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**MONTANA STATE FUND
BOARD MEETING
December 13, 2019**

The Montana State Fund (MSF) Board meeting was held December 13, 2019 at Montana State Fund, 855 Front Street, Helena, Montana.

Directors Attending

Lance Zanto, Helena
Lynda Moss, Billings
Jack Owens, Missoula
Jim Molloy, Helena

Jan VanRiper, Helena
Matt Mohr, Bozeman
Cliff Larsen, Missoula

MSF Staff Attending

Laurence Hubbard, President/CEO
Kevin Braun, General Counsel
Verna Boucher, Spec Asst to Pres/CEO
Mark Burzynski, Corporate Support VP
Julie Jenkinson, Insurance Operations VP
Sam Heigh, Operations Support VP
Al Parisian, Chief Information Officer
Rick Duane, Human Resources VP
Mike Worden, Sr. Human Resources Generalist
William Anderson, Underwriting Services Dir

Rene Martello, Controller
Dan Gengler, Internal Actuary
Kurstin Adamson, ERM Risk Specialist
Darcie Dunlap, Senior Actuarial Analyst
Bob Hark, Actuarial Analyst
Patti Grosfield, Internal Auditor
Peter Strauss, Compliance Officer
Shannon Copps, Director, ESPM
Verena Mullins, Org. Development Specialist
Michele Evans, Recruiter

Others Attending

Russell Greig, Willis Towers Watson
Russell Ehmann, LAD
Bridger Mahlum, Montana Chamber of Commerce

Alex Turrell, Willis Towers Watson
Pat Murdo, Leg. Services Division
Sonia Powell, OBPP

I. Meeting Preliminaries

A. Call to Order

Chair Lance Zanto called the meeting to order at 8:34 a.m. He thanked the attendees for being there and welcomed Bridger Mahlum from the Montana Chamber of Commerce.

B. Approval of September 13, 2019 Board Meeting Minutes

Chair Zanto said the first order of business was approval of the Board meeting minutes from September 13, 2019 and asked for a motion.

Jack Owens made a motion to approve the September 13, 2019 meeting minutes. Cliff Larsen seconded the motion. Chair Zanto called for discussion from the Board, MSF Staff and members of the public. There being none, he called for the vote and the motion passed unanimously.

II. Miscellaneous – Laurence Hubbard, President/CEO

A. Miscellaneous

President Hubbard welcomed the attendees and thanked the Board for attending.

He said the key topics of discussion for this Board meeting were MSF's 2020 Annual Budget and MSF's 2020 Annual Business Plan.

He mentioned that this time of year brings about a lot of charitable giving and fundraising and he noted that MSF participates in the State Employee Charitable Giving Campaign which runs through October and November each year. He said the entire state campaign made over \$460,000 for various charities throughout Montana. He said MSF employees really step up and their efforts during this campaign beat an internal record number of participants and total amount of giving which was over \$43,000. He said MSF was the second largest contributor of all the agencies in state government, including much larger agencies such as the Department of Transportation and the Department of Public Health and Human Services. He mentioned that to illustrate the perspective of the generous hearts and minds of the MSF employees who were a contributing factor in MSF having the highest participation rate at 45 percent of employees. He re-emphasized that MSF employees are very committed to the community and dedicated to making the lives of the less fortunate better.

President Hubbard said he also has the honor and privilege of representing MSF at the Intermountain Festival of Trees auction. He explained that various groups and organizations sponsor trees in this event with the objective to raise money for Intermountain. He said MSF sponsors a tree each year and he then has the pleasure of attending the auction and bidding on the tree. He noted that MSF's tree raised \$14,500 this year for the children at Intermountain.

He then called on Dan Gengler to introduce Bob Hark.

Mr. Gengler introduce Mr. Hark, Actuarial Analyst and the newest member of MSF's actuarial team. He clarified that MSF's actuarial team was undergoing succession planning and was thoughtfully and intentionally planning for the transitions to leave the actuarial team in the very best of hands. He recognized Darcie Dunlap, MSF's Senior Actuarial Analyst, who has been with the MSF actuarial team for 22 years. He said over the course of the next year, Ms. Dunlap will be training and transitioning into the Internal Actuary position. He noted that Mr. Hark was most recently with Applied Underwriters in the San Francisco Bay area; however, he is originally from Montana and grew up on a ranch near Eureka. Applied Underwriters predominantly writes workers' compensation coverage and MSF is extremely fortunate to have Mr. Hark return to Montana and join the MSF team.

President Hubbard noted that on January 17, 2020 at a ceremony in Butte, MSF will be awarding 15 Growing a Safer Montana scholarships in the amount of \$4,000 (\$2,000 per semester) to students studying safety and occupational health in higher education classes. He said this program is a big step for MSF to invest in growing a safer Montana while promoting the education of safety professionals of the future.

Chair Zanto reminded the attendees that the Board meeting was being live streamed and to please step to the podium to offer any comments or discussion.

B. Report of Internal Auditor – Patti Grosfield, Internal Auditor

Ms. Grosfield provided a report on the external and internal audit activity.

Externally

Ms. Grosfield said the statutory external auditors were on-site December 9-12 to complete their pre-year-end-work, including testing of claims and premiums and fraud interviews. A team of auditors will return in February 2020 for two weeks and do the final testing and audit work at that point. MSF can expect a report by April 2020.

She added that Legislative Audit Division (LAD) auditors are expected to be on-site in March or April 2020 to begin the audit for the CY19 GASB (governmental) Financial Statement audit report.

She reported that the CY2018 Governmental Financial Statements Audit was completed by LAD and presented to the Legislative Audit Committee (LAC) on October 30, 2019. She noted that Board members received the report directly from LAD. She offered to answer any Board member questions they may have. She said MSF attended the Legislative Audit Committee (LAC) hearing to provide responses to any questions and noted that for the first time in her tenure, the committee had no questions regarding MSF's audit. She noted that MSF Board Member Cliff Larsen, who served on the LAC committee while serving as a Senator from Missoula, also attended the hearing. The audit report indicated an unmodified opinion with no recommendations and noted that the prior report indicated no recommendations as well.

Internally

Ms. Grosfield said the dividend audit of the \$30 million declaration made by the Board of Directors at the September 13, 2019 Board meeting has been completed. After the declaration, MSF staff calculated and she audited, the dividend distribution process and payments for compliance with the MSF dividend policy, Board established parameters and statute. She said 22,800 MSF accounts received \$30 million (with some rounding). She noted that the State Agencies received over \$1.2 million in dividends.

She reminded Board members that the Multiple Public Employment Disclosures reports are due to the Commissioner of Political Practices (COPP) by December 15, 2019. She noted that she had received some from Board members already and was waiting to see if there were more for her to deliver to the COPP's office this afternoon.

Ms. Grosfield provided a review of the CY 2019 Internal Audit Plan and noted that the Board approved it last December and noted that most reviews had been completed and there were some items that were a work in progress.

She then presented and proposed the 2020 Internal Audit Plan and provided a brief history. She said per MSF's internal audit charter, the Internal Auditor reports functionally and administratively to the President/CEO and reports functionally to the Board. She said best practices indicate that Board approval of the plan is optimal and MSF adopted that practice in 2017. She said the CY2020 Audit plan was quite similar to the CY2019 plan.

She invited any questions from the Board and requested the Board approve the plan as presented. Chair Zanto called for questions. There were none.

Matt Mohr made a motion to approve the Calendar Year 2020 Internal Audit Schedule. Jan VanRiper seconded the motion. Chair Zanto called for discussion and comments from Board members and the public. Seeing none, he called for the vote and the motion passed unanimously.

Ms. Grosfield then added that the upcoming internal audits would be completed on agency incentive payments, the MSF Code of Conduct, Data Confidentiality and Acceptable Use Policy, Employee Leave Plans, Employee Performance Based Pay and ERM Controls Testing and she will be supporting the CY2019 financial statement external auditors.

- C. *Renewal of Compensation Consultant Services Contract – Rick Duane, VP, Human Resources*
Mr. Duane introduced the discussion on the renewal of the compensation consultant service contract with Kenning Consulting. He provided a brief history going back to the choice to contract with Kenning Consulting in 2014 under an RFP process as allowed in statute 39-71-2317, MCA. MCA 2-18-103 exempts the President/CEO's and MSF's employee compensation from the state classification and compensation plan in order for MSF to function as a competitive insurance company. He said that using an external consultant assures that MSF's compensation is aligned with the insurance market. The current agreement can be renewed for up to seven years and is currently in the fifth year.

Mr. Duane asked the Board to extend the contract for Kenning Consulting to begin on January 1, 2020 until December 31, 2020. The contract provides for a fee not to exceed \$23,700 for the performance management process and the advice to Board on the President/CEO's compensation based on his performance. He noted that the agreement also provides for additional work up to \$10,000 that the Board or President Hubbard may find necessary during the course of the contract year. He said if the Board approves the renewal, there will be one more year before an RFP will need to be issued.

Ms. VanRiper sought clarification on the need for the additional \$10,000.

Mr. Duane said past discussions have occurred as to the possible need for additional work from Mr. Kenning; however, that service was not provided for in the past. A discussion between the President, Chair Zanto and Mr. Duane resulted in the proposal of the \$10,000 contingency fee to address any additional services that may be necessary.

Ms. VanRiper asked if that clause had been included in past contracts?

Mr. Duane said this is the first time those funds have been proposed.

Jim Molloy made a motion to approve the proposed amendment of the Compensation Consultant Services Contract with Kenning Consulting. The motion was seconded by Mr. Larsen. Chair Zanto called for questions or comments from the Board and the public; there were none. He called for the vote and the motion passed unanimously.

- D. *Board Procurement Policy Exception*
President Hubbard said that MSF was currently engaged in the Policy Billing Replacement Initiative project that kicked off in late 2017 and continues. He said the project is behind schedule and though that is not a surprise, it is going to require MSF to ensure that there are adequate resources to get the project delivered. There has been a challenge in acquiring expertise with the Guidewire system product that MSF is implementing. He noted that the Board was aware that MSF's claim system is a Guidewire product and the proposal is to now implement Guidewire policy and billing as well as two portals. He said the specific expertise for project leadership and technical support for implementing the Guidewire product requires direct engagement from Guidewire for six additional resources for the project. He noted that this resource requirement was not previously budgeted and so he utilized the exception to the general procurement policy that allows MSF to solicit for services under the exigency requirement of its procurement policy to cover insurance related services. He said he was notifying the Board that this step was taken which could amount to \$1.4 million in 2020 because it is a significant budget request. He offered to answer any questions Board members may have.

