

**MONTANA STATE FUND
2023 ANNUAL BUDGET
(Effective for period of January 1 to December 31, 2023)**

Montana State Fund (MSF) is a nonprofit, competitive workers' compensation insurance organization. Under state law, MSF provides Montana businesses with an option for workers' compensation and occupational disease insurance and guarantees available coverage for all employers in Montana. The State Auditor's Office/Commissioner of Securities and Insurance (CSI) regulates MSF. As a result, MSF's budget and financial reporting processes are reported on a calendar year basis, not according to the State's fiscal year, which begins on July 1st each year.

This 2023 annual budget identifies expenditures to fund the business operations and approved projects for the January 1 to December 31, 2023, fiscal reporting period. The budget provides the funding to enable MSF to continue its role of providing a competitive, stable, and guaranteed workers' compensation market for Montana, meet its regulatory requirements, implement its Annual Business Plan initiatives, and effectively support business operations.

I. Total Expenditures

The total budget for 2023 expenditures is \$191,050,885. Claim benefit payments and operational expenditures are the two primary components of the budget. The total budget is a \$13.7 million or 7.7% increase from the 2022 budget expenditures of \$177.4 million. This increase is almost entirely the result of anticipated growth in benefit payments.

- **Claim benefit payments** of \$125.4 million to injured workers are 65.6% of the total budget. Benefit payments include all expected funding required to pay existing and anticipated injured worker claims for indemnity and medical related claim benefit payments in 2023. The budget is a \$13.6 million or a 12.2% increase as compared to the 2022 budget of \$111.7 million.
- **Operational expenditures** include all staffing, overhead, and other costs needed to support MSF business operations. The total operational expenditure budget of \$65.7 million equates to 34.4% of the total budget, which is \$19,389 higher, or basically flat, as compared to the 2022 budget of \$65.6 million.

II. Revenue

The premium revenue, along with investment income, provides the funding to service policyholders, pay indemnity and medical claim benefit payments, and cover operational expenditures. For 2023, MSF is estimating net earned premium of \$162.4 million.

The net earned premium estimate assumes:

- Approximately 23,200 active policies.
- Policyholder wage growth of 5.25%.
- Premium retention rate of 92.0%.
- Other States Coverage (OSC) premium of \$3.0 million.

III. Statutory Operating Expense Ratio

The statutory operating expense ratio is a standard financial measurement for insurance organizations to analyze the cost of operations in relation to net earned premium and allows MSF to compare its operational expenses to competitors and the industry as a whole.

The statutory operating expense ratio encompasses accounting adjustments used for financial reporting, such as depreciation and incurred loss adjustment expense reserves, which are not displayed in an expenditure-based budget. The ratio is calculated by dividing an insurer's statutory operating expenses by net earned premium.

Dividing MSF's statutory operating expenses of \$69.0 million by its net earned premium of \$162.4 million, MSF's 2023 estimated statutory operating expense ratio equals 42.5%.

MSF's statutory operating expense ratio compares favorably to the workers' compensation industry as a whole. The following table compares the MSF operating expense ratio with data from 2022 Best's Aggregates & Averages (A.M. Best Company online benchmarking www.ambest.com) ratios for the workers' compensation industry and other state funds.

Best's 2021 Work Comp Composite (266 Organizations)	Best's 2021 Total US PC State Funds – (24 Organizations)	MSF 2023 Budget
43.9%	43.8%	42.5%

IV. Benefit Payments

The 2023 budget for claim benefit payments is \$125.4 million. By category, the 2023 budget for indemnity benefit payments is \$49.7 million, while the budget for medical benefit payments is \$75.7 million. The benefit payments budget anticipates a 12.2% increase in total claim benefit payments compared to the 2022 actuals of \$111.7 million. This increase is based upon the following:

- **Settlements:** Claim closure settlements continue to be an integral part of MSF's claim management process. Mutually beneficial claim closure settlements are the most significant area of benefit payment increase as compared to 2022.
- **Wage growth:** The wage growth experienced in 2022 is expected to continue through 2023 and will increase wage-based indemnity benefits. The indemnity benefits budget is based on the state's average weekly wage as determined annually by the Department of Labor and Industry (DOLI). The average weekly wage (AWW) effective July 1, 2022 is \$917 and is an 8% increase from the prior year; effective July 1, 2023, the AWW increases further to \$973.50.
- **Medical inflation:** Medical costs are anticipated to increase, though not as significantly as wages.

