

# Economic Affairs Interim Committee

## Montana State Fund

December 1, 2015



# Overview Montana State Fund (MSF)

December 1, 2015

Montana State Fund 2015



2

## MSF Overview

- Established in 1915
- Created in Law as a Workers' Compensation Insurer
  - Non-Profit, Independent Public Corporation
- Serves as the Guaranteed Market for Montana employers
- Self supporting – from policyholder premium – not taxpayer dollars
- Governed by a 7 member Board of Directors
  - Appointed by the Governor



December 1, 2015

Montana State Fund 2015

3

## MSF Overview

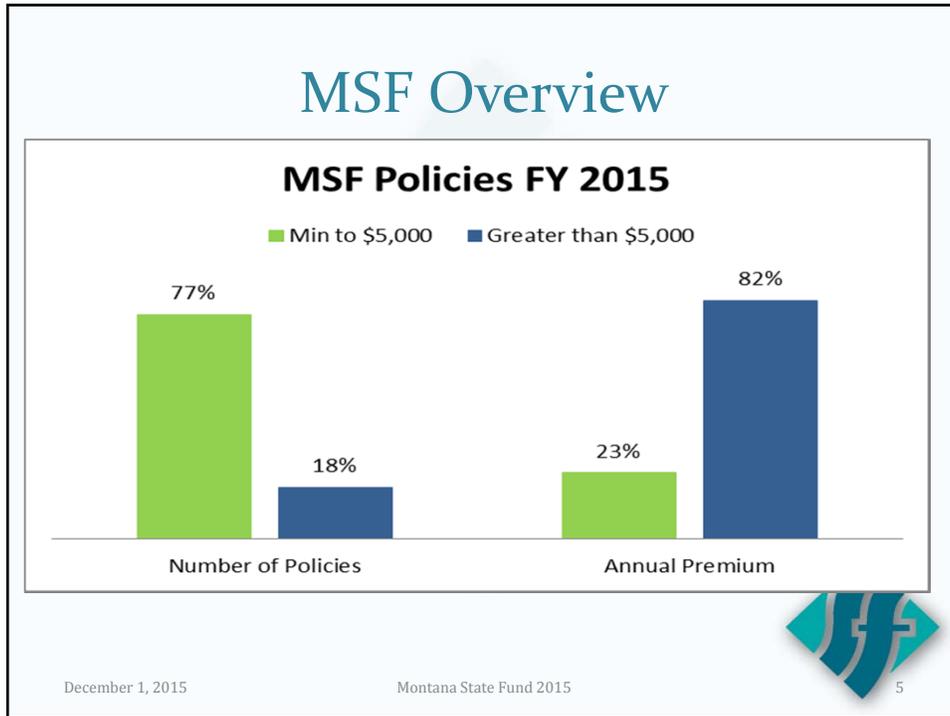
- Insure approximately 60% of the Insured Market
- \$164.5M in Annual Premium (FY 2015)
- 10,000 New Claims Reported each year
- 8,275 Open Claims
  - 2,700 Medical Only Claims
  - 5,600 Wage Loss Claims
- 25,900 Insured Employers



December 1, 2015

Montana State Fund 2015

4



## MSF Overview

***Mission:*** Montana’s Insurance Carrier of Choice and Industry Leader in Service.

***Vision:*** MSF is Committed to the Health and Economic Prosperity of Montana through Superior Service, Leadership, and Caring Individuals Working in an Environment of Teamwork, Creativity and Trust.

December 1, 2015   Montana State Fund 2015



## MSF Overview

- Safety
  - Safety Management Consultants
  - MSF Safety Workshops
  - Websites: Safe MT & No Jack
  - Promote Safety Culture with Media Campaigns
  - Assisting Charitable Endeavors (ACE) Grants
  - Safety Fest Participation
  - WorkSafe Champions- Over 200 Alumni
  
- Stay at Work/Return to Work



December 1, 2015

Montana State Fund 2015

7

## MSF Overview –Fraud

- Special Investigation Unit (SIU) at MSF
- Prosecution & Investigation by Department of Justice (DOJ)
- Savings of \$62 M since 1993
- January of 2012-through June 2015:
  - Employer Misconduct Cases
    - 6 convictions
  - Claim Benefit Cases
    - 17 convictions
  - Restitution- Totaling \$536,022