Chair Zanto noted that President Hubbard has kept the Board fully informed as to the status of the project and he thanked him for keeping them apprised. He stated that President Hubbard had the Board's support and he encouraged him to get the project completed.

III. Reserve Reports – Montana State Fund

A. *Introduction – Laurence Hubbard, President/CEO*

President Hubbard noted that the Board would be determining the level of the unreserved liabilities and loss adjustment expenses for incurred claims to include in the CY2019 financial statements. He said the consulting actuaries from Willis Towers Watson, Russell Greig and Alex Turrell, will provide their estimations of the loss and LAE reserves.

B. *Montana State Fund Calendar 2019 Reserve Report – Russell Greig, Director, Willis Towers Watson*

Mr. Greig took a moment to introduce his new partner on the MSF account, Alex Turrell, Director and Consulting Actuary with Willis Towers Watson. He asked Mr. Turrell to briefly address the Board.

Mr. Turrell told the Board that he has been with Willis Towers Watson since 2005 and his tenure has included a number of name changes for Willis Towers Watson since he began there. He said he is a fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries. He said he has worked with a number of different types of entities and insurances and has a lot of experience working with workers' compensation insurance. He has worked with corporate self-insureds, state funds, municipal pools as well as public insurance companies and he has worked with Mr. Greig quite often in the past and has been made aware of MSF and Mr. Greig's commitment to MSF.

Mr. Greig said the objective of Willis Towers Watson's analysis was to provide an aggregate amount of the unpaid claims benefits and include a provision for claim administration expense or LAE. He noted that this analysis encompasses injuries occurring between July 1, 1990 and December 31, 2019. He provided a review of the methodologies that were used to determine the aggregate amount of unpaid claims and explained how each was applied. He reported that over the last 12 months, the change in Willis Towers Watson's total projection of loss is minus \$5 million or -0.2 percent.

He said there is uncertainty embedded in every actuarial and financial model because the aggregate amount of unpaid claims benefits is an estimate. Therefore, there are several contingencies that can impact future analyses. Medical costs may increase more than expected due to medical technology, utilization and higher frequency of severe diagnosis. Frequency and severity trends can fluctuate and benefit changes can result from law changes and/or court decisions and the level of attorney involvement. The expansion and contraction of economic cycles and social trends can have an effect, as well as the duration of injuries.

He provided a comparison of the unpaid loss development for MSF and the industry and noted that over the last eight to nine years, MSF's loss development has been relatively flat and stable. He added that medical emergence development patterns have continued to stabilize and in the last nine months are below expectations and actual versus expected is minus \$9.7 million. He said indemnity development patterns have been generally well-behaved and the actual versus expected for payments is minus \$2.2 million in the past nine months.

Mr. Greig said the total actuarial central estimate of unpaid benefits as of December 31, 2019 is \$636.8 million for medical and \$160.8 million for indemnity for a total of \$797.6 million before reinsurance. He said there is inherent uncertainty in every actuarial analysis and as a result there is a significant range around the unpaid loss actuarial central estimate:

Low estimate \$715.6 million	Actuarial Central Estimate \$797.6 million	High Estimate \$912.3 million
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He said MSF’s equity exists to absorb adverse reserve development as it is more likely than not that MSF will be dealing with adverse reserve development as well as favorable reserve development. Policyholder equity is there to also support the continued growth in MSF’s undiscounted loss and loss adjustment expense and to minimize the impact of unexpected events on MSF’s financials. He said, for example, MSF’s equity could be significantly impacted if medical inflation rates exceed long-term averages by two percentage points annually for the next ten years. The impact would be an increase of approximately \$104.2 million above the actuarial central estimate which is approximately 20 percent of the June 30, 2019 policyholder equity. Those additional costs would have to be funded from MSF’s policyholder equity and could not be recouped by ratemaking. He said ratemaking is prospective and ratemaking cannot collect for past unfavorable development.

Mr. Greig explained that Willis Towers Watson’s estimates include considerations regarding amounts estimated to be recovered under MSF’s reinsurance programs. In addition, Willis Towers Watson establishes an estimated claim administration expense (LAE). The selected provision is 14.6 percent of future loss payment which recognizes that a significant portion of LAE occurs when the claim is first filed.

He provided a review of the overall conclusion depicted below and offered to take questions.

Overall Conclusion as of December 31, 2019

- Unpaid claims benefits & LAE – Actuarial Central Estimate

Medical	\$636.8 million
Indemnity	160.8
Unpaid claims administration expense	116.5
Total gross unpaid benefits & administration	\$914.1 million
Reinsurance	(1.8)
Total net unpaid benefits & administration	\$912.3 million
- Considerable uncertainty is associated with projections of unpaid claims & LAE
 - Low estimate, \$808.7 million
 - High estimate, \$1,044.5 million

Chair Zanto called for questions from the Board and the public. There were none.

C. *Montana State Fund Calendar Year 2019 Reserve Recommendations – Laurence Hubbard, President/CEO*

President Hubbard presented management’s recommended loss and LAE reconciliation. He explained that there are additional items, such as reserve strengthening, other states’ exposure/employers’ liability and additional LAE that are necessary to address and include for

the Board’s consideration when adopting MSF’s loss and LAE. Management recommends a slightly more conservative estimation of net unpaid losses and LAE at \$955 million.

He explained that MSF takes a slightly more conservative internal view of MSF’s reinsurance recoverables against reinsurance. He said these are long term contracts in two different types of arrangements; one is excess of loss which would cover a very catastrophic event and MSF could retain the first \$5 million in any given occurrence of liability. This program requires more than one injury in an occurrence. An example would be the bus accident in 2007 that saw injuries for 26 or 27 Montana State Prison employees. He said there have been reinsurance recoverables for that accident; however, those catastrophic accidents are rare. He said the other program is the aggregate stop loss program and the adjustments reflected in his presentation represent the potential payables under each. He said these programs are just in place in case MSF has a really bad year and MSF’s medical liabilities accelerated beyond what MSF had prepared for. Though an adjustment would have to be taken, the reinsurance recoverable would help assure that MSF’s equity was not the sole source funding those potential liabilities. He noted that these programs are evaluated on an annual basis.

He said the MSF-recommended reserve strengthening is the reserve amount over the actuarial central estimate which is at \$914 million, while the Willis Towers Watson high estimate is over \$1 billion in liabilities. He said MSF’s liabilities are the single most significant balance sheet item which highlights the need to estimate the amounts as close to right as possible. We began requesting that the Board set aside money to provide a safety net for MSF higher than Willis Towers Watson’s recommendation to take the additional considerations into account. Quite some time ago, management began recommending that the Board approve \$32.1 million reserve strengthening above the central estimate and the Board has agreed. Management once again recommends the reserve strengthening at the same level. He noted that Willis Towers Watson does not make a recommendation on MSF’s other states/employers’ liability obligations, yet those liabilities need to be adequately reserved as well. The additional LAE using 14.6 percent to calculate the reserve strengthening results in another \$4.7 million.



Recommended Loss and LAE Reserves (in millions)

(as of Dec. 31, 2019)

	<u>Willis TW</u>	<u>MSF</u>
Unpaid Losses	797.6	797.6
LAE	<u>116.5</u>	<u>116.5</u>
Gross Losses and LAE	914.1	914.1
Adjustments:		
Reinsurance	(1.8)	(0.4)
Reserve Strengthening		32.1
Other States/EL		4.5
Additional LAE		<u>4.7</u>
Net Unpaid Losses and LAE	<u>\$ 912.3</u>	<u>\$ 955.0</u>
Total MSF Recommended Losses and LAE		\$ 833.7
		\$ 121.3

Willis Towers Watson Estimates

<u>Low</u>	<u>Central</u>	<u>High</u>
\$819.1	\$912.3	\$1,034.1

President Hubbard asked Rene Martello to present the impact of this recommendation on MSF’s financial statements before action was taken on this item.

Chair Zanto called for questions. There were none.

D. Calendar Year 2019 Projected Financial Report – Rene Martello, Controller

Ms. Martello provided a review of the projected reserves for the 2019 financial statements. She provided the timeline and explained the progression of the audits and financial statements, noting that the deadlines are the same for other insurance companies. She said the financial reports (the financial statement, the actuarial opinion and other schedules) must be submitted to the Commissioner of Securities and Insurance (CSI) office by March 1, 2020. She said an update of the status of the audits will be provided to the Board at the March 13, 2020 Board meeting as well as an explanation of the variances between the 2019 projected results provided today and the financial results as of December 31, 2019. She said the complete packet including the final audited financial statement is due to CSI on June 1, 2020.

She said current year net loss reserves are at \$797 million which is an increase of \$8.2 million from 2108 and the overall recommended loss reserves of \$955 million is a \$13.4 million increase from 2018.

She provided a comparison of the 2019 third quarter income statement with the projected year-end 2019 income statement. She said incurred losses decreased; however, incurred loss expenses increased. The net underwriting loss was actually \$200,000 better than was projected for third quarter. Net investment income increased approximately \$500,000 to \$38.6 million and net realized capital gains increased by approximately \$500,000 from investment sales that occurred in October. Those changes brought the projected net income to \$39.6 million and after dividend calculations the net income is \$9.5 million or \$1 million more than was projected at third quarter.

Ms. Martello said policyholder equity at the beginning of 2019 was projected to be \$512.5 million; however, with increases in net income and net unrealized gains of \$9.3 million, that projection is now \$543.3 million but does have the potential to change. That equity level change indicates a projected reserve-to-equity ratio of 1.8 and indicates a trend of stable reserve-to-equity ratios despite the continued rate reductions and the on-going issuance of large dividends.



2019 Reserves – Request for Board Approval

Net Unpaid Loss Reserves (WTW)	\$ 797,603,958
MSF Adjustments:	
Estimated Reinsurance Recoverable	(366,191)
Reserve Strengthening	32,100,000
OSC and EL	4,358,183
Total Unpaid Losses	<u>833,695,950</u>
Loss Adjustment Expenses Reserves	<u>121,318,659</u>
Total Unpaid Loss and LAE	<u>\$ 955,014,609</u>

She said management was asking the Board to approve the loss and LAE reserves totaling \$955 million to be included in the 2019 year-end financial statements. She noted that approval from the Board is needed to also allow the reserve amount to be adjusted after the year end closes for the actual claim payments made between the Board meeting and the end of the year. She said an update will be provided at the March 2020 Board meeting.

Chair Zanto called for questions. There were none.

