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MONTANA STATE FUND
BOARD OF DIRECTORS MEETING
June 18, 2021

The Montana State Fund (MSF) Board of Directors meeting was held June 18, 2021 in the Board Room of Montana State Fund, 855 Front Street, Helena, Montana 59601.

Directors Attending

Richard Miltenberger, Clancy
Jack Owens, Missoula
Karen Fagg, Billings
Dexter Thiel, Sidney
Jan VanRiper, Missoula – via Zoom
John Maxness, Helena
Michael Marsh, Billings

State Fund Staff

Laurence Hubbard, President/CEO
Verna Boucher, Special Asst to Pres/CEO
Kevin Braun, General Counsel
Mark Burzynski, Corporate Support VP
Julie Jenkinson, Operations VP
Rick Duane, Human Resources, VP
Rene Martello, Controller
Patti Grosfield, Internal Auditor
Shannon Copps, Director, ESPM
Al Parisian, CIO
Will Anderson, Interim Operations Support VP

Others Attending

Erin Sullivan, Leg. Services Division
Dave Glennon, Eide Bailly
Jon Putnam, Montana Board of Investments
Bethany Williamson Powers, Associated Employers
Troy Smith, CSI
Troy Downing, CSI
Jason Lindstrom, Eide Bailly
John Romasko, Montana Board of Investments
Jackie Swiesz, Associated Employers

I. Meeting Preliminaries

A. Call to Order

Chair Richard Miltenberger called the meeting to order at 8:30 a.m. and welcomed attendees. He noted that Board member Jan VanRiper was joining the meeting via Zoom. He reminded attendees that the meeting was being live streamed and recorded and asked that speakers remember to speak into their microphones. He asked President Hubbard and Ms. Boucher how the people watching the live stream could submit a question during calls for public comment. He offered his phone number (406) 459-0203 and noted that anyone wishing to submit public comment could text him. Ms. Boucher clarified that a question could also be submitted through YouTube and Melissa Iverson, the audio-visual controller will alert staff that a question has come in. He noted that Dave Glennon and Jason Lindstrom from Eide Bailly were joining the meeting via Zoom and that Bethany Williamson Powers and Jackie Swiesz from Associated Employers would be joining the meeting during the Executive Compensation discussion.

He welcomed Commissioner of Securities and Insurance, Troy Downing and Misti Ann Giles, Director of the Department of Administration. He noted that a listing of proposed Board meeting dates for 2022 had been provided to each Board member and asked them to review the dates and their schedules to determine if there were any challenges to the Board members' attendance on those dates. If so, they should contact Ms. Boucher, President Hubbard and himself.

B. Approval of March 12, 2021 Board Meeting Minutes

Chair Miltenberger called for input or changes to the March 12, 2021 minutes; there were none and he called for a motion.

John Maxness made a motion to approve the March 12, 2021 minutes as presented. The motion was seconded by Jack Owens. Chair Miltenberger called for any questions or comments from the Board; seeing none, he called for the vote and the motion was unanimously approved.

Kevin Braun reminded Chair Miltenberger to call for public comment before the vote was taken.

II. Miscellaneous – Laurence Hubbard, President/CEO

A. Miscellaneous

President Hubbard welcomed the attendees and noted this was the first time in over 18 months that MSF has held a public Board meeting without everyone being on Zoom. He noted that the MSF building opened to the public on June 7 and commented that it was wonderful to see customers returning to the building.

He took a moment to welcome Mr. Dexter Thiel who was appointed by Governor Gianforte to replace Curtis Laingen. He noted that Mr. Laingen regretted not being able to serve; however, he was presented with a business opportunity that he could not pass up. He thanked Mr. Thiel for stepping up and travelling to Helena on such short notice to attend this meeting and serve on the Board. He asked Mr. Thiel to provide some background on himself.

Mr. Thiel said as it relates to workers' compensation, he is a second-generation roofer as his father and uncle began his roofing company. He noted that he started working on roofs when he was 11 years old and has worked full time on roofs every year since then. He said Eastern Montana has been pretty good to his company and his family. He has four children and three of the four work in the business with him and his brother and his wife. He noted the unique thing about his business is that when he was growing up, his father and uncle would work in a coal mine in the winter and go roofing in the summer. They said it was a relief to get out of the coal mine because roofing was much easier. He said he and his brother have always been very hands-on and his brother is still on the roof 60 to 70 percent of the time. Their company stresses customer service and they have adopted that as a guiding force for their success.

President Hubbard welcomed him again and said he looked forward to working with him in his Board capacity.

B. COVID-19-19 Update

President Hubbard noted that Montana was mostly post-pandemic. He recalled the emergency declaration on March 16 and noted by the next Tuesday, 98 percent of MSF's employees were working from home. He said as things are opening up, MSF leadership is working with employees and the facilities staff to reintegrate employees back into the building. He said many workstations were taken from the building to employees' homes and the process of retrieving those and reestablishing employees in the building, full time or hybrid, will take time. He said MSF has employees that are interested in remaining remote only and others that would prefer to return and noted that hybrid schedules are not new to MSF. He said leadership has worked with employees on four/ten work schedules and flexible work schedules for many years including for the satellite employees in Missoula, Kalispell, Billings that have had fixed worksites for many years. He said the dialogue between leaders and employees is now figuring out the post-pandemic reentry into the work schedules. He said current estimates show about a third of employees want to remain fully remote, a third want to return to the building a few days a week and about a third want to be back in the building permanently.

He noted that during the past year, some employees returned to work in the building because they did not necessarily thrive in the remote work environment. During that time, masks, social distancing and disinfecting were required to avoid any outbreaks caused from being in the building. He said current rules reflect the changes in the CDC guidelines, including the no-mask requirements and also the new normal of staying home if an employee is sick, and working if they are able. He said MSF has had consistently high customer service levels throughout the pandemic despite the majority of MSF employees working from their homes. He said we have demonstrated with Zoom and technology support that employees can be very successful working from home. He noted that MSF staff are missing their colleagues and leadership will be working to get the employees back in the capacity that best meets business needs and provides the employee with a good work/life balance. He said the key business needs are customer service, taking care of the policyholders and the injured workers, first and foremost. The leaders will be discussing schedules with their employees to determine the needs of both the business, the employee and assuring the team is well supported. He said the new workplace normal will require creativity in connecting employees and providing collaboration areas electronically and in-person.

President Hubbard noted that the MSF building was not built with a pandemic in mind – the floor plan is very open and collaborative; however, meetings in that space can get very noisy and disruptive. He said the planning process is well underway and there had already been a luncheon planned and held for the employees to get together and garner some excitement going forward.

C. *State of Montana Return to Work/Sites Space and Workforce Study*

Chair Miltenberger called on Ms. Giles to provide some input to the Board on the projects the Department of Administration has underway that are tangential to President Hubbard's report.

Ms. Giles thanked the Board and Chair Miltenberger for the opportunity. She provided copies of the Montana State Government Return to Worksites project paper and FAQs. She noted Montana state governments' return to work guidance was issued on May 28, 2021 and called for 50 percent of state employees to return to work by June 14, 2021. She met with the individual agencies and reviewed their plans. She said the return to work guidance was designed to give each leader the ultimate flexibility that they needed while still requiring a 50-percent to return to the workplace. She said she told the cabinet members that the 50 percent may look different day in and day out depending on the office space, whether collaborative, single offices or cube spacing. She noted that most agencies were already at or above 50 percent except for five.

She said there are a lot of vaccination options for state employees and partnerships have been developed with Blue Cross Blue Shield which offers a mobile clinic that will go to any office site in addition to Care Here and the State Library. She said the point is to assure that State employees know their full range of options. She said the mask mandate has been removed, yet continues to encourage those who would prefer to continue masking to do so. She noted the biggest change with the State government reopening is that new telework agreements were not allowed. She said that COVID-19 leave is still in existence to address employee issues with child-care concerns and medically fragile family members. She said managers are encouraged to be as flexible as possible with employees to address the changes with the new normal.

Ms. Giles said a date for the implementation of Phase II had not yet been set. The goal to protect the state employees is foremost so they are requiring data from each agency each week to monitor the situation to assure there is not an uptick in cases and no challenges. After a sufficient amount of data has been collected, she will work with the Governor's office to determine what the next Phase will look like and when.

Chair Miltenberger thanked Ms. Giles and noted that MSF is connected to the Department of Administration administratively; however, is an independent organization not another agency. He asked Ms. Giles to present to the Board to illustrate another perspective on addressing the post pandemic atmosphere. He sought clarification as to whether there were exceptions to the 50 percent minimum requirement.

Ms. Giles said the only exceptions are that some agencies only have significant cube space and CDC guidelines still require social distancing and mask wearing if an employee is not vaccinated, which may cause the 50 percent requirement to fluctuate. She said there are some entities that do not physically have the space. She noted that State government continued to grow during the pandemic and there was not a lot of thought as to where to put people once everyone returned to the workplace. She said that is uncharted territory for not just the State of Montana but for everyone in the world which is why the State space study is being implemented.

She said Governor Gianforte wants to give all the directors ultimate flexibility to manage their own teams and get State employees back into the work force and back into a little bit more normal in a post-COVID-19 world while keeping everyone safe.

Chair Miltenberger thanked Ms. Giles and called for questions from the Board for President Hubbard or Ms. Giles; there were none. He asked Ms. Giles to provide a report on the State's proposed space study.

Ms. Giles said it is common knowledge that the COVID-19 pandemic has permanently changed the workforce as we know it. She said most State of Montana employees did not telework before the pandemic, which was true of a lot of work environments with a few prominent exceptions. She said now employers have to recalibrate their view of the workforce, the space needs and what that will look like. She said under the direction of Governor Gianforte, her agency would be spearheading a space analysis. The analysis will not just look at square footage of the outside of the buildings but also usable space and whether that space can be modified to hoteling or collaborative type environments and what the barriers are. She said the second part of the study is an HR analysis, which will be similar to the studies Utah and Tennessee have already done. This portion of the study will look at the State's HR policies and work with each individual director and agency managers to determine for which employees telework make sense and who can move into a further remote status. She said the problem is that current policies are not designed for a modernized workforce and they need to be fully overhauled employee by employee. She said the tools to manage a remote workforce are not currently in place and with the desire to remain in a hybrid environment managers and directors need to rise to the occasion and modernize the State's space and HR policies.