December 1, 2015

Montana State Fund 2015

8

## MSF Overview –Fraud

- The SIU receives referrals primarily from:
  - State Fund staff
  - Fraud Hotline -[888-MTCRIME](tel:888-MTCRIME) ([888-682-7463](tel:888-682-7463)).
- The SIU receives approximately 240 investigation requests annually
  - MSF has Savings on claims or from policyholder premiums on matters not referred to DOJ
    - \$7,374,638 in the last 3 & 1/2 years



December 1, 2015

Montana State Fund 2015

9

## What keeps us up at night?

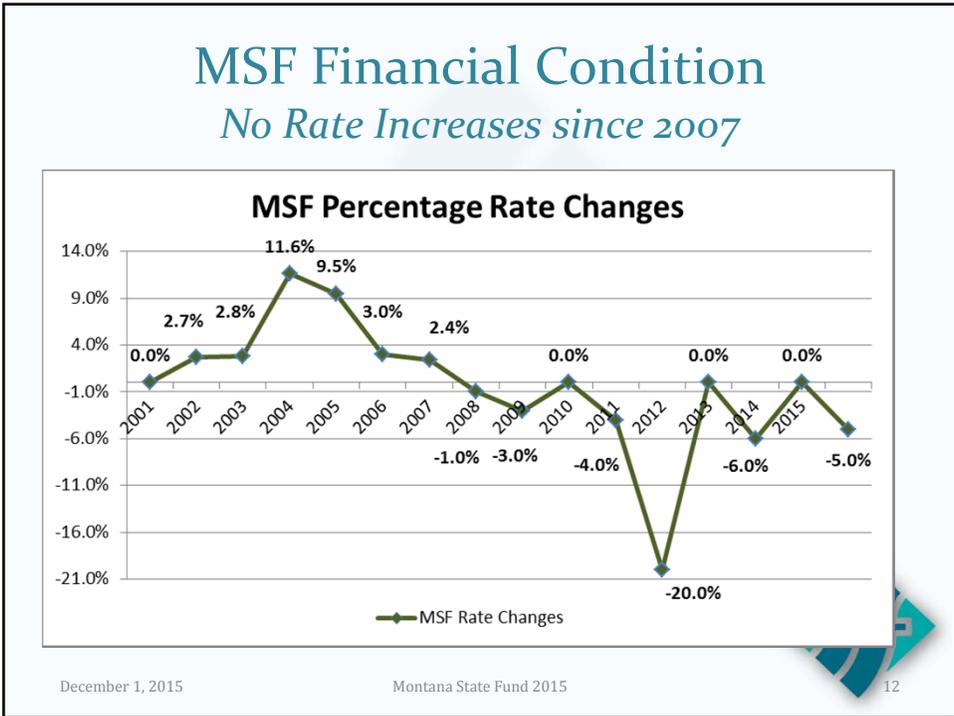
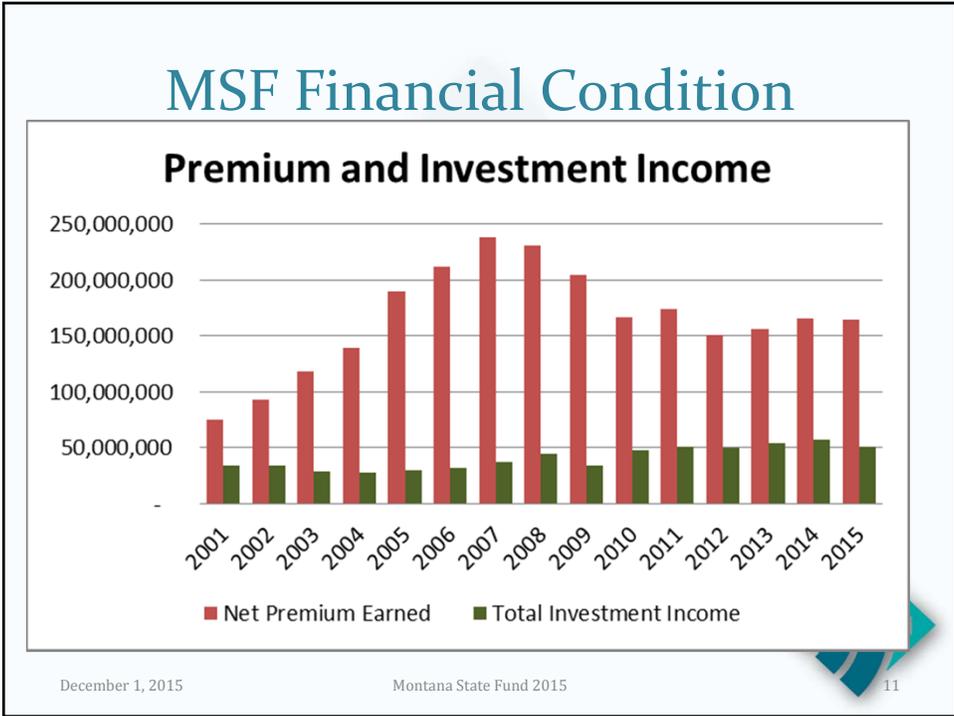
- Work Force – Aging/Retiring of skilled staff
- Asbestos claims
- HB 334 – realizing savings
- Economy – Tightening Labor Force, Financial Markets
- Regulation and Legislation
- Availability and Cost of Medical Services for Injured Employees
- Technology – providing technical solutions to meet changing demands
- Data/Cyber Security



