855 Front Street • P.O. Box 4759 • Helena, MT 59604-4759
Customer Service: 1-800-332-6102
Fraud Hotline: 1-888-682-7463 (888-MT-CRIME)

MONTANA STATE FUND
BOARD OF DIRECTORS MEETING
March 11, 2022

The Montana State Fund (MSF) Board of Directors meeting was held March 11, 2022 via Zoom.

Directors Attending

Richard Miltenberger, Chair, Clancy
Jack Owens, Missoula
Karen Fagg, Billings
Dexter Thiel, Sidney
Jan VanRiper, Missoula
John Maxness, Helena
Michael Marsh, Billings – via Zoom

State Fund Staff Attending

Laurence Hubbard, President/CEO
Verna Boucher, Special Asst to Pres/CEO
Kevin Braun, General Counsel
Julie Jenkinson, Ops Vice President
Will Anderson, Interim Operations Vice President
Matt Mandell, Interim Ops Support Vice President
Bob Hark, Actuarial Analyst
Kurstin Adamson, ERM Risk Officer
Patti Grosfield, Internal Auditor
Darcie Dunlap, Internal Actuary
Rene Martello, Controller
Shannon Copps, Director, IT Plans & Controls
Rick Duane, HR Vice President
Al Parisian, CIO
Janell Guge, Compliance Officer

Others Attending

Russell Greig, WTW
Troy Downing, CSI
Bob Biskupiak, CSI
Ann Conway, WTW
Mari Kindberg, CSI
Ashley Perez, CSI

I. Meeting Preliminaries

A. *Call to Order*

Chair Miltenberger called the meeting to order at 8:30 am. He noted that Commissioner Troy Downing, Commission of Securities and Insurance (CSI), was in attendance as well as other attendees from CSI. He announced that the agenda would be adjusted by moving item "II. Miscellaneous" after item "VI. Financial and Budget Reports."

B. *Approval of December 10, 2021 Minutes*

Chair Miltenberger called for a motion to approve the December 10, 2021 minutes.

Mr. Owens made a motion to approve the December 10, 2021 minutes as presented. The motion was seconded by Ms. Fagg. Chair Miltenberger called for discussion from the Board and MSF staff. Seeing none, he called for the vote and the motion passed unanimously.

II. Ratemaking Decisions for July 1, 2022 to July 1, 2023

President Hubbard paused his introduction of the ratemaking decisions to acknowledge Commissioner Downing, and Deputy Commissioner Bob Biskupiak as well as consulting actuaries, Russell Greig and Ann Conway from WTW.

He said the ratemaking meeting was one of the most important meetings the Board holds because it sets the rate level for MSF's customers for the upcoming year beginning on July 1, 2022. He noted that CSI representatives were in attendance at this meeting because the rates will be submitted to CSI for approval. He introduced Darcie Dunlap, MSF Internal Actuary and asked that she present the overview of rate filing.

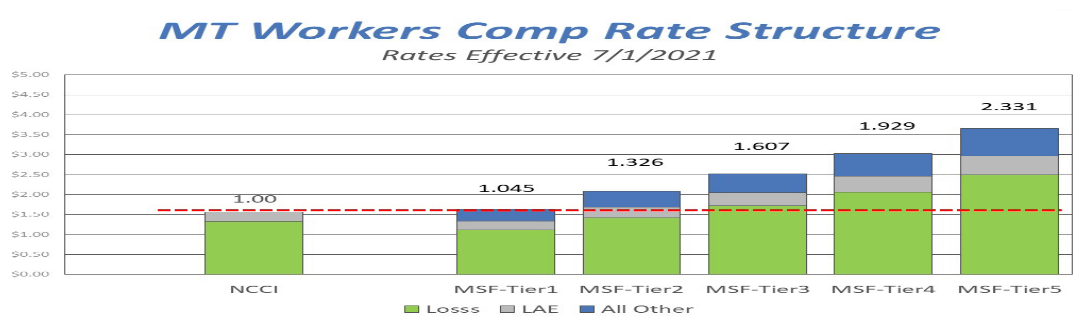
A. *Overview of Rate Filing Process – Darcie Dunlap, Internal Actuary*

Ms. Dunlap explained that this overview was presented to provide the Board with an understanding of the initial steps in the rate setting process and the key decisions the Board will be making.

She noted that MSF used the National Council on Compensation Insurance's (NCCI) loss costs to establish the rates that are currently effective. She said NCCI's July 1, 2021 loss cost filing in Montana provided loss costs for approximately 560 different class codes, which represented several different industries or types of work in Montana. She said the loss costs are what NCCI's actuaries estimate needs to be charged as a statewide average to cover claim benefits or losses and claim administration or the Loss Adjustment Expense (LAE). MSF writes business in approximately 430 of those approved class codes. She said the average NCCI loss cost based on MSF's payroll comes out to an overall average of $1.57, which means based on the business MSF insures, NCCI calculates that MSF must charge on average $1.57 per $100 of payroll. That amount is split between losses and LAE. She said in a competitive-rating state such as Montana, every carrier is free to propose their estimate of their average loss for their own book of business. She said NCCI represents the statewide average; however, each carrier can write a different segment which may cover a different industry or different size of business. She noted that a carrier can choose a different loss cost for their own book of business; however, they must support that selected level with CSI. She said for the business MSF writes in Tier 3, MSF proposed a loss cost of $2.05 which was 30 percent above NCCI's loss cost level. She noted that MSF's loss cost levels vary by the different rate tiers; however, for purposes of this discussion the focus would be on Tier 3 or MSF's middle tier.

She said loss costs indicate what must be charged to cover losses and LAE; however, a carrier must consider all other expenses such as personnel, systems and business costs, agency commission, targeted profit level and offsets for investment income or underwriting off balances. She said to cover the other costs, MSF charged an additional 47 cents per $100 of payroll, which brought the total average manual rate to $2.52 for Tier 3. She noted that all the tiers go through this same process. She said NCCI's loss cost can then be considered as Montana's benchmark or starting point and then each carrier can determine how their manual rate compares to NCCI's loss cost using division or determining a ratio. The resulting factor becomes that carrier's loss cost multiplier (LCM). She said for 2021 for MSF's Tier 3 the LCM was 1.607, which means MSF must charge 60.7 percent more than NCCI's loss cost to cover all of the other losses and expenses. She said each carrier calculates their LCMs in the same manner and then files them with CSI. This process creates a level playing field for comparison.

She said last year MSF filed five different LCMs for MSF's five different tiers.



She provided a comparison of MSF's loss cost multipliers by rate tiers to the rest of the Montana market noting that MSF's rates are not the lowest or the highest. She said the majority of MSF's business is written in tiers 2, 3 and 4. She added the loss cost multiplier is just the starting point for pricing an individual business and that scheduled rating, construction credit, volume discount and experience rating are all examples of other pricing variables that impact the final premium for any account.

She further explained that the Board's key decisions would be: 1) to formally adopt the NCCI loss cost filing as a starting point for MSF's manual rates, 2) determine the key tiered rating plan criteria which determine how accounts are assigned to tiers one through five, 3) adopt the other rating programs; such as minimum premium, expense constant, scheduled rating, retrospective rating, volume discount, employer's liability, and short rate premium and 4) determine the loss cost multipliers for the five rate tiers. She noted that the decisions the Board makes at this meeting will determine what MSF files with CSI for rates and pricing effective July 1, 2022.

Chair Miltenberger called for questions.

President Hubbard mentioned it is necessary to have the Board engage in the approval of NCCI's loss cost process even though it seems rather perfunctory in case the rates for a given rate year are not approved by CSI so that the rates approved the year before can be used.

B. *NCCI Montana Loss Costs Filing Update Effective July 1, 2022 – Darcie Dunlap, Internal Actuary*

Ms. Dunlap noted that the first step in the rate setting process is to formally adopt the NCCI loss costs as the basis for MSF's manual rates. She explained that Title 33 requires the use of approved NCCI loss cost filings for private carriers and MSF. Montana's Insurance Commissioner has already approved the NCCI loss cost filing for use by carriers in Montana effective July 1, 2022.

