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**MONTANA STATE FUND
FINANCE AND AUDIT COMMITTEE
December 8, 2022**

The Montana State Fund (MSF) Finance and Audit Committee meeting was held December 8, 2022 in MSF's Board Room at 855 Front Street, Helena, Montana 59601 and via Zoom.

Directors Attending

Karen Fagg, Billings	John Maxness, Helena
Jack Owens, Missoula – via Zoom	

Board Members Attending

Richard Miltenberger, Helena	Michael Marsh, Billings
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MSF Staff Attending

Holly O'Dell, President/CEO	Rene Martello, Controller
Verna Boucher, Executive Assistant	Darcie Dunlap, Internal Actuary
Kevin Braun, General Counsel	Mark Burzynski, Corporate Support VP
Patti Grosfield, Internal Auditor	Bruce Johnsen, Chief Strategy Officer
Matt Mandell, Interim VP, Operations Support	

Others Attending

Jon Putnam, BOI	John Romasko, BOI
Russell Greig, WTW – Via Zoom	Alex Turrell, WTW - Via Zoom
Erin Snyder, CSI	

I. Meeting Preliminaries

A. Call to Order

The meeting was called to order at 10:00 a.m.

B. September 8, 2022 Finance and Audit Committee Meeting Minutes

The Committee took action to approve the minutes as presented; Mr. Owens made the motion, Mr. Maxness seconded, the motion passed unanimously.

II. Finance and Audit Committee Charter Review

The Committee reviewed and took no action to alter, change or update the charter.

III. Board of Investments Proposed Policy Statement Changes – Jon Putnam and John Romasko, Board of Investments

The Board of Investments Proposed Policy Statement Changes to:

- Add Real Assets to the approved Asset Classes with a range of 0-6%.
- Add Convertible Bonds to the portfolio as part of the Non-Core Fixed Income Asset Class.
- Change the Investment Grade Fixed Income Benchmark to the Bloomberg Aggregate Bond Index.

BOI indicated that the changes will improve the diversification/risk and the expected return of the portfolio over the long-term. BOI's board will review the proposed policy changes at their February board meeting.

Chair Fagg recognized and thanked BOI for their presentation and recognized BOI Board Member Mark Barry as well as MSF Board Chair Richard Miltenberger who were in the audience.

IV. Internal Audit Reports - Patti Grosfield, Internal Auditor

External Audits:

- The Calendar Year 2021 Financial Statements Audit was completed by the Legislative Audit Division (LAD), presented to the Legislative Audit Committee (LAC) on October 4, 2022 and it was a clean or unmodified audit with no recommendations.
- The Calendar Year 2022 Statutory Audit by Eide Bailly will complete the remote field work December 12 – 16, 2022, complete on-site fieldwork February 6 – February 17, 2023 and provide a completed audit report by April 2023
- Calendar Year 2022 GASB (governmental) Financial Compliance audit will be contracted for completion with Eide Bailly for the LAD GASB audit for the CY2022 financial statements.
- LAD – Information Systems audit of MSF’s new Policy Billing System reviewing functionality, security, processes, transactions and policies will be completed in 2023 under a separate LAD Blue Cover report.

Internal Audits:

- An audit of the Dividend declared in September 2022 addressed adherence to MSF’s dividend policy, Board-approved parameters, and statute.
- The PBRI internal audit will be completed and presented at the March Board meeting.
- Board Members requested that the Multiple Public Employment Disclosures, Code of Conduct, Data Confidentiality and Acceptable Use and Felony Self-Disclosure forms be made available at the December Board meeting for completion. Nick Mazanec, Assistant General Counsel, Corporate will have those available at the Board meeting on Friday.
- The 2023 Internal Audit Plan was presented. It was noted that the Board or the Committee can also request additional audits at any time.

The Committee took action to recommend the full Board approve the 2023 Internal Audit Plan. Mr. Owens made the motion, Mr. Maxness seconded the motion, the motion passed unanimously.

V. Reserve Reports

A. Introduction – Holly O’Dell

President O’Dell introduced the reserve discussion and explained the importance of this discussion for various other key decisions the Committee and Board will be making for the next year.

B. Montana State Fund Calendar Year 2022 Reserve Report – Russell Greig, Senior Director and Alex Turrell, Director, WTW.

The WTW actuaries provided a recommended reserve report based on the analysis they completed using actuarial projection methods to review ultimate loss estimates, changes to ultimate loss estimates and estimated loss adjustment expenses. The actuaries central estimate was \$881.9 million and the range was \$791.1 million to \$1,008.4 million.

C. Montana State Fund Calendar Year 2022 Reserve Recommendation – Darcie Dunlap, Internal Actuary

Staff presented management's CY2022 reserve recommendation, based on the WTW central estimate with additional consideration regarding reserve sufficiency, other states coverage and excess loss for a recommendation of \$927 million.