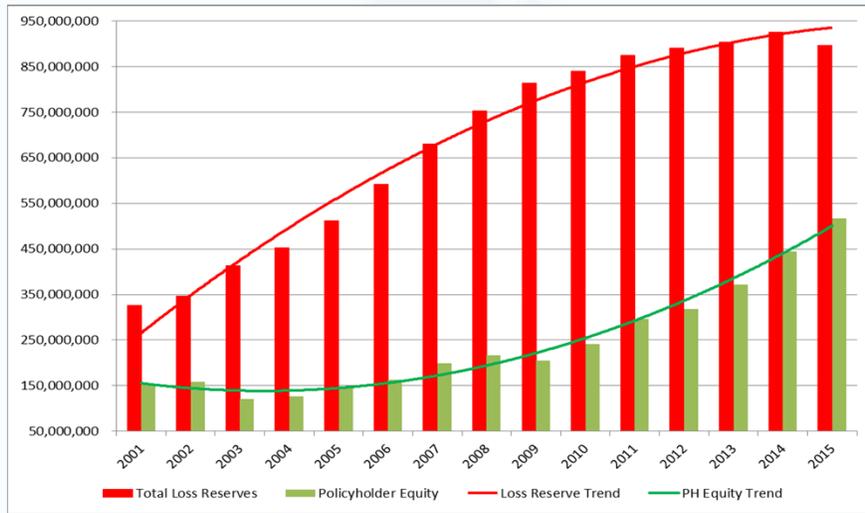
December 1, 2015

Montana State Fund 2015

10



## Policyholder Equity as Compared to Loss Reserves

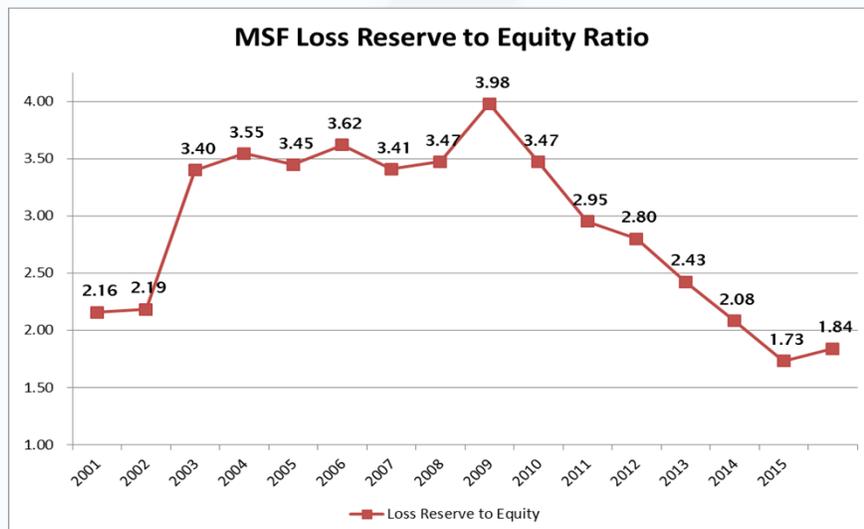


December 1, 2015

Montana State Fund 2015

13

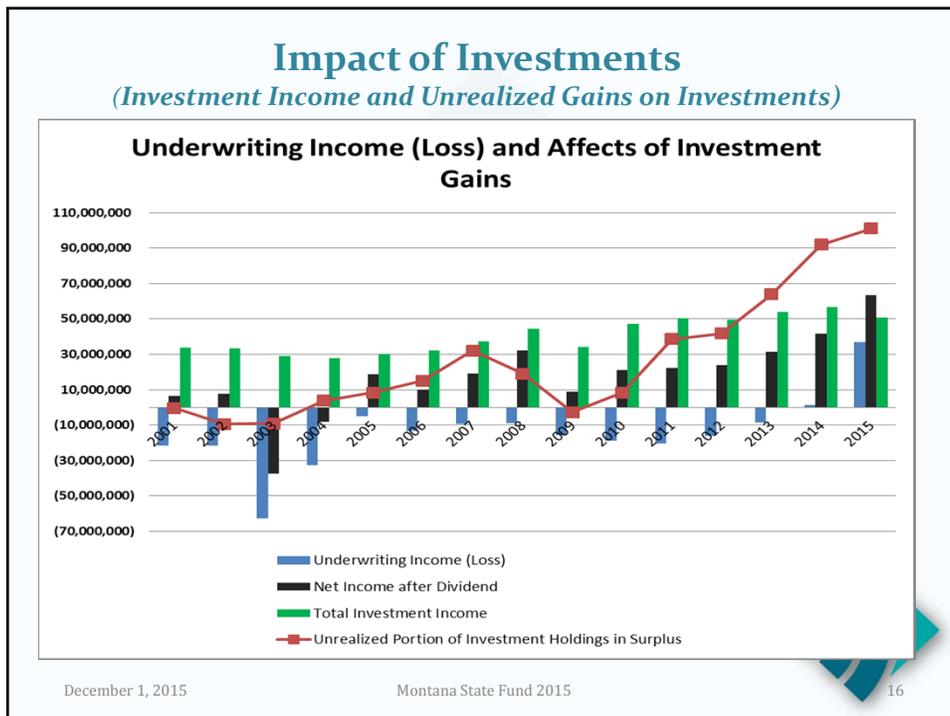
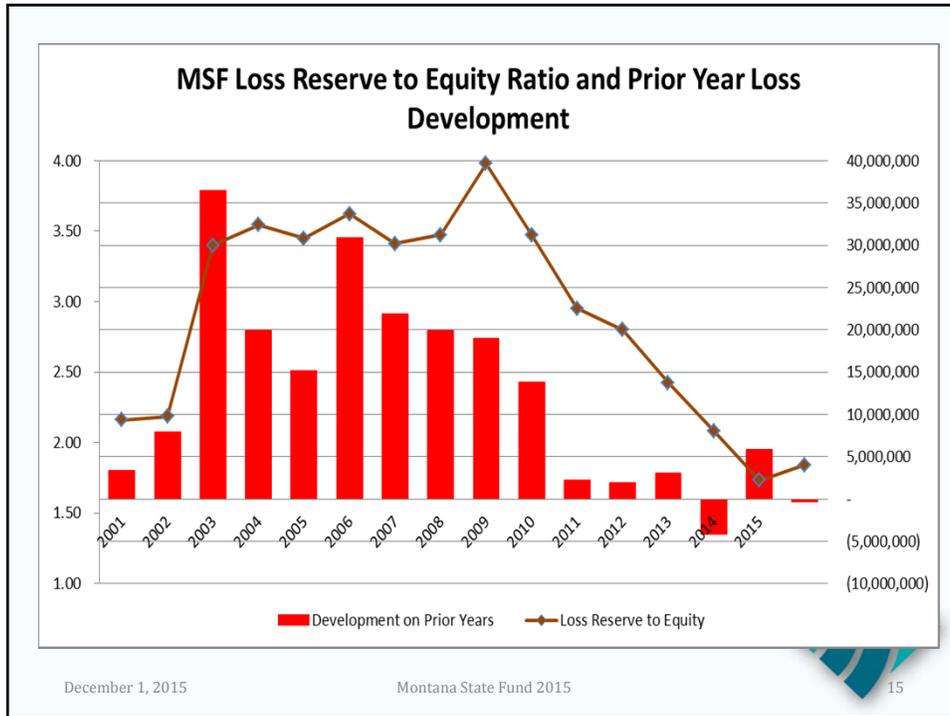
## MSF Financial Condition



December 1, 2015

Montana State Fund 2015

14



## Why Equity?

- Extremely long-term obligations associated with workers' compensation claims, especially as medical continues to grow
- MSF writes one line of highly regulated insurance
- MSF writes in a single state
- MSF provides a guaranteed market
- Uncertainty from significant Montana benefit changes – most recently HB 334
- MSF cannot access additional capital to cover adverse financial results
- If MSF becomes insolvent, there is no access to Guaranty Fund.