She said the Request for Proposal (RFP) is being finalized with edits and then approval from the Governor's office and will go out in the next two weeks. She said it will include cabinet members to begin with and be enterprise-wide and any other agency or constitutional officer that wants to partake is more than welcomed to join in. She said once the study is launched and a contractor is onboarded, she will send an email to all leadership seeking their appointed participants and then turn the contractors loose to work with them. She said there will be a couple of sets of contractors working on the space part and the HR part simultaneously. She said she anticipated it taking a few months to a year to get some good data back.

Ms. Fagg asked if Ms. Giles has any idea what the findings were of the other states that have completed these types of studies.

Ms. Giles said those states found that they have too much space. She said Tennessee completed this type of study prior to the pandemic and reduced their lease footprint and then recalibrated on the HR side of the house. She said they did reduce the leased footprint and state-owned space footprint and modernized a lot of their space to make it more collaborative so that the space was better suited to hybrid environments. She added that Utah has done the same. She noted that a lot of the analysis is to figure out how much space is actually needed because the world is going in a different direction from needed office space to remote. She said she heard from cabinet members that certain teams work together better in a collaborative space which state agency buildings really do not allow for right now.

President Hubbard asked how much square footage the state of Montana leases versus owns at this time?

Ms. Giles said she did not have that information fresh of mind; however, asked Russ Katherman, Administrator, Architecture and Engineering Division if he knew that information. Mr. Katherman said statewide there are 2.2 million square feet leased and 1.6 million that are state owned. Ms. Giles agreed with President Hubbard that it was a lot of space and noted that they would be focusing on the Helena region first. She added that the big thing when it gets out into the field operations is that there is a desire by a lot of the cabinet agencies from a service standpoint for them to partner up where it makes sense. She said two agencies that come to mind are the Department of Labor and Industry and the Department of Health and Human Services which share a lot of synergies and can hopefully have a more collaborative environment for them. She said the same with Fish, Wildlife and Parks and parts of Department of Natural Resources which already have some shared space but the departments would prefer to see more shared space in the areas of Montana where that makes sense.

Mr. Miltenberger called for more questions; there were none. He then asked if the RFP for a consultant to come in and analyze space could be crafted, (and noted that he would not ask the State of Montana to carry the bill on this) or built in some way to slide in organizations that have attachment to the state that are not state-owned or state-leased buildings. He said if MSF does an analysis as part of the State project, MSF might be able to access the State's study at MSF's expense. He asked Ms. Giles if that was something that could happen?

Ms. Giles said the State could definitely take it under advisement.

President Hubbard said that MSF does that often and said the State has a list of procurement contracts that MSF often jumps on for services and goods. He noted there is a history of sharing that is also public which mean anything that MSF does with this kind of work would be public information. He offered that if there is anything MSF could do to encourage collaboration and share good ideas about what MSF is doing, MSF has also done that well in the past and noted that the MSF staff and teams are very open to working with the Department of Administration as well as other agencies. He noted that the State of Montana is MSF's largest customer and MSF definitely wants to make sure it is paying attention to that.

Ms. Giles said she is well aware that the State of Montana is MSF's largest customer from her workers' compensation briefing last week. She said they welcome the collaboration and will review some of the structure of the contract as there are some smaller quasi agencies that may want to structure the contract a little bit differently as well as constitutional officers that may want to participate in a way that takes a little bit of a different route and bifurcate from the cabinet. She said they would review to ensure that everybody gets a seat at the table and noted this would be a good analysis for everyone.

Chair Miltenberger requested that Ms. VanRiper do a sound check and wondered if she had any questions for Ms. Giles.

Ms. VanRiper remarked that she did not know if there were other agencies or entities like MSF that also own their building as MSF does. How would the state consider that based on the fact that the building is owned by an entity that is not exactly a state agency?

Ms. Giles said they were focusing on the State space and leased space first and there are one offs like MSF; even though MSF is not technically a state agency, they are not the only entity that owns their own space, there are cabinet agencies with that as well. She said their approach is if you want to participate and have your space considered – then come to the table, if you do not, that is your prerogative as well. She said they want to be very open about all constitutional officers and all the different type of entities in the state of Montana; however, MSF has a seat at the table if they would like to participate. They will accommodate whatever unique circumstances there may be with MSF's space specifically.

Mr. Miltenberger said considering the report that about a third of MSF employees have indicated they prefer remote work and two-thirds being in the building he asked if MSF would want to plug into this study? He said MSF has the same issues all the State agencies and most companies have right now - how to configure space going forward?

President Hubbard said his suggestion was to wait and see what Director Giles does with the RFP in terms of scope. He said MSF has a separate obligation if MSF is going to contract with someone and get a work product to contract through procurement appropriately. He said he does not know what that looks like; however, MSF is very interested in what the State of Montana is doing. He noted that MSF shares the same town with the State and often shares space with different agencies throughout Montana as well and is therefore, very interested in what happens to the satellite offices in the long term. He said it was premature to say that MSF wanted to be part of the study before seeing what the scope of the project is.

Chair Miltenberger said he thought it would be great to see what the project would look like for MSF.

Ms. Giles clarified that the Department of Administration would be covering the cost of the study for everyone.

Ms. Fagg noted that in the RFP process there is always an opportunity to amend it even after the process has begun. She said once the process has begun and MSF has had an opportunity to review the scope, she said there could be an opportunity to add the MSF building to it.

Ms. Giles noted that specific buildings were not being listed in the RFP and this RFP was being run a bit differently than the traditional RFP process. She said Russ Katherman would be leading the process, that was why he was attending this Board meeting. She said the process will be slightly different than the normal selection committee and specifics such as that. She said the scope will address the COVID-19 need, the space usage and the telework/remote HR issues and then as contractors and work groups are determined, they will set priorities to determine best usage of the study and findings. She said there are some smaller agencies that have 100 employees that are all in one building and that could be addressed and tackled immediately versus a department like DPHHS which is one of the largest agencies and will require a more complex exercise. She said if MSF did want to join the study it will be a very loose RFP, not building specific, and MSF could begin joining the meetings at any time.

Mr. Marsh said the study sounded like it would be fantastic for the State of Montana; however, with respect to customer service needs that MSF has to produce for its injured workers, brokers and policyholders, he was concerned that if this is going to be months or a year then we will not be responding fast enough to be competitive in the market place as an insurance entity. He asked when the Board could expect some kind of report back from staff on where MSF stands and what the plans are for this year?

President Hubbard said that MSF absolutely has to do its own assessment of its needs and expectations with the MSF organization irrespective of the study the Department of Administration is conducting. He said the dust needs to settle a bit in sorting out and accessing our physical space and limitations. He noted that MSF has a very open floor plan and if considerations for distancing or building larger conference rooms need to be taken into account, that will require an investment in money and time and would require an absolute plan and strategy to do so, in terms of space utilization. He said the short answer is to get a team of staff members, such as Linda Glatz, MSF Support Services Team Leader who manages the MSF building, together to determine utilization needs and then build a plan around that.

Mr. Marsh asked what the time parameters for a completed plan would be?

President Hubbard said he thought staff could have a pretty good grasp of a plan by the September Board meeting.

Chair Miltenberger called for additional discussion or questions. He clarified that this was not an action item for this Board meeting; however, was more of an information gathering exercise. He then thanked Director Giles for attending.

Ms. Giles thanked the Board.

Chair Miltenberger reminded those viewing through the live stream that they could submit questions or comments through the YouTube site and those would be conveyed to the Board as appropriate.

D. *Report of Internal Auditor – Patti Grosfield, Internal Auditor*

Ms. Grosfield provided a report on internal and external audits and noted she would later introduce the statutory auditors for their presentation and ask the Board to approve the audited statutory financial statements.

Internal

She said the merit pay-for-performance audit has been completed. She noted these are the staff annual pay adjustments based on staff performance ratings. She said all calculations were reviewed for adherence to MSF's compensation policy as well as eligibility criteria and the merit adjustments were reflected in staff's April 7 paychecks. She said total merit excluding the Vice Presidents' and CEO was slightly over $700,000 which is comparable to the prior year and the merit percentages provided range increases from zero percent to five percent based on performance ratings.

Ms. Grosfield said the second $20 million dividend for policy year 2018 that the Board declared at the March 12, 2021 meeting – the first $20 million dividend declared for policy year 2018 was at the September 12, 2020 – used the same criteria for the dividend declaration. She tested the adherence to MSF's dividend policy, Board-approved parameters and statute. She reported that 22,484 accounts received dividends and state agencies accounted for $864,000.

She said there was an ongoing Legislative Audit Division (LAD) audit occurring. She said this annual audit was progressing nicely and has a new lead auditor who is reviewing different items than have been reviewed in the past. The opinion date is set for July 1, 2021 which means MSF will be able to provide the Board with the reports by fall of 2021.

Ms. Grosfield introduced Dave Glennon, Partner of Eide Bailly, LLP and Jason Lindstrom, Audit Manager of Eide Bailly. She explained that Mr. Glennon and Mr. Lindstrom would be presenting the recently completed Calendar Year 2020 Statutory Financial Statements Audit Report. She noted that Board members received copies of the audit report in March 2021. She said Eide Bailly is a regional certified public accounting and business advisory firm headquartered in Fargo, North Dakota. The firm was founded in 1917 and has grown to become one of the top 25 accounting firms in the nation. Eide Bailly has 42 offices in 14 states and a presence in India. She added that as workers' compensation industry experts, Eide Bailly remains very active with the American Association of State Compensation Insurance Funds (AASCIF) as vendors, as well as subject matter experts and presenters, at the AASCIF meetings and conferences.

Mr. Glennon is the lead partner on the MSF audit engagement and is responsible for the oversight of the quality of services delivered and has been the main contact on any items identified for further discussion. She said the 2020 financial statement audit marks Mr. Glennon's fifth and final year as the lead partner on the MSF audit before the audit standards require rotation to another partner. She noted that MSF wished to thank Mr. Glennon for his expertise and audit guidance.

