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MONTANA STATE FUND
FINANCE AND AUDIT COMMITTEE

December 7, 2023

The Montana State Fund (MSF) Finance and Audit Committee meeting was held December 7, 2023 in MSF's Board Room at 855 Front Street, Helena, Montana 59601 and via Zoom.

Committee Members Attending

Karen Fagg, Billings
Wylie Galt, Martinsdale – via Zoom

John Maxness, Helena

Board Members Attending

Richard Miltenberger, Helena – via Zoom
Nancy Butler, Helena

Michael Marsh, Billings - via Zoom
Dexter Thiel, Sidney

MSF Staff Attending

Holly O'Dell, President/CEO
Kathy Gowen, Corporate Paralegal
Nick Mazanec, VP, Legal Services
David Jordan, Assistant VP
Will Anderson, Assistant VP
Patti Grosfield, Internal Auditor

Bruce Johnsen, Chief Strategy Officer
Rene Martello, Director, Finance & Actuary
Kent Schlosser, Controller
Darcie Dunlap, Internal Actuary
Matt Mandell, Assistant VP

Others Attending

Russell Greig, WTW – via Zoom
Peter Strauss, MSIA

Alex Turrell, WTW - via Zoom
Rep. Jonathan Karlen, Missoula – via Zoom

I. Meeting Preliminaries

A. *Call to Order*
The meeting was called to order at 1:00 p.m.

B. *Approval of September 7, 2023 Finance and Audit Committee Meeting Minutes*

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

II. Enterprise Project Portfolio – Matt Coy, CIO and Matt Mandell, Assistant Vice President, Policy Services

Mr. Coy and Mr. Mandell provided the following updates related to the 2023 Strategic Plan:

1. Ensure Timely and Right Level Decision-Making – Completed 6 months later than planned but evaluated 70 forms that either were removed or improved.
2. Business Process Improvement - On track to complete by Second Quarter 2024. Improvements made to 3 processes – FROI, New business submissions, and Billing/Invoicing.
3. Foster Data-driven Intentional Decision Making – complete on December 15, 2023 – finished department metrics and completed training to develop data champion network.
4. IVANS for Agents – has been delayed, will be completed as of 12/15/23 – piloted system with agency partners from September to November and will then work on updates.

III. Reserve Reports

- A. Introduction – Holly O’Dell, President/CEO
Staff explained the reserve reports process for setting the reserves for 2023.
- B. Montana State Fund Calendar Year 2023 Reserve Report – Russell Greig, Senior Director and Alex Turrell, Director – WTW

Mr. Turrell walked the Committee through WTW’s 2023 Reserve Report. WTW is MSF’s independent consulting actuary and they reported on their analysis of the ultimate losses and provided a presentation to explain total reserve changes from the prior year and forecasted an estimate of \$857.7M for unpaid claims and Allocated Loss Adjustment Expense (ALAE) as of December 31, 2023.

- C. Montana State Fund Calendar Year 2023 Reserve Recommendations – Darcie Dunlap, Internal Actuary

Ms. Dunlap shared managements reserve selection of \$903.7 million, which is within WTW’s Low/High range and includes adjustments for Employers Liability, Other States Coverage, and consideration for trends impacting the total loss reserve liability.

- D. Calendar Year 2023 Projected Financial Report and Reserve – Kent Schlosser, Controller

Mr. Schlosser provided an update on the 2023 projected year-end financial results with management’s proposed reserve amount.

1. CY2023 Unpaid Loss and Loss Adjustment Expense Reserve Estimate

The Committee took action to recommend the Board approve the Calendar Year 2023 Unpaid Loss and Loss Adjustment Expense Reserve Estimate of \$903,699,730 as proposed by management. Mr. Maxness made the motion, Ms. Fagg seconded the motion. The Chair called for public input; there was none and the motion passed unanimously.