**MSF needs stronger than average policyholder equity to address these issues**

December 1, 2015

Montana State Fund 2015

17



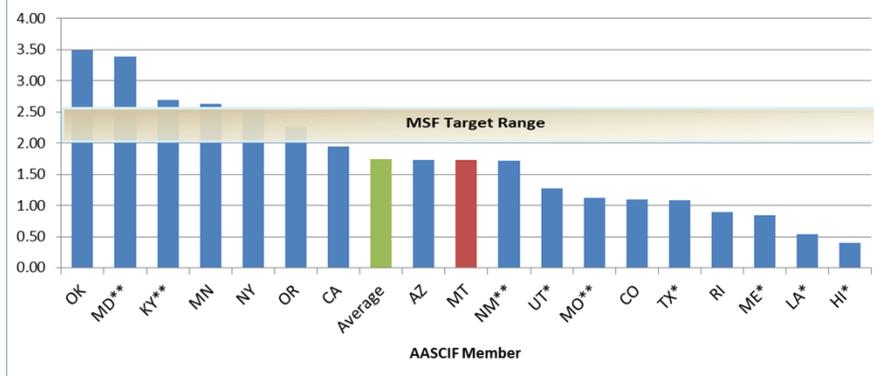
## MSF Financial Condition

### Loss Reserve to Equity Ratio

\* AM Best A rated state funds

\*\* AM Best A- rated state funds

average ratio of A and A- funds = 1.45



December 1, 2015

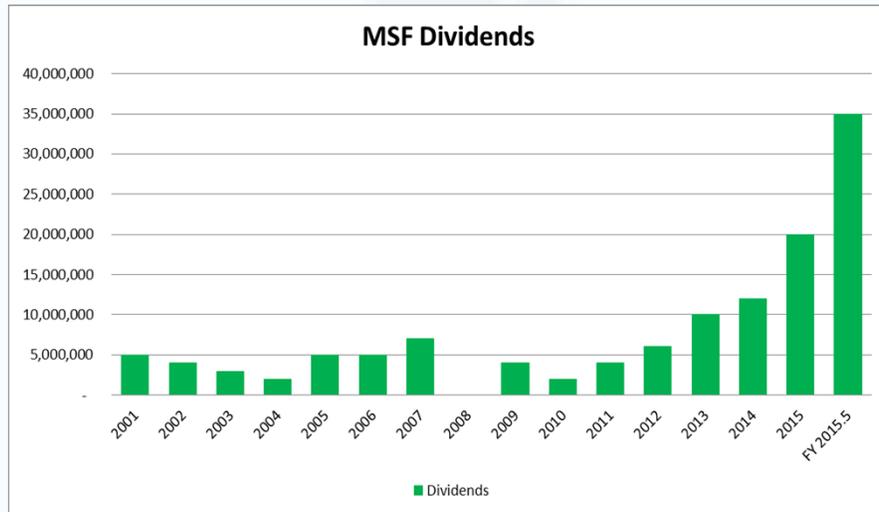
Montana State Fund 2015

18



## MSF Financial Condition

*\$141M in Dividends Since 1999*



December 1, 2015

Montana State Fund 2015

19

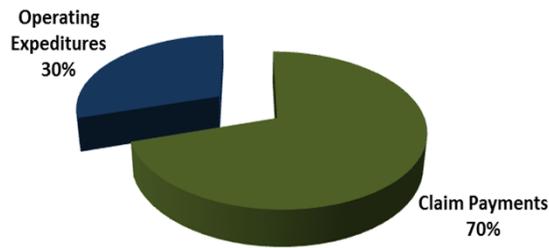
## SB 279

### Montana State Fund Budget Review



# MSF Budget FY 2016

## MSF Annual FY 2016 Approved Budget \$178,331,825



<b>Total Approved Budget</b>	<b>\$178,331,825</b>
Claim Payments	\$125,271,222
Operating Expenditures	\$53,060,603