She said Mr. Jason Lindstrom served as Eide Bailly Senior Audit Manager on the MSF audit and works out of the Boise, Idaho office. She said he has been on the MSF audit team for ten years and is very familiar with MSF. She said he is skilled at overseeing and performing assurance services in accordance with professional standards. She added that MSF commended and thanked Mr. Glennon, his team and the MSF staff who assisted with the audit.

i. Presentation of 2020 Statutory Financial Statements Audit Report – Dave Glennon, Partner, Eide Bailly and Jason Lindstrom, Senior Audit Manager, Eide Bailly

Mr. Glennon noted that Eide Bailly also recently met to discuss remote versus in-office work environments and the firm recognized the need to be flexible with work schedules and in-person requirements and collaboration.

He then presented a review of the audit report. He introduced the Eide Bailly service team that prepared MSF's audit. He said as the lead partner, he is responsible for oversight of the quality of services delivered and the main contact on any items identified for further discussion. Team members were Jason Lindstrom, Senior Manager; Madeline Moran, In Charge Auditor and McKay Heasley, who supports the Eide Bailly actuarial review of loss and loss adjustment expense reserves. He said the audit process began with preliminary planning and procedures after the third quarter National Association of Insurance Commissioners (NAIC) report was filed in November/December of 2020. Year-end field work was completed virtually in the spring of 2021 and the audit report was completed in March 2021 with on-going communication throughout the process.

Mr. Glennon clarified that although the Eide Bailly team works with MSF staff, its primary responsibility is to the Board of Directors and the Board members can reach out to them at any time throughout the year.

He provided a review of several statutory accounting practices and further explained how they are applied when the audit is performed.

Mr. Glennon said the audit was performed in accordance with auditing standards generally accepted in the United States and clarified that the audit's purpose is to obtain reasonable, not absolute, assurance that the financial statements are free of material misstatement on a statutory principle basis. He said MSF had received an unmodified opinion on the statutory principle basis of accounting and then explained that due to the application of a varying set of standards for the Generally Accepted Accounting Principles (GAAP) or governmental basis, MSF received an adverse opinion on that basis. In the audit opinion, this is standard boiler plate language for an insurance company using the regulatory (statutory) accounting basis.

Mr. Glennon provided an overview of the required communications and noted that there were no significant changes in 2020 and no initial selections of significant accounting policies that needed to be adjusted. He said three significant estimates were identified: reserves for losses and loss adjustment expenses, fair market value of investments and other-than temporary impairments. He noted that the Eide Bailly Internal Actuary, Mr. Healsey reviewed the methodologies used by Willis Towers Watson and he felt comfortable with the stated reserves that were ultimately determined and recorded as did the Eide Bailly auditors. He said the audit found that the fair market value of investments was appropriately recorded as illustrated in Note 2 of the audit and in Note 8, the other-than temporary impairment contained no significant security losses on investments that needed to be recorded as of December 31, 2020.

Mr. Lindstrom then provided further clarification on the audit required communications regarding Note 2 and Note 8. He said Eide Bailly did not encounter any significant difficulties, uncorrected or corrected misstatements and did not experience any disagreements with management. He noted that Eide Bailly did use the assistance of MSF's internal audit function to coordinate their data requests and collecting audit evidence and thanked Ms. Grosfield for her assistance in completing a successful audit, particularly in the remote environment. He also thanked MSF management and staff for their preparation and responsiveness to Eide Bailly to assist in completing the audit efficiently.

Mr. Glennon echoed the appreciation of MSF staff working through the remote audit. He said the accounting world has been fairly quiet with regard to new standards or implementation of accounting rules except for GAAP principles which have not been implemented yet in the statutory basis. He attributed the slow down in completed projects by the Public Company Audit Oversite Board (PCAOB) and the SEC to the pandemic. He noted there was nothing imminent that would affect MSF going forward.

Chair Miltenberger thanked Mr. Lindstrom and Mr. Glennon for taking the time to present today. He also thanked Mr. Burzynski and Ms. Grosfield and commended them for this tremendous result from the audit. He noted that his experience with MSF has always been positive regarding audits. He called for questions.

Mr. Marsh asked if the same report for Note 8 is available for the past five years to look at the trending?

President Hubbard said those reports are available for the past five years and staff could either summarize the Note 8 history for the Board or provide copies of the prior reports.

Mr. Marsh asked for copies.

Chair Miltenberger called for additional questions or comments. There were none. Mr. Miltenberger commented that a board member in a separate company that he is affiliated with had stated that it is best practice for the board to go into executive session with the auditors with no staff once a year. He said he did not believe that was possible with the public meeting laws that apply to MSF; however, he wondered if that was normally correct?

Mr. Glennon said that was correct and it is commonplace. He also repeated that Eide Bailly's ultimate responsibility is to the Board of Directors and should any Board member have any questions they should feel free to call them at any time throughout the year.

Chair Miltenberger said one of the questions his co-board member asks is "what questions are we not asking and if there were anything that the auditors would ask if they were on the Board side?"

Mr. Glennon said that if MSF did have an executive session, the auditors would not say anything differently. He said they have not held back any of their comments projecting to the Board and for the Board to know. He said they have been honest with what they have needed to communicate. He also responded that the questions they are not asking that they need to be would really be explanations of the reports that they are unclear about and for which they would like further clarification.

Mr. Lindstrom added that the responsibility of an auditor is to exercise professional skepticism throughout the audit and trust yet also verify and ask questions. He said any question is a good question and it is good to ask of both management and the auditors and he noted they are happy to address any questions the Board members may have.

Chair Miltenberger thanked Mr. Lindstrom and Mr. Glennon for the report.

Ms. Grosfield noted before her presentation that because of MSF's requirement for public notice and open Board meetings, MSF has elected to have the full Board serve as the audit committee.

ii. *Approval of Audited Calendar Year 2020 Statutory Financial Statements*

Ms. Grosfield provided a review of the items that had to be reconciled between the governmental or GASB statements and MSF's statutory basis financial statements that had just been audited by Eide Bailly. She explained how the statutory vs.

governmental financial statements reconcile and clarified that the statutory statements are a more conservative basis of accounting in that they look more for liquidation value or what could be sold if liquidated in order to be able to pay claims.

Ms. Grosfield walked the Board through the reconciled items and provided the overview depicted in the graphic on the next page.

Reconciliation of 2020 Statutory Equity to GASB Net Position

Statutory Equity (NAIC)	**$ 600,993,271**
Reconciling Items:	
Non-admitted assets	24,698,095
Change in inestment value of bonds to fair market value	73,999,555
Change in investment lot inventory method	1,731,290
Change in investment value of other invested assets to equity method	(60,047)
Change in allowance for doubtful accounts	(2,698,064)
Effect of differences in lease accounting standards on income and equity	56,312
Effect of differences in pension accounting standards on income and equity	(26,015,691)
Effect of differences in OPEB accounting standards on income and equity	(883,721)
Rounding	(6)
GASB Net Position (Unaudited)	**$ 671,820,994**

She offered to answer any questions there might be and seeing none, she noted that MSF requested the Board's approval to use the statutory-audited-basis financial statements for inclusion in the calendar Year 2020 Annual Report along with the reconciliation.

Chair Miltenberger explained to Board members that staff prepare a list of proposed motions that the Board is not confined by; however, they can be helpful with regulatory matters/housekeeping matters such as this. He called for a motion.

Ms. Fagg moved the Board approve the statutory-basis financial statements as audited by Eide Bailly for inclusion in the Calendar Year 2020 Annual Report, along with a reconciliation of the audited statutory policyholder equity as compared to GASB net position, subject to audit. Ms. VanRiper seconded the motion. Chair Miltenberger called for additional questions, comments or discussion from the Board and the public; seeing none, he called for the vote and the motion passed unanimously.

iii. Statutory-Basis Financial Statement Auditing Services – Renewal of Contract – Patti Grosfield, Internal Auditor

Ms. Grosfield noted that the contract with Eide Bailly needed to be renewed for the next two years. She said per regulation it is mandatory to prepare and have audited MSF's statutory financial-basis statements. She said the RFP process was completed in 2016 and Eide Bailly was selected. The MSF Board approved an original two-year contract with the provision that up to seven years could be renewed and extended. In 2018, the MSF Board approved a three-year contract renewal which covered Calendar Year 2018, 2019 and 2020. She said the Board is approaching the sixth year of the seven-year contract cycle and MSF has been satisfied with Eide Bailly and recommends that the Board approve this two-year contract. She noted the scope and terms remain the same throughout with date changes and the inclusion of modest increases of 1.76 percent for 2021 and 1.73 percent for 2022.

Chair Miltenberger called for questions.

Ms. Fagg addressed legal counsel, Kevin Braun, MSF General Counsel, and disclosed that Eide Bailly is her personal accountant and asked if she should abstain from voting on the contract?

Mr. Braun said if a Board member has a personal conflict with the business of the Board it would behoove the Board member to abstain from voting if they feel they cannot vote in an unbiased manner due to their personal contacts to avoid any inferences of conflict.

Ms. Fagg said she felt that she could be objective; however, wanted to disclose that Eide Bailly is her personal accountant.

Mr. Braun noted that she did have the option of disclosing and continuing on with her vote.

President Hubbard noted that these are obviously very important considerations and asked Ms. Fagg if her personal business was a competitor to MSF or did in any way involve workers' compensation insurance.

Ms. Fagg said no.

Mr. Miltenberger noted that Ms. Fagg was not an investor in Eide Bailly nor married to an Eide Bailly accountant and is using them just as MSF is and he did not see a conflict at all. He said he appreciated the fact that she disclosed the relationship and noted that if Ms. Fagg did not feel right about it, she did not have to vote.

Mr. Marsh made a motion the Board approve the renewal of the contract with Eide Bailly for Statutory-Basis Financial State Auditing Services through September 30, 2023. Mr. Owens seconded the motion. Chair Miltenberger called for discussion and public or staff input; there was none. He called for the vote and the motion passed unanimously.

E. *Annual Business Plan Update – Shannon Copps, Director of Enterprise Strategy and Project Management*

Ms. Copps provided the key success measures for the 2021 Business Plan and the projections to date.

Key Success Measures

KSM	2021 Plan	2021 Projection
Net Earned Premium	$149.7M	**$152.7M**
Loss Ratio	69.2%	**64.5%**
Expense Ratio	40.0%	**36.6%**
Investment Income	$42.3M	**$55.0M**
Net Operating Income (prior to dividend)	$24.7M	**$49.7M**
Achieve Enterprise Wide Initiatives		

Ms. Copps noted that the financial metrics were projections based on the year-end projections as of March 31, 2021. She said the net earned premium projection was $3 million higher than plan due to higher payroll growth than was planned. She said the loss ratio was better at 64.5 and total losses were projected to be below plan which was driven by favorable development on prior accident years. She said total expenses were projected to come in $3.9 million lower than planned for a 36.6 percent expense ratio and projected net invested income at $55 million. She said the current net operating income projections before dividend were $25 million over plan at $49.7 million which was driven by an increase in investments and decreases in losses.

