How MSF Establishes Rates

- Very substantially the same as private carriers (apply lost cost multipliers to NCCI-filed loss costs)
- Differences (some substantive, some cosmetic)
  - MSF Board rather than Insurance Commissioner
  - MSF uses limited number of special class codes
  - MSF modifies NCCI loss costs in highly selected instances by establishing a different loss cost

1

Why Deviate from NCCI Relativities?

- MSF is guaranteed market
- Statutory obligation to charge less if excessive rate
- Actuarial models are one-size-fits-all
- MSF has credible data
- Small accounts cannot be effectively underwritten

2

MSF Class Rating Analysis

- Need process to establish loss costs for Montana State Fund special codes
- Test adequacy of NCCI loss costs
- Class rating model which follows generally accepted actuarial principles

3

Criteria for Deviations

- Strong indication in the data
- Plausible explanation
  (from underwriting / actuarial perspective)
- Corroborating evidence
- Valid business rationale

4

Board Decisions under Applicable Rules

- Board formally adopts NCCI loss costs as basis for Montana State Fund rates
- Consulting actuary certifies the process is consistent with generally accepted actuarial principles
- Consulting actuary certifies the recommended loss costs are neither excessive, inadequate, nor unfairly discriminatory
- Board accepts or not accepts certification
- Board establishes applicable lost cost multipliers

5