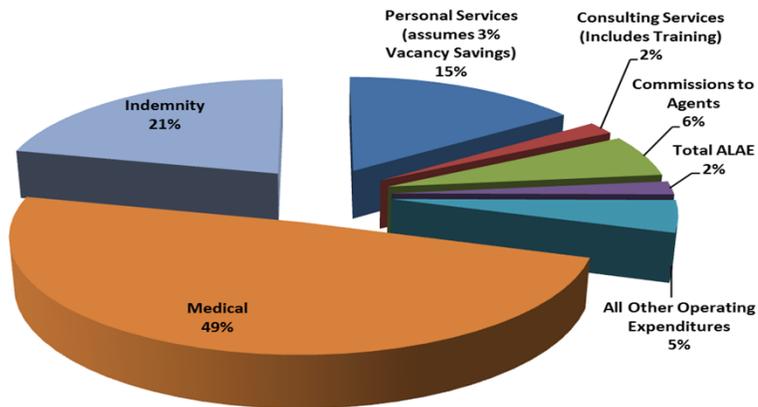


December 1, 2015

Montana State Fund 2015

21

## MSF Annual FY 2016 Approved Budget



December 1, 2015

Montana State Fund 2015

22

## FY16 Staffing with Prior Years

<u>Department</u>	<u>FY14 FTE Year End</u>	<u>FY15 FTE Year End</u>	<u>FY16 FTE Budget</u>
Corporate Support	33.00	34.00	34.00
Executive Offices	6.00	6.00	6.00
General Counsel	16.00	16.00	18.00
Human Resources	6.00	7.00	7.00
Information Technology	53.00	53.00	53.00
Operations	138.00	146.00	146.00
Operations Support	49.00	41.00	41.00
ABP / ESPM Projects	<u>3.00</u>	<u>1.00</u>	<u>1.00</u>
<b>Total FTE</b>	<b><u>304.00</u></b>	<b><u>304.00</u></b>	<b><u>306.00</u></b>

December 1, 2015

Montana State Fund 2015



23

## Comparative Expense Ratios

### Largest Montana Carriers compared to MSF

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Average of Largest MT Carriers*	36.6%	37.3%	36.8%	36.71%	n/a
Montana State Fund	36.5%	31.2%	34.1%	22.0%	23.2%

### 2015 A. M. Best's Aggregates & Averages (Most current available data from 2014)

<u>Population</u>	<u>2014</u>
Total US PC Industry	39.8%
Work Comp Composit	36.7%
Total US PC- State Funds	33.8%

*\*2014 is the most current year for which data is available and amounts shown reflects the total average for MT workers compensation carriers. The highest expense ratio in this grouping was 41.5% and the lowest was 30.3%*

December 1, 2015

Montana State Fund 2015



1

## SB 123 Update

December 1, 2015

Montana State Fund 2015



25

## SB 123 Implementation

- Significant changes for MSF at the start of our 2<sup>nd</sup> century of serving Montana
- Transfer of regulatory authority of MSF to the State Auditor's Office (SAO)–SB 123
  - Regulation begins - January 1, 2016
  - SAO Review of Rates - for rates effective July 1, 2016

December 1, 2015

Montana State Fund 2015



26

## SB 123 Implementation

MSF appreciates support for the transition

- State Auditors Office
- Department of Administration
- Board of Investments
- MPERA



December 1, 2015

Montana State Fund 2015

27

## MSF will be treated similarly to private insurers

- SAO Solvency and Financial Monitoring of Insurers
  - MSF will be prepared to make the following reports:
    - Quarterly - financial reporting & monitoring -  
-May, August and November of 2016
    - Annual - financial report & monitoring  
-CY16 -file in March of 2017
    - Annual RBC Report  
-CY16- file in March of 2017



December 1, 2015

Montana State Fund 2015

28

## Risk Based Capital (RBC)

	Title 33 Private Insurance Carriers (As Percent of ACL)	SB 123 Criteria to Apply to MSF
Company Action Level (CAL)	200%	400%
Regulatory Action Level (RAL)	150%	300%
 Authorized Control Level (ACL)	100%	100%
Mandatory Control Level (MCL)	70%	70%

December 1, 2015

Montana State Fund 2015



29

## MSF will be treated similarly to private insurers, cont.

- Rate Review by SAO–
  - First filing in March 2016 –for Rates effective July 1, 2016
  - Prepared trial rate filing for SAO input
- SAO Market Conduct and Financial Examinations
  - MSF is reviewing and enhancing documentation and training

