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MONTANA STATE FUND
BOARD MEETING
September 10, 2021

The Montana State Fund (MSF) Board meeting was held September 10, 2021 via Zoom.

Directors Attending

Richard Miltenberger, Clancy
John Maxness, Helena
Michael Marsh, Billings
Jan VanRiper, Missoula
Karen Fagg, Billings
Dexter Thiel, Sidney

MSF Staff Attending

Laurence Hubbard, President/CEO
Verna Boucher, Special Asst to Pres/CEO
Kevin Braun, General Counsel
Julie Jenkinson, Executive Vice President
Mark Burzynski, Corporate Support VP
Matt Mandell, Interim Insurance Ops Support VP
Rick Duane, Human Resources VP
Patti Grosfield, Internal Auditor
Shannon Copps, Director, ESPM
Rene Martello, Controller
Darcie Dunlap, Senior Actuarial Analyst
Will Anderson, Interim Operations VP
Al Parisian, CIO

Others Attending

Senator Shane Morigeau, Polson
Alex Turrell, Willis Towers Watson
Russell Greig, Willis Towers Watson

I. Meeting Preliminaries

A. Call to Order

Chair Richard Miltenberger called the meeting to order at 8:30 a.m. He thanked everyone for joining and thanked President Hubbard and staff for preparing the agenda and materials for the meeting.

B. Approval of June 18, 2021 and August 17, 2021 Board Meeting Minutes

Chair Miltenberger called for a motion to approve the Board meeting minutes for June 18, 2021 and August 17, 2021.

Karen Fagg made a motion to approve the June 18, 2021 and August 17, 2021 minutes as presented. The motion was seconded by John Maxness. Chair Miltenberger called for discussion from the Board 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 took a moment to acknowledge and thank key staff from MSF: Verna Boucher, Melissa Iverson, Ethan Heverly and Kathy Gowen for planning and executing this Board meeting. He noted that technologically putting on a virtual live and live stream program takes time and proper planning and staff worked diligently to assure this meeting runs smoothly.

He said MSF, since 2019, has conducted an internal employee engagement poll designed and utilized by Gallup which is called the Gallup Q-12. The poll contains 12 questions that Gallup has developed over many years and has utilized worldwide that measure and assess employee engagement. He commented that employee engagement is a hot topic for employers and Boards due to the changes that COVID-19 has imposed on the working environments, and the popularity of remote work. He noted it is important to monitor the ebbs and flows of employee engagement and take appropriate actions to maintain high levels of engagement. He said the Q-12 administered in 2017 saw 77 percent of employees participate and in 2020, 83 percent participated and in July 2021, 88 percent participated. Overall engagement for 2019, on a scale from 1 to 5, indicated a 3.8 high engagement score. In 2020, there was a substantial improvement, increasing the score to 4.03. In 2021, the most recent survey, the engagement level was maintained at 4.05. He said the important lift from the survey is to determine the level of engagement within MSF. He said for every one disengaged employee, there are 6.25 highly engaged or engaged employees at MSF. He said MSF will watch these levels closely because he is concerned that with a higher degree of remote work, the connectedness to the organization might slip and action steps would need to be taken to address those issues.

Chair Miltenberger called for questions or comments. There were none from Board members; however, Chair Miltenberger asked about the vaccine mandate from President Biden that had been announced the day before this meeting. He said it seems to affect all employers of more than 100 employees which would affect a private employer like MSF. He noted that the mandate requires vaccination or a weekly test for COVID-19 and he asked if President Hubbard or Mr. Braun had given any thought to the ramifications of COVID-19 becoming an employment-related workplace-safety issue in terms of claims.

President Hubbard said there are two interesting questions that come to mind. The first is what is the mandate itself at the Federal level and whether it is applicable to a state public entity? He said he suggested General Counsel dig into the order at the Federal level and then advise the Board of their findings. He noted that Montana has a law on the books that does not allow discrimination surrounding whether someone is vaccinated or unvaccinated which creates an immediate state and federal conflict. He said in Montana, there is no special legislation regarding COVID-19 claims or disease. There was a legislative effort during the past session to pass a presumptive disease bill for COVID-19 claims which would have changed the workers' compensation law. He said currently any disease must be caused by the work site which places the burden of proof on the injured employee to prove they contracted the disease in the course and scope of their employment. He noted that is very difficult when you have community spread such as has occurred with COVID-19. He said he was unsure if it changes anything with the burden of proof for the employer with regard to the occurrence of disease in the workplace. It does not create a presumption where one did not exist. He asked Mr. Braun to weigh in with his comments.

Mr. Braun said he would provide very preliminary responses as he has not yet seen the rule or anything else for the application. He said he would only comment on some of the press items that he has read. He noted the articles indicated the potential for OSHA to levy fines and those sort of actions as an enforcement mechanism. He said this is one of those deeply divided political issues and he anticipated court filings as soon as it goes into effect and we will have to take a wait and see approach.

Mr. Marsh asked Mr. Braun if OSHA has jurisdiction over MSF as a public entity?

Mr. Braun responded that MSF does comply with various provisions coming from OSHA.

Chair Miltenberger called for additional questions. There were none. He then took a moment to welcome and thank Legislative Liaison to the Economic Affairs Interim Committee (EAIC) Senator Shane Morigeau.

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

Ms. Grosfield reported on the Calendar Year 2021 statutory financial statements audit which is the insurance-basis audit that delves into MSF's annual report and provide the final audit to the Board for the previous year. She said Eide Bailly is planning field work and testing the week of December 13-17 and it is anticipated to be completed remotely. Fieldwork will be completed in February 2022 and the final report will be available in April 2022. She said the Calendar Year 2021 GASB (governmental) financial compliance audit field work will begin in March or April 2022.

She stated that the Board had not yet received the CY2020 governmental financial audit and the timing on that audit was such that it could not yet be discussed. The audit report is complete yet has not been released to the public. The report will be presented to the Legislative Audit Committee (LAC) on October 20, 2021 and MSF will have representatives there to respond to questions. She clarified that per Legislative Audit Division rules, the report cannot be discussed until it is officially released to the LAC. She said she has been reassured that copies of the report will be mailed directly to the Board members and should any members have questions, please reach out to her.

Ms. Grosfield said internal audit activity includes reviewing policies and processes for remote work as well as looking for process improvements. She said the process for reviewing and updating the code of conduct, data confidentiality and acceptable-use provisions will soon begin and will be issued for employee signature in January. She noted that MSF is preparing for a Market Conduct Exam as the Commissioner of Securities and Insurance (CSI) has indicated that exam will begin for MSF soon. She said that system access reviews are conducted every five to six months to assure incompatible accesses for staff members are eliminated. She also noted that the actuarial team underwent a large conversion from Lotus to Excel and she will be reviewing those spreadsheets to assure the conversions came across clean. She noted that PBRI is nearing "go-live" and she assisted the Finance Department in reviewing the commission process and developing reconciliation recommendations for corrections before go-live. She reported that if a dividend is declared today, she will be addressing the process with an eye to adherence to policy and calculations testing. She said controls review and testing is on-going and she will continue to provide CY2021 financial statements to the auditors. She said the time for the Multiple Public Disclosure requirement is approaching in early December and she will reach out to the Board with information and forms for any members who may need to file this disclosure. She offered to take any questions the Board may have.

Mr. Marsh asked what a Market Conduct Examination is, what causes it and what the process is that follows, what kind of costs is MSF looking at and are there other considerations that the Board should have?

Ms. Grosfield explained that a Market Conduct Exam is conducted by the CSI. She noted that since MSF is now regulated by CSI, MSF comes under the jurisdiction of their requirement to do Market Conduct Exams periodically as well as financial exams. She said MSF has already had a financial exam and did quite well on. She said she is unsure of the timing; she deferred the questions about costs to Ms. Martello or Mr. Burzynski, and as to what the exam encompasses, she said it could cover almost anything CSI wishes to target depending on what they feel they need to be looking at.

President Hubbard noted there are a lot of details in a Market Conduct Exam and stated that MSF had not yet undergone an examination. MSF became regulated by CSI in 2016 and CSI has been pending a Market Conduct Exam until the PBRI system was implemented. He said due to delays with implementation, CSI has decided to proceed with the exam. He added that under examination rules, the insurance company being examined pays for the examination, whatever it is and whatever it takes. The examinations are focused to address risk-based issues. He agreed with Ms. Grosfield that they will be looking at underwriting, assuring that rates are applied in a non-discriminatory, adequate manner. It will look at the quality of MSF's practices and proper adherence to MSF procedures. He mentioned that MSF has a Compliance Officer, Janelle Guge who is responsible for working with the regulator as well as ensuring that MSF is prepared internally to respond to and support the Market Conduct Exam.

Mr. Braun added that when MSF came under regulation in Senate Bill 123, the fiscal note associated with that bill provided an estimate of $700,000 for a Market Conduct Exam and that is what MSF has been planning on since. The cost will be determined by the scope of the exam, whether it is all encompassing or more targeted and currently there has not been any firm statement from CSI with regard to focus.

Ms. VanRiper added that when she was the deputy auditor at the State Auditor's Office, she had some responsibility to oversee the Market Conduct Exams and they are done routinely and are required by statute at certain intervals. She said these are not triggered by some potential issue, they are just routine. She noted the exams are very thorough and the staff conducting the exam will come on-site and pull random cases and files for review on the non-financial side of the shop to assure statute compliance is being met. She said it costs a lot of money; however, it takes a lot of resources to complete the exam.

Mr. Miltenberger called for additional questions.

Mr. Marsh asked if the cost of the Market Conduct Exam was in MSF's budget or if that would be an additional line item in the budget going forward?

President Hubbard said the budget for 2021 does not contain the cost of the exam; however, the cost may have to be included in Calendar Year 2022.