Chair Miltenberger called for questions; there were none.

Ms. Copps said the three Enterprise-Wide Initiatives are all focused in the Customer Service category. She said work is ongoing to replace MSF's Policy and Billing System with five modern applications that improve our service and efficiency. She noted that MSF continuously looks for ways to reduce Montana's high rate of workplace injuries and therefore has two safety initiatives to work toward that goal.

She said the Policy and Billing System Replacement Initiative (PBRI) is off track. The systems were not implemented last year as planned due to the continued material defects that were found during testing. She said the project team has paused testing efforts and has spent the last several weeks reviewing application code in order to find and mitigate those quality issues. She said based on the results of the review and the estimated work effort to fix the critical issues, the team will determine a new implementation date in which they have confidence. She noted that Ms. Jenkinson would provide a more detailed report regarding this project in the next agenda item.

Ms. Copps said the Worksafe Champions program is expected to complete as planned. There are three options to participate:
1) The Safety Management Consultant (SMC) works on-site in workshops with the policyholder's minimum of three designated and dedicated employees. She noted there are currently 11 policyholders working through this option.
2) A program designed for smaller employers to attend central workshops which include several organizations in the same group. These workshops have seven companies and 10 participants.
3) The safety team expects to award 11 safety grants of up to $3,000 by the end of the year. These grants are awarded to WorkSafe Champion graduates who apply for and meet eligibility requirements to further support the organization's safety efforts.

She said the Growing a Safer Montana initiative is on track and this project expands MSF's efforts to reach young workers and invest in the safety future of Montana. She said the team has awarded grants to 37 high school classes and 11 middle school classes. The instructors will select from a variety of personal protective equipment for their class. She noted that over the last five years, these grants have impacted nearly 11,000 students with the safety equipment and message.

Ms. Copps said the second part of this project awards scholarships to students in college trade and occupational safety health programs. The team is currently developing information packages for colleges to generate interest in the 15 scholarships which will be awarded in the first quarter of 2022.

She said the PBRI project schedule is off track and all other initiatives are planned to complete as scheduled.

Chair Miltenberger called for questions. There were none.

F. *Policy/Billing Replacement Initiative (PBRI) – Julie Jenkinson, VP Insurance Operations*
Ms. Jenkinson said the PBRI initiative is to replace MSF's core policy insurance platform. She noted this is year six of the initiative which is obviously a long project over a long arc with a lot of people involved and a lot of details to manage. She noted that this initiative was undertaken to move to a modern and flexible platform. She said the old platform, now going on 30 years old, was always intended to replace a paper system. She said when it was implemented, MSF did not anticipate consumers wanting more flexibility and more on-line capability and the system does not allow for that. She noted it is a very old system that has served MSF very well and is treated kindly everyday due to lack of resources for keeping it up to date.

She said the new system seeks to accomplish some very important things; allowing MSF's customers to have more flexibility in their interactions with MSF, having staff become more efficient to assure they spend their time on the right customer service rather than beating a machine and, specifically, have customers experience an ease of doing business with MSF. She said the current system is limited in its flexibility and there are certain functions that it cannot currently do that customers now expect and can get from our competitors. She said PBRI, importantly, includes five different components; the policy system, the billing system, the rating system that calculates quotes and two portals – an agent and a customer portal.

Ms. Jenkinson provided a history of the project that began in 2015 and noted that, with Board approval, an Independent Validation and Verification (IV&V) partner, Sabot, was hired. She said Sabot has been invaluable to the process and has helped MSF develop the RFP and provided expert advice on project management and governance throughout the project. She said in 2016 the technical requirements for the system were developed and the RFP was released which was a very long detailed process, completed through state procurement, with a lot of respondents. The responses had to be graded and then advanced to the point in 2017 where a recommendation could be made to the Board for a system integrator (SI) along with the Guidewire platform. She noted that the Guidewire platform was the result of the RFP being written to have the SI bring the platform that they were expert in and recommend it. She said there were only a couple of workers' compensation insurance platforms to chose from and HCL, the chosen SI, recommended Guidewire. She said Guidewire is a worldwide-known, very commonly used platform. She said further in 2017 was Board approval and beginning planning of how to proceed with development of the SI. She said in 2018 the development began with 1-13 original Sprints or months of development broken up into bite-size pieces. The Organizational Change Management (OCM) program was begun to assure that staff and customers were aware of what was happening all along and are prepared for it. Also, at that time a simulated environment process called Simon was begun so that staff could begin playing in the system as development occurred to get comfortable with the way the new system would look and feel to them. She said in 2019 development continued because in 2018 development was extended from 13 Sprints to 16 Sprints and that caused some delay in the process because of the need to add time and further development. She said it needed to be extended because it proved to be more complicated to configure the system for MSF's needs for its customers. She said that development was finished in 2019 and System Integration Testing (SIT) was started. SIT is lead by the SI and all of that testing is intended to assure that when everything is connected after the build, that everything runs together. She said in 2020 the SIT testing was finished and User Acceptance Testing (UAT) was begun with the actual project owners to assure the system would perform with quality and stability the way it was intended to. She said they ran into more issues at that time realizing that there was a high rate of defect with the quality so UAT was extended to Validation Testing (VT) at the beginning of 2021. She said that was done to verify what exactly was occurring with the defects and then review and remediation began.

She paused the report on testing and provided a wrap up of how the project evolved. She said OCM was implemented as a best practice with the advice of Sabot and SI to use a process called "Voice of the Employee" to use actual staff in varying departments to provide feedback on how the information is being taken in and providing advice on what the staff needs and what may be considered. She said the VOE made a great recommendation that some of the process improvements that were expected to be experienced did not need to wait until implementation to be rolled out to MSF's customers. She said they started some of those changes early on. She said this was a result of the desire to determine a way to look at other ways to accomplish industry best practices and leapfrog in the system and in MSF's interaction with our customers. Some of those changes were completed early on, such as how customers were reporting payroll. Customers were not reporting payroll and actually had bills come due and they could be canceled for either one. She said they realized that mechanism was used because of the old system and a conversion was begun to either only payroll reporting or only payments. The best outcome of that is there are now half as many cancellations and certainly not cancellations because of payroll issues. She said no quality is compromised there because policyholders can always modify their payroll at any point in the year; however, this took some of the requirements off of them and stayed focused on were they paying for their insurance the way they needed to and did they have the ability to still make changes they needed to. That is just one example of new approach from a recommendation by the VOE which was a great learning tool for the team about why it is important to include your staff early on in the process.

She said the evolution of the testing components further explains why we got to where we are now with our commitment to quality and our commitment to stability in the new system. She said user acceptance testing began at the end of 2020 and quite a few defects were noticed. She said this illuminated those problems and after working with the SI and Sabot, the team decided to do more testing, which resulted in the validation testing cycle which began early in 2021. She said that identified quality issues and actual issues with code quality and regression defects. She said as they would fix something, something else would break, which was very frustrating for the team and prompted questions about how to get to "go-live." She said with expert advice from Sabot and the platform company, Guidewire, another path was recommended to uncover and remediate the code issues, which was something called Review and Remediation. This was a root cause analysis when a defect was found which meant not just trying to fix it but also determining where the defect is originating from. She said the plan is about half way through and things are going well – actual root causes are being uncovered and it is expected that a second part of validation testing, which is a run through end-to-end, will begin after the code reviews are completed. She said after that one more pass through will be completed to assure all of these efforts have created a stable platform. She said their research found that some of MSF's peer companies that implemented new platforms did not do this kind of review which caused some major failures, such as inability to produce a quote or accurate invoices, which is unacceptable for MSF. She said the main goal here is system stability – the quality that we have been ensuring all along has driven MSF to this point now and it is important to assure that we are absolutely solid when this goes live.

Ms. Jenkinson assured the Board that an exciting part of imaging the new system was the opportunity for improvements. Those improvements are called "business value realization" and we are measuring how we are going to implement them and how we are going to realize them by cost, efficiency and quality. This platform offers MSF opportunities to evolve our ability to service our customers. She said the analysis that was completed indicates they were looking for the reduction in manual steps, the ability for customers to have on-line capability and specifically, to improve the ease of doing business and assure that our customers are happy with us and satisfied with the service they are receiving and having the ability to work with as they want to in

2021. She provided the efficiencies that have been identified through the process and noted that 643 manual steps have been removed, which mean employees are better informed in the moment and have access to all the data they need to make better decisions. The efficiency of time not spent on manual input allows them to spend more high value time with the customer. She said we want to translate this into the ability of our customers to interact with us in a way that works for them, particularly for real time self-service abilities.

She summarized that this has been a very large project, over many years, and is about the size of three to four typical business plans that MSF usually prepare. She said the focus on improvement of our processes and quality in the system, reliability and stability is absolutely important. It creates the opportunities to explore ways to give different products and services to our customers than we currently can. She said they know there are better ways to do things and the goal of this project is to find better ways to please our customers.

Chair Miltenberger called for questions.

Mr. Thiel commented that for small business people like himself, it is difficult to find the time to complete the necessary reporting. He said in the small-business world, the need for him to be able to complete the requirements is not as important as figuring out how someone like Mr. Thiel's wife who gets stuck with all of this while running her kids around can find the ease to complete these tasks. He said he has multiple peers that experience this same situation and that is a critical element that needs to be addressed for making doing business with MSF easier.

Ms. Jenkinson said that is one of the goals of the process with the new platforms and the new portals for our customers and our agents - to make things very intuitive, simple and easy. She said the current system did not allow MSF to have things be simple that way and MSF is trying to make it simple for whoever is trying to interact with us.

Ms. VanRiper commented that she noticed that the system was projected to save about 7800 hours of staff time. Is that per year?

Ms. Jenkinson said it is per year.

Ms. VanRiper asked if MSF planned to translate that into savings by reduced FTEs or use that time for things that leaders were hoping the staff can do that they could not do before. She asked what was going to happen with that 7800 hours?