E. Adoption of Montana State Fund Calendar Year 2019 Unpaid Loss and Loss Adjustment Expense Reserve Estimate – Laurence Hubbard, President/CEO

Mr. Hubbard asked the Board to approve the loss and LAE recommendation that Ms. Martello presented.

Lynda Moss made a motion that based on the actuary’s best estimate of unpaid losses and loss adjustment expenses, adjusted for projected reinsurance recoverable, and for President Hubbard’s recommendation for loss reserves for Other States Coverage, Employers’ Liability, and reserve strengthening, on an undiscounted basis as of December 31, 2019, I move we adopt \$833,696,000 as the unpaid loss reserve and \$121,319,000 as the loss adjustment expense reserve estimates for the Montana State Fund financial statements for the year ending on December 31, 2019, to be adjusted for changes based on the actual benefits paid at end of the year. Mr. Molloy seconded the motion.

Chair Zanto said he felt confident that the conservative approach that MSF has taken historically is a good approach and he is comfortable with this recommendation.

Chair Zanto called for additional questions or discussion from the Board and the public; seeing none, he called for the vote and the motion passed unanimously.

IV. Calendar Year 2019 and 2020 Annual Business Plan – Laurence Hubbard, President/CEO

A. Annual Business Plan Introduction

President Hubbard called upon Ms. Shannon Copps to present the status of the 2019 Business Plan and MSF staff to present the proposed Calendar Year 2020 Business Plan. He mentioned that Ms. Copps was now based in Missoula while continuing her employment with MSF. He noted that these changes are so that MSF can adapt and change with the workforce demands to be able to secure and retain talent.

B. Calendar Year 2019 Annual Business Plan Status – Shannon Copps, Director of Enterprise Strategy and Project Management

Ms. Copps provided the Key Success Measures and noted that these were the year-end projections based on available information up to September 30, 2019.



Key Success Measures

KSM	2019 BP	2019 Projected
Net Earned Premium	\$151.1M	\$155.7M
Loss Ratio	80.9%	73.0%
Expense Ratio	35.2%	34.5%
Investment Income	\$43.4M	\$53.7M
Net Operating Income (before dividend)	\$16.0M	\$38.5M

Achieve Enterprise Wide Initiatives

She said net earned premium is projected to be \$4.6 million higher than planned at \$155.7 million. The loss ratio was projected to be at 73 percent rather than the projected 80.9 percent. She said total expenses are projected to come in slightly higher than planned; however, with increased premium the ratio is at 34.5 percent. Projected net investment income is \$53.7 million which includes \$15.6 million in realized gains. Net operating income before dividend is projected to be \$38.5 million – the \$22.5 million increase is driven by investment results and the decreased loss projection.

Chair Zanto called for questions; there were none.

Ms. Copps said the three initiatives for CY2019 were all focused on customer service. She said 2019 is the fourth year of the work to replace the policy and billing system (PBRI) with a modern application that improves our customer service and efficiency. MSF continually looks for ways to reduce Montana's high rate of workplace injuries and has developed two initiatives to accomplish that goal.

She said the PBRI project is behind schedule and will not be implemented in 2019 as was originally planned. After nearly two years, development work on the five applications, system integrations and data conversion is largely complete and the team is a few months into system testing. She indicated that Ms. Jenkinson would provide a more detailed report later in the meeting during the 2020 Annual Business Plan Presentation.

Ms. Copps said the WorkSafe Champions project was on track and is a program that educates policyholders on identifying safety challenges at work and reducing those risks. There are three options to participate; 1) a Safety Management Consultant (SMC) works on-site with the policyholder who dedicates at least three people to attend. This option currently has 11 policyholders and 85 employees participating. 2) is for smaller employers to attend one of the regional workshops – 33 people from 24 policyholders attended workshops in Billings, Bozeman, Great Falls, Glasgow, Helena, Kalispell and Missoula. 3) New in the past couple of years is the Elite WorkSafe Champions program which was designed as a next-level engagement and continuing education for the WorkSafe Champion alumni. There are nine policyholders that have earned the Elite designation which makes them eligible for additional training and safety grants.

She said the Growing a Safer Montana project is on track and focuses on expanding MSF's efforts to reach young workers and invest in the safety future of Montana. Safety equipment grants were awarded to 22 high school classes which impacts close to 4,500 students. The instructor selected from a variety of personal protective equipment to fill the class need up to \$750. The equipment was branded with MSF's logo and distributed to the classrooms in September. The second aspect of this project is to award \$4,000 scholarships to students in college trade and occupational safety and health programs. There are fifteen students who were chosen to receive the scholarships in Butte in January 2020.

Chair Zanto called for questions. There were none.

C. *Calendar Year 2020 Annual Business Plan – Shannon Copps and MSF Staff*

Ms. Copps moved to the Calendar Year 2020 Annual Business Plan and presented the Key Success Measures:

- Generate Total Net Earned Premium of \$149.1 million – which included producing \$14.5 million of new premium and achieving a 91.7 percent premium retention. This is a very strong retention rate; however, it is consistent with retention patterns over the past few years.
- Achieve 74.2 percent loss ratio with prior period favorable development of minus \$4 million.
- Achieve 39 percent expense ratio. This would include loss adjustment expense at 15.9 percent and managing operating expenses to 23.1 percent which includes general expenses and commissions paid to MSF's agent partners.
- Achieve investment income of \$44.1 million.
- Achieve Net Operating Income of \$21 million before dividend.

Mr. Molloy asked if MSF directs the Board of Investments (BOI) on the allocations of the funds that MSF would like to invest in or does BOI make those decisions for MSF?

President Hubbard said the investments through BOI are not unilateral, there is a Memorandum of Understanding with BOI that is consistent with what is developed with the Chief Investment Officer and the BOI. The agreement is between MSF and BOI because MSF's portfolio is managed differently than the pension funds that BOI manages for state employees. MSF's portfolio requires some conservativeness and regulatory aspects that are different. He said MSF works very closely with BOI; however, they can do whatever they deem is appropriate regarding allocations within the portfolio. By Constitution, they manage MSF's assets.

Chair Zanto called for questions; there were none.

Ms. Copps said there were three initiatives for the 2020 Annual Business Plan. This year will begin year five of modernizing the core policy, billings and rating systems and adding two customer portals. MSF will continue to positively impact Montana's high rate of work-place injuries with the Growing a Safer Montana and Worksafe Champions programs. Ms. Copps introduced Julie Jenkinson, Vice President, Operations to provide the presentation on the PBRI project and Growing a Safer Montana. She also said that Sam Heigh, Vice President, Operations Support would present the WorkSafe Champions project.

Ms. Jenkinson said the PBRI project was started in 2015; however, depending on how you count the years, this project could either be in year five or six at this point. She said the team has clearly completed a lot of work this year and there is still a good amount of testing before the system can go live. She said there have been some struggles with the schedule and she promised to explain what was being done to remedy that and control the schedule as much as possible. She said there is a large daily effort put into this project from Sandy Leyva and Erika Ayers as they are often double booked and spread pretty thin. She added that Al Parisian, Sam Heigh and she do the best they can to help fill in all the gaps as well as look at things from an overview perspective. She said at this point, the Board needs to know that they still remain committed to doing whatever it takes so that when this process is implemented, it is quality for MSF's employees and it actually does move MSF forward. She said the Board's support has been significant up to this point, five years into the project and we still are on budget with that original \$19.9 million budget. She said of course, it is costing MSF more than that at the end of the day when staff salaries and backfilling

positions are added in as was discussed with the Board at the June Board meeting. She said it is a bit of knowing what column is being talked about at any given time.

She said the project is in year five of this initiative and it actually began in 2015 when, with the Board's support, an Independent Validation and Verification vendor (Sabot) was hired to assist MSF in keeping track of all parts of the project, managing all of the risks and addressing all of the problems, immediately when they were happening. This also included keeping an eye forward to whether MSF will realize all of the benefits of this system. She said Sabot began helping MSF with that from the beginning. MSF developed its project strategies and how everything would be measured. In 2016, the request for proposal (RFP) was released and that process began which actually meant the real work of the project did not begin until 2017 or year three of this project. In 2017, the MSF project team went to the Board with the details about moving the project forward and the Board approved that. In 2018 the development work was begun and they got all the way through most of the development work or so they thought. At the end of 2018, the team approached the Board about extending the schedule and adding some Sprints, which are a 30-day schedule of work.

Chair Zanto asked Ms. Jenkinson, if in hindsight, did the work in 2015 and 2016 help us where we are now?

Ms. Jenkinson said absolutely and added that she sometimes wonders. She said when we first moved to getting an IV&V vendor to help us, we questioned ourselves a lot about whether or not we needed that kind of help. We have a lot of project experience, we have a very developed project governance approach and we meet monthly with President Hubbard to review the project in extreme detail. We felt we had a lot of project experience; however, what made us nervous was the long arc of the project that we knew would go on for so many years because of the five different platforms that we were replacing. We thought, we better make sure someone is watching us watch ourselves, essentially. She said Mr. Parisian is the one who said he has done this a lot and using an IV&V vendor would assure we stay on task and will assure we do not miss anything. She added that the vendor, Sabot, reports directly to President Hubbard and provides him with monthly updates and monthly reports to the team. Sabot representatives also attend the weekly meetings with the project sponsors to assure they are not missing anything. She said that work, as well as the prework that was done before 2015, actually set the team up for the success they are enjoying. She said when there were problems at the end of 2018, the team returned to a lot of the different companies that they spoke with before the project was started to find out how their projects had gone. She said many of them had much worse delays than what MSF is experiencing because they had not taken the time up front to adequately prepare and had underestimated possible delays and testing problems or integration problems. Moving everything from one system to another, beyond just building the new system takes an enormous amount of planning so not doing that work at the front end might have resulted in a much longer delay than what is currently being experienced. She added that it is complicated. Workers' compensation is complicated and it is complicated to replace a system that, when the project was started, was 18 years old - now it is 21 years old. That is a complicated endeavor because every day there is something found that we might not have exquisitely expressed properly and we have to go back and fix. She said when you understand something really, really well, it is hard to explain it exquisitely because you take some things for granted. She said that process of preparing at the front end probably has saved MSF more than a year, easily. She said MSF's colleagues in the industry have some horror stories regarding their projects, MSF just has a bit of a bad dream; however, MSF is not in nightmare status. She said at the end of the day, they are getting very close to being able to put this in place and the team believes they will have a really quality system when it is put in place.

