



Economic Affairs Interim Committee

61st Montana Legislature

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Memo

To: Economic Affairs Committee Members
From: Pat Murdo, Staff
Re: New Rate Recommendations from NCCI, Montana State Fund

The following material from Montana State Fund summarizes materials given by Montana State Fund staff to the Montana State Fund Board of Directors. At that meeting, the Board adopted the NCCI-recommended loss costs as a basis for Montana State Fund rates and then revised that rate reduction upward. Under 39-71-2316, MCA, Montana State Fund's Board has discretion regarding whether to use NCCI's recommended loss costs.

Key Points:

- NCCI's loss cost recommendation, accepted by the Montana Insurance Commissioner, was for a 6.4% average reduction from the previous year. This is the basis for private insurers' rates.
- Montana State Fund's Board, using material from the Montana State Fund staff that was certified by the Montana State Fund's external actuary, is a 4% average reduction.
- The income, if any, due to the differential between the two reductions reportedly is to be applied to Montana State Fund's equity.

Materials included here:

- Selected PowerPoint Slides taken from the MSF Class Code Rate Making Process handout. *(This provides an overview of rate-making and shows comparisons with the private insurers.)*
- A report on the NCCI Loss-Cost Filing Effective 7/1/2010. *(Page 2 notes the NCCI loss cost filing of a minus 6.4% on average and shows industry average differentiations.)*
- A "Report to Montana State Fund Board of Directors: State Auditor Review of Rates", presented by Laurence Hubbard. *(This provides an overview of the meaning behind rates that are excessive, inadequate, or unfairly discriminatory. Also included is an analysis of the pros and cons of review by the State Auditor/Insurance Commissioner.)*
- A report titled "Montana State Fund Minimum Loss Based Premium Component Expense Constant Fiscal Year 2011 Recommendation" *(This outlines components for rates charged by Montana State Fund -- the minimum loss premium, which is set at \$400, and a loss-based component set at \$245 and an expense constant set at \$155. The bottom line is that there is no change from last year's minimum premium, loss-based component, or expense constant.)*
- A certification letter from the Montana State Fund external actuary. *(There is reference that the certification is to be relied upon by MSF and pertinent state regulatory agencies.)*