



# DECISION TREE FOR SJR 27 STUDY OF STATE FUND

## SHOULD MONTANA STATE FUND:

- **REMAIN A STATE ENTITY?**
- **BE ALLOWED TO BECOME A PRIVATE ENTITY?**
- **BE DISSOLVED?**

**STATE ENTITY**  
(SEE PAGE 2)

### IF MONTANA STATE FUND STAYS A STATE ENTITY:

- **SHOULD IT REMAIN THE GUARANTEED MARKET?**
- **SHOULD IT BE ASSESSED PREMIUM TAXES?**
- **SHOULD IT BE STATE AGENCIES' SOLE SUPPLIER OF WORKERS' COMPENSATION INSURANCE?**
- **SHOULD IT BE MADE INTO A MONOPOLY LIKE ND, WY?**

**PRIVATE ENTITY**  
(See Page 3)

### IF MONTANA STATE FUND WERE TO BECOME A PRIVATE ENTITY:

- **COULD IT REMAIN THE GUARANTEED MARKET?**
- **WOULD A RESIDUAL MARKET BE A BETTER APPROACH?**
- **HOW WOULD STATE GOVERNMENT IMPACTS BE HANDLED?**
- **WHAT POTENTIAL IMPACTS TO CURRENT POLICYHOLDERS?**

**DISSOLVED**  
(See Page 4)

### IF MONTANA STATE FUND WERE TO BE DISSOLVED:

- **WHO WOULD BE THE INSURER OF LAST RESORT?**
- **HOW TO HANDLE PENSION ISSUES?**
- **WHAT WOULD HAPPEN WITH ASSETS?**
- **WOULD STATE AGENCIES SELF-INSURE OR NOT?**

## STATE ENTITY OPTIONS

- Retain as is.
- Modify (with or without goal of privatization)
- Monopoly (like Wyoming, North Dakota) not explored unless committee chooses to do so.



### Modify:

- Move future employees to separate pension system?
- Begin process for removing constitutional reference?
- Consider removing guaranteed market requirement and establishing other residual market options?
- Allow other work comp insurers to cover state agencies either in groups or by individual agencies?
- Determine if Old Fund management could be contracted elsewhere?
- Determine what exemptions from state requirements to implement: open meetings, procurement, use of state IT and finance systems, etc.
- Clarify statutory language to minimize accumulation of surplus (limit on reserve-to-surplus ratio or return to controls on administrative expenses.
- Determine whether to impose premium or other taxes.

### “Modify” Meeting Discussion Options

- Pension Liability Responsibility – costs to system of no new employees and cost of transferring all employees to new options. Cost of buyouts for 1-for-5 option for 20-year employees and legality of benefit for only some.
- Review referendum process and time line for vote and what options if vote is negative.
- If state extends contract for guaranteed market, what would be the costs and the benefits? How long should a contract be?
- Would the state opt to self-insure as Plan 1 or go with any private Plan 2 insurer for state agencies’ work comp?
- What would the cost of managing the Old Fund be? What is prospective cost of a loss risk transfer portfolio?
- What are ramifications of removing procurement, state IT, etc. from Montana State Fund operations? What does constitution allow regarding open meetings if State Fund remained a state entity in a delayed transition?

## PRIVATIZATION OPTIONS

- Mutualization
- Sale



### Mutualization:

- Determine how to address state employee pension resolution.
- Begin process for removing constitutional reference.
- Determine if Old Fund management could be contracted elsewhere or made part of the mutualization agreement.
- Determine if state agency workers' comp be one contract or multiple contracts.
- Determine whether all of Montana State Fund assets belong to policyholders (and what year of policyholders) for use in making MSF a mutual insurer or whether part of MSF assets can be used for:
  - Obtaining substitutes if "New Fund" claims or "Old Fund" claim management not included in new deal;
  - Making whole or buying out the MSF employer component of state pensions;
  - Other state purposes.

### Sale:

(same as for Mutualization except for valuation determination/Old Fund)

- Determine full valuation, including whether existing claims are acquired, and who owns Montana State Fund
- Determine whether state handles Old Fund or uses a loss portfolio transfer/reinsurance

### "Mutualize" Meeting Discussion Options

- Investigate whether Maryland's "shell" option that retains employees within a state agency would be viable in Montana.
- State Fund's response to pension fund offsets/GASB rules.
- Consider buyout option similar to Nevada in which Montana State Fund would do 1 for 5 purchases for employees with 20 years of service under PERS.
- Review referendum process and time line for vote and what options if vote is negative.
- What would cost of Old Fund management be? Cost of loss risk portfolio transfer?
- Presentation by Health Care Benefits Division on loss risks of various state agencies and options for work comp coverage, including cost of reinsurance
- State Fund analysis of policyholder continuity, benefits of investment returns in relation to premium pricing, meaning of reserve-to-equity ratio in terms of how much equity/surplus is too much?
- Discussion about liability of state:
  - if New Fund claims are not part of deal, does state take over claims?
  - if New Fund claims are part of deal, would statute be needed to disclaim any state liability for claims. (2/3 vote)

## DISSOLUTION OPTIONS



### Dissolution:

- Address options for making PERS whole or provide state employees with options regarding pension participation. Government Accounting Standard Board requires this to be listed as company liability.
- Begin process for removing constitutional reference unless the “state compensation insurance fund assets” remain with the state for purposes of the state handling outstanding claims.
- Determine what insurer (or the state) would handle existing claims and, if another insurer, then what the cost would be (and how the cost would be paid).
- Determine whether to have a guaranteed market or to use a residual market mechanism.
- Determine ownership of all assets, including Front Street building in Helena, and whether all money would stay in a revised definition of the state compensation insurance fund (and if the definition can be revised).

### Delayed Dissolution:

- Modify statutes to specify to whom State Fund assets belong for policies issued after July 1, 1990, or effective date
- New contracts (as of the effective date of the bill) would renew under new statutes.
- Dissolve State Fund under new statutes.

### “Dissolution” Meeting Discussion Options

- Discuss contract provisions between employer (State Fund) and PERS regarding termination in light of 19-3-201(3)(d), MCA, which says the PERS board may withhold termination approval until “satisfactory arrangements are made to provide funding for any excess accrued liabilities not previously funded by the terminating agency.”
- Discuss whether contracting out existing claims or the state handling existing claims amounts to creating a new “Old Fund.” Review costs of loss risk portfolio transfer.
- Review residual market and guaranteed market options.
- Request actuarial review of claims, including incurred but not reported claims, after all other liabilities are accounted for to determine what assets remain for use by the state or a revised definition of a state compensation insurance fund.
- Determine which statutes would need to be revised if State Fund is dissolved.
- Determine whether full chapter repeal with renumbering of existing chapter without State Fund and Plan 3 reference is desired by the committee.