She said 13 development Sprints were originally planned for; however, three more Sprints were added in 2018. She added that Sprint 16 was scheduled to run for as long as it took to complete all the work and was started at the beginning of 2019. The project is only 20 points away from completion; however, is still not completed yet. She said there is discussion every day with the project managers, Ms. Leyva and Ms. Ayers, who provide an update and recommendations for overcoming the hurdles. The team is moving the needle as quickly as they can. She noted that President Hubbard began the Board meeting today by talking about the need to bring on extra resources for this project. She said getting Guidewire resources has been a struggle from the beginning of the project and MSF's partner, HCL has had a difficult time keeping resources in Montana due to visa issues. She said for those reasons, MSF engaged its other partner, Guidewire, because this is a Guidewire platform that is being implemented, for help. She added that the team requested Guidewire help HCL and MSF in finding the necessary resources and not getting that help was not acceptable, MSF was not just going to hope to get across the finish line. She said with Guidewire's help, six resources were found through another vendor and some will begin next week and some will begin on Christmas Eve. They will help MSF and support the team in closing the last bit of the gap. We proposed this to President Hubbard and told him the team believed hiring the additional resources was the appropriate way to go, would stop further delays and bring in the needed expertise. She said though we do not want to spend any more money, the project needs to be completed and put in place for the employees and the team believed that the money would be money well spent. President Hubbard agreed and the Statement of Work (SOW) was developed and implemented before those resources could be hired away to a different project.

She said in 2019 testing began in August. She noted that when the testing began, the testing itself was actually the problem; in system integration testing where the testing is to assure that everything that you connect still works, there were issues. There were three sessions of system integration testing planned. The first session was completed and went pretty well; however, the last bit of development work has not been completed. There are at least two more cycles of system integration testing to complete and the team wants to finish all of the development work so the testing cycles will be complete so the team will continue to push for that with the new resources.

Ms. Jenkinson said that in 2019 other work also occurred at the same time. The efforts to encourage employees to "play" in the system continued through SIMON which is the simulated environment that is on everyone's desktop. Employees can go in and acclimate themselves to the new system. A part of change management called Voice of the Employee (VOE) was implemented. This includes a group of employees throughout the whole company, whether a direct or indirect user, advising the team on how best to assure everyone knows what is happening and what to expect next. The VOE team has done a great job and has even advised the team to make sure that what can be implemented ahead of the system should. There are some business process changes and the VOE recommended getting started on those now. Some could be implemented ahead of the new system and those implementations have begun. She said training plans have also begun to be developed because as we get ready for implementation of the new system, we will want to assure that everyone learns the new system before hitting the go-live button. This will assure that the first day when we need to start producing quotes and managing policies in the system, we can do that. She said there is still a lot of activity going on to support the development work and the last bit of testing that needs to happen.

She said MSF has also continued its work on business value realization. She added this is more of a reminder that there are three aspects to that, we save expenses because we get efficient and that the quality is actually there for us and our customers, so that we get better data to help manage our policies and our customers get to experience a little bit of improved efficiencies. She said

they can interact with us more timely and find things on their own and they can even submit information to us through a portal which will mean they do not have to call MSF if they do not choose to. We will still be available here for them; however, this will give them more options on how they want to do business with us.

She reminded the Board of some of the already identified benefits such as 643 manual steps removed and we believe we have already, just from what we can quantify, saved thousands of hours for our staff so that we can actually spend our time doing less data entry and more actual meaningful work with our customers. We are helping them solve their problems before they are bigger problems as well as giving our customers opportunity to do business with us how they want to. She said if they want to go on and serve themselves, as most people can currently do, even on their phone, that we give them that ability. She said we don't currently have some of those abilities.

She said the plan for 2020 is to complete the development work and the team is extremely close to achieving that. Testing will be completed and we will assure that as we get closer to the date, when that date is known for sure, that we do the absolute best training for our employees as well as for our customers, and for our agents because they are going to need to know how to operate in the system as well. She said Organizational Change Management (OCM) will continue and MSF will get ready for the magical day when we can plug in the lights and everything works. She said we are looking forward to that and believe that day will happen in 2020, though we do not know the exact date. She said she wished she could provide the exact date; however, said that would be misleading since the development work still needs to be completed and the team has thought it was very close a few times now just to identify a defect. She added that a big part of this is not to just complete the development work. One, the development has been completed, the product owners, in testing the development will find defects or processes that just do not work quite right. Those defects must be worked through so when the system goes live, the quality is there and it works the way it is needed to. That is not quick work; defects can be identified, sent back, fixed, something else does not go well and we have to do the regression testing to assure that when you fix one thing you do not break something else. She said she only offered that information to tell the Board that it is a very complicated process and at the end when things are the most complicated and the most complicated development work is left, that complication just gets exponentially difficult. She said there is a great team of people working on this, they are our best and our brightest; they are looking a little tired and frazzled yet absolutely dedicated to getting this done and are excited they are getting so close. She assured the Board that the sponsors and managers are supporting them in every way they can, up to and including that they get a Christmas party, that they know how much we appreciate the work they are doing. She said adding these six resources actually is another sign, hopefully for them, to realize how much we want them to be successful, that we will spend the extra money when we need to, to make sure that we get them to a place where they can be comfortable with the quality of the product.

She said in summary, obviously the team is being supported to be successful, the project leadership is doing an outstanding job of holding everyone accountable every day to assure that if it is a defect, it gets fixed, if it is development work that we need that we get it done and that we have not lost track of the business value realization, keeping our eye on OCM and making sure that the rest of the company is ready when we finally are ready. She said to the question "why are we doing this?"; it has been a slog and a lot of work and a lot of money and MSF is doing it because we believe our customers and our business partners deserve that from us. This will actually open up new capabilities for us to offer new products and services and actually help our customers see us as a very relevant and important business partner as they need workers' compensation. That we are not limping along on a 22 year old system doing the best we can, that

we care and we want to invest in them as well. She offered to take questions before moving on to the next project update.

President Hubbard asked Ms. Jenkinson to clarify what implementation of this new system looks like in terms of how the customer is going to feel about implementation. Could you explain what that looks like in terms of how the customer is going to feel it?

Ms. Jenkinson asked the Board to flash forward to the first day of implementation which she clarified is actually two dates. The first date is the day MSF can write new business in the new system. MSF does not need a lead time to write a new piece of business - MSF often writes business for the very next day. If the system were implemented on the first of the month, we could begin writing business as of the second day of the month in the new system. She said lead time is needed to renew business in any system and the current lead time begins at 105 days before the effective date. She said if the system were implemented on say October 1, we would not be actually renewing business in the system until January of the next year because the lead time is needed to populate payroll requests to the incumbent policyholder. She said time will be needed to review all of their records and their payroll and assure that everything is in place and then time is needed to actually produce a quote for them, by law 45 days, before the effective date. When the 45 days is added to the work that must be completed, the lead time is almost three and a half months before the actual effective date. When the new system is implemented, MSF will be writing new business in it immediately; however, we will not be renewing business in it for about three and a half months later. She said MSF will be transitioning the information from the old system into the new system; however, we will be working in both systems for an entire year while we complete that transition as the policies renew. She noted that policies renew everyday so it will be a rolling kind of implementation. She noted that the way MSF is completing the implementation is to take a very balanced approach so if there are problems there is time to fix them before every policyholder is affected.

President Hubbard also pointed out that policies renew every day of the year. He noted that MSF's biggest renewal dates tend to be on the quarters, July, January, October, etc. He said the timing of implementation affects the number of policies that renew going forward; not all policies will be impacted on day one. He added that converting data from one system to another is one of the riskiest parts of a project and if it goes wrong there are reputational and business impacts for customers.

Chair Zanto made a comment that it occurred to him as Ms. Jenkinson was speaking that while in the midst of the project, it is easy to get mired in daily small problems; however, you can also find yourself in a position where that is all you are doing. He said he trusted that the team was acutely aware of that scenario.

Ms. Jenkinson said that if they were to show the Board the metrics of what Ms. Leyva and Ms. Ayers watch every day, it could quickly lull you into a good night's sleep. She said things have gone back and forth dozens of times; however, that is not the norm and the team also wants to make sure they are not striving for absolute perfection when that is not needed. She said we are trying to assure we are checking ourselves constantly or can this wait, can this be fixed after we go live, etc. We do not want to be in the situation where they are building the airplane while it is in flight; however, it is okay to fix the seats while in flight. She said the team is keeping really close tabs on that and constantly challenging themselves. She added that Sabot is also challenging the team; when they meet with Sabot and discuss defects, they get very much into the detail. Ms. Jenkinson thanked the Board for supporting the project financially and also for the support of the

mission and the why of this project, and also supporting the staff that works on this project. She said the staff feels the support and it does not go unappreciated.

Chair Zanto said the Board does have that trust in the team and he would like to see the project come to completion, and asked her to please keep on the vendors, especially HCL.

Ms. Jenkinson said MSF is not always making close and warm friends. She said they are holding themselves and the vendors accountable. She added that there are meetings twice a month and meetings with all of their leadership and our leadership going over the status, what worked, what did not and how that is being fixed. She said those conversations are very pointed and are followed up with emails and more correspondence. She said Mr. Braun has been brought in to talk to their lawyers when needed and the team has used all of its resources to assure that they are pushing where they need to push and supporting where they need to support.

President Hubbard reminded the Board that there is very good performance security on this contract. This is a fixed price contract; however, MSF will see costs incurred for schedule delays which were not planned for. Those are ancillary costs that will have to be absorbed and worked out later which was the crux for getting additional resources on-site to minimize and mitigate any additional delay that can be avoided. He said the longer the necessary performance is delayed, the more it will cost MSF ultimately. He added that there are other intangible risks such as staff burnout. He said MSF has an approach that he believed was working very well which is to continue in good faith to work with our partner, HCL, in terms of implementation and not walk away from quality issues. He said we are insisting that they be resolved appropriately. He also asked Ms. Jenkinson what particular part of the business process or functionality is the current sticking point?

Ms. Jenkinson responded that MSF insures a lot of small business owners and a big part of a small operation is who are the officers in that company. She said what is paid for the officers for workers' compensation affects their bottom line. She said MSF calls those owner/officer issues and those designations often change in a policy mid-term. She said with owner/officers, it is necessary to know who is being covered under the policy at any given part of the day and those mid-term changes on that particular issue are causing development issues for the new system. She said MSF can make many changes on a policy during just one day and would like to avoid sending them multiple letters regarding each change. She said they would like the system to just release the final changes in just one communication. She said the system, as it was being built, was being designed to issue a communication with each change that occurred that day. She said that was not going to work, the system needed to be built to recognize only the last change to assure that none of the other changes supersede the final change since this is a legal contract and must be correct. She said the documents for owners/officers and cleaning up some of the defects are where most of the consternation is at the moment. Those changes on the owners/officer's letters also have implications for our rating engine which is one of the five platforms being developed. She said we have to assure it works properly so the policyholder gets charged properly. She said they do have confidence that they are getting close to resolving those issues.