Ms. Martello added that the Finance Department has been speaking with CSI regarding what to include in the 2022 budget in consideration of the exam. She noted that within MSF's budget every year, there is $230,000 included to pay for two positions at CSI - an attorney and an examiner.

President Hubbard clarified that the positions are independent of the funding that will be needed for the market conduct exam. The provision for the positions at CSI was added in an amendment to the regulatory bill; however, the two positions funded by MSF will not be involved in the Market Conduct Exam of MSF in any way as that would be a direct conflict of interest.

Chair Miltenberger called for additional questions; there were none. He thanked Ms. Grosfield for her presentation and noted that the Board appreciates that MSF has an internal audit function and that the Board has a direct "pipe-line" to Ms. Grosfield should that ever be needed.

C. *Willis Towers Watson Actuarial Contract*

Chair Miltenberger stated that the contract for the consulting actuary, Willis Towers Watson needed to be renewed. He noted that the contract was in the final phase of the seven-year contract and the opportunity to renew the contract for a two year period was being proposed. He added that management recommended the contract be renewed for two years.

Ms. Van Riper made a motion the Board approve extending the Willis Towers Watson Contract for Actuarial Services through October 31, 2023. Ms. Fagg seconded the motion. Chair Miltenberger called for discussion.

He then sought clarification from Mr. Greig that the contract included a five-percent increase.

Mr. Greig said that was correct due to Willis Towers Watson not increasing their fees for the past two years.

Chair Miltenberger called for additional discussion or public comment; there was none. Chair Miltenberger called for the vote and the motion passed unanimously.

Mr. Greig thanked the Board for the opportunity to continuing working with MSF.

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

Ms. Copps provided the Calendar Year 2021 Business Plan performance update. She noted that the financial metrics are the year-end projections based on available information as of June 2021.

Key Success Measures

KSM	2021 Plan	2021 Projection
Net Earned Premium	$149.7M	**$154.4M**
Loss Ratio	69.2%	**61.7%**
Expense Ratio	40.0%	**31.2%**
Investment Income	$42.3M	**$72.0M**
Net Operating Income (prior to dividend)	$24.7M	**$79.8M**
Achieve Enterprise Wide Initiatives		

She said net earned premium is projected to be higher than expected at $154.4. The loss ratio is expected to be 61.7 percent. Incurred losses are projected to be $8.3 million below plan which is driven by favorable development on prior accident years. She said total expenses are expected to come $11.8 million lower than plan due mainly to the delay in "go-live" for the new policy systems. Projected net investment income is $72 million which includes $37.4 million of realized gains. Current net operating income before the March dividend or any additional dividends is $55 million over planned at $79.8 million which is driven by the increase in investments and decreases in both expenses and losses.

Chair Miltenberger called for questions; there were none.

Ms. Copps said the three Enterprise-Wide Initiatives are all focused in the Customer Service category. The first is for the replacement of MSF's policy and billing systems with five modern applications that will improve MSF's efficiency and service. She said two initiatives will continue MSF's efforts to reduce Montana's high rate of workplace injuries.

She explained that the policy and billing system replacement schedule is off-track. She said the project team paused testing efforts early in the year and spent several weeks reviewing the application code in order to find and mitigate the root cause of the quality issues that were being seen. The team recently restarted the validation testing and the early results are positive. Improved system stability is being seen as the team is finding fewer and less complex defects. She noted she would only be providing a very high-level status and Ms. Jenkinson would be providing a more detailed report.

Ms. Copps explained that the WorkSafe Champions program was expected to complete as planned. She said there are three options to participate: 1) A Safety Management Consultant (SMC) exclusively conducts workshops at the policyholder's location with at least three dedicated employees from a policyholder. There are currently 11 policyholders participating under this option. 2) Smaller employers attend central workshops which can include several organizations in the same group and currently five companies are participating in this option. 3) The team expects to award 11 safety grants of up to $3,000 by the end of the year. These are awarded to WorkSafe Champions graduates who apply for and meet the eligibility requirements. The grants further support the organization's safe work development.

She said Growing a Safer Montana project is on track and expands MSF's efforts to reach young workers and invest in the safety future of Montana. She said the team has awarded grants to 38 high school classes and 11 middle school classes. Instructors have selected from a variety of personal protective equipment (PPE) for their class depending on class needs such as ear protection or safety goggles. This project has impacted over 11,000 students with MSF's branded safety equipment and message over the past five years.

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 information packets have been sent to colleges to generate interest in the 15 scholarships which will be awarded in the first quarter of 2022.

She summarized that the PBRI project was currently behind schedule and the other two projects are on track for completion.

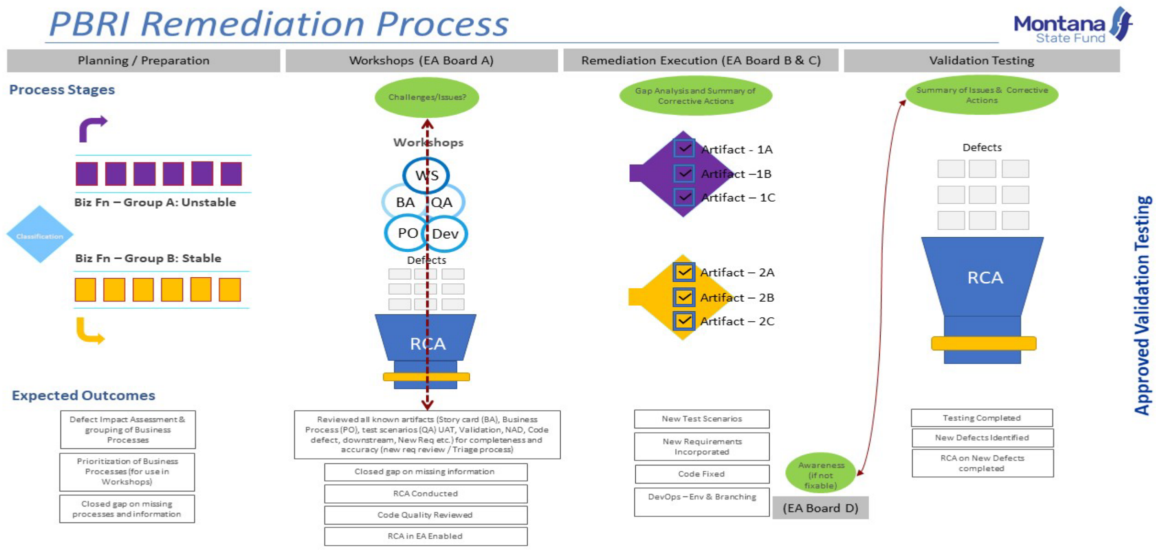
Chair Miltenberger called for questions or comments; there were none.

E. *PBRI Update – Julie Jenkinson, Executive Vice President*

Ms. Jenkinson provided a review of the Policy and Billing Replacement Initiative (PBRI). She said she has provided updates on the project many times and as Ms. Copps stated, the project is behind schedule. She said the end of the story is actually turning out to be a happy ending and that is good news for MSF.

She provided an evolution of the testing components and noted that at the June Board meeting the project was at review and remediation. She said the evolution illustrates the amount of testing that is needed to get to stability, reliability and the quality that the team has demanded throughout the project. She said in June, the testing was half-way through review and remediation and currently the project is in the final validation or testing phase.

She provided the chart depicted below that illustrates the remediation process for the PBRI project.



She said the first part of review and remediation was to review all of the various business functions and divide them into those that were more stable and those that were less stable. Workgroups were formed that included a multifunctional team of testers, developers, product owners and business analysists. The groups did a root-cause review of every piece of those that were less stable which was about 50 streams. She said the point of that was to dig deep and figure out the root cause of why the product was having repeated defects and regression defects. She said the third part was to pull that apart and review, again, the test scenarios, the original requirements for the system as well as a code review and then fix the root cause of the problem. The last part was to continue to follow that process while also confirming the identified issues were found and repaired while the project went through validation testing.

Ms. Jenkinson said the review and remediation process was about ten to eleven weeks long and they found through the review of the 50 unique business processes about 700 different issues. Some issues were big gaps, some were little, some were just imperfect requirement writing, some were test scenarios that had not been updated as development continued. Some issues were actual code issues that had to be repaired and some were code issues that the project has chosen not to repair at this moment yet will be repaired as we continue to work through the system. She said by the end of review and remediation, the team had reviewed and repaired all of those things that would negatively impact the stability of the system. She said the question as to whether taking the pause to do this deeper dive into the defects was a good choice or not was definitely determined when they found all of these particular gaps.

She said the project is now in validation testing or the final testing cycle which began on August 6, 2021. She said they are halfway through what they have planned for the current final testing phase and the proof has been in the results. She said they have found about 80 percent less defects than in the prior validation testing. The prior validation testing was actually what caused the team to take the pause – when planning to go live at the end of 2020 or the beginning of 2021, the team realized they needed to do something different. She said now that the defect rate is 80 percent less than during the first validation testing, it shows the project team that this was the right thing to do. She added that in week five of the validation test, they have found a total of 28 defects whereas at the same period of time in the prior validation testing, they were at 108 defects which is the difference between a 50 percent error rate to a 2.5 percent error rate. After the pause, the error rate is significantly reduced and the defects are far less severe than they were before.

Ms. Jenkinson said to the question of whether the review and remediation was the right thing to do the team feels it resoundingly was. She said the confidence in the stability and knowledge of the system and where the issues are is completely changed and has gotten the team to the point where they can say they are confident that the new system will go live this year. She said the team can assure the Board that the quality and stability of the system can be intact.

She said the team's mantra is that this platform will give MSF opportunities for new ways to serve our customers, new ways for our customers to actually take care of themselves, and new ways for our employees to be more efficient. She said the team challenged themselves to find a better way and that was never more true than ever during the review and remediation phase because they really had to challenge themselves to dig deep and find where the issues were manifesting themselves and really the result was to break the cycle of endless regression defects. She said it was the right thing to do, it resulted in the team being able to have confidence that the system is going to work and be a quality system. She reiterated that the system will go live this year and she thanked the Board on behalf of the team for their continued support. She said when the team recommended that this pause and deeper dive be taken, the Board stood behind the team and supported that decision. She offered to take any questions the Board may have.

