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**MONTANA STATE FUND  
FINANCE AND AUDIT COMMITTEE**

**March 9, 2023**

The Montana State Fund (MSF) Finance and Audit Committee meeting was held March 9, 2023 in MSF's Board Room at 855 Front Street, Helena, Montana 59601 and via Zoom.

**Directors Attending**

Karen Fagg, Billings  
Jack Owens, Missoula

John Maxness, Helena

**Board Members Attending**

Richard Miltenberger, Helena  
Dexter Thiel, Sidney

Michael Marsh, Billings

**MSF Staff Attending**

Holly O'Dell, President/CEO  
Kevin Braun, General Counsel  
Patti Grosfield, Internal Auditor  
Rene Martello, Interim Head of Finance & Actuary  
Matt Coy, CIO  
Bruce Johnsen, Chief Strategy Officer

Verna Boucher, Executive Assistant  
Darcie Dunlap, Internal Actuary  
Matt Mandell, Assistant VP, Policy Services  
Bruce Johnsen, Chief Strategy Officer  
Kent Schlosser, Financial Analyst  
Julie Jenkinson, VP, Operations

**Others Attending**

Russell Greig, WTW  
Ann Conway, WTW  
Mari Kindberg, CSI  
Peter Strauss, MSIA

Alex Turrell, WTW  
Ann Conway, WTW  
Erin Snyder, CSI

**I. Meeting Preliminaries**

**A.** *Call to Order*  
The meeting was called to order at 9:02 a.m.

**B.** *December 8, 2022 Finance and Audit Committee Meeting Minutes*

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

**II. Finance and Audit Committee Charter Review**

The Committee reviewed the proposed clarification language: "The Committee shall make recommendations related to its duties and responsibilities to the full Board for consideration."

*The Committee took action to recommend to the full Board an amendment to the Finance and Audit Committee Charter to insert the following language, as the second to last sentence, in the Committee Reports section of the Charter:*

*"The Committee shall make recommendations related to its duties and responsibilities to the full Board for consideration."*

*Mr. Owens made the motion, Mr. Maxness seconded the motion, and the motion passed unanimously.*

**III. Ratemaking Decisions for July 1, 2023 to July 1, 2024**

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

Staff provided an overview of the annual rate setting process and explained how manual rates are developed by using NCCI loss costs as the starting point.

**B. NCCI Montana Loss-Costs Filing Update Effective July 1, 2023 – Darcie Dunlap, Internal Actuary**

Staff explained MSF will establish its rates in comparison to NCCI's most recent loss cost filing with variances that better reflect MSF's estimations of the appropriate rates to apply beginning on July 1, 2023.

**C. Adopt NCCI Filings/Loss Costs Filing Effective July 1, 2023 – Darcie Dunlap, Internal Actuary**

*The Committee took action to recommend the Board adopt the NCCI filed loss costs for rates applicable to new and renewal policies effective July 1, 2023 to July 1, 2024 for Montana State Fund classification codes; Mr. Maxness made the motion, Mr. Owens seconded the motion. The Chair called for public input; there was none. The motion passed unanimously.*

**D. Multiple Rating Tiers Criteria and Certification – Darcie Dunlap, Internal Actuary – Committee Action**

MSF's tiered rating program is designed to support its pricing objectives of being nondiscriminatory, competitive, and encouraging increased safety. Rate tiers are a mechanism by which MSF matches the rate level (LCM) with a business's statistical propensity to incur loss. Tiered rating provides a good starting point for pricing for each customer.

*The Committee took action to recommend the Board approve, for new and renewal policies effective July 1, 2023 to July 1, 2024, 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 made the motion, Mr. Maxness seconded the motion. The Chair called for public input; there was none. The motion passed unanimously.*

**E. Minimum Premium and Expense Constant – Rene Martello, Interim Head of Finance and Actuary – Committee Action**

Staff noted the expense constant is charged to all policies and represents the common expenses of issuing, servicing, maintaining and auditing a policy regardless of the size of the policy. The minimum premium represents the loss-based (medical and wage loss) portion of the insurance coverage provided to the smaller accounts. The current expense constant is \$200 and minimum premium is \$240 with no recommended increase or decrease for the upcoming policy year.

*The Committee took action to recommend the Board approve an expense constant of \$200 for all new and renewal policies effective July 1, 2023 to July 1, 2024. In addition, the Committee took action to recommend 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, 2023 to July 1, 2024. Mr. Maxness made the motion; The Chair seconded the motion. The Chair called for public comment; there was none. The motion passed unanimously.*

**F. Additional Ratemaking Decisions – Matt Mandell, Assistant Vice President, Policy Services**

1. **Schedule Rating** - The purpose of the plan is to allow modification of an insured's premium to reflect characteristics of the risk that are not reflected in its experience.

Examples: Safety devices, hiring, training, and return to work plans, safety practices/plans.