She said NCCI filed a 1.9-percent decrease in loss costs for Montana. The decrease is a statewide average and the change varies by individual class codes. She explained that NCCI determines the loss costs for each class code by reviewing the past payroll and loss experience within each code. The class codes are then categorized within five different industries which reflect varying average decreases. NCCI limits the change allowed by an industry to plus or minus 25 percent of the average change.

She said NCCI experience and trend indications are developed using three years of losses and premium and also looking at 12 years of frequency and severity levels to determine the overall loss ratio trend. She said MSF has also observed that losses are in a declining pattern; however, NCCI applies their selected trend for three to five years beyond the experience years and that prediction for that many years out may be a strong assumption. She explained the variations between NCCI's recommended loss costs for Montana and MSF's loss costs beginning in 2000. She also noted that over the past three years, MSF has been diverging upward from NCCI because MSF serves as the guaranteed market in Montana which may lead to MSF covering higher risk business and MSF's actuarial experience and trend indications differ. She noted that between 2004 and 2015 had MSF followed NCCI's loss cost increases when setting rates, MSF customers would have been overcharged an additional $295 million – though those charges would likely have been mostly returned in dividends, this would have impacted Montana's economy.

Ms. Dunlap said management requests the approval of the July 1, 2022 NCCI loss cost filing as the basis for MSF's upcoming rate year. She noted that the approval does not mean MSF's rates will match NCCI's loss costs; it simply means MSF will establish its rates using NCCI's most recent loss cost filing as its base or starting point. She added that MSF's loss cost variances will have to be justified with CSI when MSF files its rates.

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

Mr. Marsh asked for clarification where there are differentiations in the historical loss costs between MSF and NCCI and asked what portion of those is attributable or proven up to the impact of the guaranteed market or the distressed businesses may be contributing to higher costs versus competitive written business? He also sought clarification regarding the impact of claim handling on rates from 2019 to 2022.

Ms. Dunlap responded that MSF does not differentiate between which policyholders have been turned away by other carriers and are with MSF because of the guaranteed market or are here voluntarily. She added that claims handling is also not differentiated between guaranteed and voluntary market when looking at the data.

President Hubbard added that the Department of Labor and Industry publishes an annual report with statistical data reflecting private carriers' experience, self-insured's experience and MSF's experience regarding temporary total disability durations. He said that is one benchmark or indication as to why one company has claims with shorter or longer durations. He added that any of those data points speak directly to MSF's requirement to insure all comers.

Mr. Marsh said he was not getting anything finite or definite out of the responses. He said what he was being told was that MSF does not keep track of voluntary versus in-voluntary business therefore, we think it's applying but we are not really sure. He asked if there was no way to put numbers to this for the Board to look at this and say yes, these are excellent trends. He said he looked at the table and while it is prospective in the particular year the rate is set, it becomes retrospective and becomes a defined trend that existed and in the years 2004 to 2012 were there the same guaranteed market and actuarial methodology issues? What possibly could have changed to make the trend from 2012 to 2023 decrease but not as much as the NCCI lost costs, which is the industry average. He said it would be helpful for the Board members to understand what is driving that as a trend going forward and secondarily what data is confirmed to have caused that in those ten to thirteen years?

Chair Miltenberger requested a follow up discussion either in the Board meeting or separately, to find out if there is a way to get at some of the data Mr. Marsh is looking for? Is there a possibility of providing that in this meeting?

President Hubbard said he did believe further discussion was warranted. He said he did take from the question some implication that somehow MSF can divine what might otherwise have been the guaranteed market responsibility, or data or experience versus voluntary or non-guaranteed market. He said that is not discernable; however, some proxy lines for data purposes could be drawn based on various assumptions. He said proxy information has been developed in the past and Mr. Braun could make that available for Mr. Marsh. He noted that MSF has averaged between 23,000 and 26,000 customers and anywhere from 18,000 to 20,000 would potentially be in an assigned-risk-pool mechanism. Small businesses, contractors and truckers would fall into that category and a review of states with an assigned risk pool could provide the data Mr. Marsh is looking for.

Mr. Marsh said he thinks the Board's understanding of at least a little bit more documented reasoning for why MSF's loss costs continue to trend higher than the state's average based on NCCI's numbers would be very helpful. He said he thinks, based on the justification that MSF is the guaranteed market, it would be very helpful to have some numbers/documentation to indicate that these are the class of risks that we did write in 2014, 2015, 2017 and 2020 and these are the losses associated with that versus the losses associated with the lesser risky business. He said he thought that would be very helpful for the Board as they begin looking at the rate filing that is probably going to be made and evaluating it going into next year.

President Hubbard responded that since 2018 MSF's lost cost experience is higher than NCCI's but that does not explain all the years prior to that when NCCI's lost costs were higher than MSF's own indications. He added that nothing has changed in MSF's guaranteed market responsibility during that entire period.

Chair Miltenberger called for additional questions. There were none.

C. *Adopt NCCI Filings/Loss-Costs Filing Effective July 1, 2022 – Darcie Dunlap, Internal Actuary*
Chair Miltenberger called for a motion.

Mr. Owens made a motion the Board adopt the NCCI filed loss costs for rates applicable to new and renewable policies effective July 1, 2022 to July 1, 2023 for Montana State Fund classification codes. Mr. Maxness seconded the motion. Chair Miltenberger called for further comments or questions from the Board and the public; there were none. The Chair called for the vote and the motion passed unanimously.

D. *Multiple Rating Tiers Criteria and Certification – Darcie Dunlap, Internal Actuary*
Ms. Dunlap presented management's request for the approval of MSF's Tiered Rating plan for the July 1, 2022 renewal process. She said MSF's objective in pricing is to match the rate level with the insured's statistical tendency to generate loss. MSF insures approximately 25,000 policies per year and with the guaranteed market MSF has a wide rate of risks in that business for Montana. She said the tiered rating model, created by the external actuaries, works in conjunction with experience rating to help reach an appropriate starting point in pricing. The tiered rating process must be actuarially sound and is certified annually by MSF's independent consulting actuary, WTW, and CSI's actuaries have approved past filings that have included this same tiered rating criteria.

She said the original tiered rating began in 2002 and was a simple table look-up process that was developed internally. The update to the more sophisticated program with statistical modeling began in 2012 and there have been three model adjustments since then. She said the rate tiers provide differentiation around MSF's average rate tier or Tier 3. She said the actuarial basis for the tiered rating program provides credits to Tiers 1 and 2 and debits to Tiers 4 and 5 which brings everything closer to average and provides pricing equity across MSF's book of business. She said the majority of MSF's business falls in Tiers 2, 3 and 4 while Tiers 1 and 5 are exceptions and contain very little of MSF's business. She noted that by policy count the distribution is different as MSF's book of business is dominated by small accounts. She said 52 percent of MSF's business has $1,500 or less in premium. She said businesses are most frequently assigned to Tier 2 and 3; however, businesses with no prior history generally begin in Tier 3, 4 or 5. She noted that as they establish a sufficient track record of loss-free experience, they progress to lower-rated tiers.

Ms. Dunlap said this model is based on three variables which the actuaries determined were statistically correlated with the potential risk of incurring loss. The variables are: 1) three-year claim frequency which is the count of three years of claims divided by the premium of those three years, 2) account size, which is based on the premium for the upcoming year and 3) claim-free tenure, which is the number of years a policy has gone claim free up to ten years. She noted that only claims at the $500 or more level are considered for claim frequency and claim-free tenure variables.