Chair Miltenberger called for questions; there were none.

F. *Board Committee Structure*

Chair Miltenberger said typically he feels it is poor practice to have discussion items without actions in a Board meeting; however, he also felt it was important for the Board to spoon feed themselves some of the items they need to cover. He said historically, this Board has had one committee that over the past several years has been called the Compensation Committee that dealt with compensation issues and goal setting for the CEO. He said he was contemplating for the next meeting establishing two additional committees and continuing the Compensation Committee. He said other state fund boards have committees and some do not. He said his proposal was to create a committee that would oversee finance which would encompass rates, dividends, financial controls, fraud investigations and other financial matters. He envisioned three or four members of the Board to go deep into the finances without having eight to ten-hour Board meetings. He said the committee structures could allow the members to go a little deeper. He said some state funds have such committees, some do not. He said another committee that he thought would be helpful was a committee looking into the area of operations, which he called the Operational Excellence Committee. This committee would also have a very wide swath of responsibilities and would be charged with items like the PBRI initiative, other matters regarding injured workers, assuring attorneys and their clients are being heard. He said if they did not feel heard they could come to this Board be heard. He said he was not suggesting the Board become a Board of Appeals for all claims; however, offer a way for the Board to hear from all its constituencies. This committee would look into employer surveys and insurance agents that MSF deals with on a daily basis. This committee would be a sounding board and a way for a few members of the Board to go deeper into operational matters.

He said the danger of these kind of committees is that a Board can very quickly be getting their fingers into the operations, into the finances of the organization which can be very discouraging for the folks who have been engaged to run the company. He said they need to be careful within these committees that all the right questions are asked with no hold back; however, remembering the old saying "noses in, fingers out." He said the goal is not to have these committees become a place where staff spends half their time running in circles to meet the needs of the Board and are not meeting the needs of the customers. He added that he believed this will enable the Board to provide greater fulfillment of their responsibilities as a Board in terms of oversight. He said they have to pay for that in some way and the way that is done is to not have everybody on every committee, although every Board member can attend every committee meeting but they are not going to be on each committee. He cautioned that they would waste a whole lot of time for themselves if they institute these committees and then do not listen to them. It is not helpful to rehash everything in the Board meeting that has already been discussed in the committee meeting and would be counterproductive. He noted that the Board would have to trust their committees.

He said he is working on drafts of the proposed committee charters and he will prepare those, and have General Counsel as well as Board members review them. He said one of the items that must be addressed is President Hubbard's potential retirement next summer. He said the Compensation Committee is also acting as the CEO search committee and has been looking at search/recruiting firms to work through candidacies and work through the process of finding President Hubbard's replacement. He said the Board needs to come together to discuss those search firms and there is not room on today's agenda for that discussion. He offered a heads up that between this Board meeting and the December 10th Board meeting there will be an interim meeting. He suggested it occur in two, three or four weeks from this meeting and it will likely be by Zoom. At that meeting the committees would be discussed and the CEO search firm will be discussed. He called for discussion on this item.

Ms. Fagg said she wanted to clarify that this committee structure and committee meetings would not only be open to all Board members but also open to the public as well. She said this committee structure is not an attempt to somehow avoid the open meeting laws; however, it is to dig a little bit deeper to do our responsibility as Board members.

Chair Miltenberger agreed and stated that though it could be argued that the committee meetings do not have the majority of the Board and could be closed, that is not the attempt here. He said even in a three-person committee, should only two members show up, it is still considered a meeting of the Board and is subject to the sunshine or public meeting laws. He added that one of the opportunities that one of these committees could have is to have an injured worker who feels they have not been treated fairly and wants to bring their issues to the Board. There could be personal health issues in that situation that create a situation where the committee would go into executive session to hear the injured worker. He said in the finance committee there would be a review of fraud controls so we may not want to reveal the "secret sauce" of how we find and detect fraud or perhaps litigation strategies to be disclosed. He clarified that the Board would have to rely on General Counsel's guidance to act properly.

Ms. Fagg said she supported the committee structure. She noted that one big topic for all Boards is risk and working with management to identify the risk and to develop action plans on risk, if and when they occur. She asked where he would see that happening - in the full Board or in a committee?

Chair Miltenberger said he believed that most of the matters that should be dealt with through the Board could and should be worked through the committees first, including risk management which he believed would fall under the finance committee.

President Hubbard said management and the team will support the Board's decision on committee structures and said he appreciated the charters being drafted so the scope and breadth of the committee work is clear to management and the Board. He cautioned that complaints on particular individual issues can be a slippery slope, such as to where does the Board get into the soup on individual matters? He said there is a very comprehensive complaint-recording process both internally with MSF and as required by the regulator. He said he would envision applying that and speaking to the committee about what those procedures are, not necessarily going into the individual complaint and having the Board attempt to deal with it. He sought clarification from Chair Miltenberger if that was what he was thinking? He wondered if that was a good example of fingers in, noses in?

Chair Miltenberger said he did not want to speculate too much. He had grabbed an example from mid-air; however, he said he would certainly suggest that the Board not attempt to adjudicate a claim. He said it could be that they hear, as Ms. VanRiper has suggested, from an attorney from time to time or from insurance agents. He said he does not want a situation where the Board is saying "go ahead and pay this person's claim." He would rather see them listening to the processes and from time to time possibly listening to customer service calls which he had experienced at Blue Cross Blue Shield. He said there is a lot you can learn from digging deeper but he would absolutely not suggest the Board take on any kind of management role regarding litigation or injured workers issues or employers who are objecting to their audit.

President Hubbard commented that it may be useful to put that in the charter structure when the formalization of the committees gets accomplished. He reinforced to the Board members that historically, the Board and management has had free access to one another. The Board can speak to any employee about an issue that arises and often he has received inquiries from Board members who interact with people in the community that may involve an individual issue or a policy issue. He said it has been effective in individual Board members working with the management team to take deeper dives on these sorts of things. That is important because we can maintain rights of privacy and confidentiality and also be very transparent with the Board members. He noted that once you begin going into public input settings, you have to be much more diligent in avoiding any breach of privacy rights or disclosures that might affect someone else's right of privacy. He said MSF staff is looking forward to supporting the Board and the committee structure in any way necessary.

Chair Miltenberger called for additional Board comments.

Mr. Marsh said he thought the committee structures in the open meetings context is an excellent way to proceed and get a little bit deeper into the issues that were talked about and he thanked Chair Miltenberger for the suggestion.

Chair Miltenberger called for additional comments and public input; there was none.

Senator Morigeau said he had no comments, he was pleased to be at his first meeting and was trying to shuffle through all the presentations and keep track of everything. He said obviously there is a lot of great work that goes into everything being done for MSF. He said he does not consider himself an auditor sitting on these calls, he considers himself a partner with the Board and will continue to try and track everything that is going on to bring that information back to the EAIC and answer any questions they may have of him.

G. *Building Usage*

Chair Miltenberger commented that it has occurred to him as the work environment evolved and changed due to the pandemic that the building issue need to be addressed. He noted that even at his office, there are a couple of employees that are at higher risk who have not returned to the building nor will they anytime soon. He raised the issue of building usage for MSF's building and noted that management has undertaken a process to survey employees and determine their interest in returning to the office to work. He noted that Helena is currently experiencing a surge in COVID-19 cases and the hospital is overflowing. He said MSF still has a lot of employees who are not back in the office and he said what he thinks they are hearing for long-term is that a significant percent of employees will not be back in the building on a five-day-a-week basis. For that reason, he asked to hear from President Hubbard and staff what the plans might be to get full utilization of the building. He said he is thinking in terms of some alternative to having a building that is forever one-third unoccupied and should we look at subletting some portion of it?

President Hubbard asked Mr. Burzynski to summarize the report that was supplied to the Board regarding options and alternatives. He added that the pandemic is still going on and although people are hopeful and optimistic. He said he did not think a long-term strategy should be crafted or cemented at this time; however, monitored closely. He said just as the state is currently doing with their review of their office space, MSF should do the same. He noted that management is concerned with maintaining the culture of MSF and has been finding it challenging to do so with the large number of people working remotely. He said it is essential that the culture of MSF be sustained so that the bonds between the employees are not lost.

Mr. Burzynski said he hoped the "go forward" document that was provided to the Board was thorough enough to give the Board the idea of what has been done relative to on-site, hybrid and remote deployment. He said the area that has generated the most discussion is what to do with a building that is approximately half full. He said the long-term focus is not what is done with the building but how greater value can be created for MSF's policyholders. He said once the decision is made to lease, lease parts of or sell the building, it is rather permanent and impactful. Modifying the use of the building is not as easy to address as on-site, hybrid and remote deployment particularly since we are still in the pandemic. There must be a fair amount of confidence in whatever direction is chosen going forward.

He said in addressing the two options the Board has brought up, leasing or selling the building, MSF has contacted Mosaic, the buildings original architects, to provide a preliminary sketch for possible subdivision of the building for leasing. The next step would be to assess the types of lessees and their requirements. That will require external assistance and that assistance will be engaged over the next nine months. The second option is selling the building which has also been preliminarily researched. The assumption is that with remote and hybrid deployment, MSF needs less space. This contains an implication that however MSF proceeds whether selling the building or leasing it, would either produce the returns that would be fair to policyholders and would support their interests. Again, a step of this magnitude would require professional assistance.