Ms. Jenkinson next presented the Growing a Safer Montana Initiative. She said it focuses on young workers and was begun in 2017 and is focused on the construction and trades industries in Montana. She said these industries are the least safety conscious in Montana and a severe injury for a young person can change their whole life. She said MSF wants to be sure to reach those workers just as they are beginning to learn their crafts in high school, trade school or college.

She said the high school safety grants were originally developed to entice high schools to invite our safety consultants into their classrooms for training. She said those offers for assistance met with resistance from the teachers who felt they provided adequate safety instruction to the students. The safety equipment grants for high school classrooms have opened the doors for a partnership with the teachers. Over the past two years this program has impacted 4,500 students and allowed our SMC's to visit and meet the students and teachers. She said next year the plan is to open the grant availability to almost any high school in Montana. She noted that the partnership with the teachers has blossomed and SMC's are being invited into the class for safety instruction and training.

Ms. Jenkinson said the scholarship program provides \$4,000 (\$2,000 per semester) scholarships to college students that are in safety and health professionals in the trades and industry technical programs. She said there were 20 applications this year and 15 scholarships will be awarded in January, 2020 in Butte. She noted that one of the teachers at Highland College made it a requirement that all of his students complete the scholarship application, complete the essay and take the on-line safety training. She said the program is gaining momentum and because of that MSF has decided to expand the program. She the scholarships have been expanded from 10 to 15 and the grant level went from \$1,500 to \$4,000, allowing students \$2,000 per semester as long as they meet the criteria. The point of this program is raising awareness of safety at every aspect in these folks lives from high school to college to when they actually get a job.

Ms. Heigh presented the WorkSafe Champions program. It has been in place for ten years and has been refined over that period of time. There are now on-site programs as well as an Elite program. The Elite program focuses on continuing safety training for policyholders who invested in the WorkSafe Champion program and want to continue that process.

She said on-site programs have been added as well as the Elite program. This program is the cornerstone of MSF's safety education services with a focus on creating policyholder awareness of the safety culture in their organization beginning with the workshops. With the addition of the Elite program, post graduate WorkSafe Champion will maintain the safety focus long into the future. This training is not meant to be one and done but a long-lasting opportunity for employers to continue their safety focus throughout the life of their organization. The classes teach them how to identify their safety challenges and focus on the efforts to reduce their risk and as a result reduce their accidents. In the past ten years, this program has graduated 664 students representing 299 employers.

She said the central classes have been on-going and are designed to address safety training for smaller employers who do not have the resources to meet the commitment of the on-site classes. The central classes are held in various cities throughout Montana and are typically comprised of ten to 15 attendees representing a multitude of employers. The goal of these sessions is for attendees to return to their place of employment and share the safety knowledge that they learn in the class to create a safer workplace environment. The central classes contain the same curriculum as the on-site classes; however, the central classes meet in a group four times a year rather than meeting once a month for a year. The on-site program has been well received, requires approximately a year to complete and requires three dedicated participants from the employer for the duration. The sessions run for two to four hours as many as nine times per year and the goal is to help the attendees build a safety plan specific to their organization. They identify some of their risks and then identify a plan for how best to mitigate those risks.

Ms. Heigh said the WorkSafe Champion Elite is an extension of the MSF WorkSafe Champion on-site program and MSF is considering offering components of this to the central classes as well.

This program was established to encourage the attendees from the on-site classes to continue to focus on safety and their awareness of safety practices. She said this program offers a \$3,000 grant for safety equipment or classes based on the needs of the participant and they can apply for the grant each year. She said this program helps MSF remain engaged with the employer to assure that they continue fostering a safety culture in their workplace. The grants can be used for a variety of things, such as OSHA training, CPR training or personal protective equipment, etc. She said seven grants were issued thus far this year and another three are expected to be approved before the end of the year.

Chair Zanto called for questions.

Ms. Moss commented that she has attended some of the WorkSafe Champion sessions in Billings and asked if the program managers have considered the opportunities to connect with industries where there is a conference such as a healthcare or a nurses' association and provide the training there rather than just in the major cities as a way to connect with policyholders and provide safety training specific to their industry.

Ms. Jenkinson clarified that MSF's Safety Management Consultants attend a large variety of conferences, Safety Fests and provide trainings while there as well as have a booth and provide consultations. She said that a lot of the SMC's work is already dedicated to that type of activity.

Chair Zanto called for additional questions; there were none.

Ms. Copps provided the financial components of the business plan projects for 2020 which is depicted below.



2020 Business Plan Budget

Project	Budget
Policy and Billing Replacement	\$6,947,858
Worksafe Champions	\$79,106
Growing a Safer Montana	\$100,948
Total	\$7,127,912

She said the majority of the budget was for the PBRI project which is included in the 2020 budget. She asked the Board for approval of the Calendar Year 2020 Annual Business Plan as presented.

Chair Zanto commented that he likes to see MSF encouraging the growth of a stronger safety culture in Montana.

Chair Zanto called for questions; there were none.

Chair Zanto made a motion the Board adopt the proposed Calendar Year 2020 Annual Business Plan. The motion was seconded by Mr. Mohr. Chair Zanto called for questions or comments. There were none and the motion passed unanimously.

D. MSF Strategic Planning Discussion, Laurence Hubbard, President/CEO

President Hubbard noted that prior to the September Board meeting, discussions with various Board members highlighted the need to address long-term plans (three to five years) for the future structure of MSF. He said there needs to be a public discussion about the role of MSF in the workers' compensation marketplace, MSF's status as an independent public corporation and quasi-public entity and also the perennial issues surrounding MSF's future. He said with that in mind, he had prepared a strategic discussion proposal or road map for the Board to consider.

He said since 1915 when MSF was created, for much of its history, until the late 1980s, workers' compensation insurance was run through the Montana Department of Labor and Industry attached to state government as a formal part of an agency. He noted that the financial crisis in the late 1980's in the workers' compensation system saw regulatory changes for workers' compensation insurance to address the \$557 million unfunded liability. He said the legislature addressed the crisis by creating the Old Fund and creating Montana State Fund to be administrated in a professional manner by an independent board of directors. The original iteration of MSF was as a mutual insurance company; however, the regulator quickly informed the Board of Directors that their rates and capital were inadequate which meant the mutual was basically an insolvent company. The legislature reconvened in a special session to eliminate MSF's domestic mutual status and create an independent public corporation that reported to the legislature through the State Administration Committee, which became the New Fund. The legislature instructed the New Fund to operate like a mutual insurer. Though the Board is appointed by the Governor, as an independent public corporation, the Board is vested with full power, authority and jurisdiction over MSF. He said MSF has essentially run in that capacity since 1990 until the other major regulatory change in 2016 when legislation was passed to require MSF be regulated by CSI like any other domestic insurer by CSI.

He said that as this history unfolded there were also events that put MSF in a very reactive position to proposed legislation that sought such things as studies of MSF, the sale of MSF, the conversion of MSF and the elimination of MSF. MSF management and staff participated fully on every piece of proposed legislation. He specifically mentioned the 2017 bill (SB371) which sought to dissolve MSF and create an assigned risk pool in Montana. He said this raised the question as to whether MSF's Board could be an authoritative voice for a healthy worker's compensation system in Montana, given the vital role that MSF holds and its responsibility as the guaranteed market for Montana businesses.

President Hubbard asked if there was an opportunity to develop understanding and expertise about the options that are available around the country for this kind of workers' compensation insurance system - one that protects small businesses, yet is healthy and embraces competition and supports a dynamic workers' compensation system. He said that was the basis of the proposal he brought to the Board at this meeting. His proposal is to hold a series of meetings during the upcoming year and bring in subject matter expertise, public participation, legislator participation and other input that would help inform the Board on the various options that are available around the country in terms of protecting this very important responsibility yet also assuring that Montana has a stable MSF going forward. He said it would be beneficial to have these conversations with information and data so that the Board might, at some point, feel comfortable either supporting specific types of legislation or developing a policy about how MSF's role supports the purpose, the mission and vision of this organization into the future. He said obviously, the MSF Board is not in a position to change the structure; that is a legislative and political decision by representatives in the state. He said his proposal is not intended in any way to usurp the legislature and policymakers of this state; however, he does believe it matters how MSF and the Board

represent with a unified voice the credible possibilities that support the long-term value that MSF provides to Montana's citizens.

His recommendation includes a series of educational meetings for the Board as proposed:

- At the March 13, 2020 Board meeting offer the Board a deep dive into the history of MSF with presentations from MSF management, staff and other experts in the industry. Also a review of the major legislation regarding MSF's structure, including the various studies that have been completed to date. He mentioned that he had included a well done, very succinct summary of the studies that had been developed and authored by Pat Murdo, Legislative Staff to the Economic Affairs Interim Committee (EAIC). He said an additional item for agenda consideration could be an in-depth discussion about the relationship between MSF and the Old Fund that exists today. He said, as the Board knows, MSF administers the claims for the Old Fund; however, by law, the general fund pays for the liabilities of the Old Fund.
- A May meeting – date to be determined – to discuss and focus on the three-way workers' compensation system in Montana and what is working and what is not from stakeholder perspectives. He said also a discussion on regulatory oversight of workers' compensation insurance with an invitation to CSI to present their regulatory perspective regarding the laws and the public policy issues revolving around rates and ratemaking for all insurers in Montana including MSF. He added that a discussion of company solvency and the role of equity, regulator thresholds and authorities and what can happen when things go bad for insurance companies.
- He said he proposes to follow up at the June 5, 2020 Board meeting with a discussion of alternatives to the three-way competitive system. He also proposed an overview of various workers' compensation systems in the United States and said he envisions inviting the National Council on Compensation Insurance (NCCI), considered an expert in this industry, about the various systems in which they participate and provide rating organization support or guidance in the various jurisdictions. He also proposed gathering perspectives from other insurance companies and neighboring monopolistic states such as North Dakota, Washington and Wyoming. He is hopeful this will give the Board a sense of what typical mechanisms are available besides just MSF's including Florida's joint underwriting authority jurisdiction.
- July and August – to be determined – would be a continuing follow-up on any items left open in June, and a specific discussion to address alternatives to MSF's structure and any requests the Board might have for additional information or data. This may result in preliminary discussions of a strategic direction that the Board may or may not be able to come to consensus about at the end.
- He said at the September 11, 2020 Board meeting there would be further continuation of strategic discussions and any items that might have cropped up during the sessions that the Board may want further information about.
- At the December 11, 2020 Board meeting, which is post the November elections and could influence a number of factors such as Board makeup, etc., develop a policy statement, guidance or direction that could possibly result in potential legislation if there were consensus on the Board regarding a specific direction. He added that by that time,

there may be information available as to proposed legislation affecting MSF for the 2021 Legislation session.