Tiered Rating 2.3 – Table of Factors

Effective 7/1/2022

Account Size

Value	Factor
<$1,500	1.300
$1,500-$2,499	1.250
$2,500-$4,999	1.200
$5,000-$7,999	1.150
$8,000-$11,999	1.100
$12,000+	0.950

Claim-Free Tenure

Value	Factor
New	1.100
0	1.100
1	0.919
2	0.802
3	0.730
4	0.694
5	0.667
6	0.642
7	0.618
8	0.594
9	0.572
10+	0.550

Claim Frequency

Value	Factor
Insufficient History	1.600
0.00 - 0.00	1.500
0.01 - 0.10	1.020
0.10 - 0.15	1.134
0.15 - 0.20	1.207
0.20 - 0.25	1.276
0.25 - 0.30	1.342
0.30 - 0.35	1.405
0.35 - 0.40	1.462
0.40 - 0.45	1.515
0.45 - 0.50	1.563
0.50 - 0.55	1.607
0.55 - 0.60	1.646
0.60 - 0.70	1.697
0.70 - 0.80	1.752
0.80 - 0.90	1.795
0.90 - 1.00	1.831
1.00 - 1.25	1.894
1.25+	2.163

Rate Tier Assignment Ranges

	Overall Factor	
	Lower	Upper
Tier1	0.000	0.899
Tier2	0.900	1.099
Tier3	1.100	1.549
Tier4	1.550	1.799
Tier5	1.800	& Above

One-Tier Swing Limit

Renewal policies are limited to a maximum change of one rate tier from one policy period to another.

LCM Relativities

Value	Factor
Tier1	0.650
Tier2	0.825
Tier3	1.000
Tier4	1.200
Tier5	1.450

She shared the table of factors depicted above and noted that there is a one-tier swing limit upon renewal each year. She noted that the Board has the WTW certification letter and noted that management requested the approval of the tiered rating criteria as proposed, which is no change from last year.

Chair Miltenberger called for questions.

Ms. Van Riper asked how the factors are determined to establish the loss costs for the account sizes?

Ms. Dunlap said that hundreds of thousands of pieces of information from 2014 to 2018 were sent to WTW who then completed predictive and statistical modeling to look at those pieces of information to determine these factors.

Ms. VanRiper asked if the predictive modeling gets MSF to the goal of having some discount for the largest companies?

Ms. Dunlap said MSF begins with the goal of a normal distribution amongst the five tiers and also begins with a goal to have them balance to about a 1.0 overall credits and debits impact to pricing. There is also a goal to create a path for small businesses to be able to get to a lower rating tier.

Mr. VanRiper said that businesses under $1,500 begin at Tier 4 or 5 and why is that?

Ms. Dunlap clarified that small business begins at 4 or 5 and noted that small businesses are less credible and less predictable. She said it is hard to discern what their losses are going to be and in addition, a small business can have one average-sized loss of $65,000, our current average, which will take 65 years of premium to offset that loss. She said that is some of the information that is used in the modeling; however, there is a lot of detail that goes into this model to find the small business' starting point.

Ms. VanRiper asked why MSF is giving a bit of a discount to larger employers based on expected experience and then giving larger employers a discount when we place small businesses in Tier 4 & 5 to begin with?

Ms. Dunlap said long term experience as well as predictability of future risk of loss account for the discount given to larger employers. The placement in Tier 4 and 5 for smaller businesses is due to the account size variable and based on the tiered rating criteria factors. Larger business with higher losses will also be placed in Tier 4 and 5.

President Hubbard asked if the tiered rating plan did not have anything but account size for right pricing at rate level, does the data reflect that an account under $1,500 would have a 30-percent factor which would place it in the middle tier?

Ms. Dunlap said each of the three factors - account size, claim-free tenure and claim frequency - each have their own “lift” and each play a part in determining the appropriate tier. If two of the factors are removed the values for the different ranges would change substantially. The factors all work in conjunction, not alone.

Chair Miltenberger commented that he is an investor in a small business in Helena and when it started, he asked the insurance agent why they were not recommending MSF for their workers’ compensation insurance. He said the agent responded that MSF is just so complicated and the rates tend to be high, dividends are possible but he did not want to tell clients that there could be one and it not materialize. He said MSF was higher than the other two companies and they went with another company.

President Hubbard commented that it does depend on the nature of the business as well.

Chair Miltenberger called for additional questions.

Mr. Marsh asked if the actuary could comment or provide some data to the Board if we were to change the account size factor for $12,000 plus premium size to 1 percent as opposed to five percent what impact would that have upon the other factors and then ultimately the LCM’s filed by tier? And also, in the rating process is there a weighting of the account size or is it purely arithmetic - account size times claim-free tenure?

Ms. Dunlap said the models are very sophisticated and complex and if one factor is changed all the others must change as well. She said they are not established by someone sitting in a room with a dart board or manipulating an excel spreadsheet and coming up with some factors. She said it is a sophisticated modeling tool, and generally speaking, statistical modeling is based on how much lift to the overall model do the factors provide and do they truly predict risk of loss for the individual account. It is thoroughly tested to assure it does just that.

Mr. Marsh said he is familiar with this process and appreciated that this could not be done on a spreadsheet; however, if you are using four factors to go against the modified base rate and that will determine the premium, is there weighting associated with any of those factors? Meaning account size is multiplied by four and tenure is multiplied by two and claim frequency is multiplied by two to come up with the ultimate rating factor or is it purely arithmetic?

Ms. Dunlap said it is purely arithmetic and is a multiplication of the three factors depicted on the table of factors.

Ms. Fagg said she had some of the same questions that Ms. VanRiper had; however, as she looks at the three factors, she realized that a larger company with the discount that they begin with, the chances of them going claim free is pretty slim. That begins to catch up for them in the claim-free tenure and also the claim frequency. She said the chances of a small business having some claim-free tenure and claim frequency works to their advantage and helps them move in the right direction over a period of one to five years.

Ms. Dunlap said that was an excellent observation, particularly since claim free tenure and claim frequency work in conjunction with each other. If there is a claim in a larger account, it will be more heavily weighted on that claim frequency variable. A smaller account is when the claim-free tenure works to the business' advantage.

Ms. VanRiper asked what is the relationship of the rate tier assignments to the LCM relativities?

Ms. Dunlap explained once the factors are multiplied together, the result is looked up in the rate tier assignment ranges and the resulting tier assignment is then used to determine which LCM relativity is used.

Mr. Marsh asked if claim-free tenure and claim frequency are considered for employers who are new to MSF or is only MSF experience applied?

Ms. Jenkinson responded that MSF considers the loss runs of any new policyholder that provides that prior loss experience

Chair Miltenberger called for additional questions. There were none.

Ms. Fagg made a motion the Board approve, for new and renewal policies effective July 1, 2022 to July 1, 2023, the Tiered Rating Plan which consists of five rating tiers and that policies be assigned to the tiers based on the factors as presented by management. Mr. Owens seconded the motion. Chair Miltenberger called for questions or discussion from the Board and the public; there was none. He called for the vote and the motion passed; Chair Miltenberger, Mr. Maxness, Ms. Fagg, Ms. VanRiper, Mr. Thiel and Mr. Owens voted yes, Mr. Marsh voted no.

E. Minimum Premium and Expense Constant – Rene Martello, Controller

Ms. Martello explained that an expense constant is charged to all policies representing the common expense of issuing, servicing, maintaining and auditing a policy regardless of the size of the policy. She said MSF evaluates the staffing and processes required to issue and service a policy and the costs associated with that. She explained that the expense constant was increased last year from $185 to $200 and MSF is recommending $200 for the 2023 rate year.

She said the loss-based minimum premium component is assessed to policies representing the loss-based (medical and/or wage loss) portion of the insurance coverage provided to the smaller accounts. She noted that based on actuarial analysis there is support for raising this amount; however, due to declining claim frequency and stabilized loss levels, MSF supports leaving this at $240 as it has been since 2017.

Ms. Martello stated that the total recommendation for 2023 is $440 for the total minimum premium.