He said relative to leasing and selling, during the preliminary research staff has discovered that the parking garage lease has 19 years remaining on it with a present value obligation of approximately $4.5 to $4.9 million. The spaces are currently leased at $75 per month with a minimum lease of 350 spaces. MSF's parking garage rate is approximately $27,000 per month and if the lessee or the buyer defaults on the parking garage obligation, MSF stays on the hook for the remaining balance of the obligation. The 115,500 square feet in the MSF building were essentially priced and built during a recession-era period relative to labor and materials. The price of the building was at $242 per square foot for a Leeds Gold Building. The Blue Cross Blue Shield building that was built a few year later was built at a significantly higher square foot cost than $242 per square foot. That square foot investment is a phenomenal advantage relative to MSF's competitors and on behalf of its policyholders. Mosaic provided a quick estimate for a 55,000 square foot building should MSF leave this space and it came out at $392 per square foot which is $22 million without land and landscaping which is a 62 percent increase. MSF's land is on the books at $1 million but a much less attractive piece of property near Helena's downtown recently sold for $1.6 million. At this juncture it is not just the price of land it is also the availability and location. He said the last reality check is that the building was designed for one occupant which means submetering is not an option and there is a lot of common space which was designed for purposes specific to MSF. The cost of retrofitting the building for an investor or buyer or even for leased purposes is rather significant. He said he was sharing this so the Board understood some of the items currently being evaluated. He added that the leasing and selling options, including valuation of the building, have complex components that require in depth analysis and deliberation and these will be explored in depth over the next nine months.

Chair Miltenberger called for questions.

Mr. Marsh sought clarification on the parking garage lease if the building is being considered for sale and asked if the building sale could include the sale of the parking lease as well?

Mr. Burzynski said his understanding was that is a possibility and asked Mr. Braun to weigh in as the General Counsel as he is well versed on the parking garage contract.

Mr. Braun said selling the leasing contract would be an option; however, with the contracts that were entered into, MSF would not be able to walk away from its primary obligation if the person that was contracted with defaulted on the obligation or did something along those lines.

Mr. Burzynski added that in consideration of the various costs, the difficulty will be developing a manageable lease rate for an investor and entity to lease space from MSF.

President Hubbard said it was a very unique situation when MSF approached the City of Helena regarding locating in downtown Helena with the capacity to house 408 fulltime employees. The City of Helena constructed the parking garage in such a way that it accommodates MSF's operations very well and in fact there is a breezeway from the garage on the first and second floors from the building to the garage. He said those accommodations were made in exchange for MSF remaining in downtown Helena as the City of Helena was very much interested in maintaining core offices in this area. He noted that MSF had an opportunity to purchase the parking garage several years ago; however, the EAIC members at that time expressed resistance to MSF moving forward with that purchase, although none of their reasons were economic. Had that purchase been allowed to go through, to Mr. Marsh's point, MSF would have had absolute control over the disposition of the structure along with the building. He said should that opportunity ever present itself again, he was hopeful that MSF would do the analytics, price it out and take advantage of that and make sure that we are in a position for the future utilization of the building for 20 to 30 years down the road.

Ms. VanRiper said she appreciated the report and the due diligence from staff and stated that has been the situation in the past with so many things; you kind of think you know what the deal is with the building and then when hearing the detailed reports that Board members are provided and the diligence from staff, you realize there is a whole lot more to it.

Chair Miltenberger said he concurred and thanked Mr. Burzynski for the report. He commented that he did not realize MSF secured this building for $242 per square foot which was remarkable.

Mr. Thiel said the Board heard a lot of numbers about the cost of doing buildings; however, he asked if the discussion should begin with the impacts to the functions of the organization first? He said there is something about the common spaces and such but to get rid of any part of the building, we have to know how it is going to impact how we serve our customers. He said he thought that was way more important than the numbers. He said he would like to know if there is extra space that the organization does not need to give away or does it need all this space. He said he understands the hybrid situation going forward where people will be working from home; however, occasionally they are going to show up too. He said he would really like to understand how it is going to affect the organization and whether the organization can be streamlined. He said he would like to understand that before addressing the construction numbers.

President Hubbard said he thought that was an excellent question and that is why management is recommending continued monitoring over the next six to nine months to see what is happening with the new work environment with MSF employees. He added that Mr. Thiel was correct; in all likelihood, the building will be occupied at 50 percent on any given day based on current scheduling and management is very much responsible for ensuring that customer service is maintained at the highest quality level. That could mean requiring all employees to come back at some point in the future if it is deemed necessary to continue to provide the best service for our customers. He noted that it could be necessary to add or expand conferencing rooms because many meetings are a mix of remote and on-site. He said he agreed with Mr. Thiel that it is necessary to find out what the future is going to look like with as much of a degree of confidence as possible before any path should be chosen. He encouraged the Board to remain connected to the management team and to be prepared at the appropriate time to determine the best course of action.

Mr. Thiel noted that his insurance agent has a large office space which leases space to some of their vendors and he wondered if that is a possibility for MSF?

President Hubbard responded that MSF's first obligation is to protect the private information of injured workers so a compatible third party would have to be able to meet the requirement either by a definitive segregation of the physical spaces or if they were a strategic partner with MSF and can have access to that information.

Mr. Thiel said that even more valuable than any rent MSF could collect would be if efficiencies could be created. He said it could be helpful if there is an issue concerning his insurance if his agent could walk down the stairs to speak to someone rather than having to reach out via phone or email and follow that longer process.

President Hubbard said the building was designed specifically with an open floor plan to create collaborative spaces for employees. A modification of the footprint would be necessary for any kind of third-party occupancy; however, there are options for that and those are being looked at now. He added that there are other potential uses for the space that have not been considered such as a clinic but could be looked into.

Mr. Theil asked if there were changes that MSF wanted with the building structure after taking occupancy and if a remodel has been looked at for the future.

President Hubbard noted that MSF has done very little remodeling and attributed that to good planning and design before building. He said his only regret was not seeing the pandemic and knowing the changes it would create for the use of the building.

Mr. Marsh thanked staff for the go-forward plan and asked if a childcare facility for employees could be offered to cover the critical need for childcare.

Mr. Thiel said that attracting younger workers is also critical and some businesses have offered coffee kiosks for that purpose.

III. Corporate Support – Rene Martello, Controller

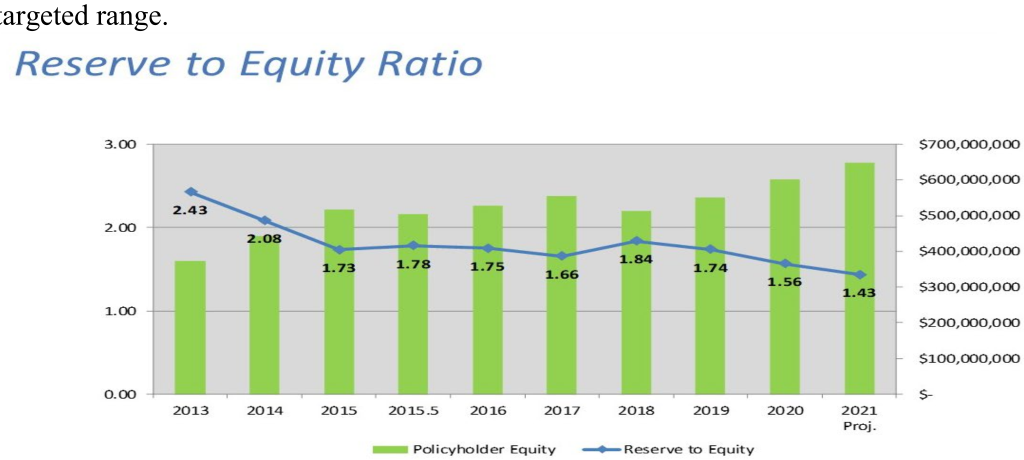
A. Calendar Year 2021 Second Quarter Financial Report – Rene Martello, Controller

Ms. Martello said the balance sheet as of June 30, 2021 reflected that total admitted assets increase by $26.2 million to a value of $1.72 billion. She said the largest portion is total cash and invested assets which increased $38.8 million and the largest category was the bond holdings which increased $31.3 million. Equity securities were down by $18.5 million which is misleading because there were $45 million of equity sales in the first month of the year and the remaining holdings have actually increased in value by $26.6 million due to changes in the market. She clarified that the real estate occupied by the company, the MSF building, decreased – when the building went on the books in 2010, it was valued at $28.9 million; however, it is on a schedule of depreciation over a 50-year period. As of June 30, 2021, the value of the building is $23.2 million. She noted that other admitted assets which is primarily premium insurance receivables or reinsurance funds withheld saw a routine decrease in the primary accounts receivable which is up at the beginning of the year and reduces as the year continues.

She said total liabilities are down by $12.6 million due to favorable development that was recognized in the loss reserves. The net decrease of both unpaid losses and loss adjustment expenses is a decrease of about $10.8 million and other liabilities decreased by $1.8 million. Policyholder equity as of June 30, 2021 is at $639.8 million which is a $38.8 million increase and is a combination of both decreasing loss reserves and increased investment values.

She provided the high points of the projections compared to the Annual Business Plan; net earned premium is coming in better than planned, losses have had favorable development and loss expenses are projected to be down due to the delay in the PBRI go-live. There is a net underwriting gain of $10.9 million and the net realized capital gains of $37.4 million above projections. She said this results in a net income before dividend of $79.8 million and are $55 million better than planned. She provided a review of MSF's position at mid-2021 compared to December 31, 2020 and noted that premiums were slightly up, expenses were up slightly, and realized gains were up significantly. The net income before dividends is expected to be about $20 million more than last year.

Ms. Martello noted that not including the second dividend, policyholder equity was projected to be $647 million and an increase in change in non-admitted assets for the remaining portion of the PBRI project to be capitalized was projected. She provided the history of reserve-to-equity ratio and noted that the target range is 1.5 to 2.5 to 1 and MSF has been within that range for the past eight years. She explained that this ratio did not include a dividend if declared today; however, said a $30 million divided would move the ratio to 1.5 and continue to keep MSF within its targeted range.