Ms. Jenkinson said we have talked about this early on quite a bit but have not talked about it for a couple of years now. She said it is important to recall that while we may experience some reduction in staff over time, these are manual processes that are very frustrating for staff because it is time they cannot spend with the customer. She said it is time they cannot spend actually just making sure that they are not just answering the customer's question but are looking for ways to also help the customer with the next three steps that the customer does not even know what the questions are. She said we are really looking for ways to add value for our experience and our relationship with our customers not just have fewer of us. She said if that works out over time, of course, we will take advantage of that. She added that, in fact, we do that every day now – anytime there is a vacancy they evaluate if it is necessary to fill that position because we are looking for ways to drive down our own expenses because that relates directly to what we have to charge our policyholders. The quick answer is both, but primarily, our first instruction to staff is not to worry about whether or not we need all of them but to look for ways to make sure that our customers are handled and our customers' needs are taken care of.

Mr. Marsh said two components that were discussed were the two portals; one for agents/brokers and producers and one for customers. He asked who is the customer? And he also asked if there has to be a choice of which portal will roll out first, which will it be?

Ms. Jenkinson said the customers are the agents, producers and policyholders. She said this is a policyholder system so this is not for injured workers. She said MSF has a lot of direct policyholders as well as agent-represented policyholders that want to be more active on their account. She said all of our customers will eventually use the customer portal and the agent portal is important so the agent can help their customers manage their policies, make submissions and receive quotes. She said as far as which portal will be rolled out first, there is discussion about potentially doing a staggered roll out of the core system and then the portals. She said if they had to guess which portal will be rolled out first, it would probably be the agent portal because more of our business is agent-represented and the agents will want to be able to continue providing that service to our mutual customers. She said that has not yet been determined; however, arguments could be made for either way and this will need to be addressed when that time comes.

Mr. Marsh asked if there would be an update at the next Board meeting regarding where we stand with those roll outs?

President Hubbard assured the Board that business plan updates are provided each quarter and there will be an update at the next meeting.

Ms. Fagg thanked Ms. Jenkinson for the nice presentation and said she appreciated the clarification on the portals. She asked about the references that indicating this could open up new markets for MSF and also that the platform allows MSF to explore new opportunities, and asked Ms. Jenkinson to elaborate.

Ms. Jenkinson said she wanted to be clear that MSF is currently one line of business in one state and it is MSF's intention to stay that way; however, the Guidewire platform services the entire property and casualty industry offering auto and property which provides a lot of opportunities for markets if MSF were ever to explore them in the future. It opens up that opportunity without having to change a platform. She said though it is not MSF's current plan, it was nice to know that nothing was forestalled for being evaluated later and the platform would not have to be changed to do that. She noted that MSF also does not do anything with captive markets. She said MSF has guaranteed cost and some-risk sharing ability such as retrospective rating plans, which are all currently handled manually so MSF could expand its current capability within workers' compensation in a systematic way, which is important to know. She added that the system allows MSF to make things less manual than they are right now and still expand options in the future should a future Board or Executive Team explore that. She noted that those other capabilities for our customers could be explored, giving more on-line ability to our customers. She said MSF could explore providing quotes on-line and there are lots of on-line quoting capabilities now in the marketplace that MSF does not enjoy. She said there are other opportunities that MSF could explore once it gets moving in the new system and get everyone acclimated to it.

Mr. Marsh noted that MSF now handles out-of-state business for in-state customers through other insurers and asked if this new system would allow processing of that business were MSF to seek licensure in those other states?

Ms. Jenkinson stated it would not. She noted that by statute MSF is only allowed to sell insurance for Montana. She added that MSF provides insurance coverage for its Montana resident companies that have out-of-state business only through a partner. She said this new system would not change that arrangement; the system would only allow MSF to perhaps remove a few manual steps from the process.

Chair Miltenberger called for additional questions; there were none. He thanked Ms. Jenkinson for the presentation and stated that the team must be disappointed, as anyone would be, in the delays with the PBRI project; however, he commended the team for not waiting until the end of the project to roll it out and test it. He said the idea of Simon and on-going testing is smart and assures MSF avoids the biggest risk, which is a lapse in service to its customers.

Ms. Jenkinson thanked Chair Miltenberger for his comments and added that the team could not convey enough how much MSF appreciates the Board's on-going support even through what looks like extensions and schedule delays. She said it is very frustrating for the team. She noted that the Project Managers, Erika Ayers and Sandy Leyva had done a remarkable job of keeping the team upbeat and engaged through difficult times where there are delays. She said MSF's absolute commitment to quality and stability for its customers was what has kept them on course. She thanked the Board again for their support and understanding.

III. Corporate Support – Mark Burzynski, VP Corporate Support

A. Board of Investments Update – Jon Putnam, Chief Investment Officer and John Romasko, Director of Fixed Income – Board of Investments

Mr. Burzynski introduced Jon Putnam, Chief Investment Officer and John Romasko, Director of Fixed Income from the Board of Investments (BOI) to provide an investment update.

Mr. Putnam provided a brief background history and noted that prior to becoming the Chief Investment Officer in February 2020, he was the Director of Fixed Income and had primary responsibility for MSF's portfolio for a number of years. He said he has worked with the MSF team for quite some time and is very familiar with MSF and its operations.

He said investment challenges in the current environment are interrelated and encompass global monetary and fiscal policy, inflation expectations and high valuations/low yields in most areas. He said the reduction in rates by the Fed and the purchase of securities in the market to support it as well as Congress passing stimulus packages to help support people post COVID-19, is driving money into the system, which has driven higher inflation expectations. He noted that inflation expectations are trending as high as five percent which is a level that has not been seen since the 2008 or 2009 recession. He noted that all of BOI's portfolios, including MSF's, are long-term so the expectation is they will be around for a long time and the portfolio will stay diversified and stick to the asset allocation and work through this inflationary time. He said the portfolio has the ability to sustain through the peaks and valleys and is not too concerned.

Chair Miltenberger noted that MSF is required, or it is best practice to have a significant amount of its money in bonds and he asked if that should be concerning going forward in the next couple of years?

Mr. Putnam said due to inflation bonds can certainly be a concern; however, BOI has seen low rates in the bond portfolio for years which is part of the reason they have diversified the portfolio. He said long ago the entire MSF portfolio was almost all bonds and then domestic equities, international equities and real estate were added as well as the recently added high-yield bonds.
He noted that over time, BOI has moved to some investments that should help mitigate those bond yield concerns to a degree. He noted that MSF's portfolio is relatively short term and the duration is about four which means that bonds tend to roll over every four years on average. To

the extent that there is inflation and interest rates increase, which may be painful in the short term, over time they would be able to roll the bonds over into higher-returning bonds.

Mr. Putnam noted that BOI successfully executed a telework plan during the pandemic and was now transiting back into the office. He added that two new fixed-income analysts have been hired and BOI has implemented some process improvements such as remote capabilities, electronic trading of passive equity portfolios and manager relationships.

Chair Miltenberger called for questions from the Board; there were none.

Mr. Putnam provided a high-level review of the economic environment noting that the gross domestic product (GDP) has been improving over the last several quarters and is forecast to decline, yet is still high based on standards throughout the last decade. He said the large drop in employment during the pandemic saw a huge increase in the unemployment rate which has improved some since. He added that labor-force participation has yet to rebound to the levels that existed pre-COVID-19. He said there is a debate in the market as to the reasons why the labor force return is not back at the old level. He also noted that change in personal income typically tracks in consumption; however, during COVID-19 spending dropped and for various reasons personal income increased. He said that consumption is no longer tracking with personal income. He stated that due to the stimulus money and lower interest rates, asset prices have been driven significantly higher. He said there was a huge drop in the markets when COVID-19 first hit; the likes of which had not been seen since the Great Depression. The much-needed tools used by the government to fill that hole probably saved the U.S. from a depression while also creating an enormous run in the markets and assets.

Chair Miltenberger called for questions; there were none.

Mr. Romasko provided an overview of MSF's portfolio and noted that MSF's asset allocation is within all approved ranges. He said $25 million in Domestic Equities were sold during 2021 and said that duration was equal to the benchmark at quarter end. He said the total portfolio return was 8.99 percent over the last year and was led by equities at 54.06 percent. He said the investment grade portfolio returned 3.42 percent on the year, outperforming its index by 177 bps due to a credit overweight.

President Hubbard asked what percentage of the core real estate investment was in commercial and office space sites.

Mr. Romasko said he did not have the exact number; however, he shared that commercial and retail were the largest percentage of MSF's core real estate investment. He added that BOI expects that to come down and stated that Ethan Hurley, the real estate portfolio manager, has been down on commercial property and has been reducing those investments for a while. He also stated that those are long-term contracts and the decline is expected to continue to be mitigated by those long-term contracts and BOI will have some ability to work out of that.

He noted that the MSF investment pool continues to perform well despite volatile markets and BOI will continue to diversify the portfolio over time by increasing exposure to mortgage-backed securities. He stated that BOI takes a long-term view of the portfolio with a focus on managing downside risk.

Chair Miltenberger called for questions; there were none. He added that the state of Montana is required to buy its workers' compensation from MSF which can create a bit of an uneasy relationship at times. He added that MSF is required to use BOI for its investments and that has been a mutually delightful relationship and he appreciated the work BOI does for MSF.

B. *Calendar Year 2021 First Quarter Financial Report*

Mr. Burzynski noted that prior to giving the financial report, he would like to provide the Board with an update on MSF's plans for returning to the building. He said a lot of return-to-building planning occurred throughout the pandemic and MSF will easily be able to provide a report to the Board at the September meeting.

He noted that the biggest issue existing with return-to-the building is getting hybrid employees ergonomically set up for return-to-the office as well as at home. He said money was budgeted to accommodate the necessary equipment and furniture needed to do so. He said summertime also creates some child-care and school-attendance issues for employees with children. He noted that in Lewis and Clark County based on a DOLI study, the capacity for daycare in this market is only at 47 percent of the need.

Mr. Burzynski referred back to when Ms. Giles mentioned that an aspect of the state study mentioned modernizing many of the state's buildings. He said there is an aspect of this building that is the same way – this building does not have Wi-Fi and it would be advantageous for employees to be able to move to collaborative areas or hoteling sites to be able to work on their lap top.