Chair Miltenberger called for questions from the Board.

Mr. Marsh asked why the minimum premium is not based on account size and asked if the amount of man hours necessary is the same for a $50,000 account as it would be for a $1,000 account?

Ms. Martello explained that the expense constant analysis looks for the common costs in maintaining a policy. She said yes, though a larger policy does have additional costs related to it, the expense constant is a flat charge applied to all. She said not all of the underwriting costs are built into the expense constant - just a percentage. A larger policyholder that has class codes and rates assigned is going to have a portion of the overhead costs based on the rate they are being assessed, which means a larger policyholder is paying an increased cost in their rates.

Mr. Marsh asked what law defines the expense constant so that he could look it up.

Ms. Martello noted that the definition was referenced in the Board members Board packet under Tab 6.

President Hubbard provided the definition in Section 39-71-2311(3), MCA. It defines expense constant as a premium charge applied to all policies to pay expenses related to issuing, servicing, maintaining, recording, and auditing the policy.

Chair Miltenberger called for additional questions. There were none.

Ms. VanRiper made a motion that the Board approve an expense constant of $200 for all new and renewal policies effective July 1, 2022 to July 1, 2023. In addition, she moved the Board approve the amount of $240 for the loss-based portion of the Minimum Premium so that the total Minimum Premium is $440 for new and renewal policies effective July 1, 2022 to July 1, 2023. The motion was seconded by Mr. Maxness. Chair Miltenberger called for questions or discussion from the Board and the public. Seeing none, he called for the vote and the motion passed unanimously.

F. *Additional Ratemaking Decisions – Matt Mandell, Interim VP, Insurance Operations Support*
Mr. Mandell presented a number of additional ratemaking decisions the Board would be asked to address. He explained that there were six decisions - five of them are unchanged from the current filing and one is updated annually based on changed factors.

1. Schedule Rating
Mr. Mandell explained that the schedule rating plan is to allow for modification of an insured's premium to reflect characteristics of risk that are not captured in the policy's experience. He said examples are safety devices, hiring, training and return to work plans and safety practices/plans.

He said MSF's filed schedule rating plan as approved by CSI is modified from the filed NCCI plan and includes: an expanded classification for rating peculiarities, a maximum modification of plus or minus 40 percent, expanded modifications to support the 40-percent-maximum modification and to allow more emphasis on management characteristics and a policy must have $5,000 or more in annual premium at Tier 3 manual rates in order to be eligible for schedule rating.

Category	Maximum Credit	Maximum Debit
Premises	-20%	+20%
Classification & Rating Peculiarities	-20%	+20%
Medical Facilities	-10%	+10%
Safety Devices	-10%	+10%
Employees-Selection, Training, Supervision	-20%	+20%
Management-Cooperation with Insurance Carrier	-20%	+20%
Management-Safety Organization	-20%	+20%

He added that there were no changes from the Board approved filing of the previous year.

2. Employer's Liability

Mr. Mandell explained that employer's liability coverage is included on all MSF workers' compensation policies. NCCI publishes many different limits of liability and different levels that can be elected. He said MSF recommends basic limits continue to be included on all MSF workers' compensation policies for no additional premium or minimum premium and also recommends two levels of increase limits be available to be chosen by MSF insureds. These do not deviate from MSF's current filing and have not changed for a number of years. He noted that approximately 32 percent of MSF's policyholders elect an increased limit of liability.

Bodily Injury by Accident – Each Accident	Bodily Injury by Disease – Each Employee	Bodily Injury by Disease – Policy Limit	Premium Charge based on Manual Premium	Minimum Premium
$100,000	$100,000	$500,000	None	None
$500,000	$500,000	$500,000	0.8%	$75
$1,000,000	$1,000,000	$1,000,000	1.1%	$120

3. Short Rate Premium
Mr. Mandell said NCCI's filing includes a short rate cancellation; however, MSF has never included that in its filing. He said this would essentially impose a penalty to a policyholder who elects to cancel the policy before the expiration date. He said MSF uses a pro-rata or no-penalty approach to the day of coverage and there are no plans to change that.

4. Volume Discount
Mr. Mandell said the volume discount program is MSF specific and provides a discount based on the premium size of a policy. He said MSF recommends no change to this program.

Standard Premium	Discount
$0 - $12,000	0%
$12,001 - $150,000	5%
$150,001 - $750,000	7%
$750,001 & Over	9%

He explained that NCCI's articulation of justification states that this discount is justified because the proportionate cost for issuing and servicing a policy is often less than the premium increase. He said as the premium level goes up the cost per dollar of premium to maintain and issue that policy goes down.

5. Retrospective Rating Plan Factors
Mr. Mandell said the retrospective rating parameters is the one item that changes slightly each year. It is being proposed for 2022 to be available for larger policyholders. The minimum premium to qualify for one of these plans is $100,000, which offers a risk-sharing policy to the policyholder. The policyholder may pay more or less than a guaranteed-cost type plan depending on their loss experience. The policyholder is taking the risk that their losses will come out more favorably than expected; if that is the case, they will see a return, if not they will owe additional premium.

Montana State Fund Retrospective Rating Parameters Applicable to new and renewal policies and group association plans effective 7/1/22		
A.	Minimum Standard Premium Threshold	$100,000
B.	Maximum Premium Factor	1.00 to 1.75
C.	General Expense Ratio	14.1%
D.	Acquisition Expense	6.6%
E.	Contribution to Equity & Cat/Terr Offset	0.6%
F.	Loss Conversion Factor	1.195
G.	Tax Multiplier	1.00
H.	Expected Loss Ratio	0.35 to 0.65

He said MSF does not have many policies in these programs. He noted that there were no substantial changes. The factors are adjusted each year to be consistent with rates charged to guaranteed rate customers. The parameter values are actuarially derived and the process follows the NCCI filed and approved rating methodology. He noted that factor "E." in the table above is contingent upon the rate level decision that will be made later in this meeting and that could change slightly.

6. Firefighter Presumptive Disease

Mr. Mandell explained that presumptive disease for firefighters was approved by the Board of Directors in March 2020. He said this is an optional endorsement to provide coverage of presumptive disease benefits to covered volunteer firefighters pursuant to SB160. He noted that the rates have remained the same since July 1, 2020 and it is anticipated those rates will be the same until 2024, when additional presumptive diseases are expected to be added to the coverage. He said for the volunteer fire departments who want this coverage there is a surcharge of 65.8 percent, while conversely, MSF offered a discount of 20 percent for volunteer fire departments who did not elect this coverage.

He noted that MSF currently has no active endorsements and no exposure to presumptive disease. He noted that the proposal was to not change the rate surcharge or the discount for the upcoming rate year.

Mr. Mandell requested the Board approve the schedule rating, employer's liability, short rate premium, volume discount, retrospective rating plan factors, and firefighter presumptive disease coverage.

Chair Miltenberger called for questions.

Mr. Marsh asked if the Board would be doing one motion or a motion on each item?
Mr. Owens moved the Board to adopt management's recommendations for the following additional ratemaking decisions to apply to new and renewal policies effective July 1, 2022 to July 1, 2023, as follows:

a. Schedule Rating
b. Employer's Liability
c. Short Rate Premium
d. Volume Discount
e. Retrospective Rating plan factors
f. Firefighter Presumptive Disease

Ms. Fagg seconded the motion. Chair Miltenberger called for further discussion and questions from the Board and the public; there was none. He called for the vote and the motion passed;

Chair Miltenberger, Mr. Maxness, Ms. Fagg, Ms. VanRiper, Mr. Thiel and Mr. Owens voted yes, Mr. Marsh voted no.

III. Actuarial Report – Russell Greig, Senior Director and Ann Conway, North American Practice Leader, WTW

Mr. Hubbard introduced Mr. Greig and Ms. Conway, MSF's consulting actuaries and thanked them for travelling to make this presentation to the Board.