Chair Miltenberger called for questions; there were none.

Mr. Marsh asked about the projections for 12/31/21 and the actuals for 6/31/21 and 12/31/21 and asked if Board members could get the policy count that goes with those to get a feel whether the number of policies is increasing or the average premium per policy is what is increasing, just to give the Board a feel for where we stand in the market.

Mr. Martello said that detail could be provided and added that as the premium was being evaluated for second quarter, it was not so much a change in policy count as it was payroll growth on the policies that MSF does insure.

Ms. Fagg thanked Ms. Martello for the excellent presentation and complimented her on the information that was provided to the Board. She said the clarification in the pluses and minuses is valuable to have as the Board evaluates the financial statements. She added that she really appreciated the glossary of terms as there were some she was not familiar with. She said one of the things that she always looks at is "bad debt" and asked what typically MSF's is?

Ms. Martello answered that MSF tracks that very closely and it is offset against the accounts receivable, and for statutory accounting, there is a stricter approach than for general accounting. Anything that is 90-days past due, though MSF would not call that a bad debt, must be non-admitted on the financial statements. For any premium owed, even if a policyholder who is still an active customer is over 90 days out, it would be a non-admitted asset though MSF would continue to pursue the collection of that debt. She added that an overall number for bad debt is less than one percent of our annual premium. She said in the aggregate, it is a small amount overall.

Chair Miltenberger called for additional questions; there were none.

B. *Calendar year 2021 Second Quarter Budget*

Ms. Martello provided the second quarter budget report as of June 30, 2021. She said overall total MSF expenditures were budgeted at $175.7 million and the current projection is that $172.3 million will be spent for the full year which is $3.4 million under or 98.1 percent of the budget expected to be spent. She noted that the largest portion of the budget was claim benefit payments at 62 percent of the total budget. The major categories are indemnity which is wage-loss and medical-claim payments; medical benefits are projected to be $458,000 or .7 percent under budget. She noted that indemnity settlements have trended a little higher than planned; however, are being offset by lower payments in most other indemnity categories. She said medical payments settlements are trending lower; however, medical categories such as physician and hospitals are running a bit higher than was planned for the year. Overall, this is still underbudget though is less of a variance than at the first quarter; however, it is not anticipated that any budget amendment will be needed for benefit payments.

She explained that personal services under the operational expenditures refers to all staffing and employee-benefit-related expenses. The total budget for personal services is $32.8 million and $32.2 million is expected to be spent for the year which is $532,000 under which includes a 6.7 percent vacancy rate on average for the first six months of the year. That variance is expected to grow some as the year continues and we attempt to fill positions. She said operating expenses overall are about $4.3 million under budget; however, that needs to be taken into consideration with the capital expenditures area which is about $3 million over which was caused by a reclassification of IT consulting services that would not be capitalized and were transitioned to cover additional PBRI development costs. Management made the decision to halt some of the consulting costs that were for maintenance and other project work and focus those on development resources for PBRI. She said allocated loss adjustment expenses are estimated to be under by $196,000 due to lower legal and medical consulting expenses.

She provided an overview of some larger budget experiences and noted that the agent commissions which is about one third of the operating expense category was budgeted at $10.7 million and that could bump up against the cap due to the increased net earned premium amount; however, the agent commission amount was projected to be under budget as of June 30, 2021. Safety-related expenses encompass safety communications, the salaries for the safety services team, safety workshops and travel are expected to be $140,000 under budget due to savings that occurred from the safety dashboard postponement for 2021 and less travel. She said the State ITSD expenses, which include the charges to MSF for network email and other IT infrastructure is slightly over as some of the charges varied depending on the amount of use. The initial estimates are received from the budget office and provide what the expected cost will be and that can change as the year progresses. State Administrative expenses such as Risk Management/Tort Defense, the self-insurance plan, check issuing services, payroll service fees and the use of the state accounting system is also slightly over budget. She said PBRI was budgeted to be $6.3 million for the year and is projected to be $8.6 million yet there were savings in the other projects that were used to cover the PBRI overage. She said other consulting services which are professional service training and communications are about $130,000 under budget. She noted that though increased travel was anticipated and estimated at $473,000, the actual expenses are now projected to be about $200,000 lower than that.

Chair Miltenberger called for questions; there were none. He noted that Mr. Bob Biskupiak, Deputy Commissioner from CSI was in attendance and he welcomed him to the meeting.

President Hubbard noted that staff had found the number that Mr. Marsh had requested earlier. He reported that as of 12/31/2019, MSF had 23,327 polices which compares to the end of 12/31/2020 in which MSF had 23,014. He said as of 6/30/21, MSF has 23,354 policyholders.

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

Mr. Greig 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.

He stated this was the 23 consecutive year that the MSF Board has explicitly considered declaring a dividend. He noted that the worker's compensation market is transitioning from a soft market to a firmer market. MSF premium and loss reserves have stabilized over the last several years while policyholder equity has increased over recent years.

Mr. Greig explained that policyholder equity serves a key role for the proper management of a property-casualty insurance company. He said policyholder equity is defined as assets minus the liabilities. Stakeholders need to understand that the largest component of MSF's liability is loss and loss adjustment expense and are an estimate with significant inherent variability and uncertainty because no one can predict the future with 100 percent accuracy. He said another way to think about equity is if MSF were to shut down, stop writing new policies and the loss and loss adjustment expense reserves pay out exactly as forecasted, policy holder equity is what is left after the last claim is paid and closed. He said equity that is premium based on sound industry standards of strength, minimizes the probability of an insurer becoming bankrupt or insolvent. He said ultimately, equity is intended to assure that the insurer will be able to fulfill it obligations to policyholders and injured employees by managing the risks in the insurer's underwriting and investment portfolios which is the over-arching objective of insurance regulators.

He 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 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 those 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. He said for the same reasons that policyholder equity is necessary, fluctuations are to be expected. He 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.

Mr. Greig 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. He said dividends are a means of showing positive overall results with policyholders. 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 $601 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 $647 million will also exceed the 2021 regulatory equity benchmarks by a substantial margin.

Mr. Greig explained the comparison depicted below and noted that MSF's December 31, 2020 equity position of $601 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 12/31/20 MSF policyholder equity range of approximately $425 - $940 million

	Peer Group				
	Private Carriers				
	Mean of Lower Quartile	Median	Mean of Upper Quartile	A- and A State Funds*	Workers' Compensation Industry
Premium-to-equity ratio	1.2	0.7	0.3	0.3	0.4
Implied MSF equity	$125 million	$215 million	$501 million	$501 million	$426 million
Gross leverage **	4.1	2.8	1.3	1.6	1.9
Implied MSF equity	$305 million	$447 million	$963 million	$782 million	$644 million
Net leverage **	4.2	2.9	1.4	1.6	2.0
Implied MSF equity	$297 million	$429 million	$890 million	$778 million	$634 million
Reserve to equity ratio	2.5	1.6	0.7	1.0	1.2
Implied MSF equity	$376 million	$588 million	$1,343 million	$940 million	$761 million
Equity to RBC ratio **	1.9	3.1	6.8	6.4	N/A
Implied MSF equity	$259 million	$422 million	$925 million	$871 million	N/A

MSF's December 31, 2020 equity position of $601 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, Maryland, Missouri, New Mexico, Oklahoma, 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 CY2020 statutory financial statements, Equity to RBC ratio = Policyholder Equity / Risk-Based Capital

Willis Towers Watson

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 $137 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 workers' compensation must be supported by significant levels of equity, as the provision of workers' compensation insurance is characterized by volatility, and exacerbated by the long recognition period and the tendency for good and bad years to run in strings. No reasonable amount of equity can fully guarantee against an insurer's failure and management intervention is required to keep an insurer on track as there is no correct level of equity for all time periods.

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 Miltenberger asked Board members to hold questions until after President Hubbard's recommendation.

D. *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 viewed "large" with a more conservative approach. He said the MSF

Dividend Policy states that "the Board of Directors shall annually review management's recommendation regarding the potential for a dividend declaration." He said Mr. Greig's presentation provided ample information for the Board to be able to use their best judgement with regard to risks and long-term impacts of a dividend. He said management's recommendation basis includes the level of current equity, accident-year financial results as of the second quarter projections for 2021 and the financial performance in 2019, as well as trends and losses, the workers' compensation market conditions and the impact of potential dividends going forward if some of the projections and estimates are wrong. He noted that the second quarter financial results reflect that MSF is expecting net operating income before dividend which implies that MSF is currently operating above business plan targets and prior year losses and accident year losses are quite controlled and stable. He said underwriting results reflect a net projected operating gain of $11 million which is well before investment income. Invested income is projected to be $79.8 million. After the dividend declared in March, the net income after dividend for MSF for 2021 is projected to be $59 million. He said the Board is very well positioned to consider a large dividend for accident year 2019 and added that MSF's financial position in 2019 was also very stable due to strong performance in the investment markets. In 2019, a $30 million dividend was declared which meant contribution to equity was about $12 million.

He said due to the hard work in prior years of building to reserve adequacy, setting aside the proper amount of loss reserves and loss adjustment expense loss reserve, and setting adequate rate levels, the Board and MSF are in a very strong financial position. He stated that maintaining that strong financial position is key to the discussion regarding dividends. He added the Board must also consider what impediments there are to the ability to raise additional equity should that be necessary going forward. The Board must also evaluate current market conditions for workers' compensation in Montana, recognizing MSF's objective of being a stabilizing influence in the market. He stressed the importance of consistency and predictability over time in the amount and structure of the policyholder dividend and explained that need is why the same dividend table has been utilized since MSF began declaring dividends.