President Hubbard noted that this proposal is not a mandatory action that the Board must take. He added that it would be important to maintain a high degree of transparency about MSF and its role and purpose. MSF's Board meetings are public and public participation is encouraged. He noted that MSF's Board members have more experience with workers' compensation insurance than the legislators who have proposed bills thrown in front of them amid all the other issues they must deal with and have to sort out in the moment. He said he believed that if anything resulted from this process, a very specific and strategic discussion would lend credibility to MSF's voice in the legislative process as well as in the policymaking process going forward.

Chair Zanto clarified that this did not call for a Board action; this was rather a discussion amongst the Board members. He said one of the things that Board members have discussed amongst themselves is the need for more education, understanding and knowledge of what goes on in the system. He said he sees this as more knowledge and education for the Board and providing some clarity for them as MSF moves into the next legislative session.

He added that it would be educational for the Board to understand what the potential other options are emerging in the workers' compensation market, such as on-line options, etc. He said he still wonders how they would work in Montana and what value that would bring to employers in Montana – would it present more risks or benefits? He said he sees great value in this process.

Mr. Owens asked if the state of Montana were moving to a legislative session every year?

President Hubbard said he was not sure which committee was looking at that during the interim; however, he was aware of active discussions regarding annual sessions, with a breakdown of one year being policy and the next year being budget and related.

Mr. Braun added that legislators are very interested in this issue and there is a planned meeting in January where this will be the hot topic as they look into taking this approach.

Mr. Mohr said he is in support of this and believed that the Board had to do this due to the uncertainties that MSF faces, most recently Senate Bill 4. He said he would like to see some input from our policyholders, injured workers, employees and labor organization.

Mr. Larsen said he believed Mr. Braun was correct regarding discussions at the legislature about annual sessions; however, the reality is that it cannot happen very quickly. He said it is not an urgent issue and the legislature must get together and act as a body before an implementation date can be enacted and it would take a year to two years before that happens. He said he agrees with Mr. Mohr that it doesn't hurt to examine these issues and added that President Hubbard was correct, post elections, MSF could have a new Board. He said if some of this work were completed and the thinking of the current Board members could be documented, that could be a tool for the next Board to have a starting point for addressing this forever challenge that faces MSF.

Ms. Moss said she welcomed an opportunity to work on a process like this. She shared some items from the notes she jotted down during President Hubbard's presentation. She said she would like to assure that the process adheres to the public transparency and communication promise. She said she views these meetings as learning sessions in which the Board can learn about other models and other ways of approaching workers' compensation that are emerging in

other states, now and in the future. She said the stakeholders need to be involved and we should do whatever is necessary to assure that happens. She said she views this as a way to create a document or legacy from this Board that could help guide future Boards on other emerging opportunities; however, it could also be a process to complement all of the legislative studies that have been completed. She said the studies tend to be very technical and grounded in our legal process and legislation; however, she thought this could be a very important tool to develop for our stakeholders and the public to understand workers' compensation in Montana. This could provide that foundation of learning that could help guide the next legislative session. She said she believed it was a great step for MSF and this Board to have the ability to say that one of its responsibilities is to develop information such as this for the public, our policyholders and the elected officials in our state. She said she 100 percent supports this proposal and offered to work in any way that would be beneficial to develop this.

Mr. Molloy said he believed it was a great idea as well and echoing Ms. Moss's comments, he said he would be happy to provide some input as well. He said it would be helpful to see a proposed agenda far enough in advance that all Board members could offer comments and suggestions to develop a structured meeting. He said he agreed with Mr. Mohr that hearing from claimants' counsel, injured worker representatives, insurer representatives and the businesses could all be very valuable as well, in terms of customer service and what are their perceptions. Also, in terms of the organization it would be good to determine what are the options going forward and be able to then, in a more deliberative process, stake out this Board's positions and recommendations for whatever they may be worth to the next Governor. He said it would be a valuable effort by this Board.

Ms. VanRiper said she thought this would be a fascinating undertaking; however, she has some discomfort about it from the perspective as to whether this is properly the Board's role to undertake. She said in looking at the authorities cited and MSF being a creature created by the legislature, it looked to her that this endeavor does not fit within the purview of the Board's authority. She said she did not know if the Board should have a purpose of deciding at some point to take a position on it or be the resident experts on it. She added that on the one hand, it is a great idea, it would be very informative; however, she would feel more comfortable if this proposal did not have the particular stated purpose about it. She said the language in the proposal that stated "creating a strategic framework to guide management and future Boards of Directors in policy relating to MSF structure," caused her to pause because she did not know if this Board should be doing that. She said future Boards will take their own positions and be informed by whatever they want. She said "I think it would be a good step to inform ourselves as the overseers of the management of MSF to be up on what is going on in the industry and how we fit into that – to know as much as possible about that and to know the history, etc.; however, to take positions on whether or not we should have a state fund in Montana, or to advise setting policy or frameworks for future Boards to follow, I have some discomfort with that."

Chair Zanto sought some clarification from Ms. VanRiper.

Ms. VanRiper confirmed that she was good with the education side of the proposal; however, the purpose of the statement caused her discomfort.

Chair Zanto asked about her support of going through the process. He asked if when it came to the point of taking action would that be when she really had some issues.

Ms. VanRiper said this will take time and resources and it is policyholder money. She said if we were to structure this such that we had several education sessions and then at the end we discuss

if anything else would be done besides having educated themselves, she would be fine with that; however, she had a problem with the stated purpose.

President Hubbard said he respected Ms. VanRiper's perspective and assured members of the Board that the primary purpose of this proposal was so the Board could become an expertly informed Board about the marketplace and what MSF believes is best for our role as an insurance company. He said it could lead to other kinds of decisions that have nothing to do with the structure but more to do with how MSF approaches the service of its customers. He said there are all sorts of ways this could evolve in the discussion, which he felt was exciting. He said he struggles with finding ways to guide the Board to a place where they feel more comfortable with strategic discussions about what MSF does as opposed to reacting to Annual Business Plan proposals by management. He said this could be an opportunity to deepen that participation as well. He said he wanted to be very clear that this was his proposal only. He said the purpose of the proposal is to create a context for the Board to consider our role in Montana's workers' compensation system. It is very appropriate that this educational process could be completed and the Board then say, we do not propose doing anything with the information. He said he agreed with Ms. Moss's comment that this is a great opportunity to create a body of work that is useful beyond our terms and for future Boards and future policymakers to refer to.

Mr. Molloy said he understands Ms. VanRiper's point; however, he believes it is well within the Board's purview as representatives of the injured workers and the businesses that MSF serves, to say, here is what we think MSF should be. He said the legislature, ultimately will decide that, there is no question I get your point. I think it is well within our purview as representatives of the injured workers and the businesses that MSF serves to look at what MSF provides and how it is structured. He added, as President Hubbard indicated, Mr. Molloy has observed legislators stand up and pontificate about something they know nothing about. He said the Board members, though he did not know much when he was appointed to this Board, know more about some of the technical aspects of Montana's workers' compensation system. He said he was able to educate a legislator about what policyholder equity is and the legislator did not appreciate the lesson. He said he believes this is right up the Board members' alley because they represent the businesses/policyholders and the injured workers and they are here to advocate on behalf of those people that MSF serves in Montana and he said he would have no problem walking up to the legislature testifying at a legislative session. He added that what will come out in the end would evolve through the process; however, he would not want to put fence posts around what they would be looking at, at the outset. There could be a point where all the Board members agree with our point and determine that doing anything further is not the Board members' valid role.

Chair Zanto noted that this is not a Board action and he also did not hear any resounding noise about moving forward with setting the agendas and moving forward on the proposal.

President Hubbard told the Board that management would propose particular agenda items for the Board's approval prior to the sessions. He noted that the Board has a lot of work to do in March so MSF will be very respectful and not over schedule the meeting. He clarified that MSF is not in a position to take on benefit legislation discussion. He said it is not MSF's place to determine what benefits are available under the workers' compensation system which means though this particular discussion may include all stakeholders, it will not be a discussion on what can be done to address fair or unfair benefits situations. He said this proposal will be about MSF's role in the structure of how the workers' compensation insurance market operates.

Ms. Moss asked if the Board would need to set aside resources for this proposal?

President Hubbard asked to reserve that discussion until the budget request presentations and discussion were completed. He noted that this was not anticipated in the budget and no funds were set aside for it. He said he is perfectly comfortable once the needed resources are determined and the cost of those, that he could ask for a budget amendment if necessary.

Chair Zanto thanked the Board members for their input and moved the discussion to the next agenda item.

V. Calendar Year 2019 Budget Update and 2020 Budget Request – Laurence Hubbard, President/CEO

A. Budget Introduction

President Hubbard asked Rene Martello, MSF Controller to present the third quarter financial budget update.

B. 2019 Third Quarter Update and Budget Amendment Request - Rene Martello, Controller

Ms. Martello provided the 2019 third quarter variance report as of September 30, 2019. She said overall, the projection was to be about five percent under budget or approximately \$10 million under. She said there are two major categories; claim benefit payments are expected to be \$6.1 million under and total operational expenditures are \$3.9 million under. She said the claim benefit payments category is distributed by indemnity/wage loss and medical and medical settlements. She added that indemnity is \$1.9 million under budget and total medical is under by \$5.3 million and medical settlements are projected to be over by \$1.5 million, however, netting total medical at \$3.8 million under. She said those three categories are netted to be \$6.1 million under budget for the year. She added that these categories were trending higher at the first part of the year; however, they decreased more recently and could decrease further by the end of the year.

She said personal services expenditures were under (as depicted in the graph below) due to an average 6.5 percent vacancy rate for 2019 and the projection assumes that 14 positions will not be filled by year end. She said operating expenses, budgeted at \$29.2 million, were under by \$1.5 million and the variance was driven primarily by IT consulting and difficulty in finding resources for PBRI, Data Discovery and backfill. She noted there were areas that were over, though not by much, such as other states coverage contracting fees and commission payments to agents were over by \$145,000. She said equipment and intangible assets are expected to be under by \$1.7 million and are related to delays and purchases that are currently in the PBRI project that will be pushed into 2020.