IV. Calendar Year 2023 Budget Update and Budget Amendment Request – Rene Martello, Director, Finance and Actuary

Staff covered the budget variance report for the third quarter of 2023. That summary and more recent projections show that claim benefit payments are exceeding the original estimates approved in the 2023 budget though operations expenses are below budget. Management recommends approval of a \$6 million budget amendment to cover the increased settlement activity and medical costs experienced this year. Total claim benefit payments are \$4,384,938 over, primarily related to settlements in the medical categories. Total Operational Expenditures are projected to be \$846,643 under budget.

- A. Budget Amendment – Rene Martello, Director, Finance and Actuary

Ms. Martello recommended a budget amendment of \$6 million. She reiterated that the budget amendment request is not related to a liquidity or reserving problem, rather it is related to spending limits approved by the Board. Settlements and medical payments were higher than expected.

The Committee took action to recommend the Board approve the Calendar Year 2023 Budget Amendment of \$6 million as proposed by management. Mr. Maxness made the motion, Ms. Fagg seconded the motion. The Chair called for public input; there was none and the motion passed unanimously.

V. Rate Tier Model Recommendation – Will Anderson, Assistant VP and Darcie Dunlap, Internal Actuary

Mr. Anderson provided an overview of MSF’s declining market share based on policy count, a trend that does not align with MSF’s mission. Ms. Dunlap provided an overview of MSF’s current tiered rating program and explained that the proposed changes are only to the tiered rating program, while other pricing changes will be considered at a later time. Staff followed with a proposal to add a severity group to the rate tier model and new business tier assignment criteria. Management requested approval now to be able to seek CSI approval and start working on the needed system changes to have this in place effective July 1, 2024.

The Committee took action to recommend the Board approve the rate concepts proposed and authorize management to take such actions necessary to effectuate their underlying function and intent. Mr. Maxness made the motion, Ms. Fagg seconded the motion. The Chair called for public input; there was none and the motion passed unanimously.

VI. Commissions Report – David Jordan, Assistant VP and Matt Mandell, Assistant VP

Staff shared the results of the agent commission research completed to date and suggested next steps, which include consulting with Ward and evaluating peers/competition to identify solutions and recommend a change by July 1, 2024. The 2024 budget includes funding to support agent commission increases for the 2024/2025 policy year.

VII. 2024 Budget Request – Rene Martello, Director, Finance and Actuary

Staff provided the proposed 2024 budget request which included funding to support estimated claim benefit payments, operational costs, and the proposed project outlined in the 2024 Strategic Plan.

The Committee took action to recommend the Board approve the proposed (or with any modifications) Montana State Fund budget for Calendar Year 2024 totaling \$203,485,760, as follows:

- *Total Operational Expenditures of \$69,304,970, including the costs that are reimbursed to Montana State Fund for Old Fund administration; and*
- *Montana State Fund Benefit Payments of \$134,180,790.*

The President is to retain and may utilize the prior direction from the Board to adjust expenditures among first level expenditure categories, and may adjust staffing, as long as the total approved budget amount is not exceeded. Mr. Maxness made the motion, Ms. Fagg seconded the motion. The Chair called for public input; there was none and the motion passed unanimously.

VIII. Internal Auditor Reports – Patti Grosfield, Internal Auditor

1. 2023 Q4 Internal Audit

Ms. Grosfield discussed the Legislative Audit Division (LAD) – CY22 GASB/GAAP financial audit, which was clean with no recommendations and also discussed the LAD – Information Systems audit which did have a recommendation related to security. She also discussed her audit of the 2023 dividend

payouts and her audit of the Data Integrity of MSF's Insurance Intelligence which contained 4 findings related to Data Quality Management, Data Reconciliation, Automation, Training.

2. 2024 Internal Audit Plan

Ms. Grosfield presented her proposed 2024 audit plan for the Board's approval.

The Committee took action to recommend the Board approve the Calendar Year 2024 Internal Audit Plan. Mr. Maxness made the motion, Ms. Fagg seconded the motion. The Chair called for public input; there was none and the motion passed unanimously.

IX. Old Business/New Business

The Chair called for Old or New business. There was none.

X. Public Comment

The Chair called for public comment. There was none.

The meeting adjourned at 4:32 p.m. The next scheduled Finance and Audit Committee meeting will be held on Thursday, March 7, 2024 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