Mr. Greig introduced Ann Conway, the North American Practice Leader for WTW.

He summarized WTW's analysis in support of MSF's management and Board selections of a rate level change for policies incepting from July 1, 2022 to June 30, 2023. He said consistent with prior years, an analysis was conducted of rate level changes to provide management with actuarially fair indications and support of targeting a reasonable contribution to policyholder equity for the financial risk of the cost of work-related accidents that MSF assumes from Montana employers. He noted that insurance is the only product where the price of the product is determined before the major costs are known.

He walked the Board through the process of estimating historical ultimate losses and the contingencies that can impact the analysis. He said the historical ultimate loss estimation is then used to project future ultimate losses. He said that because the aggregate amount of historical ultimate losses is an estimate, there are several contingencies that can impact the analyses, such as development, medical costs, trends, benefit changes, court cases, attorney involvement and economic cycles.

Mr. Greig noted after the ultimate actuarial central estimate is selected, the historical ultimate losses are adjusted so the future loss provisions for 2022/2023 can be selected. The selected low future loss provision is 63.5 percent expected loss ratio or ELR (based on manual premium at Tier 3 rates), the actuarial central future loss provision is 66.5 percent ELR and the high is 72.5 percent ELR. He said after projecting future loss amounts, expenses are then added in and for MSF the loss adjustment expense as a percentage of loss is 19.5 percent and other expenses as a percent of earned premium are 24 percent. He said both expense components are lower compared to what is being seen for private carriers as listed in A.M. Best Aggregates and Averages information.

He said premium is received during the year; however, claims are paid out over many years. MSF recognizes the economic value of underwriting cash flow by discounting its rates in consideration of future investment income, which results in lower premiums. He said management considered a reasonable range of investment yields ranging from 2.5 to 3.25 percent. Mr. Greig said the last piece that must be rolled in is the contribution to policyholder equity. This recognizes the transfer of risk from the individual employer to MSF. He said the contribution to equity is there to build or maintain policyholder equity-to-target levels.

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

Summary of Indicated Contributions to Policyholder Equity
Assuming a 3.00% investment yield on the underwriting cash flow

Projected Contributions to Policyholder Equity			
Rate Level Change	High Estimate	Actuarial Central Estimate	Low Estimate
-4.0%	2.4%	-1.1%	-8.1%
-3.0%	3.3%	-0.2%	-7.1%
-2.0%	4.2%	0.8%	-6.1%
-1.0%	5.0%	1.7%	-5.1%
0.0%	5.9%	2.5%	-4.2%
+1.0%	6.7%	3.4%	-3.2%
+2.0%	7.6%	4.3%	-2.3%
+3.0%	8.4%	5.1%	-1.4%

Mr. Greig provided a review of the contribution to policyholder equity as a function of the proposed rate-level changes and offered to stand for questions.

Chair Miltenberger called for questions or discussion from the Board and the public.

Mr. Marsh asked if the contribution factors that lead to this, using the history of MSF's payment and loss patterns, was there any credit for or considered for the potential for long-term COVID 19 issues for vaccination injuries or for those that may have been injured because of the vaccination by the condition of their employment. He said everyone knows that Montana has a very broad definition of occupational disease and noted the trigger is when the patient or injured worker discovers or should have known through a doctor's diagnosis that their condition is related to the workplace. He asked if there were any considerations given to the long-term COVID 19 claims or vaccination injury claims?

Mr. Greig said they did consider that there is collateral damage from COVID 19, such as the slowdown in judicial process, workers foregoing doctor's visits, and workers not going to physical therapy. He said a direct impact for MSF is not material so though it was considered, it was determined that it did not need to be included in the considerations of this recommendation. He said nationally, worker's compensation has not been impacted directly by COVID 19 with the exception being in medical workers.

President Hubbard also noted that NCCI's loss cost filing also explicitly excluded any estimate for COVID 19 exposure. He said as claim data develops, it will begin to be incorporated by the actuaries. There is not an identifiable evidence trend that is specifically COVID 19 related to take into account for purposes of ratemaking.

Mr. Thiel asked if something new comes up, are there provision to make adjustments to class codes based on those changes?

President Hubbard responded that yes, each class code reflects its unique circumstances.

Mr. Greig said the class code rates are adjusted when the losses begin to show up.

Mr. Thiel said what if this turned out to be way more severe and it hit faster than we could adjust – is that what the reserves are for?

President Hubbard said that is correct, the reason MSF maintains an equity above its incurred loss reserves which are based on experience alone, is to act as a shock absorber for unanticipated changes in loss experience. That could be court cases, new diseases, new exposures, or nuclear, biological or radiological exposures that could happen. He said there are reinsurance programs to help to some extent with a catastrophic loss but also the equity is there for that as well. He noted the Board could take corrective action at any time, if that were warranted.

Mr. Greig added that there will be a time lag should COVID 19 turn out to be a whole lot worse which applies to every occupational disease. The losses will come in and be covered from equity because the insurer cannot go back and ask every MSF policyholder to chip in an extra 20 percent. The new rates going forward will reflect the issues that developed from these exposures.

Chair Miltenberger called for additional questions; there were none.

IV. Ratemaking Decisions for July 1, 2022 to July 1, 2023 – Laurence Hubbard, President/CEO

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

President Hubbard said based on WTW's analysis and the financial strength and financial results of MSF, management is recommending the Board adopt a three-percent assumption on investment return on cash flow for purposes of our rate level and a minus-three-percent average aggregate rate change for MSF customers effective July 1, 2022.

Chair Miltenberger called for further comments or questions.

Mr. Marsh asked if one were concerned about the status of the world, the war that seems to be wanting to break out, the super high inflation that we seem to be going through right now, is there a chance that the assumed investment rate might be much lower? And, he said he is not comfortable with the not-reported and not-yet-incurred claims that we don't know about from the number of vaccination injuries that may or may not be related to a condition of employment. He also asked what the impact would be if MSF decided to take no rate change and where would that fall if the underwriting cash flow were way lower than 2.5 percent?

Mr. Greig said there is a risk that beginning on July 1, 2022, the investment income could be less than three percent but there is also a risk that it could be more than three percent. He said the three percent is not an actuarial central estimate, it is a middle of the road expectation, which is part of what the Board is charged with and every insurance company has to do. He said, we are pricing before we know the cost and if we are off, that is where policyholder equity comes into play. MSF is using more recent, fresher data and is definitely trending frequency and severity over a shorter period of time so the impact of overshooting or undershooting is minimized relative to NCCI.

Mr. Marsh said he is very hesitant and would encourage the Board to have some skepticism also in any reduction of manual rates when there is so much unknown in the world which is not historical and can't be included in the assumptions, so he was advocating a zero percent manual rate change.

President Hubbard said rate making is both science and art and the important principle for this Board to remember is that we are trying to create a level of stability for the customers of Montana State Fund over time. We are trying to moderate the effects of events yet to be discovered or contingencies yet to have happened. The important thing is that the Board be able to respond in a meaningful manner should changes evolve. He said if a world war were to create the circumstances that are truly catastrophic to our economy and the cost of workers' compensation insurance, the Board would have to take action; however, the depth and magnitude of that action is mitigated by the strong equity position that MSF has. He said the reserve-to-equity ratio target is 1.5 to 2.5 to 1, and stronger is better. The financial results from 2021 put MSF's reserve-to-equity ratio in the 1.4 to 1, which is strong. That allows the Board to take whatever action is necessary in rate actions in the future years to address any contingencies. He said that is the science part, the art part is the range of outcomes that Mr. Greig just went over. He noted that we were trying to get as close to a zero contribution to equity as possible and the challenge is that rates have to be adequate. He said MSF has seen 13 years of rate decreases for MSF customers and that will change again.

Chair Miltenberger said he was stuck back on some of the other presentations as well and was leaning the other direction as well. He noted that the ratemaking decision is a big deal for the Board. He called for additional comments and discussion.