MSF Budget Status 2019

As of September 30, 2019	Budget	Projection	Variance from Budget (over)/under	Percent of Budget Expended
Operational Expenditures				
Personal Services	\$30,939,739	\$30,114,174	\$825,565	97.3%
Operating Expenses	29,225,411	27,657,494	1,567,917	94.6%
Equipment & Intangible Assets	4,215,522	2,491,483	1,724,039	59.1%
ALAE	3,709,861	3,963,607	(253,746)	106.8%
Transfer	215,811	181,584	34,227	84.1%
Total Operational Expenditures	\$68,306,343	\$64,408,341	\$3,898,002	94.3%

She said ALAE is expected to be over by \$253,000, primarily due to medical bill fees being higher than previously estimated. The new medical bill processing vendor's fees are higher than was originally estimated; however, they are doing more types of specialized medical bill reviews that save on the medical benefits side.

Ms. Martello provided a review of the budget for safety items and provided a breakdown of each item. She said the total amount that was budgeted for these services is expected to be spent by the end of the year.



MSF Budget Status 2019

As of September 30, 2019

Safety Expenditures	2019	2019
	Projected	Budget
Operations - Safety Services Team	\$1,603,505	\$1,576,760
Communications - Safety Support	887,920	879,805
Facilities: workstations, SMC's cars & field offices	233,992	263,064
Operations Support - Safety Workshops	129,655	133,044
WorkSafe Champions	94,653	123,832
Growing a Safer Montana	62,832	52,667
Brand (safety material updates)	n/a	n/a
ACE Grants & Safety Committee	25,000	25,000
Total	\$3,037,556	\$3,054,173

Chair Zanto called for questions; there were none.

C. *2020 Budget Request – Mark Burzynski, VP Corporate Support*

Mr. Burzynski said that he has been privileged to work with several large organizations in developing and completing budgets for the year; however, in terms of budget engagement, budget acumen by the staff and overall process and commitment to the process, none of those organizations can hold a candle to the team here at MSF. He tipped his hat to Ms. Martello and her team, especially John Wilkins, Financial Analyst, for the effort they put into completing the budget process. He added that it was not just the finance team but also President Hubbard, his Executive colleagues, the teams, etc. He said they go through the budget line by line and said the confidence the Board can have in this budget is quite significant. He said he has found the budget process, the level of scrutiny and review, the comprehensiveness and the depth of the process that occurs at MSF is a significant internal control.

Chair Zanto thanked Mr. Burzynski for his remarks.

Mr. Burzynski said net earned premium is expected to decrease slightly by 4.3 percent for 2020 which is a reflection of the 8.6 percent rate decrease the Board adopted effective July 1, 2019. The plan includes new premium of \$14.5 million in 2020 which is an 8 percent increase over 2019. There is also retention of 91.7 percent which is historically a bit higher than what had traditionally been experienced. He said investment income and realized gains foretell an 18 percent reduction; however, the budget is predicated on \$7 million of realized gains because gains are difficult to predict. He said total net income is projected to be \$193.2 million which is a 7.8 percent expected decrease compared to 2019.

He said the budget request main components are benefit payments at \$102.6 million and FTEs are budgeted to be 307 for 2020 which is what they have been for the last five or six years. He said operational expenditures are budgeted to be \$70.2 million for a total of MSF expenditures of \$172.8 million. He noted that indemnity benefits are relatively flat; though wage increases push this number up, the reduced frequency of claims has pushed this projection down. Relative to medical benefits, there are several items impacting that projection number such as price changes of medical expenses trending at 3.5 to five percent which is the upward pressure and the downward pressure is the utilization experience trending 1.2 percent down and a lower frequency of approximately 3 percent and reduction of overall settlement benefits. He said the larger settlement years are now having an impact on the actual expenditures subsequent to those years relative to medical benefit payments.

Mr. Burzynski said operational expenditures are projected to be \$70.2 million and he noted that regarding capital expenditures, which includes the leases MSF holds such as the parking garage, the interest and principle of those must be capitalized beginning in 2020.

He said personal services are expected to increase by 4.4 percent in 2020 because the vacancy savings that were experienced in 2019 are expected to be filled in 2020. He said 3.5 percent is budgeted for merit increases which is based on a Korn Ferry recommendation. He noted that there are 15 employees expected to retire in 2020 as opposed to the eight employees that retired in 2019. He mentioned that 2020 is a leap year and the one extra day in that year will cost MSF approximately \$120,000.

He said other significant expenditure areas include commissions, PBRI which is increasing over the projected 2019 total by \$1.5 million, and IT backfill, which is increasing by \$1 million. He said the producer portal accelerator which is designed to create a much better interface for agents to improve digital usage and provide faster service is budgeted at \$1.3 million. He added that with the implementation of an increased number of tools throughout the company, subscriptions are projected to increase as well. He said the last significant expense worth mentioning is the expected increase in the SITSD computer system and services.

Mr. Burzynski said the total budget amount for projects in 2020 includes such items as the Producer Portal and the Data Discovery Projects which creates predictive models and catalogs data. He also mentioned the Provider Partnership Project which will redesign MSF's provider medical delivery and financial models which will improve the efficaciousness of care and make it more cost effective. He said though this is just the beginning of the project in 2020, it is as significant a differentiator for MSF as any project ever will be. He said the allocation for the medical bill review from Rising Medical Solutions was the most critical ALAE and was budgeted for 1.5 million for 2020; a 6.4 percent increase over 2019. Due to the additional bill review and efficiencies that have been created since implementation in 2019, MSF has experienced a payback of 30 to 35 cents on each dollar invested.

Ms. VanRiper asked for more details on the Data Discovery project.

Al Parisian, Chief Information Officer, noted that there is an explosion of new data tools in the marketplace such as data analytics, data code, big data, data lakes and robotic process information. He said each of these difference vectors of technology are exploding with capabilities and new vendors on an almost monthly basis. He said for all of those constantly changing opportunities, MSF and other insurers are looking for the correct places to apply the technology. He said for many years at MSF, the philosophy for applying technology at MSF was that we wanted to make our insurance professionals brilliant in the moment. We want technology to make our front-line

people the best researched, the best informed people that they can be when they are trying to make decisions or answer questions on the phone and anything in between. We do not want to make technology a substitute for human judgement - we want to inform that human judgement. That has been our philosophy all along and we bring that philosophy to this new set of technologies. He said the only place that MSF is investing additionally currently is in Big Data in this new marketplace.

He said big data is a system that enhances the amount of data that our automatic systems can rapidly access and analyze to increase the speed of and accuracy of responses from our front-line employees.

Ms. VanRiper responded that she understood that MSF used Big Data to identify some serious under reporting of payroll. She asked him to explain how this was done with current data rather than going out and harvesting new?

Mr. Parisian said Big Data can only indicate a potential to the employees at MSF who then determine if the data trend they are looking at should be pursued. The Big Data system collects information from a much larger set of data and alerts the employees that this could be a trend they should look into further. He said the system only indicates the potential that there could be a situation.

Mr. Burzynski continued his presentation with a comparison of MSF's financial sources with financial obligations. He emphasized how important investment returns and realized gains are for MSF's balance sheet to generate profit, and for the Board to be able to declare dividends for the past several years while strengthening the balance sheet. He said the expense ratio is at 39 percent for 2020 which is approximately 4.5 points higher than 2019. He said the reason for the expense ratio increase is the rate reduction effective on July 1, 2019, the expenditure portion of projects that must be recorded now as expenses and the salary growth of 4.4 percent. He noted that MSF's expense ratio compares very favorably with other workers compensation players nationwide despite the fact that many of those other companies are able to generate economies of scale as multi-state and multi-line capabilities. MSF cannot provide workers' compensation insurance outside of Montana and can only sell workers' compensation insurance.

He summarized that the total operational expenditures were \$70.2 million and the claim and benefit payments were \$102.6 million resulting in a total budget request of \$172.8 million with 307 FTE and 309 positions.

Chair Zanto called for questions; there were none.

Chair Zanto made a motion the Board approve the proposed Montana State Fund budget for Calendar Year 2020 totaling \$172,813,744, as follows:

- *Total Operational Expenditures of \$70,248,313, including the costs that are reimbursed to Montana State Fund for Old Fund administration; and*
- *Montana State Fund Benefit Payments of \$102,565,431.*

The President is to retain and may utilize the prior direction from the Board to adjust expenditures among first level expenditure categories, and may increase staffing, as long as the total approved budget amount is not exceeded. Ms. VanRiper seconded the motion.

Chair Zanto called for further comments or questions. There were none; however, the Chair did ask if Ms. Moss’s question about needing funds for the proposed education session would need to be addressed now.

President Hubbard assured the Board that any monies needed for the sessions would be financed from the President’s discretionary funds, that are budgeted every year for unplanned projects or initiatives that may arise throughout the year. He said he would try to earmark some of those dollars to support this initiative; however, if at such time, it is determined there is not enough or there is going to be a financial challenge, he would bring a budget amendment to support that specific initiative to the Board.

Chair Zanto called for discussion or comments from the Board, staff members and the public; there was none. He called for the vote and the motion passed unanimously.

VI. Insurance Operations Support – Sam Heigh, VP, Operations Support

A. Construction Industry Premium Credit Program Approval

Ms. Heigh provided historical background on the development and implementation of the construction industry premium credit program. She explained that this program was developed in the 90s to level the playing field for high-wage construction industry contractors within the workers’ compensation system. She said this is a credit that benefits the employer for paying the higher wages within the construction industry. The table is adjusted each year as the state’s average weekly wage increases.

President Hubbard added that this program is adopted within the state by all carriers and must be included in MSF’s rate filing with CSI.

**Montana State Fund
 Construction Industry Premium Credit Program
 Applicable to policies effective July 1, 2020 to July 1, 2021**

Average Hourly Wage	Credit Percentages
\$23.91 or less	0.00%
\$23.92 to \$24.27	0.36%
\$24.28 to \$24.68	1.14%
\$24.69 to \$25.16	2.01%
\$25.17 to \$25.71	2.98%
\$25.72 to \$26.34	4.05%
\$26.35 to \$27.06	5.21%
\$27.07 to \$27.89	6.47%
\$27.90 to \$28.85	7.85%
\$28.86 to \$29.96	9.33%
\$29.97 to \$31.23	10.91%
\$31.24 to \$32.70	12.58%
\$32.71 to \$34.39	14.34%
\$34.40 to \$36.34	16.18%
\$36.35 to \$38.59	18.07%
\$38.60 to \$41.18	20.01%

\$41.19 to \$44.17	21.97%
\$44.18 to \$47.61	23.93%
\$47.62 to \$51.58	25.88%
\$51.59 to \$56.16	27.79%
\$56.17 or more	29.65%

Ms. VanRiper made a motion the Board adopt the plan of credit percentages for Montana State Fund's Construction Industry Premium Credit Program, for new or renewal policies, with effective dates of July 1, 2020 to July 1, 2021, as proposed by Montana State Fund management. Mr. Owens seconded the motion. Chair Zanto called for discussion, questions or comments from the Board and the public; there were none. He called for the vote and the motion passed unanimously.

