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MONTANA STATE FUND
FINANCE AND AUDIT COMMITTEE

March 7, 2024

The Montana State Fund (MSF) Finance and Audit Committee meeting was held March 7, 2024 via Zoom with public participation in the MSF Board Room at 855 Front Street, Helena, Montana 59601.

Committee Members Attending

Karen Fagg, Billings	John Maxness, Helena
Wylie Galt, Martinsdale	

Board Members Attending

Richard Miltenberger, Helena	Michael Marsh, Billings
Nancy Butler, Helena	Dexter Thiel, Sidney

MSF Staff Attending

Holly O'Dell, President/CEO	Bruce Johnsen, Chief Strategy Officer
Verna Boucher, President's Assistant	Rene Martello, Director, Finance and Actuary
Nick Mazanec, VP, Legal Services	Kent Schlosser, Controller
Darcie Dunlap, Internal Actuary	Matt Mandell, Assistant VP
Patti Grosfield, Internal Auditor	John Wilkins, Senior Financial Analyst
Bob Hark, Actuarial Analyst	

Others Attending

Russell Greig, WTW	Alex Turrell, WTW
Rep. Jonathan Karlen, Missoula	Mari Kindberg, CSI
Erin Synder, CSI	Dianna Harmon, CSI

I. Meeting Preliminaries

A. Call to Order

The meeting was called to order at 9:00 a.m.

B. Approval of December 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. Employment Trends in Montana, Rene Martello, Director, Finance & Actuary

Staff provided a summary of Montana employment and payroll growth trends and how this data is considered in the rate-setting process. Included was a slide from WTW showing how much wage inflation outpaced loss trends since 2020 which resulted in a need to make rate reductions to maintain stable loss ratios. Staff will continue monitoring to determine how wage inflation impacts claim costs and premium going forward.

III. Pricing Decisions for July 1, 2024 to July 1, 2025

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

Staff provided an overview of the rate filing process and a review of the NCCI loss costs effective July 1, 2024 and an update on the tiered rating plan criteria approved by the Board in December 2023.

B. NCCI Montana Loss-Costs Filing Update Effective July 1, 2024 – Darcie Dunlap, Internal Actuary

Staff shared that MSF will establish its rates in comparison to NCCI's most recent loss cost filing with variances that reflect MSF's estimations for our book for the year beginning on July 1, 2024.

- C. Minimum Premium and Expense Constant – Rene Martello, Director, Finance and Actuary Staff shared 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. Staff recommended the Committee take action to recommend the Board adopt a minimum premium of \$240 and an expense constant of \$180 which is a reduction of \$20 from the previous year.

The Committee took action to recommend the Board approve an expense constant of \$180 for all new and renewal policies effective July 1, 2024 to July 1, 2025. In addition, the Committee recommended the Board approve the amount of \$240 for the loss-based portion of the Minimum Premium so that the total Minimum Premium is \$420 for new and renewal policies effective July 1, 2024 to July 1, 2025. Mr. Maxness made the motion, Ms. Fagg seconded the motion. The Chair called for discussion and public input; there was none and the motion passed unanimously.

- D. Additional Pricing Decisions – Matt Mandell, Assistant VP
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, return to work plans, and 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 was 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. **Group Discounts** – MSF currently offers all groups a no penalty retrospective rating plan that looks at a group’s results for a year retrospectively at an agreed term. Should results be great, the group receives a return and it could be substantial if losses were really low. The bar to achieve that return is high, resulting in only a few groups receiving a return. MSF would like to offer groups an up-front discount when appropriate based on the prior 3 year’s combined loss ratio. Management requested the Board approve the program including the ability to make non-material adjustments to the program as necessary. Should a material change be needed in the program, management would return to the board for review and approval.
 7. **Volunteer Firefighter** – Management is recommending no change from the board-approved rates from last year.

- 8. Construction Credit** – These factors change each year based on the average weekly wage and other items but methodology remains the same and follows NCCI guidance.