Mr. Thiel asked if the money that is currently paid out in dividends would have to go to paying out the shortfalls?

President Hubbard said yes that absolutely could happen. MSF has seen years where the dividend declaration was $1 or $2 million based on the need to build equity at that time.

Mr. Thiel said in the current economic environment in Montana, if MSF has the same number of people doing business we are going to take in more revenue because wages are going up, they have to. He said MSF deals with wages and he would really like to see the Board take the 3-percent decrease though he would prefer it was 4 percent. He said he thinks that needs to be the direction because we have the opportunity to fill in. He said he thought by and large, a lot of employers in high-risk industries such as his, would take the three percent and risk losing some dividend because that is an upfront cost and it would be good for MSF's policyholders.

Ms. Fagg said she agreed with everything Mr. Theil said. She added that based upon where we are now, despite the predictions on what might happen, if there are some long-term COVID 19 impacts those will occur many years down the road. For people who are facing labor shortages and inflation pressures a three-percent reduction in rates today is something that will be very beneficial. We hope to give a dividend in the future but we can make that decision when appropriate. She noted that we were contributing more to equity as the year closed than was projected which is a great thing. Based on the historical analysis, and what is known today, she said she supports the three-percent reduction.

Ms. VanRiper said she understands that wages are going up but there were also a lot of jobs that went away. She said she was wondering what the overall picture is and asked if anybody had a sense about that in terms of what the effect will be on premium.

President Hubbard said wage inflation is good for workers, good for the middle class and generally good for the economy as long as inflation is in check. There are inflationary pressures as well with wage increases. In Montana we had the largest change in average weekly wage in one year, north of eight percent, that we have had since 1983. There is significant wage inflation pressure and if you want a job you can get one. In workers' compensation, with that increased wage, you also have increased loss exposures because we pay indemnity benefits/wage loss benefits and medical benefits. As more payroll comes in there is also more indemnity to pay as those injuries occur.

Mr. Maxness said he clearly supports the three percent reduction and would support even a four-percent reduction. He said he has been asked several times why the dividend was not just given to the policyholders up front and he said that is not how ratemaking works, which is hard to explain. He said he would support either and wanted to see what the flavor was for a four-percent reduction.

Mr. Owens said he was in support of the three-percent reduction and would not reiterate everything that was already said.

Chair Miltenberger said he concurred with Mr. Maxness and could support going to a minus three-percent reduction. He said in years past, the Board, with great deference and respect has gone a little beyond what management has recommended and has gone lower than what management has recommended. He said he could certainly support a minus four also.

Mr. Greig said in the perfect world, if everything that has been selected is exactly correct, going with a minus four percent means that you are charging less than your costs which means you are violating Montana statute because your rates would be inadequate. If the Board goes with minus four percent that means they are implicitly expecting a higher investment yield.

President Hubbard said management put the reasonable assumption borders in these numbers; however, just because minus four is there does not mean we should jump to it nor plus three. He said CSI could then say our rates are excessive. Whatever the Board decides will be subject to the scrutiny of the insurance department and he felt the minus four percent was getting to the edge of crossing that threshold.

Mr. Theil asked if they were at the threshold or over the threshold because he agreed with Mr. Maxness, everyone says they want the savings up front rather than a dividend.

Mr. Greig said he could see that coming from the perspective of the policyholder; however, coming from the perspective of the Board, you have to be more conservative than not.

President Hubbard said the education challenge we have with our customers and the public at large is the lack of a direct relationship between dividends and rates. The Board is obligated under law to set rates at an adequate level, not excessive, inadequate or unfairly discriminatory. That is the sole effort of ratemaking. A dividend is a retrospective look at the experience and financial health of the company in the aggregate.

Chair Miltenberger said that with all due respect to WTW and Mr. Greig (they have been a good guide for the Board as has management); however, the rates have been floating above NCCI's LCMs for a number of years and they have good actuaries as well. He said our competitors are looking at that though they are not as committed to this market and are more likely to just come close than MSF. He said he did not believe there was a terrific argument that CSI will say MSF's rates are insufficient should the Board go to minus four. He added that he believed MSF has a terrific argument to say our rates are perfectly sufficient if they are minus four. He said this has been a good discussion and if there was nothing to add he asked for a motion.

Ms. VanRiper stated that at the start of this discussion she was with Mr. Marsh at zero percent. She said she is very pessimistic about the future due to concerns about Russia, climate change and additional COVID 19 questions. She said she would love to give a four-percent decrease but would be happy with a two-percent decrease.

Mr. Maxness made a motion that the Board adopt a minus 3-percent-overall change in rates with no additional contributions to policyholder equity for new and renewal policies effective July 1, 2022 to July 1, 2023. Ms. Fagg seconded the motion. Chair Miltenberger called for discussion, questions or comments from the Board and the public; there were none. He called for the vote and the motion passed; Chair Miltenberger, Mr. Maxness, Ms. Fagg, Ms. VanRiper, Mr. Thiel and Mr. Owens voted yes, Mr. Marsh voted no.

B. Loss Cost Multipliers and Components – Darcie Dunlap, Internal Actuary

Ms. Dunlap presented the proposed lost cost multipliers based on the three-percent rate reduction from current rates. She explained that each of the rate tiers begins with a comparison to the NCCI loss costs. She noted that MSF's loss cost levels are 30 percent above NCCI's. She said that the loss costs variances will need to be justified to CSI in MSF's rate filing. She said to get to the manual rate other expenses must be included: general and acquisition expenses, offsets for underwriting credits/debits, contribution to equity and offsets for investment income on next year's premium. She said the proposed rates have been expressed in relation to the NCCI lost costs as LCMs. She explained that whatever the loss cost is for a specific class code, say Tier 3, the loss cost for that class code is multiplied by 1.607 to attain the manual rate. She clarified the three-percent-overall rate reduction does not mean that all of the manual rates for each class code will lower by three percent. These loss costs are just the starting point and then the multipliers are used to get to the rate.

Recommended Loss Cost Multipliers

(-3% Rate Change)

Analysis of LCM Components

	Tier1	Tier2	Tier3	Tier4	Tier5
Loss & LAE	0.845	1.073	1.300	1.560	1.885
Offsets for UW Pricing	0.106	0.135	0.163	0.196	0.237
Genl & Commission Expense	0.196	0.249	0.302	0.363	0.438
Profit & Investment Income	-0.116	-0.147	-0.179	-0.214	-0.259
Loss-Cost Multiplier	**1.032**	**1.309**	**1.587**	**1.904**	**2.301**

Ms. Dunlap provided the high-level summary of the LCMs that will be filed with CSI. She noted that MSF requested that the consulting actuary review the proposed LCMs and WTW also approved them. She said these are the LCMs that the Board would need to approve to implement the minus-three-percent rate change.

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

C. *Adopt Loss Cost Multipliers for new and renewal policies effective July 1, 2022 to July 1, 2023.* Chair Miltenberger called for a motion.

Ms. Fagg moved the Board adopt loss cost multipliers as recommended by management to be applied to the loss costs as approved by the Board, resulting in rates for new and renewal policies effective July 1, 2022 to July 1, 2023 as follows:

For Tier 1, a loss-cost multiplier of 1.032
For Tier 2, a loss-cost multiplier of 1.309
For Tier 3, a loss-cost multiplier of 1.587
For Tier 4, a loss-cost multiplier of 1.904, and
For Tier 5, a loss-cost multiplier of 2.301

Mr. Owens seconded the motion. Chair Miltenberger called for questions or discussion from the Board.

Mr. Marsh said he compared those to the 2021 rates and it looks like the LCMs have dropped in every tier - he asked if that was correct?

Ms. Dunlap said that was correct, they drop in all five categories. By taking a minus-three-percent rate change instead of NCCI's recommended loss cost change of minus 1.9 percent, that results in a little bit lower lost cost multipliers.

Mr. Marsh thanked Ms. Dunlap for the clarification.