He said when talking about the building or tools and applications as Ms. Jenkinson described our staff capability, the real challenge for any of us is to make sure that we are applying resources effectively in pursuit of our strategic direction that sustains our mission and vision long-term. He added that whatever space we have, the real challenge is how to apply that to create economies of scale as well as make this organization sustainable which is constantly on our radar screen.

Chair Miltenberger asked how many of the approximately 300 employees at MSF were Helena based?

Rick Duane, Vice President of HR, said 90 to 95 percent were Helena-based. Ms. Jenkinson said there were a few examiners and safety consultants who were located around the state – so perhaps 15 to 20.

Mr. Burzynski then provided the calendar-year-2021 first-quarter financial report. He said bonds are always increasing for MSF due to the investment bumping up against the 12.5 percent limit in the bond portfolio. He explained that unpaid losses decreased by $8 million and unpaid loss adjustment expenses were also lower than projected. He said that losses incurred were expected to be higher than the 2020 levels due to the subdued year of 2020 relative to claims. There was a $1.7 million underwriting-loss projection for the year which is an atypical result for MSF and many insurers.

He said equity is projected to be $618 million, which creates a reserve-to-equity ratio of 1.5 to 1 prior to any dividend declaration. The Board approved range for the reserve to equity ratio is 1.5 to 2.5 to 1 and though the current level is close to the bottom, should a $30 million dividend be declared, the ratio would degrade by one point. He noted that with compounded rate reductions of 53 percent since 2007, equity becomes increasingly important to an insurer like MSF to assume the risk. He said equity serves as a buffer for MSF against unfavorable returns relative to the inflation in the environment. He added that net earned premium is expected to exceed the annual business plan by approximately $3 million due to increased policyholder payroll because of higher employment levels and/or higher wages. New business and retention are also factors in the better- than-expected premium. He also said that MSF's key industries namely construction, agriculture and government, were not nearly as severely impacted by COVID-19 as other carriers' mix of business. He commented that commercial carriers may not be finding Montana to be as hospitable as they have in the past due to NCCI-recommended, for nine straight years, reduced rates that ranged from 3.4 percent to 17.2 percent.

Mr. Owens mentioned that in a previous meeting there was discussion about the Montana Association of Counties (MACO) getting out of the workers' compensation line and what that could mean for an increase in MSF's income. He asked if MSF absorbed a lot of that business?

Ms. Jenkinson clarified that MACO got out of the self-insurance business – they still required workers' compensation insurance and they came to MSF as a group to ask for coverage. She said MSF provided that to them. She said part of MSF's new business for last year was between $3 and $4 million in new business due to the MACO shift over to MSF. She noted that MSF does not have every county; there are six counties insured by other carriers, giving MSF 50. She added that MACO is one of MSF's group programs and MSF works with their administration to help administer the services for those counties. She said they are still very involved and they still have their other property and casualty lines of insurance, such has health.

Ms. VanRiper asked Mr. Burzynski to refresh her recollection of what the loss ratio is and why it increased this year over projection.

Mr. Burzynski said the loss ratio is actually improving. He noted the annual business plan projected it to be at 69.2 percent and the actual ratio is 64.5 percent. He said if premium is higher by $3 million and losses are expected to go down during the year the loss ratio will drop and improve which means we are actually moving in the right direction.

Mr. Marsh asked about the contingent commission negative income entry of $8.9 million. He asked for assistance in understanding how there could be a $9 million offset to income in a year where a 64 percent loss ratio is projected and how that relates to the monies out to reinsurers? He said he did not need clarification at this meeting; however, wanted more detail for the Board to look at to understand the $9 million offset to income.

President Hubbard noted that staff had discussed providing the Board with a deeper dive into the reinsurance contracts and the impact in the financial statements. He said if Mr. Marsh preferred, staff could communicate off-line with him or a more formal presentations for the Board could be prepared. He noted that the contingent commission is not actually an offset to income – it is an offset to expenses and reduces underwriting expenses when there is a negative number in the contingent commission area which means those are dollars earned back.

Mr. Marsh thanked him for the clarification and noted that he looked forward to seeing the details.

C. *Calendar Year 2021 First Quarter Budget Report*

Mr. Burzynski provided a review of the first quarter budget – he noted that total MSF expenditures were budgeted at $175.7 million; however, the projection is now at $173 million. He said claim benefits payments are projected to be $3.6 million below planned due to indemnity and medical settlements trending below budget loss expectations and the reduction of claims filed in 2020 due to the pandemic. He said operational expenditures are projected to be over budget by $832,000 or 1.2 percent due to the postponed launch of PBRI and additional development resources which is $1.4 million over budget and still evaluating how much will be needed for additional consulting.

He said that personal services was under budget by $172,000 and noted that as the projection assumes a specific hire date for each position, if the vacancy is not filled as anticipated the under-budget variance will increase as the year evolves. He also reported that capital expenditures have been re-projected to have a $1.4 million unfavorable variance. In order to address the variance, $2.7 million in reductions have been identified to cover the $1.4 million variance as well as any other variances that may occur this year. He said the goal is to have an underwriting gain and some of the reduced expenditures should contribute to that.

He also provided a review of the detail of the safety services expenditures and noted that services such as WorkSafe Champions, Growing a Safer Montana and the ACE grant program offered to non-profits, train and allow businesses to address safety-related issues.

Chair Miltenberger called for additional questions; there were none.

D. Data Measurement Criteria for Premium & Incurred Losses for Potential Dividend Declaration – Rene Martello, Controller

Ms. Martello explained that the Board will be asked to approve a table of dividend factors at the September Board Meeting. She said management recommended the Board establish the measurement criteria for when losses and premium will be valued utilizing June 30, 2021 for policies with coverage effective between July 1, 2018 and June 30, 2019. She clarified this action will allow for the analysis to be prepared for the September 10, 2021 Board Meeting.

Chair Miltenberger said he thought this item seemed like a non-actionable issue that the Board would not have to take action on each year.

Ms. Martello said the dividend rules allow for the Board's flexibility; however, there could be an occurrence or time when the Board would prefer to use a different measurement date based on circumstances that support having a different measurement period. She noted seeking Board approval for the date has historically been the process; however, the rules could be updated to set this permanently if the Board so desired.

Mr. Braun added that it is truly the providence of the Board to declare the dividend and in order to have adequate leave time in which to set up all of the parameters so that the Board can be fully informed when the Board meeting occurs, this decision by the Board does need to occur because it is a component of the dividend.

President Hubbard added that there are a couple of standing motions the Board has established in the past and offered to work with General Counsel to determine if this could be converted to a standing motion unless there needed to be a change at the meeting in June.

Mr. Braun said it could be changed within the dividend policy and then the Board would not have to revisit it unless there was something the Board wanted to do differently.

Chair Miltenberger asked that staff work on making that change in the dividend policy.

Mr. Maxness moved the Board approve management's recommendation to utilize June 30, 2021 as the date to value premium and incurred losses on new and renewal policies from July 1, 2018 through June 30, 2019 for potential dividend calculation purposes. Mr. Owens seconded the motion. Chair Miltenberger called for questions or comments from the Board and the public; seeing none, he called for the vote. The motion passed unanimously.

E. *Old Fund Fiscal Year 2021 Variance and Fiscal Year 2022 Funding Estimate – Rene Martello, Controller*

Ms. Martello provided an update on the expected funding needs for the Old Fund for the next fiscal-year cycle. She explained that the Old Fund includes all claims that occurred before July 1, 1990 which are a liability of the State of Montana. She said these liabilities are tracked on the State's fiscal year which begins July 1, 2021 through June 30, 2022. She said the estimate is provided to the Governor's Budget Office and the Department of Administration as all of the expense funding comes from the General Fund and MSF is paid to administer the claims.

She said overall for Fiscal Year 2022, claim benefit payments are expected to be $6.6 million and operational expenses $813,174 for a total of $7.4 million of estimated funding. She said 2021 is projected to come in at $7.6 million which is a three percent decrease from the 2021 projection.

Ms. Martello provided information on the history of total benefits payments since 1991 which reflected a total of $98 million to FY1997 which was the first year that payments were under $20 million for the year. She noted that in FY2005 the payments remained in and hovered around the $10 million average of benefits paid. She said more recent years have seen even more reduction and estimates are under $7 million and added that there have been recent years where the amount increased closer to $10 million due to settlement activities. She said the historical claim count from 2010 has seen a decrease from 898 claims to 452 as of April 30, 2021 and more recently the claim count was at 442. She said a net total of 431 claims have closed between July 1, 2011 and April 30, 2021. She said there were two new claims opened in the Old Fund in 2021 and explained this happens when there are new claims related to accidents or exposures that occurred prior to July 1, 1990 – she said these are typically asbestos-related claims. There were 13 claims that reopened and 58 that closed. She said the benefit laws that were in place for many of the Old Fund claims allowed lifetime medical benefits which makes settlement the most effective means of closing the Old Fund claims.

Ms. Martello provided the FY22 funding estimate which, once approved, will be provided to the Governor's Budget Office and the Department of Administration to establish the spending authority on the state's accounting system for the next fiscal year to be paid out of the General Fund. She said the total FY22 Old Fund funding estimate was $7.4 million. She said claim benefits comprise approximately $6.6 million and total operational expenses are projected to be $813,000.

State of Montana – Old Fund
FY22 Funding Estimate

Claim Benefit Payments	**$6,559,609**
Operational Expenses	
Administrative Cost	$547,580
Assessments	119,750
ALAE	145,844
Total Operational Expenses	**$813,174**
Total Old Fund	**$7,372,783**

She said she was available for questions and asked that the Board approve the funding estimate for the Fiscal Year 2022 for the Old Fund.

Chair Miltenberger asked Ms. Martello to clarify if the $7.4 million was just MSF's recommendation to the State for what they need to budget. He sought to clarify that this was not coming out of MSF's funds but was just a pass through for the administrative costs of MSF administering the Old Fund claims.

Ms. Martello confirmed that this estimate establishes the State's spending authority in the State's budget and gives the Department of Administration an understanding of what is expected to be needed to fund the Old Fund. She said MSF has constant communication throughout the year with the Department regarding the Old Fund estimates and the status of the funding.

Chair Miltenberger asked what was the last year that a covered person would be covered in the Old Fund.

President Hubbard said it was June 30, 1990.