President Hubbard said his recommendation, based on the strong peer group analysis and the Willis Towers Watson economic capital modeling, is to maintain a strong equity level balance by staying within the approved reserve-to-equity ratio of 1.5 to 1. He said he would recommend a dividend of $30 million to qualifying customers of MSF. He noted that he also asked staff to prepare tables in other amounts and those were available should the Board wish to discuss differing levels of dividend. He added this was a rather conservative recommendation based on increases in inflationary trends being seen for the first time since the 2010 expansion began. He also noted that COVID-19 increases the risk and complexity of the economic environment and he sees headwinds and some unknowns that create additional risk for MSF. He said statute requires the Board to make a projection that is more than likely to ensure MSF's financial health not less than likely. He pointed out that MSF does not have a backstop which means there is no way to go out to the market and raise capital if needed. Debt or surplus obligations cannot be incurred to address the ups and downs that naturally occur in the loss exposures. MSF must rely on its investment income and rate level.

Chair Miltenberger called for questions; there were none. He noted that he was happy to be on the Board of an organization that has been so successful. He said people on the outside can criticize all they want that the reserves are higher than they absolutely have to be; however, he said he has lived through hard and soft cycles in the insurance market and believes that if there is a hard cycle, it will be nice to have the available capital for MSF's members. He said he believes a dividend is one way to provide relief back to the policyholder after it is clear that the policy year was favorable.

He said he would entertain a motion on this matter if there was no further discussion.

Mr. Maxness said in looking through the financials and seeing that the company is doing pretty well and the projections reflect $55 million up – he would like to discuss or explore declaring a $40 million dollar dividend. There is still contribution to policyholder equity and leaves a reserve-to-equity ratio of about 1.53 which is better than last year at 1.56. The policy count is stable though the equity ratio is still trending down. He commented that management has done a great job dealing with COVID-19 and policyholders have done their part as well and he would like to see a $40 million dividend.

Chair Miltenberger called for additional Board input and discussion.

Ms. Fagg said she agreed that the strong equity position is needed and how much is enough could be argued and discussed for a very long time. She said for her it as important for her when determining the dividend level to understand if the premiums, going forward, can be held at current levels. She asked if the Board could decide on a dividend level, such as $30 million, and a contribution-to-equity level and anything over and above that would be utilized to maintain the rates, therefore not increasing the rates. She said she thought the dividend was terrific; however, small business owners rely on a slim cash flow margin. If the rates can be maintained at current levels rather than see increases for next year, that would be very positive as well. She said it is a rather hybrid approach that she was considering and she added that she did not know how that would be done technically. She said it seems as if there is an increase to equity of three percent or the contribution is three to five percent, then anything over and above that should go into dividends and maintaining our premium.

Mr. Greig said that by definition the rate has to be prospective and must cover the expected value of losses and expenses for the coverage period which means you cannot use the rates that you are getting ready to make to make up for a reserve shortfall. Everything that is going on with your rates must be prospective which means nobody can guarantee that the rates will not go up or go down. He added that the rate level analysis that Willis Towers Watson just completed had a zero percent contribution to policyholder equity which means rates are as low as they can be based on MSF’s experience.

President Hubbard added there is a very common bit of confusion for observers of the dividends and the rates and a tendency to connect the two. He said as Mr. Greig explained, the insurance code requires carriers to file rates that are adequate and not inadequate or excessive. He said that is why every rate year must stand on its own merits and a subsidization of a rate with equity cannot occur. He said a homeowner may have to dip into their savings from time to time to make ends meet - it is different when it comes to insurance. He added that for the last several years, MSF has not had a need to add a contribution to equity in the rate level and at this point in time, he said he does not see an additional need; however, until it is closer to the rate making meeting in March the true extent of expenses and costs will not be known for application in the rate level. He said anywhere between the $30 and $40 million dividend declaration is reasonable and neither would automatically cause a concern that more capital must be raised in the rates. That assumes that investment markets still perform and that MSF hits its financial targets for this year.

Chair Miltenberger said, to Ms. Fagg’s point, that if the clock were rewound to spring of 2018 when this Board approved rates for 2019, those rates have now proven to be adequate and in addition to that MSF has very good performance in the market causing an increase to our funds where a dividend can now be declared. He added that there is a point of logic here when it comes to this next spring and the Board is setting rates for 2023, he said he thought there has to be a long debate for say 19 of the past 22 years where the Board has, in fact, had this situation where we have a dividend. He said in an anticipatory sense, it might be appropriate to have this same discussion in the spring and say, we are going to make sure that we give the money back in advance, if you will. After 19 out of 20 years, he said he would argue that maybe it is time to do exactly what Ms. Fagg is saying. He said he believed the process would not allow them to hold the money back now and draw a straight line back to next year's rates. He said it is a very important discussion and one he thinks needs to be had. He said others may have other points as he was certainly no expert.

Ms. VanRiper said that it appeared to her that between dividends and rates and all the different things that small employers are disadvantaged vis-a-vis large employers in terms of opportunities for volume discounts and a multitude of things. She said she has asked why before and understands that these breaks must be given to large employers to keep them and they cost less than small employers to insure. She said she thinks it might be good to do a deep dive, at some point, into all the factors that go into making rates, giving dividends and so forth between the different tiers, small employers up to large employers. She commented that we do look at it from time to time; however, it is not looked at through that lens and asked if the Board could consider doing that at some point.

President Hubbard clarified that were the Board to declare a $35 million today, as a percentage of premium that would represent about 24.3 percent. For small employer policies, absent the tiers, say zero or minimum premium to $2,000, the anticipated return as a percentage of premium for that group is 25 percent versus the largest employers, over $800,000 in premium, percentage return which is 18.4 percent. He said as a percentage paid by the small business, they get back more in terms of the dividend distribution. He said the "tiers" is a rate discussion and probably not best answered here and perhaps a discussion better left for the committees once established.

Chair Miltenberger thanked Ms. VanRiper for the question and added that he does think it deserves a nice deep dive into that. He said he recalls in years past having this discussion at this meeting and frankly it is the kind of discussion there is just not time for here. He said he thinks it has been left with questions from Board members, though that is not to say management is incorrect in their assumptions here; however, speaking on behalf of the committee structure, he would love to sit down and look at how all of this relates.

Mr. Thiel said to build on what President Hubbard said, in a high-risk industry like his, there is a whole other step we go to. He said President Hubbard is concerned about this organization, he has worked a long time for it and wants MSF to do well. He said from his perspective in a high-risk business, if something ever happens to MSF, roofing contractors would be in trouble because, based on his years in his industry he has experienced times when no carriers want to insure them. He added that the single most important thing is to make sure that nothing happens to MSF because there may not be an alternative. Other businesses such as offices, have no problem finding a carrier at similar rates, that is not the case with high-risk businesses. He added that he would like to see something that shows the current rates because he was assuming that a small number of the customers probably pay the highest volume of premium. He said if that is the case, speaking in relationship to those people, it is important that MSF stay solvent and weigh the fact that companies like his get the biggest dollar amounts back because they pay the most in. He said he would much rather leave that money in MSF to assure that it is going to be safe and stable going forward. He said he thought that going forward the financial markets are too unstable, medical costs are going to inflate faster than most other things and he said he was really concerned that the dividend be held at the higher level to assure that MSF is safe because in Montana there is no place else to go for high-risk employers.

Ms. Fagg said she thought they all agree that it is absolutely necessary keep MSF solvent. She added that a lot of the people had lived through the Old Fund and still are. She said she appreciated Chair Miltenberger's comments regarding the dividend declarations. She clarified that her thought is that so many small businesses operate on such slim margins. She said it is wonderful that MSF can give back the 25 percent return on their premium; however, how many of those businesses went out of business from 2019 until today? She said this dividend will not help them and she was not saying that different rates would have kept them in business. She added that she talks to small businesses all the time and its shocking sometimes how they do not pay themselves so they can continue paying their employees and to pay their workers' compensation premium. She stated that she understood the legal aspects that Mr. Greig explained, if MSF is returning 25 percent based upon the numbers that we have, it is hard to suggest that somehow that cannot be built into the future discussion on where the rates should be and still keep our equity solvent.

Mr. Marsh said while listening to the discussion, he was doing some calculations to get a feel for differing levels at $20, $30, $40 and $50 million dollars. He said it seemed to him when talking about the magic bubble that where we are at today, leaving aside the two biggest exposures which is the crash of the financial markets or the pretty small, yet real opportunity that HB334 at some point might be partially reversed, his inclination was to declare a dividend somewhere between $35 to $36 million dollar range with the potential that the Board could discuss this in the spring to determine if it was adequate or too much. If too much, no action would be taken, if it looks like the results turn out far better than expected, the Board could possibly do the additional $5 million to get to $40 million.

Chair Miltenberger thanked Mr. Marsh for his comments and called for additional discussion before entertaining a motion.

Ms. VanRiper noted that a dividend was completed in March and asked if the Board had ever done a special dividend like that before? She said she did not recall doing a special dividend like that and asked for clarification on why that was done.

President Hubbard thanked Ms. VanRiper for the question and clarified that the Board normally declares or considers dividends on an annual basis for a myriad of reasons, not the least of which is that it is a big process, from an actuarial perspective, to calculate and generate the tables and to distribute the warrants which is a big administrative task. He said historically, the Board had not considered multiple dividends in any given year; however it was done in 2020 because in September 2020, when the Board was considering the dividend, we were in the midst of the COVID-19 crisis and were still anticipating a substantial economic downturn. The Board was viewing six months of COVID-19 still impacting everyone and still no vaccine available. The Board purposely deferred further discussion of a dividend amount to the March meeting waiting to see what happened through the remainder of the year. He noted that is certainly something staff can manage; however, there are complexities to it such as system configurations and programming, particularly if the Board should choose to use a different period for the dividend. He clarified that the September 2020 dividend of $20 million was declared for 2018 and the March 2021 $20 million dividend declaration was also for 2018.