Chair Miltenberger called for discussion and comments from the public. Seeing none, he called for the vote and the motion passed unanimously.

V. Financial and Budget Reports – Montana State Fund – Rene Martello, Controller

A. *Loss Reserve Year-End Reconciliation and Calendar Year 2021 Financial Report Update*
Ms. Martello explained that she would be providing an overview of the year-end loss reserves, financials and an update on the budget results for 2021.

She said the year-end loss and loss adjustment expense (LAE) reserves were provided to the Board at the December 2021 meeting; however, they were based on the reserves at the end of September 2021 and this report provides the actual numbers for 2021. She explained that the largest change was to the projected cumulative paid results which were $1.1 million less and that means an overall reserve increase. She said the reinsurance recoverables, due to a claim in the third quarter in the excess of loss program, increased the recoverable which decreased the ultimate losses. She said overall, the unpaid loss and LAE increased by $795,000 or .09 percent more than the amount approved at the December 2021 meeting. She noted that the Board had been provided with WTW's Indicated Unpaid Loss and LAE Amounts report as of December 31, 2021. The addendum covers the analysis of the losses for the remaining three months of the year so that WTW can opine on whether there were material changes to the estimates given at the December Board meeting. WTW has concluded that the changes are immaterial. In addition, WTW provided a Statement of Actuarial Opinion, referencing these same amounts being used in our 2021 annual statement which was filed with CSI on March 1. She said this item does not require Board action, but the NAIC filing instructions require that this information be provided to the Board.

She provided the unaudited balance sheet and reported that the 2021 audit was under way. She said cash and invested assets increased by $48 million for an overall total of $1.6 billion. She said most of the increase is due to bond purchases throughout the year, which were largely financed through the sales of equity securities. She said MSF's real estate fund investments had unrealized gains of $17 million. Other admitted assets increase by $4 million primarily due to an increase in premiums booked but not yet due.

Ms. Martello said total liabilities as reported on the loss reserves were $936 million which was $4.2 million in net unpaid losses and unpaid loss adjustment expenses which was a decrease compared to the prior year. MSF continued to have favorable development on prior accident years though the LAE factor increased and somewhat offset the favorable development. It still resulted in a reduction of about $4 million. Other liabilities increased $10.5 million; however, this is in relation to the security lending liability which is fully offset by a corresponding asset and has no net impact to the financials. She said overall our policyholder equity position has grown by $45.5 million compared to the prior year which includes net income of $21.6 million, net unrealized gains of $28 million and the change in non-admitted assets of $4.2 million. This results in a 1.45 reserve-to-equity ratio measure compared to the prior year of 1.56.

She said net earned premium has grown from the prior year to $159.7 million due to increased payroll growth; pressure on wages is drawing higher premiums and MSF had new business. The net underwriting gain was $6.5 million better than the prior year. Net investment income earned was $2.5 million lower. or $34.7 million and realized capital gains were $38.4 million, which is almost double over the prior year. That all resulted in a net income before dividends of $81.6 million. She reminded the Board that there were two dividend issuances in 2021, one of which was related to the financial results of 2020. After dividend declarations total net income was $21.6 million for year ending 2021.

Chair Miltenberger called for questions; there were none.

B. *Budget Variance Reports as of December 31, 2021*

Ms. Martello said the budget was projected to be $175.7 million and actual expenditures were $165.3 million or six percent below budget - both benefit payments and operational expenditures were under budget. She said indemnity was under budget by $1.5 million and medical was $3.2 million. She noted that utilization appeared to increase in the latter half of 2021 due to increased access to providers that were previously partially limited from COVID 19 restrictions.

She stated for operational expenditures, personal services were $1.6 million under budget due primarily to $1 million of vacancy savings. She said $595,000 in savings was from the state rebalancing contributions to the group health insurance plan. Operating expenses was $6.3 million under with capital expenditures being $2.7 million over due to the postponement of the go live date for PBRI. She added that ALAE was $435,000 under due to lower use of legal services, Other States Coverage adjusters, medical consulting, and independent medical examinations.

Chair Miltenberger called for questions; there were none.

Ms. Martello then provided the Old Fund funding estimate summary for the quarter ending December 31, 2021. She said the budget is expected to be on track with the funding estimate. Expenditures were projected to be $7.1 million which reflected a decrease in claim benefit payments of $276,000 and total operation expenses of $15,711. She noted that claim benefit payments indicated a larger variance in decreased indemnity payments of $441,652 and an increased usage in medical reflected a $165,463 over the funding estimate. She said as of the end of February 2022 there were 406 Old Fund claims that were open. Last year at the same time there were 460 claims.

Chair Miltenberger called for questions; there were none.

VI. Miscellaneous – Laurence Hubbard, President/CEO

President Hubbard shared with the Board that MSF has been notified CSI intends to conduct a Market Conduct Examination of MSF for years 2017 to 2021. He noted it is a very thorough process and can be protracted and labor intensive depending on the depth of the exam. The exam will begin on April 18, 2022 and CSI's examiners will be on-site then.

He announced two MSF retirements; Shannon Copps, ESPM Director and Al Parisian, CIO. He noted that Ms. Copps was a 25-year employee of MSF and he thanked her for her services throughout her tenure. Mr. Parisian is also retiring at the end of March and has had an illustrious 17-year career. He noted that Mr. Parisian brought a tremendous amount of experience and discipline to the Information Technology development of MSF.

Chair Miltenberger encouraged attendees to thank the retirees.

Ms. Van Riper said she always enjoyed Ms. Copps' presentations and appreciated her contributions to the Board.

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

Ms. Grosfield began her report with the external audits.

Externally

She said the Calendar Year 2021 annual statutory financial statement audit was in its final stages and was at the partner review level for Eide Bailly LLC. She said it appears to be a very clean audit with no recommendations. She noted there was a new Audit Partner on the audit team this year, Kevin Smith due to Dave Glennon terming out of that position for MSF. If the Board wishes to hear from Eide Bailly in June, the audit will be completed and Kevin Smith will likely present it along with other members of the audit team.

Ms. Grosfield said MSF is also audited annually by the Legislative Audit Division (LAD) which is for the GASB or governmental financial statements. She noted those auditors are expected sometime in the Spring as the dates have not yet been set. That report is then presented to the Legislative Audit Committee typically in the fall.

She noted an additional external audit from LAD was going to be conducted in 2022. It is an Information Systems audit and they will review the new policy center and billing center. Their scope will mostly include, but is not limited to to review and test system functionality, trace transactions through for accuracy, security and access securities, and change management policies and procedures. This audit is just in the planning phase and LAD is gathering requested preliminary documentation. They hope to have the audit completed by the end of 2022. A separate blue cover audit report will be issued. She added that it may also be helpful for the Market Conduct Examiners to share some of the information that LAD auditors find.

Internally
She reported on a Montana Public Employee Retirement Administration (MPERA) audit that recently concluded. There were no findings or recommendations in the report. The auditor commented that “MSF is doing a great job in its payroll reporting to MPERA” and thanked MSF for additional review that they had identified and were resolved satisfactorily. The MPERA audit report concluded that MSF is in full compliance with the State of Montana’s statutes and administrative rules for employer reporting to MPERA.

She reported that reviews were completed for the first quarter agent incentive program and payouts, the personal leave plan payouts, the merit-based pay-for-performance program and pay adjustments, and the Code of Conduct and Data Confidentiality and Acceptable Use forms were issued.

Ms. Grosfield provided an overview of the agent incentive payout that she completed for the policy period of July 1, 2020 to June 30, 2021. She said the agent incentives are driven by profitability and retention factors at the agency level and MSF added a “new business” component two years ago. She noted that $930,463 was paid out in agent incentive with 14 master agencies receiving a payout for approximately 0.80 percent of gross earned premium which was below the target payout of 1.5 percent. She said profitability was .61 percent, slightly below the target of 1.13 percent and the retention multiplier was above target at 1.21. The weighted average new business came in at 1.10 which was below the target of 1.15. She said the overall premium retention rate on the fiscal year 2021 agent book was 90.1 percent.