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, 2024 and prospectively until rescinded by the Board, as follows:

- a. *Schedule Rating*
- b. *Employer's Liability*
- c. *Short Rate Premium*
- d. *Volume Discount*
- e. *Retrospective Rating Plan Factors*
- f. *Group Discounts*
- g. *Volunteer Firefighter*
- h. *Firefighter Presumptive Disease*
- i. *Construction Credit Table*

Mr. Maxness made the motion, Ms. Fagg seconded the motion. The Chair called for discussion and public input; there was none and the motion passed unanimously.

IV. Pricing Actuarial Report – Russell Greig, Senior Director and Alex Turrell, Director, WTW

The Board's consulting actuaries provided a summary of their analysis of losses for policies incepting July 1, 2024 to June 30, 2025.

V. Pricing Decisions for July 1, 2024 to July 1, 2025 – Holly O'Dell, President/CEO

President O'Dell offered the objective of selecting a neutral, or close to zero, contribution to equity in pricing for the next rate year. Kent Schlosser explained that favorable loss development from prior years primarily drove the positive underwriting results in 2023. Ms. O'Dell recommended that the Board select an interest rate of 4.75% and a rate reduction of -10%. The Committee discussed the possibility of larger rate reduction. The objective is to select a sustainable rate reduction.

Darcie Dunlap presented what the new Loss Cost Multipliers would be for each of the 5 tiers using the -10% rate change which are 0.981, 1.246, 1.510, 1.812, and 2.189.

The Committee took action to recommend the Board, utilizing the most recently filed NCCI loss costs:

- a. *adopt a minus 10% overall change in rates and the loss cost modifiers proposed by management for new and renewal policies effective July 1, 2024 to July 1, 2025, and*
- b. *authorize management to take such actions necessary or convenient to effectuate the intent of this motion to the maximum extent permitted under law.*

Mr. Maxness made the motion, Ms. Fagg seconded the motion. Staff provided clarification on the loss cost multipliers. The Chair called for discussion and public input; there was none and the motion passed unanimously.

VI. Financial and Budget Reports – Montana State Fund – Kent Schlosser, Controller

- A. **Loss Reserve Year-End Reconciliation and Calendar Year 2023 Financial Report Update**
Staff provided a reconciliation of loss reserves approved at the December meeting compared to year-end results. WTW provided the required actuarial opinion to the Board certifying the loss liability reported in the 2023 annual statement.
- B. **Budget Variance Reports as of December 31, 2023**
Staff provided a review of the 2023 actual expenditures as compared to the Board-approved budget.

- C. Annual Business Plan/Enterprise Project Portfolio
The financial and operational goals are reflected in MSF's key success measures. Staff reported that each key success measure was met or exceeded and explained the components that affected the resulting successes.

VII. Internal Auditor Reports – Patti Grosfield, Internal Auditor

1. 2024 Q1 Internal Audit report

External audits being completed by Eide Bailly:

- CY23 Statutory-basis financial audit report
- Legislative Audit Division – Calendar Year 2023 GASB/GAAP (governmental) financial audit

Internal Audits:

- **Agent Incentives Audit** determined calculations were accurate with a recommendation to improve timeliness of contract execution.
- **Employee Excess Leave Audit** reviewed the calculation, process and compliance and included one recommendation to establish the timeline earlier and encourage staff to use time off as required by policies.
- **2023 Employee Merit-based Pay (on-going audit)** is being reviewed for eligibility, calculations, and adherence to policies.
- **MSF CC, PC, BC Security Roles and Access Audit** reviewed the roles, permissions, and process for appropriateness and proper segregation of duties and identified one recommendation to enhance business ownership, process development and documentation.
- **Claim Settlement, Authorities and Escalations Audit** Reviewed CC Authorities, Escalations, Process and identified one recommendation for enhanced ownership, review and approval of claims authority levels, and process enhancement and documentation.

The second quarter audit plan includes review of records retention (a consulting audit), follow up on prior recommendations, and external audit support.

VIII. Old Business/New Business

The Chair called for old or new business; there was none.

IX. Public Comment

The Chair called for public comment; there was none.

The meeting adjourned at 11:45 a.m. The next scheduled Finance and Audit Committee meeting will be held on Thursday, June 13, 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