D. Calendar Year 2022 Projected Financial Report and Reserve Approval – Rene Martello, Controller Calendar Year 2022 Second Quarter Financial Report

Staff provided the financial report and asked the Committee to recommend the Board approve the loss and LAE reserves totaling \$926.7 million to include in the 2022 year-end financial statements with an allowance that the reserve amount be adjusted after the year-end closes to reflect actual benefits paid and any changes in the reinsurance recoverable.

The Committee took action to recommend the full Board approve, based on the actuary's estimate of unpaid losses and loss adjustment expenses, adjusted for projected reinsurance recoverable, and for management's recommendation for loss reserves, Other States Coverage and Employers' Liability, on an undiscounted basis as of December 31, 2022, to adopt \$799,142,684 as the unpaid loss reserve and \$127,553,645 as the loss adjustment expense reserve estimates for the Montana State Fund financial statements for the year ending on December 31, 2022, to be adjusted for changes based on the actual benefits paid at end of the year. Mr. Maxness made the motion and Mr. Owens seconded the motion. The Chair called for public comment; there was none and the motion passed unanimously.

Committee Member Jack Owens left the meeting at 11:45 a.m.

VI. Calendar Year 2023 Strategic Plan and Annual Business Plan

A. Calendar Year 2023 Strategic Plan and Annual Business Plan Approval – Bruce Johnsen, Chief Strategy Officer

Staff reported on newly adopted strategic philosophies and processes designed specifically to increase employee satisfaction, thus improving customer service such as elimination of "busy" work and improved and increased data usage approaches.

The Committee took action to recommend the full Board adopt the proposed Calendar Year Annual Business Plan. Mr. Maxness made the motion, Chair Fagg seconded the motion. Chair Fagg called for public input; there was none. The motion passed unanimously.

VII. Calendar Year 2022 Budget Update and 2023 Budget Request

A. 2023 Budget Request for Approval – Mark Burzynski, CFO, Corporate Support

Staff explained the 2023 budget request for fiscal period January 1, 2023 – December 31, 2023, with a total of \$191,050,885, which includes 294.50 FTE distributed among 297 positions. The request provided the President the authority to reallocate expenditures within the aggregate amount of budget approved by the Board. MSF plans to manage to an Expense Ratio of 42.5%.

The Committee took action to recommend the full Board adopt the proposed Montana State Fund budget for Calendar Year 2023 totaling \$191,050,885, as follows:

- *Total Operational Expenditures of \$65,658,004, including the costs that are reimbursed to Montana State Fund for Old Fund administration; and*
- *Montana State Fund Benefit Payments of \$125,392,881.*

The President is to retain and may utilize the prior direction from the Board to adjust expenditures among first level expenditure categories, and may increase staffing, as long as the total approved budget amount is not exceeded. Mr. Maxness made the motion, Chair Fagg

seconded the motion. The Chair called for public input; there was none. The motion passed unanimously.

VIII. Construction Industry Premium Credit Program

A. Construction Industry Premium Credit Program Approval – Matt Mandell, Interim VP Insurance Operations Support

Staff explained that without this construction industry premium credit program, construction employers who pay higher hourly wages for the same type of work would pay higher workers' compensation premiums, even though higher exposure to loss does not exist. This table is adjusted each year as the state's average weekly wage increases to be effective the following July 1 and is validated by MSF's internal actuarial team.

The Committee took action to recommend the full Board adopt the plan of credit percentages for Montana State Fund's Construction Industry Premium Credit Program, for new or renewal policies, with effective dates of July 1, 2023, to July 1, 2024, as proposed by Montana State Fund management. Mr. Maxness made the motion, Chair Fagg seconded the motion. The Chair called for public input; there was none. The motion passed unanimously.

IX. Old Fund Fiscal Year 2023 First Quarter Budget Summary

A. Old Fund Fiscal Year 2023 First Quarter Budget Summary – Rene Martello, Controller

Staff reported that as of September 30, 2022, Old Fund expenditures are projected to be \$6.7M which is \$239,000 or 3.4% under the funding estimate of \$7 million.

- Claim benefit payments were projected to be \$6.0M or \$168K under the funding estimate
- Medical payments were under \$126,000
- Indemnity was under \$42,000
- Large settlements were at \$1.1 million and \$130,000
- Operating Expenses are projected to be \$70,000 or 9.1% under the funding estimate
- Open Old Fund Claims as of 9/30/2022 were 399.

X. Old Business/New Business

The Chair called for any Old or New Business; there was none.

XI. Public Comment

The Chair called for public comment; there was none.

The meeting adjourned at 12:46 p.m. The next scheduled Finance and Audit Committee meeting will be held on Thursday, March 9, 2023 at Montana State Fund, 855 Front Street, Helena, Montana in the Board Room.

Respectfully submitted,

Verna Boucher
Special Assistant to the President/CEO