



# MSF HISTORIC CASH FLOWS

Montana State Fund (MSF) began life as a statutory creation with sole control by the board and regulatory oversight by the legislature. Over the years MSF developed into the current statutory creation now regulated by the State Auditor’s Office but still subject to legislative action in ways that other workers’ compensation insurers are not. The most controversial legislative actions have been to redirect funds. Important for purposes of this paper on cash flows are the following years:

- 1987** The Legislature took action on a troubled State Fund (not the current entity) by imposing a payroll tax on employers
- 1989** The Legislature formed a new entity, the State Compensation Mutual Insurance Fund. Previously, a division of the Department of Labor and Industry handled the guaranteed market component of workers’ compensation in Montana.
- 1990** The Legislature in special session ended the mutual insurance company status and separated liabilities for the New Fund and the Old Fund.

Much of the material in the table is from a November 2002 Legislative Audit Division document that showed the event(s) that spurred money transfers and to whom or from whom the money flowed. Other data is from Montana State Fund or the Legislative Fiscal Division, in particular an Old Fund Analysis from Nov. 30, 2007.

## Money Events Prior to 1990 Separation of the New Fund and Old Fund

Event	Old Fund Activity				Transfer Activity (Out) In		
	<i>Payroll Tax 0.3% as of 1/1/1987 on employers only</i>	<i>Paid Claims</i>	<i>(Unfunded Liability)</i>	<i>Bonds</i>		<i>State Fund</i>	<i>General Fund</i>
June 1988	\$10,952,000						
1989	\$13,031,000					\$20,000,000	(\$20,000,000)

## Money Events After 1990 Separation of New Fund and Old Fund

Event	Old Fund Activity				Transfer Activity (Out) In		
<i>Date</i>	<i>Payroll Tax 0.28% on employers only</i>	<i>Paid Claims</i>	<i>(Unfunded Liability)</i>	<i>Bonds</i>	<i>New Fund</i>	<i>Old Fund</i>	<i>General Fund</i>
June 1990	\$12,976,000		(\$217,000,000) HB 2 testimony				
July 1990					\$12,000,000	(\$12,000,000)	

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### Money Events After 1990 Separation of New Fund from Old Fund, continued

Event	Old Fund Activity			Transfer Activity (Out) In			
	Date	Payroll Tax*	Paid Claims <i>(Unfunded Liability)/Equity at fiscal yearend</i>	Bonds	New Fund	Old Fund	General Fund
June 1991	\$12,765,000						
July 1991 See note A		(\$97,959,000)	(\$461,560,000)	\$142,095,000			
June 1992	\$12,013,000	(\$66,348,000)	(\$499,085,000)				
February 1993					(\$13,000,000)	\$13,000,000	
June 1993	\$18,274,000	(\$47,437,000)	(\$497,436,000)		(\$21,000,000) See note A	\$21,000,000 See note A	
July 1993 to September 1993		(\$97,959,000)			(\$7,000,000)	\$7,000,000	
October 1993 New bond sale				\$32,500,000 See note A	(\$1,000,000) \$21,321,007	\$1,000,000 (\$21,321,007)	
June 1994	\$40,950,000	(\$28,414,000)	(\$471,392,000)				
June 1995	\$49,019,699	(\$22,626,000)	(\$413,938,000)				
June 1996	\$45,174,547	(\$22,300,000)	(\$355,138,000)				
September 1996 See notes B and C					(\$102,286,000)	\$102,286,000	
June 1997 See note D	\$49,771,000	(\$16,332,000)	(\$183,182,000)		(\$10,000,000)		\$10,000,000
June 1998 See note D	\$51,963,000	(\$14,584,000)	(\$70,585,000)		(\$63,800,000) (\$10,000,000)	\$63,800,000	\$10,000,000

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Event	Old Fund Activity			Transfer Activity (Out) In			
	Date	Payroll Tax*	Paid Claims <i>(Unfunded Liability)/Equity at fiscal yearend</i>	Bonds	New Fund	Old Fund	General Fund
June 1999	\$28,891,000	(\$12,990,000)	\$14,377,000				
June 2000	\$2,548,000	(\$13,421,000)	\$18,560,000				
FY 2001 See note E					\$6,765,027	(\$6,765,027)	
June 2001	\$113,000	(\$13,918,000)	\$22,782,000				
FY 2002 See note E					\$7,407,512	(\$7,407,512)	
June 2002 (adjusted 2010)	\$28,000	(\$12,733,000) (\$12,655,663)	\$24,866,000				
FY 2003 See note F		(\$13,657,862)	\$6,194,791			(\$18,268,000)	\$18,268,000
FY 2004 See note F		(\$12,246,978)	\$7,442,792			(\$815,605)	\$815,605
FY 2011			All assets gone				General fund begins paying

\*The payroll tax (Old Fund Liability Tax or OFLT) initially was 0.3% of payroll on all employers starting July 1, 1987. Legislation in the May 1990 Special Session revised the payroll tax on employers to 0.28%. In July 1993 the payroll tax on employers increased to 0.48% and a 0.2% tax was assessed on employees. A 0.1% payroll tax on self-insured persons was added in January 1993, increasing to 0.2% in January 1994.