Chair Miltenberger thanked Mr. Hubbard and stated he was a bit confused as well. He noted that for the 2018 policy year, the dividend was essentially sent out in two different components. He added that he was aware the dividend process was extremely complex and he thanked the staff for getting it done twice. He called for additional discussion before calling for a motion. He added his thoughts on the dividend declaration and said he feels MSF's financial position is such that he is very comfortable with a dividend this year. He said either $30 or $40 million, while not irrelevant, he said he did not believe it would substantially affect MSF's financial footing and he could support Mr. Maxness's suggestion of a $40 million dividend for the year 2019 or Mr. Marsh's $35 million compromise or management's recommendation of $30 million. He said he would prefer to go with the $40 million dividend declaration and said he would be happy to entertain a motion for any of the proposed amounts from any of the Board members.

Ms. VanRiper made a motion the Board, based on the unreserved surplus of $600,993,271 as of December 31, 2020, declare a dividend to dividend year 2019 policies of $35 million dollars, not to exceed two percent above or more than two percent below the declared dividend, exclusive of any uncashed warrants. Mr. Marsh seconded the motion.

Ms. Fagg asked if the Board passed the $35 million dividend amount at this meeting and then come back in March, as Mr. Marsh stated, and did another $5 million then depending on the final financial results, would those be done in two different distributions?

President Hubbard clarified that they would be done in two different distributions. He added that he would recommend the Board adopt an annual amount and not revisit it in March because of the difficulty. He said $5 million in March could be done; however, it does add a layer of complexity that he prefers not to have just to keep it straight forward and simple.

Ms. Fagg said that was the point of her question because there is cost and staff time. She said she would much rather go with the $40 million dividend declaration based upon the financial results that the Board has today.

Ms. Fagg made a motion to amend the amount of declared dividend to $40 million. Mr. Maxness seconded the amendment. Chair Miltenberger asked Ms. Fagg to read the motion in for the record. Ms. Fagg made a motion that the Board based on the unreserved surplus of $600,993,271 as of December 31, 2020, declare a dividend to dividend year 2019 policies of approximately $40 million dollars, not to exceed two percent above or more than two percent below the declared dividend, exclusive of any uncashed warrants. Mr. Maxness seconded the motion. Chair Miltenberger called for discussion; there was none. He called for public input; there was none. Chair Miltenberger called for a voice vote: Ms. VanRiper, Mr. Thiel voted nay, Mr. Miltenberger, Ms. Fagg, Mr. Maxness and Mr. Marsh voted aye. Chair Miltenberger reported that the motion passed.

IV. Dividend Distribution – Rene Martello, Controller

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

Ms. Martello provided the parameters used to distribute the dividend to MSF's customers. She requested that the Board approve a proposed minimum payment amount of $10, and a minimum warrant amount of $100. She said that would mean anything less than $100 would be applied to their account; anything over $100 would trigger a check. She 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.

She said this process has been followed in the past as it allows staff to follow up and get outstanding payroll reports, owed premium and to clarify issues that were missed. She 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 Miltenberger asked what the minimum premium for an account was for 2019? He said he was trying to get a grasp of taking the percentage of the $40 million and see if the $100 accommodates minimum premiums. He also wondered if the $40 million was 28 percent of the premium of that year?

President Hubbard said he believed it was combined somewhere around 470. He said the percentage of premium was 31.9 percent of the premium that year.

Chair Miltenberger commented that the $100 minimum accommodates the minimum premium policyholders who are fully qualified. He added that there are people who do not have enough payroll volume to even meet the minimum premium. He called for additional questions.

Mr. Marsh asked if the Board were to drop the minimum premium amount to $50 rather than $100, would that impact any policyholders, what number would that be? What could the marginal cost be to set it at $100 other than it is something that has just been set and used for years? He clarified that the reason he asked that was because if there are some that are only half year policies but had a good experience and went out of business or something, he thought was almost discriminatory or verges on that to cut those off where others might have a little bit more which means the only selection choice we make is by the dollar amount.

Ms. Dunlap said the warrant minimum has been set at $100 since 2005 and added that the way MSF's system is coded for dividends, it is a parameter value that is entered. She added that it would be difficult at this point to fluctuate that amount by different types of business. She said in 2019 there approximately 4,500 active account customers that received the under $100 credit. The premium for minimum premium policies when expense constant is included is in the $400 to $450 range, so it is more than that $100 minimum warrant. She clarified that she did not test to decrease the minimum warrant amount; however, she did test to increase the minimum warrant amount and would need time to run those tests.

President Hubbard said he thought he heard a question about the warrant amount and the minimum dividend amount of $10. At $40 million there will be no one under $10 – everyone will get a dividend so there are no concerns about discrimination on the minimum dividend. As to the warrant amount, he reminded the Board this is just whether they get the check so anything from $100 down to $10 is going to get a credit on the account.

Mr. Marsh asked how they received the dividend if they do not have a current account?

Ms. Martello said in the case where there is a cancelled policyholder where the credit cannot be applied, then a warrant is issued to them.

Chair Miltenberger sought clarification that in state terminology a "warrant" is a "check", correct?

Ms. Martello confirmed that was correct.

Mr. Marsh made a motion that the Board approve a minimum dividend payment amount of $10.00 and a minimum warrant amount of $100.00 for the 2019 dividend year. The motion was seconded by Ms. Van Riper. Chair Miltenberger 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 offered to cycle back on the questions raised for the previous motion. She said if the minimum warrant were reduced to $50, staff would virtually be issuing nearly all of the dividends as checks. She said with the dividend amount at $40 million, very few of those dividends would fall below $50 which means it would only be a handful that would receive a credit. She also noted that $10 minimum dividend was much more applicable when the dividend declarations were quite a bit smaller.

She noted that once the dividend amount has been declared the decision on how to distribute it must be addressed which elicits the use of the table of dividend factors. She said upon approval of the table of dividend factors as presented, staff will then use it to distribute the $40 million dividend that had just been declared. Policies must have been written between 7/1/2018 and June 30, 2019 and must have six months of continuous coverage. She said the table contains 15 different premium ranges or rows that are the account sizes for those policies and then there are 12 different columns for incurred loss ratio ranges. Within the table are the different percentages which are percentages of premium to be given back as dividend to each eligible policyholder. For example, if you look at the fifth row down with a $10,000 policy, they have a six percent loss ratio, then they would receive 30 percent of their premium back which means they would receive a $3,000 dividend.

She further explained that as you go across the rows the percent gets smaller which means as loss ratios increase and are a little higher you get a little less dividend as a percent of your premium. She noted that as you go down the rows the percentages get larger; however, that does not mean that larger accounts are going to get more dividend in general. This table is set up to have about the same amount of premium in each row and to distribute roughly the same amount of dividend as a percent of premium to each row of policies and the table distributes the dividend pro rata to actuarially determined underwriting results in each row. The process itself is pretty complex and when you think about it, we are coming up with over 130 different factors in this table. She added that the table is developed such that that it is fair, actuarially sound and that the total dividend returned is as close to the declared amount as possible.

She stated consequently, these calculations are highly technical and are reviewed by the Board's independent consulting actuary at Willis Towers Watson. They certify to the Board that the process is consistent with generally accepted actuarial principles and it represents a fair distribution.

Ms. Dunlap said that out of approximately 23,500 eligible policies about 95 percent will receive a dividend with this table. With the larger dividends we have been giving out the last few years about 95 percent of all our eligible policyholders have been receiving a dividend.

Dividend Distribution by Account Size

Premium Tier	Eligible Policies	Receiving Dividend	% of Policies	Dividend Payable	Avg Div
$0 - $1,999.99	13,274	13,064	98%	$2,935,848	$225
$2,000 - $3,999.99	3,569	3,391	95%	3,222,536	950
$4,000 - $5,999.99	1,887	1,774	94%	2,878,021	1,622
$6,000 - $8,999.99	1,525	1,406	92%	3,434,090	2,442
$9,000 - $12,999.99	1018	915	90%	3,279,860	3,585
$13,000 - $17,999.99	725	628	87%	3,159,160	5,031
$18,000 - $24,999.99	448	391	87%	2,702,662	6,912
$25,000 - $34,999.99	344	270	78%	2,624,262	9,719
$35,000 - $49,999.99	245	205	84%	2,826,839	13,789
$50,000 - $69,999.99	175	133	76%	2,502,681	18,817
$70,000 - $109,999.99	122	96	79%	2,685,177	27,971
$110,000 - $174,999.99	82	54	66%	2,307,613	42,734
$175,000 - $299,999.99	47	29	62%	1,918,142	66,143
$300,000 - $799,999.99	26	17	65%	2,243,606	131,977
$800,000+	7	3	43%	1,282,407	427,469
Total	23,494	22,376	95%	$40,002,904	$1,788

She said the above chart shows how the dividends are distributed by premium size. The top row for customers with under $2,000 in premium; 98 percent of those policies will receive a dividend which amounts to over 13,000 different policies. The last row at $800,000 plus in premium, indicates that only 43 percent of those customers will receive a dividend. She clarified that there are only seven eligible policies in that row that make up that premium and three of the seven will receive a dividend; the other four had a loss ratio greater than 60 percent so they fell off the table.

She noted the second to last column on this table shows the total dividend amounts distributed to accounts that fall in each row and the actual total dividend we will be distributing with this table is $40,002,904 and change. It is very close to the $40 million declared amount and is within that plus or minus 2 percent. She said the last column shows the average dividend by accounts size row which means the average dividend across all 22,377 policies receiving a dividend is $1,788. For the smallest accounts up at the top row, the average dividend is $225. As discussed earlier a minimum account is around $450 and they will be receiving a certain percent in the table based on that.