2. **Employer's Liability** - MSF recommends basic limits continue to be included on all MSF workers' compensation policies for no additional premium or minimum premium and that two levels of increased limits of liability be available to be chosen by MSF insureds. The rate for these is set by NCCI. No change recommended.
3. **Short Rate Premium** - No change from prior year. MSF has never used a short-rate cancellation approach when a policyholder cancels before the expiration date. We recommend filing a pro-rata approach (no penalty).
4. **Volume Discount** - No change from prior year.
5. **Retrospective Rating Plan Factors** - A retro plan is available for larger policyholders with a required minimum standard premium of \$100,000. The policyholder shares in the risk and may pay more than a guaranteed cost plan if losses are high or may pay less than a guaranteed cost plan if losses are low.
6. **Firefighter Presumptive Disease** – Management is recommending no change from the board-approved rates from last year.

*The Committee took action to recommend the Board adopt management's recommendations for the following additional ratemaking decisions to apply to new and renewal policies effective July 1, 2023 to July 1, 2024, 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*

*Mr. Owens made the motion, Mr. Maxness seconded the motion. The Chair called for public input; there was none. The motion passed unanimously.*

- IV. **Actuarial Report – Russell Greig, Senior Director and Alex Turrell, Director, WTW**  
The Board's consulting actuaries provided a summary of their analysis that supports MSF's management and Board selection of a rate level change for policies incepting from July 1, 2023 to June 30, 2024.
- V. **Ratemaking Decisions for July 1, 2023 to July 1, 2024 – Holly O'Dell, President/CEO**  
Staff provided an overview of the workers' compensation market nationally and explained that there has been profitability in this market for the past eight years. President O'Dell reviewed the objectives of pricing and recommended a minus 4.5 percent manual rate reduction assuming an investment income of 3.25 percent and targeting a near-zero contribution to equity.
  - A. **Rate Level Recommendation and Contribution to Equity**

*The Committee took action to recommend the Board adopt a minus 5% overall change in rates with no additional contribution to policyholder equity for new and renewal policies effective*

*July 1, 2023 to July 1, 2024. Mr. Maxness made the motion, the Chair seconded the motion. The Chair called for public input; there was none. The motion passed unanimously.*

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

In order to prepare the appropriate loss cost multipliers for the minus 5% overall rate change, staff indicated they will prepare and present at the Board meeting the next day.

**VI. Internal Audit Reports – Patti Grosfield, Internal Auditor**

*1. Internal Audit Report*

Staff reported that:

- Eide Bailly is finalizing the CY22 Statutory Financial Statements audit and report which is expected around March 10, 2023 with no material errors or issues.
- The Legislative Audit Division (LAD) has a contract and engagement letter with Eide Bailly to complete the CY22 GASB (governmental) Financial Compliance audit with a completion date of approximately June 30, 2023.
- LAD is completing a 2022 Information Systems Audit/Policy Center and Billing Center audit that began in March 2022 and are targeting completing in late March 2023 for conclusion of fieldwork with draft report to follow.
- The Agent Incentive Audit has been completed – the summary findings are that calculations made are accurate and in compliance with signed Agency Incentive agreements. There is one recommendation that timely execution of contracts is needed.

*2. PBRI Audit Report*

Staff provided the PBRI Audit report as requested by Board members. The audit had five objectives: 1) how much did MSF pay for PBRI implementation, to whom and for what purposes, 2) were costs paid appropriately and properly accounted for, 3) were costs reported timely, fully, and accurately to appropriate stakeholders, 4) establish history, timeline, general process governance and management for the project, and 5) a description of the current state post-implementation and looking ahead.

The report contained nine recommendations which have resulted in adoption of a new vendor selection and management program and new procedures and practices within MSF for large project reporting, management and appropriate execution.

The Committee members commended the internal auditor on a job well done on a very large review and report and encouraged use of lessons learned going forward on large projects.

*The Committee did not take formal action but requested the minutes reflect that the Committee accepted the report as submitted.*

**VII. Financial and Budget Reports, Rene Martello, Interim Head of Finance and Actuary**

Staff provided the loss and loss adjustment expenses (LAE) reconciliation and reported that total reserves reported on December 31, 2022 were \$2.3 million less, or .25%, than what was approved at the December Board meeting.

Staff provided a review of the 2022 actual expenditures as compared to the Board-approved budget and explained that overall, MSF expended \$173.3 million or 97.7% of the \$177.4 million approved budget to end \$4.1 million under for the year.

**VIII. Old Fund Fiscal Year 2023 First Quarter Budget Summary**

Staff provided the 2023 first quarter budget summary for the Old Fund which follows the State of Montana fiscal year cycle of July 1, 2022 through June 30, 2023 and is funded from the General Fund as

required by law. Old Fund expenditures were projected to be \$6.9 million which was \$67,000 or 1.0% under the funding estimate of \$7.0 million.

**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 12:30 pm. The next scheduled Finance and Audit Committee meeting will be held on Thursday, June 8, 2023 at Montana State Fund, 855 Front Street, Helena, Montana in the Board Room.

Respectfully submitted,

*Verna Boucher*

*Special Assistant to the President/CEO*