She said the upcoming internal audit activity would include a review and follow-up on Service Organization Control (SOC 1) reports, code of conduct and Q&A training, employee performance-based pay and on-going controls reviews and testing as well as support of the CY 2021 financial statement and information systems external auditors.

Mr. Thiel said MSF has a carrot for the agents but wondered if MSF ever says you are not good enough and fire them?

President Hubbard responded that MSF has criteria by which appointment is allowed with MSF.

Ms. Jenkinson said the criteria to become an agent is a commitment to worker’s compensation to be able to represent MSF’s brand well, be willing to take classes from us, have a book of business in worker’s compensation that is at the $300,000 level and be licensed. She added that MSF has quarterly meetings with all of its agents to review where their book of business is. She said MSF takes a very cautious position on asking anyone to leave the fold because MSF wants to be in service to all Montanans. She said they are currently reevaluating the $300,000 limit because there are very good agents that live in small communities and that is too large of a book for them to maintain.

Chair Miltenberger called for questions; there were none.

B. *Public Meeting on Calendar Year 2021 Annual Business Plan – Shannon Copps, Director of Enterprise Strategy and Project Management*

Ms. Copps said net earned premium was targeted to be $149.7 million and the result was $159.7 million. She noted there was $13.3 million in new premium and premium retention was at 90.7 percent. She reported that the loss ratio target was 69.2 percent and the result was 71.7 and noted that the current accident year performance was 71.95 percent and there was more favorable prior period development than was planned at 21.7 million. The overall loss ratio result was 58.1 percent. She said the major components of the expense ratio target were the loss adjustment expense and the operating expenses which were lower than expected for 2021 and resulted in an expense ratio of 34.5 percent which was 5.5 percent below plan. The investment income target was $42.3 million, and the final result was $73.1 million which was driven by the $38.4 million in realized gains. She said net operating income was targeted at $24.7 million before dividend and came in at $81.6 million before dividend. She reported that the statutorily required report of

Key Success Measures

KSM	2021 Plan	2021 Result
Net Earned Premium	$149.7M	$159.7M
Loss Ratio	69.2%	58.1%
Expense Ratio	40.0%	34.5%
Investment Income	$42.3M	$73.1M
Net Operating Income (prior to dividend)	$24.7M	$81.6M
Achieve Enterprise Wide Initiatives		

the premium-to-equity ratio was .25 to 1.

Chair Miltenberger called for questions; there were none.

Ms. Copps provided a review of the Enterprise-Wide Initiatives which were focused on customer service with initiatives in the Policy and Billing Replacement Initiative (PBRI), WorkSafe Champions and Growing a Safer Montana.

She noted that the project results are based on the objectives within each published plan and that she would be reporting specifically on those metrics and the results.

She said replacing a core insurance application is a large undertaking and with the policy and billing replacement system replacement, five new systems will be implemented. In 2021, the team planned to implement the core insurance applications, stabilize those production environments, and implement the customer and agent portals in the fall. Quality systems remain the number one priority and the team took the majority of 2021 to ensure that systems that were launched were free of material defects. Policy center, billing center and the rating application were all launched in November 2021 and the portals are planned for implementation later in 2022. The business value realization work continued in 2021 with the team documenting process steps in the old system so that in 2022 the old and new process could be compared to identify and quantify the benefits of the new applications.

Ms. Copps said that WorkSafe Champions is a cornerstone program to impact our policyholders' workplace safety through education and consultancy. The team planned a more robust digital program; however, during the course of the year, it was learned that policyholders prefer the in-person format so the efforts were focused there. WorkSafe Champions occurred in the regional and on-site formats with six participants from smaller employers attending the regional workshops and graduating. She said 18 policyholders and 71 participants signed up for the on-site option and 63 graduated in 2021. Up to $3,000 in safety equipment or training was awarded to applicants through the WorkSafe Champions Elite program. The team also received approval from the Society of HR Management for the WorkSafe Champions training to provide nine certification credits to HR professionals.

She said 2021 was the fifth year of the Growing a Safer Montana initiative. This project expands MSF's efforts to reach young workers and improve the safety future of Montana. The project continues to expand its scope and the team is focusing on building positive working relationships with schools, providing benefits for students, and establishing a quality process. She said 37 high schools and 11 middle school classrooms were awarded the safety grants and they received the equipment and materials by the end of August as planned. This impacted 3,079 students in 2021 and over the last five years, the equipment and safety awareness message has reached over 11,000 students.

Ms. Copps said the second component of Growing a Safer Montana included awarding scholarships to students in trade and industry and safety and health programs beyond high school. The team awarded fifteen $4,000 scholarships in November and they went to five students in occupational safety and health and 10 scholarships went to students studying trades including welding, construction and electrical programs from several colleges throughout the state.

Chair Miltenberger called for questions; there were none.

C. *Committee Reports*

Chair Miltenberger called for reports from the Committee Chairs.

Ms. Fagg reported that the Finance and Audit Committee did not hold a meeting this quarter because so much of what would have been at the committee level the full Board had not gone through before so it was decided to put it at the full Board level. Going forward, it will be determined what should be in Committee versus full Board.

Mr. Thiel reported that the Operational Excellence Committee met on February 4 in Billings, Montana and covered three main areas; small business and its relationship to the smallest policyholders in relation to the larger ones. Ms. VanRiper led that discussion and it was very good. Mr. Marsh had a number of questions that will be reflected in the minutes from that meeting so he did not review them all. For the third item, Mr. Thiel invited people from the roofing industry, which he is familiar with, to speak about some of their concerns and different issues that they have. He said when the committee process began, Ms. VanRiper pointed out that the Committee should work on its structure more before jumping into the middle of the stuff. The first item of business at the next meeting will be to work on the Committee structure to assure that they are more organized. He added that another issue that arose is that President Hubbard cautioned him that there were too many items for one meeting so that will be adjusted for the next meeting. He said the third item was that Mr. Braun was concerned that Mr. Thiel was getting too close to the line of fire since it was his industry that was invited to present to the Committee. He noted that he is paying attention. He said the meeting went very well and he believes that they will learn further as they go along. He said there will be another meeting, probably in about a month, to give staff time to prepare and react. He invited Board members to submit requests for items they would like to see addressed at the Committee meetings. He said his vision for this Committee is to do everything they can to help MSF be more competitive so their customers can be more competitive. He said his concern is that people with no workers' compensation insurance can have a competitive advantage over people who do which could result in driving away the more legitimate people or forcing legitimate contractors to start doing the same things to cut corners to be competitive.

Chair Miltenberger said the Committee structures are a process and are educational for the Board members and are also an opportunity to find out where improvements and opportunities for growth within the organization exist. He added that it will always be a process of assuring they are not crossing that line between governance and management, but they will make sure not to do that.

He noted that his update for the Human Resources and Compensation Committee will be given during the Executive Session as that Committee is acting as the CEO search committee. He noted that the Board would be going into a break and then moving into the closed Executive Session so he called for the last two agenda items at that time.

VII. Old Business/New Business

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

VIII. Public Comment

Chair Miltenberger called for public comment. There was none.

IX. Executive Session – Status of CEO Search

A. Introduction – Notice of Closed Meeting – Richard Miltenberger, Chair of the Board

Chair Miltenberger announced that he would not gavel the meeting closed but there would be a break and then the closed session.

B. *Meeting Closed to the Public*

Chair Miltenberger opened the Board meeting and again called for public comment. There was none and he adjourned the meeting at 1:36 p.m. The next regularly scheduled Board meeting will be held on Friday, June 10, 2022 at MSF, 855 Front Street, Helena, Montana.

Respectfully submitted,

Verna Boucher
Special Assistant to the President/CEO