She said for this $40 million dividend we will be returning, in aggregate, 31.9 percent of the premium from policies in this year which works out to about 33 percent of the premium for most of the medium-sized rows in the table as you go from left to right. Most of them are 33 percent so for the smaller accounts, they are getting 33 percent of their premium as a dividend. On the far right some larger account sizes are getting a little bit less than that 33 percent and that is just how the table works out. The table is actuarial sound and it distributes an equitable amount of dividend to each row but we do not always have an even distribution of those policies across the table within each of those rows.

She presented the applicable dividend requirements for MSF's underwriting policies. The distribution is based on loss ratio and account size and must be consistent with generally accepted actuarial principles and must be certified by the consulting actuary. Also shown here is the key finding from Willis Towers Watson's certification letter and she noted that Board members should have received the electronic copy of the certification letter. Chair Miltenberger confirmed that he and the other Board members had received the email from Ms. Boucher.

Ms. VanRiper said she understands that ultimately, the very small policyholders are getting a bigger percentage of their premium back than the top ones, which is the opposite of what you are seeing in this first column. She said she assumed that was because of losses? Because in the table that was just shown, with no losses the smaller policyholder can get a maximum of 33.2 percent of their premium back and the large policyholder's can get 45.2 percent back. Is that correct?

Ms. Dunlap said that is correct; however, within an $800,000 account, based on the number of employees they would have, it would be very, very difficult for a policy that size to get a zero-loss ratio.

Ms. VanRiper clarified that her point was that given this table, if all things being equal, a small employer and a very large employer had no losses, the larger employer would be eligible for a larger premium discount. She said she was not saying that was wrong, she just wanted it recognized if and when we go back to study this.

Mr. Russell said Ms. VanRiper was correct and that is fundamentally driven by credibility. He said for a larger employer to have zero losses, they would be doing something different which would be reflected in their credible loss experience and that high percent. He said zero losses for a small policyholder begs the fundamental question "are they are lucky or are they are good". He noted this is why the Board comes to Willis Towers Watson to certify the table and said he would love to take Ms. VanRiper through credibility theory and Table M and offered to do so when she was ready.

Ms. Van Riper said she got it and added that she just thought the Board has to recognize that there are some disparities here and take a look at all of them yet there are good reasons for all of those disparities.

Mr. Marsh asked Mr. Greig for clarification, noting that column one starts out at 33.2 and drops down to 45.2 at the bottom and asked if that was set using some type of criteria and if so, what criteria leads to those opening percentages? Or an alternate question, if you set all of those to 40 and then develop the table left to right using 40 as the column for both premium levels what would the impact be to the state fund if any or to the policyholders?

Mr. Greig said that is a tough question. He said they do not start with a percentage in the far left and this would be a challenge articulate. The fundamental principle behind building this table is that we are taking that underwriting year and treating it as one large policy and what we are saying is we are thinking about it as if it were a retro. And it is a retro with a maximum premium factor of one and no minimum premium factor. We take into account expenses, we take into account and develop the losses and we take into account IBNR so there are some really technical calculations that go into this. He explained that we cannot actually start with the first column and putting 40 percent in because it would violate another piece of the actuarial principles. He said that was his thought off the top of his head though he may be missing something and asked Ms. Dunlap or Mr. Turrell to add any clarifying comments they may have.

Chair Miltenberger asked if Mr. Marsh wished to pursue this line of questioning further?

Mr. Marsh said it was probably too complicated for today but he would be much more comfortable if column one was all the same number so that we were, at least on the surface, treating all of the premium levels the same. He said he understand the internal costs and the difficulty to programmatically assume a certain loss ratio for zero for $2,000 compared to an $800,000 account but this is retrospective. He said he understood Mr. Greig's comment about retro but he said it seemed to him that it would be understandable if it started all at the same number and then worked from left to right.

Mr. Greig said the issue with having column one be the same factor is that you have then given the same amount of creditability to a small policyholder versus a large policyholder. By definition, if you have more data, that data is more predictive, that is the issue. He provided an analogy that Dan Gengler, retired MSF Internal Actuary, often used. If flipping a coin and it is flipped three times and the result is three heads, there is not enough data to decide if that coin is fair or not. If the same coin were flipped 1,000 times resulting in 900 heads, that would provide a lot of data and that would mean that this coin is different hence it has more credibility. He apologized for contradicting Mr. Marsh and repeated that the Board asked Willis Towers Watson to make sure the table was actuarially fair which it is and he offered to spend more time with Mr. Marsh to take him through some of the calculations.

Chair Miltenberger thanked Mr. Marsh and Ms. VanRiper for the questions. He added that he thought the issue of distribution of the dividend was one that through his first five years on the Board, he struggled with getting his head around every year and could never quite get it. He said this issue is worthy of some significant discussion, if for nothing else than to educate themselves. He said he appreciate the analogy about flipping the coin; however there are still parts of this he is trying to understand which means it will need to be pursued further going forward. He called for additional questions or comments.

Ms. Dunlap added that in order to follow the actuarial standards and be fair and equitable, when developing the table, they try to put the same amount of premium in each row. She pointed out that the first row has about the same amount of premium as say the last row but there are 13,000 plus policies there that have to distribute the same percent of premium across in aggregate compared to three policies. She said that was another thing to keep in mind - the same percent could not be used in each of these rows as the starting point or you would not be able to get back to the appropriate dividend amount when distributing across 13,000 policies.

Ms. Dunlap then asked the Board to approve the dividend table as presented and offered to take any more questions if necessary.

Chair Miltenberger thanked Ms. Dunlap and said he thought there was a lot of discussion that has to surround this whole issue; however, he suggested that the Board entertain a motion to approve this dividend distribution according to the formula as presented. He said he really does look forward to understanding it better and that is coming from somebody who has been through it a few years. He said he did not want to close off the conversation but suggested a motion would help them move forward on this issue.

Mr. Maxness made a motion the Board approve the recommendations 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, 2018 through June 30, 2019, and who had at least six months continuous coverage during their policy period. Ms. Fagg seconded the motion. Chair Miltenberger called for discussion or questions from the Board and the public; there being none, he called for the vote. Board members; Miltenberger, VanRiper, Fagg, Maxness and Thiel vote aye and Mr. Marsh voted nay. The motion passed.

V. Old Fund – Status and Reserve Report – Old Fund

A. Old Fund Overview – Fiscal Year 2021 Funding Status – Rene Martello, Controller

Ms. Martello provided an overview of the Old Fund statutes. She 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.

She 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.

Ms. Martello moved on to provide a review of the Old Fund Fiscal Year 2021 final report. She said it was estimated that needed funding from July 1, 2020 through June 30, 2021 would be $8.6 million and just slightly over $7 million was spent for the year which is a variance of $1.5 million or 82 percent. She said overall benefit payments were $1.5 million under budget – indemnity was over due to more fatality-related payments than the prior year; however, that was offset by less costs in other medical categories.

She noted that for operational expenses, administrative costs were $6,405 less than estimated and the Department of Labor and Industry (DOLI) assessments were $22,042 less than estimated. She said there were two assessments that were charged $94,810 for the administration fund assessment and $24,940 for the subsequent injury assessment for total assessments of $119,750. She said the allocated loss adjustment expenses were approximately $10,000 under for medical invoice processing and medical consultants. Overall, the operational expenses were $38,343 under and actuals were at $858,341.

Chair Miltenberger called for questions; there were none.

B. *Old Fund Fiscal Year 2021 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 said this review looks at policy periods going back to 1964 through 1989 and 1990. He provided an overview of some 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, 2021. He explained the actuarial methodologies that were used by Willis Towers Watson to establish the analysis of Old Fund unpaid future claims benefits and LAE and DOLI assessments.

He said actuarial central estimate for indemnity for the Old Fund is $6.5 million, the low is $5.6 million and the high would be $9.7million.

Mr. Turrell said the Old Fund forecast of unpaid benefits is $31.7 million and the total undiscounted benefits-only related unpaid actuarial central estimate is now estimated at $38.2 million timed out to Fiscal Year 2050-2051. He said as of June 30, 2021 there are 434 open claims in the Old Fund which are fewer 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, 2021 for estimated unpaid losses and claims administration to $43.7 million.

Chair Miltenberger called for questions; there were none. He noted that this was a strange issue where they are making the decisions yet dealing with other people's money and he said the Board is charged with making sure this is handled in a prudential manner and that the estimates are thoughtful. He noted this is a state liability and MSF acts as the administrator of these claims yet is not the payor and the Board wants to assure they are not too high or too low.

C. Old Fund Fiscal Year 2021 Reserve Recommendations – Laurence Hubbard, President/CEO

President Hubbard asked Mr. Turrell to provide some insight on the acceleration of the payment patterns of more recent years and asked if that was in any way related to HB334 and settlement and the ability to settle claims. He noted that just because there is an accelerated pattern does not mean that the tail liability will be higher than expected.

Mr. Turrell said it is very likely related in some way to those settlements. It was seen that in the two years prior to last year, there was quite an increase in settlement activity which was very likely related to HB334. He said President Hubbard was correct that just because higher payment activity had been seen, that did not mean that total liability is going to be higher. He said it could be just the opposite meaning the claims could be settled earlier, which means it will tail off earlier.

President Hubbard said management recommends that the Board set and establish an Old Fund central estimate of $43.7 undiscounted as of June 30, 2021.

D. Adoption of Old Fund Fiscal Year 2022 Unpaid Loss and Loss Adjustment Expense Reserve Estimate – Laurence Hubbard, President/CEO

Mr. Marsh moved the Board adopt for the Old Fund, based upon the actuary's best estimate of unpaid losses and loss adjustment expenses for Fiscal Year 2021, the amount of $43,704,141 undiscounted as of June 30, 2021. Ms. Fagg seconded the motion. Chair Miltenberger 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 Miltenberger called for old or new Business. There was none.

VII. Public Comment

Chair Miltenberger called for Public Comment. There was none.

The meeting was adjourned at 1:52 p.m. The next scheduled board meeting will be held on Friday, December 10, 2021 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