V. Operational Expenditures

Operational expenditures include personal services (employee wages, taxes, and benefits), operating expenses, state agency transfers, capital expenditures, and allocated loss adjustment expense (ALAE). The following table provides a summary of these areas, including the number of FTEs and positions.

Operational Expenditures	2023 Budget
FTEs	294.50
Positions	297
Personal Services	\$34,785,336
Operating Expenses and Transfers	\$26,836,126
Capital Expenditures	\$611,625
ALAE	\$3,424,917
Total Operational Expenditures	\$65,658,004

a. MSF Staffing

MSF continually evaluates and re-aligns its staff to meet changing workers’ compensation market needs, stakeholder expectations, and ever-evolving work processes. MSF management reviewed existing position vacancies, upcoming retirements, and anticipated workloads to ensure that staffing levels were appropriate. For the 2023 budget, there is an increase of 1.00 FTE/one position from 2022. This position is a Financial Analyst and will be filled temporarily for up to 24 months to provide for staff development and knowledge transfer prior to expected retirements in 2024.

MSF will have 294.50 FTEs and 297 positions for 2023. This total includes 293 positions that are 1.00 FTE each, two half-time (0.50 FTE) positions that comprise 1.00 FTE, and two positions at 0.25 FTE each.

b. Personal Services – Salaries, employer taxes, and benefits

To support the 294.50 FTEs, MSF has budgeted expenditures of \$34.8 million for the 2023 personal services budget. This includes expenditures for employee salaries, taxes and benefits. A vacancy savings reduction factor of 2% was applied to the personal services budget. This is an aggregate reduction recognizing that employee turnover creates position vacancies, which is difficult to predict by department or function. This 2% reduction was applied to an aggregate personal services budget of \$35,495,240.

c. Operating Expenses and Transfers

The Operating Expenses and Transfers budget of \$26,836,126 is another grouping of expenses underneath the overall category of “Operational Expenditures” and includes the following categories and amounts.

Other Services - \$18,649,689: Two significant items comprise \$16.2 million of expenditures in this category. MSF agent commissions are budgeted at \$11,802,926. An additional \$4,417,644 is budgeted for consulting and professional services. These services include but are not limited to SITSD service fees, NCCI subscription fees, IT and actuarial consulting services, miscellaneous insurance coverages, and OSC program-related services.

Facilities and Maintenance - \$2,256,331: Includes utilities; field office rent; and repair and maintenance expenses for premises, auto fleet, and hardware and software.

Supplies and Materials - \$808,278: Includes miscellaneous office/business supplies, as well as minor software and hardware expenditures.

Communications - \$1,597,375: Includes postage and State Print and Mail Division services, advertising, and routine business communication services (e.g. internet, telephone, language translation services).

Travel - \$299,408: Includes all travel costs to support customer visits, training, board meetings and other required travel.

Other Expenses - \$2,964,495: Miscellaneous smaller expenses including but not limited to cloud-based software subscriptions, education and training, charitable contributions.

Transfer - \$260,550: Funding transfer to the Commissioner of Securities and Insurance pursuant to § 33-1-115(6), MCA.

d. Capital Expenditures

The total 2023 budget for capital expenditures is \$611,625. Capital expenditures are assets or leases that are expected to last more than one year and include major purchases like computers, vehicles, and building improvements, as well as intangible assets like software.

e. Allocated Loss Adjustment Expense (ALAE)

ALAE, also known as Defense and Cost Containment Expense, is the specific cost of managing and adjusting a claim; therefore, it is allocated to a specific insurance claim. These expenses include but are not limited to medical invoice processing, investigative services, legal expenses, medical consultants (including independent medical reviews), and OSC program claim adjusting services.

\$3,424,917 is budgeted for these claim management and adjustment costs. ALAE expenditures are budgeted at the same ratio of claim benefit payments as projected for 2022.

VI. Old Fund Administration

The 2023 budget includes \$421,000 for expenditures necessary to administer and manage Old Fund claims. These are claims for injuries that occurred prior to July 1, 1990. By law, MSF is reimbursed by the State's General Fund for Old Fund administration costs.