**Note A:** In July 1991 the state of Montana issued \$142,095,000 of payroll tax bonds. Another bond issue, \$32.5 million in variable rate bonds, occurred on Oct. 27, 1993. Until the proceeds of the 1993 issue became available, the Old Fund borrowed \$21 million from the New Fund, then the proceeds of the bond issue were used to repay the \$21 million loan plus interest. From July 1995 to March 1996 a portion of payroll tax payments was used to pay down \$34.7 million of the 1991 bond issue.

**Note B:** Prior to implementation of SB 67 from the 1997 session, statute said that if MSF could safely declare a dividend, the payable amount would first go to the Old Fund until the Old Fund was adequately funded. The MSF board’s dividend of up to \$103 million declared in September 1996 was used to “defease” or annul the outstanding Old Fund bonds, according to the Legislative Audit Division notes. As part of SB 67, an amount of \$63.8 million was paid from the New Fund to the Old

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Fund for a total New Fund contribution to the Old Fund of \$166,800,000. The bonds sold amounted to \$174,595,000.

**Note C:** As part of the 1996 dividend that went to the Old Fund in 1996, \$12,000,000 was designated as repayment of the New Fund's capital that was contributed to the Old Fund in 1990.

**Note D:** SB 67 in the 1997 Session provided for \$63.8 million to be paid by the New Fund to the Old Fund. The bill also outlined terms for ending the OFLT and removed provisions that limited the New Fund's ability to pay dividends to policyholders until after the amount set aside for dividends first was paid to the Old Fund to establish adequate funding and remove its unfunded liability. In addition to the \$63.8 million payment required to be paid to the Old Fund prior to June 30, 1998, SB 67 required the New Fund to pay to the general fund \$20 million, of which half was paid in 1997 and half in 1998 (see section 17). That \$20 million was intended to repay the general fund appropriation made to the State Fund that existed in 1989. Once the budget director certified that the Old Fund was adequately funded, which he did on Dec. 30, 1998, the payroll tax was terminated and the New Fund could begin paying dividends to policyholders.

**Note E:** The amounts transferred in FY 2001 and FY 2002 were considered as OFLT "excess" for the Old Fund and under 39-71-2505 this excess was to be transferred to the New Fund. This statute was repealed in 1999 but the relevant language was moved to 39-71-2352 and later revised under SB 19 in the Special Session of August 2002.

**Note F:** [SB 19](#) in the Special Session of August 2002 August revised section 39-71-2352(5) and required prior to June 30, 2003, a one-time transfer of \$1.9 million (from the Old Fund) to the general fund and \$2.1 million from the Old Fund to a school flexibility general fund account. "In the fiscal year ending June 30, 2003, the remaining amount, and in subsequent fiscal years, an amount of funds in excess of the adequate funding amount established in subsection (4) must be transferred to the account established in 39-71-2321 to pay claims for injuries from accidents that occurred on or after July 1, 1990. The total amount of funds transferred under this subsection may not exceed \$63.8 million." The fiscal note for SB 19 stated that money that exceeded "adequate funding" as outlined in 39-71-2352, MCA, would go to the general fund rather than to State Fund, although that was not what SB 19 said. The Legislative Audit document identified a transfer of remaining funds of \$9.178 million to the New Fund under this provision, but HB 363 in 2003 (before the \$9.178 million had to be transferred) redirected that amount to the general fund. HB 363 in 2003 also made the general fund responsible for paying Old Fund claims once the Old Fund account was inadequately funded. That occurred in FY 2011. The reason an unfunded liability of \$7.4 million showed in FY 2004 was that total liabilities exceeded total assets, even though the Old Fund had reserves of about \$87 million.

### Bottom Line

The Legislative Audit document identified net transfers from the New Fund to the Old Fund of \$172,627,000. The total payroll tax collections amounted to \$347,913,000, which was about \$22 million shy of the \$369,062,000 in Old Fund claims paid in the period from June 1988 to June 2002. These claims continue to be paid and as of Sept. 15, 2017, reflect an unfunded liability (projected beyond 2050) of about \$38.4 million in loss reserves and loss adjustment expenses. (Some estimates are higher.) The general fund, under HB 363 in 2003, directly sets aside transfers to handle Old Fund claims that continue to be paid and, in some cases, filed. Montana State Fund gets paid for administering the Old Fund. Payments have dropped from \$12,246,978 in FY 2004 to \$7.6 million in FY 2017, as reported to the Montana State Fund Board of Directors, on Sept. 15, 2017.

Transfers from the New Fund to the Old Fund amounted to about \$187 million, with the majority of that money coming from diverted dividends (\$102.3 million in 1996 and \$63.8 million in 1997). The \$20 million appropriation from the general fund in 1989 to help the debt-laden then-existing Montana State Fund was repaid by the New Fund in 1997 and 1998 transfers of \$10 million each year required under SB 67. In addition, the general fund took nearly \$23 million from the Old Fund prior to June 30, 2004. Since FY 2011, however, the state has paid more than \$49 million for Old Fund claims. CI0425 8026pma.docx