Chair Miltenberger said that was 31 years ago and MSF is the New Fund not the Old Fund but to him this reflects the highest value of what this company is about; taking care of the folks that were injured so long ago. He said ultimately an insurance company is nothing but a bundle of promises and these are promises that MSF is keeping to these injured workers. He thanked the MSF staff for all their work in helping these injured workers out.

Ms. Fagg asked if there was a projection as to when the Old Fund would cease to exist?

President Hubbard said from time to time, the payments patterns are used to project the final date and the current estimate is that the last year of the Old Fund will be 2052.

Mr. Marsh said in order to project what our income or reimbursement of expenses will be, if the payments in the past that we have had in the range of $1,100 per claim and then scale that down, is there an actual projection of what the patterns will be to close so that we can then scale what our income will be in the handling of those claims?

President Hubbard said he believed that each component was broken out by year to 2052 to how much was benefit payments, how much was DOLI assessments and how much was expense reimbursements. He said that does stair step down as well. He said it is not a profit-making area, it is just a pass through of the actual expenses which are allocated within the operational budget. The Old Fund costs must be segregated from the Old Fund costs versus New Fund costs.

Mr. Marsh asked if there had been consideration from the Board or MSF to move toward the legislature and ask for a removal of the Department of Labor assessments because they seem duplicative for State Fund Two handling State Fund One claims and paying assessments on claims that are now into the General Fund. He said it seems there is a duplication there.

President Hubbard said that is a legislative decision, as the Legislature set the assessment requirement allocation in the statute. He asked Mr. Braun to provide further comment.

Mr. Braun said that was specifically contemplated when the DOLI workers' compensation assessment and safety assessment were split apart. He said there was a debate as to whether or not the Old Fund should be paying in and the decision at that time was "yes" because they are still making use of the services from the department which include mediation and the other claims assistance pieces. He said secondarily, that is a state special revenue account, not a General Fund account, so it is targeted and not a mishmash of General Fund to state special. He said that was specifically contemplated and rejected three sessions ago.

Mr. Marsh apologized if he misspoke on that. He said the other question he has now that he knew the history, is now that it is down to 430 claims would it not be time to go back and re-contemplate that since he is confident that the services used at DOLI Employment Relations Division (ERD) are so small for the Old Fund compared to the volume that they have otherwise. He said maybe that would be a savings for this special account? He added that maybe it was just a matter of "let's think about it."

Mr. Braun said he agreed with "let's think about it."

Mr. Marsh said his last item which is on the same topic, have we considered, as an organization, I am sure you are aware of some companies in the claims industry, Paradigm is one that comes to mind, that will make deals with the insurer to buy a book of business and then run those off at their own expense and they will buy the reserves also. And then at the end of the road, if they are able to conclude those claims for less than what was reserved, and I think $30 to $80 million was said for this Old Fund book of business. Have we thought about going in and buying that and trying to run those off less expensively for the benefit of the State Fund?

President Hubbard said "yes" we have historically looked at something like this, and we are very familiar with Paradigm and we have used them on a one-off basis. He noted that one of the challenges of Paradigm is that they do not take a loss portfolio transfer completely. They do a selective process and will not buy, or at least they have not proposed to buy, such a small book of claims. They specialize in catastrophic claim management, not the more routine long-term medical claims that are chronic. He said we find in the Old Fund a lot of the claims are prosthetic replacement every five to ten years and they are expensive and that is not something that a Paradigm-type company would do. The shorter answer is, anytime we can consider ways to mitigate the negative impact on the employee in the Old Fund, we use the same tools we use in the New Fund to do so; using the same best practices and the same reserving philosophies. He said as far as Paradigm, we have not found a way to get out of our ultimate responsibility for payment of the claims because by law, we cannot get rid of our responsibility for paying the claims ultimately.

Mr. Marsh said he used Paradigm as an example; however, his question was what might be considered by MSF as an organization to go to the state and make that kind of a deal for all of the Old Fund claims. We already have the infrastructure to handle the claims, maybe they would off load those, they would fix the special fund that they have and then if there were a savings at closure, State Fund, too, would reap the benefits of that and injured workers would be served.

President Hubbard said he appreciated the question. He said the Old Fund, though is not a State Fund obligation so State Fund does not benefit from those claims being administered by another third-party administrator.

Mr. Marsh said if they bought them from the State, that's the concept?

President Hubbard reiterated that it would not impact the State Fund, itself. It may, in fact, impact the State of Montana but not the State Fund. We do not have any liability for the Old Fund liabilities.

Ms. VanRiper said she believed she understood where Mr. Marsh was coming from. She said she thought Mr. Marsh was talking about the MSF buying the block of business from the state and then it would be MSF's to gain or lose money on.

President Hubbard said MSF had those liabilities and had assets set aside back in the 2000s but the state legislator and the governor's office at the time decided to take the remaining assets of the Old Fund and use them to balance the state budget. The exchange for that was that if the Old

Fund liability ever became negative as it did immediately, that would be a General Fund responsibility. He said there are no assets in the Old Fund so there is nothing to buy; it is a cash-flowed Old Fund. If they wanted to sell or transfer, like a third-party liability portfolio transfer, they would pay a premium to the purchaser, in all likelihood, because it is not worth anything. He said someone would have to ask the legislature to come up with money to sell the Old Fund to another carrier and he added that the political will would have to be there. He said this was a good point - the state could go out to market and ask what they needed to pay a company to take over these Old Fund claims. He apologized that he did not appreciate the call of the question originally.

Mr. Marsh said he thought they were on the same page now and he added that he did think there may be some political will to move in that direction to close out the Old Fund issues.

Mr. Miltenberger called for additional questions; there were none.

Ms. Fagg moved the Board approve the management's recommendation of $7,372,783 for the FY22 Old Fund estimated benefit payments and administration costs for reporting to the State of Montana for funding from the general fund. Mr. Marsh seconded the motion. Chair Miltenberger called for questions or discussion from the Board and the public; there were none. He called for the vote and the motion passed unanimously.

IV. President/CEO Compensation Update and Succession Planning

A. Compensation Update – Neville Kenning, Kenning Consulting

Mr. Miltenberger noted that the next item was to discuss was the performance of President Hubbard. He stated that he did not believe Neville Kenning was not tuning in; however, if he was out there, the Board wished him the very best. He said the new members of the Board did not have much opportunity to interact with Mr. Kenning but those that have been around know what a wonderful gentleman he is and the Board wishes him the best as he struggles with his healthcare issues.

He stated that there was a contract to be considered with a firm, Associated Employers (AE) based out of Billings, that was willing to jump in at the last minute. He noted that AE does a number of things, one of which is compensation and general employment consulting. He said Bethany Williamson Powers and Jackie Swiesz from AE had joined the meeting via Zoom. He said the contract would need to be approved by the Board before moving forward with their services. He noted that this contract was not a long-term RFP situation, this was a urgent situation that was allowed due to the short notice of the need for their services. He noted that the contract was fairly brief and AE had agreed to change their standard contract to meet some of the requirements when doing business with a state entity. He said the amount of the proposal was $1,200 which was the cost of the contract.

Mr. Maxness made a motion that the Board approve the contract with Associated Employers to provide the executive compensation information to assist the Board in setting the compensation for the President/CEO. Ms. Fagg seconded the motion. Chair Miltenberger called for discussion or comments.

Ms. Van Riper asked the Chair to briefly outline the scope of the contract and the work to be performed.

Chair Miltenberger said the scope would include market data research (external competitiveness) using a current data set from MSF and a past consulting firm, as well as information from State of Montana DOLI and nationwide surveys to recognize trends in compensation and comparative wages. Secondly, AE would prepare the report and present it to the Board.

Ms. VanRiper sought clarification that this was a temporary contract and then the Board would put this out for RFP?
Chair Miltenberger confirmed that was correct.

Chair Miltenberger called for additional discussion, comments, or questions for the Board and the public. Seeing none, he called for the vote and the motion passed unanimously.

Ms. Sweisz said she would provide a brief introduction of AE and their compensation methodology with the bulk of the presentation being developed using the Kenning Consulting report with the contacts for MSF CEO compensation, some MSF data and some factors to be considered in setting the CEO compensation. She said their presentation is to deliver this information to the Board. They have done a cursory review of Kenning Consulting's information to compare to AE's methodologies.

She said the data or information from Kenning Consulting appears to be somewhat parallel to AE's and AE's methodologies; however, AE did not have access to the specific data used by Kenning Consulting. She said due to that lack, AE development provided some additional data and information for the Board to review.

Ms. Sweisz said Kenning Consulting provided an introduction to his partial presentation for AE to develop their presentation and she noted the last President/CEO compensation review was done in June of 2020. She said she believed Kenning Consulting had been doing these reviews for the MSF Board for a number of years, since 2014 going forward.

She explained that AE is a non-profit business association that specializes in these human resource support services. She said AE's methodology to complete compensation project analysis, AE completes the market research for matching job duties to make certain that they can apply that correct wage to the work. She said they begin with the job description and look for at least a 70 percent match to the job summaries they pull from. She said the summaries are pulled from all over the country and industry-specific surveys. She said their methodology is based on the economic research institute salary structure guidelines. She presented the information that Kenning Consulting provided that outlined the history of the use of a compensation consultant and the compensation survey utilized by the MSF Board to determine the President/CEO's compensation each year.

Ms. Williamson Powers clarified for any new Board members that this portion of the presentation was to outline where the philosophy came from, how the Board was involved in making some of those decisions, such as eliminating an incentive plan and adopting the different groups the information was coming from.

Ms. Sweisz expressed some confusion as to a possible error on the Kenning Consulting slide that reflected that the survey was completed effective December 2020 by Kenning on behalf of the American Association of State Compensation Insurance Funds (AASCIF) Executive Committee. She said she thought that should maybe be on behalf of MSF and not AASCIF as was listed.

President Hubbard clarified that the Executive Committee from AASCIF does engage Kenning Consulting to complete a survey of all state funds each year. The last survey was completed

December 2020. He said the Executive Committee pays for the survey to be conducted and then Kenning Consulting would engage in contracts with the individual funds to advise their boards.

Ms. Sweisz noted they had access to the data provided by Kenning Consulting; however, they did not have access to the actual AASCIF survey data that Kenning used to develop the report. She provided an overview reporting that MSF fell into Group A, which is a competitive non-State agency fund, and said MSF was also included in Group D which was a regional cut of data to present this compensation information to the Board.

