

Budget Options for the Old Fund

Workers Compensation Loss Costs



Quick Review

- ▶ MSF Old Fund liability

- Medical and Indemnity Benefits
- Accident claims prior to July 1st, 1990
- Old Fund Claims estimate is \$51 million

- ▶ Question?

- What is Montana's plan????



Funding Option 1 – Continue as is

- GF \$ yearly commitment
- Slow attrition to GF
- No additional cost in spending other than claim costs
- Claim costs projected to decrease significantly over next ten years

▶ Towers Watson Projected Payout	
▶ FY	▶ \$
▶ 2014	9,151,185
▶ 2015	7,585,617
▶ 2016	6,205,555
▶ 2017	5,194,118
▶ 2018	3,830,540
▶ 2019	3,112,828
▶ 2020.....	
▶ 2051	578
▶ 2052	0

Structural Balance is not maintained

See Appendix A for full TW projection

Funding Option 2 – Loss Portfolio Transfer

- ▶ Third Party Assumes Claim Costs
- ▶ Premium Charged for this assumption of claims
- ▶ Effectively removes Old fund from balance sheet
- ▶ Difficult to project final cost of this due to audit and work necessary
- ▶ Option 2 may work with MSF



Option 3 – Adverse Development Cover

- ▶ Uses a third party to cover expenses beyond an expected amount
- ▶ Premium will be charged according to how much protection is purchased
- ▶ Difficult market



Option 4 – Premium Tax and Bridge as Needed

- ▶ Uses a 2.75 % premium tax based on MSF annual premiums
- ▶ Uses bonds, OTO, or GF cash to cover any remaining balance
- ▶ Assuming premiums are on the order of \$150 mdpy – revenue stream is \cong to \$4 mdpy



Option 4 – Premium Tax and Bridge as Needed

Premium Tax Implementation

