Fund Fiscal Year 2020 Unpaid Loss and Loss Adjustment Expense Reserve Estimate – Laurence Hubbard, President/CEO

Ms. VanRiper made a motion to adopt for the Old Fund, based on the actuary's best estimate of unpaid losses and loss adjustment expenses for Fiscal Year 2020, the amount of $48,279,563 undiscounted as of June 30, 2020. Chair Zanto seconded the motion. Chair Zanto called for questions or comments from the Board and the public; there were none. He called for the vote and the motion passed unanimously.

VI. Old Business/New Business

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

Chair Zanto took a moment to commend MSF staff for adapting to the unexpected transition to remote work and still taking care of MSF's employees and injured workers. He said one of the underestimated and under-appreciated groups are the IT staffers and thanked Mr. Parisian for him and his staff successfully moving everyone forward. He asked Mr. Parisian to pass the Board's thanks along to his staff.

Mr. Parisian assured the Board he would pass the thank you along and commented that it was very much a team effort with every executive, leader and employee at MSF that make this happen.

Chair Zanto also took a moment to say good-bye to Ms. Heigh.

President Hubbard acknowledged that Mr. Gengler was quiet during this meeting which was as planned while MSF transitions from Mr. Gengler to Ms. Dunlap, who did a wonderful job presenting today. He mentioned that Mr. Gengler would be retiring soon and he thanked him for his tremendous service over the years and for bringing the science of actuary language into lay-terms so that it is understandable and easily communicated.

Mr. Gengler thanked President Hubbard and stated that as Mr. Parisian had stated, it is a team effort.

Chair Zanto also thanked Mr. Gengler for all that he has done.

VII. Public Comment

Chair Zanto called for Public Comment. There was none.

The meeting was adjourned at 1:18 p.m. The next scheduled board meeting will be held on Friday, December 11, 2020 at Montana State Fund, 855 Front Street, Helena, Montana in the first floor Board Room.

Respectfully submitted,

Verna Boucher
Special Assistant to the President/CEO