December 1, 2015

Montana State Fund 2015



30

## MSF will be treated similarly to private insurers, cont.

- Form Approval by SAO
  - Forms are in process of being submitted to SAO for review and approval
- Producer Licensing
  - In house staff now licensed Casualty Producers - required January 1, 2016
  - Will report all Producer Appointments



December 1, 2015

Montana State Fund 2015

31

## MSF will be treated similarly to private insurers, cont.

- Application for Certificate of Authority
  - Filed informational Application on September 1, 2015
  - Certificate of Authority to be issued by SAO, effective January 1, 2016



December 1, 2015

Montana State Fund 2015

32

## MSF will be treated similarly to private insurers, cont.

- MSF is converting to a calendar year in 2016:
  - Financial reporting
  - Financial statements
  - Investment accounting
- Policyholder Complaint Reporting, 33-18-1001, MCA
  - Effective January 1, 2016
  - Guideline developed
  - Training MSF employees



December 1, 2015

Montana State Fund 2015

33

## MSF will be treated similarly to private insurers, cont.

- Compliance with NCCI requirements
  - MSF special classifications for Agriculture (0006), State Agencies & Cities and Counties
    - Adopted by CR Committee and in NCCI Class Code inventory for 7-1-16 Rates
  - Experience Modification Threshold- of \$5,000
    - NCCI filed and SAO approved for all insurers
    - For new and renewals effective 7-1-16



December 1, 2015

Montana State Fund 2015

34

## MSF will be treated similarly to private insurers, cont.

- Compliance with NCCI requirements
  - Transition Plan–two exception requests to SAO
    - Per Capita Class Code for Domestic Workers
    - Anniversary Rating Date (to be eliminated 5-1-17)
- MSF will train employees on compliance with NCCI Basic Manual requirements
  - Changes to computer system for NCCI compliance in process



December 1, 2015

Montana State Fund 2015

35

## SB 123 Implementation

- Budget & Annual Business Planning will convert to a calendar year basis on January 1, 2016
  - December 11, 2015 Board Meeting
  - MSF Compliance Officer hired



December 1, 2015

Montana State Fund 2015

36

## SB 123 Implementation

- Legislative Audit Division’s audit of MSF will continue on an annual basis(Calendar Year)
- MSF will report to Economic Affairs Interim Committee each interim- to include Budget Update per SB 279 and SB 123 Implementation



December 1, 2015

Montana State Fund 2015

37

## SB 123 Implementation

- The next 100 Years Look Positive
  - Financially
  - Operationally
- SB 123 Improved the position of MSF
  - As a SAO Regulated Workers’ Compensation Insurer
  - In our role as the Guaranteed Market for Montana



December 1, 2015

Montana State Fund 2015

38

# OLD FUND



## Old Fund

- Claims that occurred before July 1, 1990
- Legislature separated liability and designated separate funding sources
- 733 claims open as of June 30, 2015
  - 713 as of November 30, 2015
- Average age of injured employee – 65.38
- In FY15 127 claims closed, 32 reopened
- For FY 2015 - 7 new claims in Old Fund (asbestos)



## Trend of Remaining OF Claims

<u>FY</u>	<u>Active Claims</u>	<b>Towers Watson</b>
		<u>Loss Reserves (millions)</u>
2005	1,120	\$89.8
2006	1,002	82.9
2007	967	81.4
2008	951	71.7
2009	926	65.3
2010	898	58.8
2011	881	53.2
2012	827	48.5
2013	782	44
2014	794	38.8
2015	733	35.8



December 1, 2015

Montana State Fund 2015

41

## Old Fund

Accident Years: 1956 – 1975 - Active Claims: 28

Accident Years: 1976 – 1982 - Active Claims: 142

<u>Accident Year</u>	<u>Active Claims</u>
1983	49
1984	55
1985	57
1986	71
1987	96
1988	92
1989	65
1990	78



December 1, 2015

Montana State Fund 2015

42

## Old Fund

- June 30, 2015 – Old Fund estimated unpaid losses and claims adjustment expenses are \$41.6 million
  - Old Fund cash flow estimates –ending approximately 2051 (see handout)

	Towers Watson	FRA	AMI *
<b>Loss Reserves (in millions)</b>	35.8	59.5	101.5

\* FRA assumption using 6/30/2014 AMI estimate and applying FY 15 payments

- *Table above is for Loss only and does not include administrative costs or DLI assessment*



December 1, 2015

Montana State Fund 2015

43

# Questions?



December 1, 2015

Montana State Fund 2015

44