B. Classification Code Update

Ms. Heigh provided the yearly update on the classification codes adopted by MSF from existing NCCI classification codes as well as the continuing effort to eliminate differences between the MSF classification system and the NCCI classification system. She explained this update was purely informational and the changes were effective July 1, 2019 and will be used in 2020.

Ms. Heigh highlighted a few of the class code changes such as the retirement and living center class code which removed one code and added another due to redefining some of the employees in this code. She said another change was to remove a reference to scheduled limousine drivers since Montana does not have or use that distinction. Some phraseology was eliminated in print shops for employees in clerical versus sales people positions.

President Hubbard clarified that this was an informational item that had inadvertently been left out of the Board packet and that the listing would be emailed to the Board following this meeting.

Chair Zanto asked if the Code Review Committee had just met the day before?

Ms. Heigh said the committee did meet and the discussion had been on other items such as drones. She said the underwriting services department goes through each proposed change review and researches each policy that has class codes that could be affected. The proposed changes are reviewed to determine how the policyholder would be impacted and the underwriting services department follows up with the policyholder to notify them of the change and the impacts if any to them.

Chair Zanto called for questions or comments from the Board and the public; there were none.

VII. Corporate Support – Mark Burzynski, VP Corporate Support

A. Enterprise Risk Management Update –Kurstin Adamson, Enterprise Risk Management Risk Officer

Mr. Burzynski mentioned that the Eide Bailly auditors, while recently completing their field work on-site at MSF, asked him about fraud, internal controls and Enterprise Risk Management (ERM) for MSF because it is focused on identifying risks and addressing them. He added that should MSF ever wish to be rated by A.M. Best, there would be a requirement for effective strategic planning as well as for an effective ERM program. He said MSF is moving in that direction. He introduced Kurstin Adamson, ERM Risk Officer, who has been with MSF for 2.5 years and who is working to evolve MSF's ERM program in terms of function and impact.

Ms. Adamson stated that one of the most important pieces of ERM is building a culture in the organization that includes all employees, either directly or indirectly. Those directly involved include the Board of Directors, the President/CEO and the Department Vice Presidents, the ERM Risk Officer, the ERM Committee and the ERM risk owners who are leaders from across the organization. She noted that the risk owners are experts on their own risks.

She said the goal of ERM is to manage the future of MSF by reducing uncertainty. A strategic planning process is used to identify risks and their probabilities and to evaluate their potential impact on our operations and results and also identifies which risks need to be addressed, when and to what extent.

She said over the years since ERM's adoption at MSF, staff have identified, rated and discussed hundreds of risks with discussions focused around what could go wrong and how to stop it. She said that is the basis for traditional risk management; however, since this is ERM we can and should do more when it comes to strategic planning of our risk action plans. She noted that this year the question was expanded to include what was actually at stake; i.e. what was either going to prevent us from or help us in achieving the big picture for MSF's present and future. She said that is the vision that is posted all over MSF - "To be an indispensable partner in achieving a safer, healthier and more prosperous Montana." She said the question is how does MSF assure that is our present and future? She said though this may seem like a small change in focus, it changes the risk discussions dramatically. This change opens up the discussion beyond our current processes and practices and encourages us to think bigger when it comes to treating risk. This also focuses our risk reduction efforts in a manner that helps MSF achieve its short-term and long-term goals.

Ms. Adamson provided some examples of the significant progress that has been made this year on some of MSF's bigger risks.

- She said for employee engagement, a Talent Management project was initiated that identified and prioritized ideas for making MSF a more attractive place to work. This included such things as a more flexible dress code, open discussion on remote work opportunities as well as open discussion on flexible schedules. These efforts should help MSF attract and retain high value talent.
- She spoke about information and physical security; though she could not do justice to the daily on-going efforts for information security and that program, building physical security is becoming an increasing concern for MSF. She said MSF has launched a very purposeful effort to address our physical building security gaps as well as initiate a security culture and threat management process.
- She said Marketing and Agent Relations have seen an increase in projects geared towards customer service. She said MSF also has an ease-of-doing business process that identifies and tracks improvements to the way MSF interacts with our agents and customers.

Ms. Adamson shared a review of MSF's current risk maps and noted that all of the risks have shifted slightly to the right, which indicates MSF staff are perceiving them as slightly more likely to occur. She said MSF's perception of inherent risk is based on our knowledge of what is occurring in other organizations within the industry as well as the environment that we are operating in. She stated that it is normal to have some shift from year to year. She said the risks that MSF has assessed as most likely to occur are information security and vendor/contracts. She said medical information and records, as well as Social Security numbers are a hot item on the black market and hackers are getting more and more creative in attaining this information. The

fact that MSF is perceiving this as more of threat is in line with industry trend. The vendor/contracts risk is increasing in likelihood because the number of vendors we use is increasing steadily every year. An additional challenge is that our procurement rules are ever evolving, making it more and more challenging to find appropriate vendors. The other risk that has shifted a lot is the business interruption risk – this risk would have a high potential impact on MSF though there is a very remote likelihood of it actually occurring. This includes the building security risks which were identified earlier and MSF has launched a very purposeful effort to address the gaps. She added that this is in response to all of the security events that are happening around the nation. These are not unique to MSF or the insurance industry - it is a national trend.

She provided two more risks that are not increasing in likelihood or severity because they pose an additional or increased threat to MSF but are showing an increasing opportunity for MSF. The risk or threat actually lies in MSF missing or not pursuing those opportunities. One of the risks is the medical management risk and the opportunity is to drive cost effective care and to reduce the administrative burden on our providers, thus improving our relationship with them. There is a provider partnership project that was developed to pursue that opportunity. The other risk is the agent relations focus group and discussion on this risk identified quite a lot of marketing opportunities that have not been taken advantage of yet, such as ease of access to quotes and other information for our customers.



2020 Top Risks

Inadequate succession planning
State of MT mandated IT system changes
Ineffective retention/on-boarding/engagement program for employees
PBRI Project does not generate anticipated results
Business disruption due to vendor failure
Substandard claim handling
Information security breach
Limited ability to generate economies of scale
Financial impact from government actions
Strategic planning decisions that aren't in line with market need and expectation
Suboptimal investment performance and market volatility
Challenged claim decisions/litigation/verdicts
Losing a large block of profitable business

Ms. Adamson provided the 2020 top risks depicted above and noted that input from all of MSF leadership was solicited this year, not just the Executive level and ERM Committee members. She said most of the risks are the same as last year; however, there are two additions as a result in the change in focus of the ERM program. The two newly identified risks are the limited ability to generate economies of scale and making strategic planning decisions that are not in line with market need and expectation.

She said MSF has made great strides in incorporating risk management into the way that we work yet there is still more that can be done. There are regular risk assessment discussions in our focus group meetings with risk owners as well as in the monthly committee meetings; however in 2020,

the program will be offering ERM Lunch and Learn sessions to the entire organization with a focus on what is being done well to manage risk and what additional things can be done. She stated that the implementation of the PBRI project addresses a number of identified risks on a variety of scales; however, as that nears completion it becomes necessary to focus on what comes next. She said controls testing of our top risks will continue and MSF will continue to focus on how MSF's risks affect our ability to achieve our long-term strategic goals.

Chair Zanto asked about MSF's failure rate on people accessing the spam emails that are sent out to test employee awareness of fraudulent emails?

Mr. Parisian said he did not have the data on hand; however, he would prepare something for President Hubbard to share with the Board after the meeting. He said the IT department does track it and has been familiar with every wave of phishing attempts that have been launched by the vendor that is used by the State of Montana. He said every time a new employee joins MSF they are run through a series of things to help sensitize them to the dangers of phishing. He said MSF has extremely low hit rates and though MSF has asked repeatedly for comparative data, against other supposed players in the field, we have not received it. He said we have reason to believe we are doing extremely well.

B. Old Fund Fiscal Year 2020 First Quarter Budget Summary – Rene Martello, Controller

Ms. Martello provided an update on the status of the Old Fund funding estimate. She noted that this report was as of the end of the first quarter on September 30, 2019 due to the Old Fund running on the State of Montana's fiscal year.

She said overall, the funding estimate for the Old Fund was \$12.8 million and current projections are that all of that will be spent. She said last year's cycle had a \$9.1 million overall total so this increased almost \$4 million in consideration of increased settlement activity. She said there are offers and medical settlement activity being considered though not yet finalized.

She said indemnity is under budget by \$191,315 while medical is over budget by \$157,161 and it is expected that all settlements will be paid out. She noted that operational expenses are at \$650,540 and MSF plans to stay in line with that. The Department of Labor Assessments are based on what the rates were and an update of that will be provided next May. She said ALAE is trending a little higher than expected due to Medicare set asides and is expected to change by the next report.

She said in summary, we can assume this will be used for this year though she took a moment to point out that a year ago there were 620 Old Fund claims and most recently there are 525 Old Fund claims which is a significant decrease.

Chair Zanto called for questions; there were none.

President Hubbard took a moment to thank Director Livers and Ms. Powell and the team from the Budget Office. He said there was an opportunity to complete a very large Old Fund settlement that he believes could potentially save millions of dollars in Old Fund liabilities. He said since the Old Fund is fully funded by the General Fund, it is important to keep a communicative and open relationship between MSF and the Budget Office. He said the meeting regarding this settlement was very productive and one of the most refreshing meetings in terms of building understanding about the wisdom of advancing these claims to closure for the long-term benefit of the Old Fund and the taxpayers. He asked Ms. Powell to pass his thanks along to Director Livers and team.

Chair Zanto called for more questions or comments; there were none.

VIII. Old Business/New Business

Chair Zanto called for old business or new business; there was none.

IV. Public Comment

Chair Zanto called for public comment; there was none.

The meeting was adjourned at 1:53 p.m. The next scheduled Board meeting will be held on Friday, March 13, 2020 at Montana State Fund, 855 Front Street, Helena, Montana in the first floor Board Room.

Respectfully submitted,

Verna Boucher

Special Assistant to the President/CEO