She said that Kenning Consulting provided the summary table depicted below.

Fund Group	2019 Average Base Salary	2020 Average Base Salary
Group A - Competitive Non-State Agency Funds	$463,349	$509,268
Group B - "Monopolistic" and/or State Agency Funds	$162,865	$156,307
Group C - Regional Funds	$373,718	Not Available
Group D - the Group A Funds in Regional Group C	$450,048	Not Available
MSF CEO	$395,000	$418,001

Ms. Williamson Powers said the “not available” information was because that was not provided by Kenning Consulting and thought it may because that had not been extrapolated out yet by Kenning Consulting.

President Hubbard said that was correct, Kenning had not completed the extrapolation due to his medical circumstances.

Ms. Sweisz said with the data provided by Kenning, AE utilized a geo-corrected data tool provided by the Economic Research Institute to develop compensation structures and market data for specific positions. She said the pay rates depicted in the table below indicate that for the funds in the regional Group D, the CEO salary was at $450,048 for the 2019 average. She said AE does the geo-corrected data on that using that group of states and they correct it to Helena, Montana, specifically, and they also do age-dating to the current date. She said the amount that was provided in the December of 2019 base survey was age dated into current dollars which corrected that amount back to $420,876.

Ms. Williamson Powers added that they did not know if the original data from Kenning was geo-corrected or if it was just sharing the amount from each state. She said they do not know if the data was brought back geographically to the specific area, which they would want to do for cost of living and things such as that. She said they wanted to show the Board that there would be some difference in the compensation if that were to be done.

Ms. Sweisz said Kenning provided the changes in the percentages for increasing base salary from December 2019 to December 2020. She said MSF was in Group A which indicated a 9.5 percent increase with a notation that this increase was considerably higher than previous years and that it was the highest published since Kenning Consulting began administering this survey in 2014.

She said Group D had a 4.4 percent increase and noted that at the December 2020 meeting a 5.82 percent increase was approved by the Board for the MSF CEO's 2019 performance.

She said from this information they took the pay raise from the Federal COLA increase at 1.3 percent and how that affected the base salary for each of those four groups and very specifically on the bottom line the MSF CEO. She noted they were just presenting this to the Board to determine the best adjustment amount the Board would want to consider.

Pay Rates with the 2021 1.3% Federal COLA Increase

Pay rates for 2021 with 1.3% Federal COLA increase	Base Salary 2020	Current If Known	1.3% COLA	Total 2021 Base
Group A Competitive Non-State Agency Funds	$463,349.00	$463,349.00	$6023.50	$469,372.50
Group B Monopolistic and/or State Agency Funds	$162,865.00	$162,865.00	$2117.25	$164,982.25
Group C Regional Funds	$373,718.00	$373,718.00	$4858.33	$378,576.33
Group D Group a Funds in Regional Group C	$450,048.00	$450,048.00	$5850.62	$455,898.62
MSF CEO	$395,000.00	$418,000.00	$5434.00	$423,434.00

Ms. Sweisz then presented information that tied back to the Montana State Employee Guidelines that were released in 2020. She noted that this may not be something the Board would want to consider; however, they wanted to give this information to base on what Montana State Employee guidelines offered with any kind of wage adjustments. She reiterated that Group A was classified as a competitive group of state funds as opposed to a state agency or monopolistic entity. She said AE was unsure if the Board wanted to use the state-employee data at all; however, they felt it was helpful to be able to compare with the overall Montana state employees.

Ms. Williamson Powers noted that all state employees received for 2021 a .55 cent per hour raise. She said if that is extrapolated out at $418,000 it is 200.96 per hour. With .55 cents added to that there would be an extra $1,144 per year. House Bill 13 gave a pay increase for state employees based on their different qualifications of service. In this case, President Hubbard has been with MSF for 32 years which allows for some nice increases based on the length of service. The initial 1.5 increase over base equals a total of $37,620 and with the additional longevity increase of .05 would add $836. All of those increases added together would bring the total to $457,600.

She said that provided some comparison information and since AE did not know how the decision was made last year to give the certain percent raise that was given they were looking for where they might find some information to be able to provide a baseline for the proposed increase.

Ms. Sweisz then provided some Montana DOLI wage data from 2020 for non-profit and for-profit business only. She said this would follow very closely for the Group B state funds.

High end of Range	$190278
Mid-Range	$119516
Low end of Range	$76377

*Please note that this includes non-profit and for-profit businesses in Montana

She provided the following factors that are typically considered by Boards in reviewing and determining CEO compensation:

- Current pay relative to the relevant comparator markets.

- Mix of fixed and variable compensation. The extent to which variable compensation does not exist can have an influence on the level of base salary set.
- Time in position, specifically the experience and organizational knowledge that brings.
- Investment in retention versus the cost of replacement.
- The business, economic and political environment and the need for "political pragmatism".
- The performance of the incumbent against the performance objectives and measures for the period under review.

Ms. Sweisz highlighted the bullet point that discussed business, economic and political environment and the need for political pragmatism and said AE did not understand how to guide the Board in measuring that and did not have an understanding of where the measurement items for Kenning were determined. She added that AE, with the factors that are considered for the compensation for any position that they are researching wage data on, includes several items such as qualifications, the level of knowledge and skill, education and training, what is the pre-requisite related work experience that is required for this position. She said other factors that AE brings into play are decision making and problem-solving levels, and external and internal relationships levels. She said AE and Kenning methodologies differ slightly; however, she did not think it was anything that was very major. She said they look at the current payroll in the competitive market and they can work up blended ones with the mix of fixed and variable compensations; the time in the position was one of the factors they use as well.

Montana State Fund

Factors to be considered in setting CEO compensation in 2021

The business, economic and political environment impact of the COVID-19 pandemic since March 2020 has been dramatic and is likely to be felt for the foreseeable future. As the Board considers CEO compensation, Kenning Consulting provides the following information:

- ***Over 70% of AASCIF Group A CEO's*** have their compensation reviews conducted in the period January 1-March 1 each year, with the most common date being March 1. Accordingly, the majority received their 2020 incentive pay outs and their 2020 base salary changes ***before*** the full the impact of the COVID-19 pandemic.
- It is anticipated that we will get a better idea of how the COVID-19 pandemic impacted on AASCIF CEO compensation in later surveys.

According to KornFerry International:

- *70% of Insurance organizations plan no change in executive increases*
- *77% plan no impact to incentive plans*
- *79% have paid an incentive based on performance*
- *6% planned no pay incentives*

Ms. Sweisz said that the information above was also part of Kenning's information and noted that the AASCIF Group A CEO's reviews are done between January and March of each year and accordingly, the majority or the CEO's received their 2020 incentive payouts and their base salary changes before the full impact of the COVID-19 pandemic. She said in 2021 we need to see what kind of impact that may have made in compensation with the later surveys and obviously AASCIF is going to be a part of that to tie that information to their groups. She said there is also information from Korn Ferry that lays out where most of the similar organizations are going forward with any kinds of increases and pay incentives.

She thanked the Board for the opportunity to present AE's input and offered to answer any questions.

Chair Miltenberger called for questions.

President Hubbard asked if the geo-correction was focused on the workers' compensation insurance industry or general all-employment sectors or is it insurance, financial services? What is the methodology when it comes to that?
Ms. Williamson Powers said the compensation information would be correct to the job and the industry, then the location is geo- corrected. She gave an example of $150,000 in Utah corrected back to Helena and said there would be a difference. She said the industry is not the question there because that data is correct for the industry. We want to know how much that money would be worth from one place to another.

Ms. Sweisz added that the question pertains to if AE was gathering data from surveys that pertain specifically to state insurance funds. She said state insurance funds are different types of entities than obviously, private insurance companies. There is no way that a state insurance fund can pay their CEO what a private insurance company can pay. She said those salary levels are in the millions and AE did not want to present that kind of information for the MSF Board. She clarified the information about state insurance funds is very industry specific information and Kenning has done a tremendous amount of work in pulling that data together by being a member of the AASCIF organization and having access to that data. She said should AE be asked to provide this review going forward, they would most likely look at joining the AASCIF organization so they could access that actual survey data that has been used.

Ms. Williamson Powers added that they could create that same kind of comparison if that were the case.

Chair Miltenberger called for questions; there were none. He thanked Ms. Sweisz and Ms. Williamson Powers for their analysis and presentation on such short notice. He then explained that Montana has open meeting laws that require all public meetings be open; however, for certain matters such as discussion of litigation or performance reviews and compensation matters, the meetings can be closed for an executive session.

He said the MSF Board does have a formal performance management process in place that takes into consideration the President/CEO's performance as the primary driver of the assessment.

V. President/CEO Compensation Review and CEO Succession Planning

A. Introduction – Notice of Closure of Meeting – Richard Miltenberger, Chair of the Board

Chair Miltenberger noted that the Board would now go into a closed session to complete the compensation review and asked President Hubbard if he wished to waive his right of privacy to his individual performance as it relates to the setting of his compensation?

President Hubbard said he did not wish to waive his right to privacy; however, he would waive his right if the Board wished to consult with Kevin Braun, General Counsel and/or Rick Duane, VP Human Resources.

B. Meeting Closed to the Public

Chair Miltenberger announced the closure of the meeting at 1:07 pm and stated that it would be reopened after the discussion of the President/CEO's individual performance as it relates to the setting of his compensation.

C. President/CEO's Performance Review

VI. President/CEO Performance

A. Introduction – Richard Miltenberger, Chair of the Board

Chair Miltenberger reconvened the meeting at 2:07. He said he wanted to publicly thank President Hubbard for his great work and the work of staff over the past year. He said the Board had decided to gather additional information and postpone this process for compensation until the next meeting.

B. President/CEO's Annual Compensation

No action was taken on this item.

C. Budget Amendment for the Calendar Year 2021

No action was taken on this item.

VII. Old Business/New Business (1:15 pm)

Chair Miltenberger called for Old or New Business; there was none.

VIII. Public Comment (1:20 pm)

Chair Miltenberger called for public comment. There was none.

The meeting was adjourned at 2:08 p.m. The next scheduled Board Meeting will be held on Friday, September 10, 2021 at 8:30 a.m. in the Board Room at Montana State Fund, 855 Front Street, Helena, Montana.

Respectfully submitted,

Verna M. Boucher
Special Assistant to the President/CEO