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MONTANA STATE FUND
BOARD OF DIRECTORS MEETING
March 12, 2021

The Montana State Fund (MSF) Board of Directors meeting was held March 12, 2021 via Zoom.

Directors Attending

Lance Zanto, Chair, Helena
Jack Owens, Missoula
Richard Miltenberger, Helena
Lynda Moss, Billings
Curtis Laingen, Shepherd
John Maxness, Helena

State Fund Staff Attending

Laurence Hubbard, President/CEO
Verna Boucher, Special Asst to Pres/CEO
Kevin Braun, General Counsel
Julie Jenkinson, Ops Vice President
Rick Duane, HR Vice President
Al Parisian, CIO
Will Anderson, Interim Ops Support Vice President
Patti Grosfield, Internal Auditor
Darcie Dunlap, Internal Actuary
Rene Martello, Controller
Shannon Copps, Director, IT Plans & Controls
Dan Gengler, Actuary Mentor

Others Attending

Russell Greig, Willis Towers Watson
Alex Turrell, Willis Towers Watson

I. Meeting Preliminaries

A. *Call to Order*

Chair Lance Zanto called the meeting to order at 8:31am. He welcomed and thanked all attendees for participating and noted that the agenda for this meeting was quite full. He noted that the meeting was being live streamed and recorded on YouTube and asked that attendees mute their microphones when not speaking. He stated that a call for public comment was sent out prior to the meeting and that none was received; however, should public comment arise regarding any agenda item, the questions and comments could be emailed to Verna Boucher at vboucher@mt.gov. He asked that questions and comments be run through the chair to facilitate the ease of note taking for the production of the minutes.

He noted that the Board membership was transitioning with three new voting Board members for this meeting; Richard Miltenberger, who will take over as Chair following this meeting as well as John Maxness and Curt Laingen. He clarified that Jan VanRiper, an existing Board member who will continue her tenure, had planned to attend but would not be available for this meeting. He said Jack Owens will also continue his tenure as a Board member. He stated this would be the last Board meeting for Lynda Moss, Matt Mohr and himself. He noted that Cliff Larsen and Jim Molloy had resigned their positions on the Board. He noted that Michael Marsh and Karen Fagg, who were both in attendance at this meeting, would be joining the Board as voting members after this meeting. He stated there would be a call for public comment for each agenda item after Board discussion had ended. He also noted that among the materials that Board members receive from MSF staff are proposed motions that are reviewed by the legal department to assure they capture everything that has to be in the motion to be statutorily accurate. He said the proposed motions are not intended to bind the Board in any fashion and adjustments can be made within each motion by any Board member. He said they are intended to provide guidance as to the legal requirements as the Board members make the motions.

B. Approval of December 11, 2020 Minutes

Chair Zanto called for a motion to approve the December 11, 2020 minutes.

Lynda Moss made a motion to approve the December 11, 2020 minutes as presented. The motion was seconded by Chair Zanto. Chair Zanto called for discussion from the Board, MSF staff and members of the public. Seeing none, he called for the vote and the motion passed unanimously.

II. Miscellaneous – Laurence Hubbard, President/CEO

A. Board Member Update

President Hubbard welcomed the attendees and those attending via live stream. He said this meeting was a day of mixed emotions for him in that it will be difficult to say good-bye to and thank the outgoing Board members - Chair Zanto, Matt Mohr, Lynda Moss, Cliff Larsen and Jim Molloy for their service on the Board. He noted that Chair Zanto has been a steadfast champion and attendee at the Board meetings for the past eight years and MSF wished to thank him publicly for his service. He said he personally appreciated the effectiveness with which Chair Zanto had handled issues before the Board of Directors.

He thanked Ms. Moss for serving two terms on the Board and her high degree of dedication to MSF at a nominal fee while consistently offering significant suggestions to better assist MSF's customers and deal with the workers' compensation system.

He asked that the photos of the Board-appreciation gifts be shared with participants and noted that each item carried a small disk that could be displayed inside the Swan Valley Copper bowls and dishes. The gifts were offered to the out-going Board members on behalf of the MSF employees to thank them for their service.

Chair Zanto thanked President Hubbard for the kind gesture and noted that he would miss the Board and the hard-working staff at MSF.

President Hubbard took a moment to thank Ms. Moss on behalf of the Board and the MSF staff.

Ms. Moss thanked President Hubbard and her family on the MSF Board. She said she believes you never say good-bye; everyone will just meet in different ways and continue the relationships that have been forged. She said thank you for the work and the good efforts to support the workers and small business owners in Montana.

President Hubbard acknowledged and thanked the Board members who served yet were not in attendance at this meeting; Matt Mohr, Jim Molloy and Cliff Larsen.

He took a moment to introduce the newly appointment Board members. He noted that Richard Miltenberger had served a prior term on the Board and said MSF appreciated Governor Gianforte appointing and Mr. Miltenberger agreeing to serve as the Chair. He noted that John Maxness had become a student of workers' compensation quite quickly and has met with President Hubbard a number of times to review some of the materials that have been provided to date. He said though he has not seen Curt Lanigen for a number of years, he appreciated him returning to the world of workers' compensation to serve on the Board. He noted that Karen Fagg and Michael Marsh will officially be joining the Board on April 1 and he welcomed them.

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

Ms. Grosfield clarified for the new Board members that in her position as the Internal Auditor for MSF she has the pleasure of working directly with management and staff at MSF on internal matters and reviews and also working with and coordinating with the external audit teams on various audits. She said that at each Board meeting she will provide an update on the internal and external audits. She noted that in order to maintain her independence and objectivity, she reports functionally and administratively to the President/CEO and also reports functionally to the Board of Directors. She invited Board members to keep the lines of communication open and said she is available at any time to speak to them.

Externally
She noted the beginning of the year is typically quite busy. The annual statutory financial statement audit is being completed by a team of auditors from Eide Bailly LLC. She said they are a team of insurance experts and have done very nice work for MSF over the last few years. They formalized some of the planning and field work remotely in December 2020 and spent the first two weeks of February completing what is typically referred to as field work though they were once again working remotely. That work consists of talking with staff, analyzing figures and looking at all of the accounts as well as walking through the processes and policies and checking controls. She said they are finalizing the audit report which will be provided to the Board as soon as it is released. She said MSF is anticipating a clean unqualified opinion and no known recommendations are contained in the report as far as is known at this point. The audit report detail will be presented at the June MSF Board meeting.

Ms. Grosfield said MSF is also audited annually by the Legislative Audit Division which is the GASB or governmental financial compliance statements. Those audited statements feed into the Montana CAFR which is the Montana Combined Annual Financial Report. She noted those auditors are expected sometime in the Spring as the dates have not yet been set. They are typically here in April, May or June. That report is then presented to the Legislative Audit Committee in the fall.

Internally
She reported that for the First Quarter 2021, she has been coordinating with external auditors and MSF staff on calendar year 2020 financial audits. She audited the employee leave plan payouts which, not surprisingly had increased over the year due to fewer vacation days being taken during the pandemic. She noted the payouts were instituted to keep the ultimate costs down by limiting the accrual of annual leave to two times an employee's annual leave. She said she was in the process of auditing the policies, procedures and eligibility of the merit-based pay-for-performance program. She completed the Code of Conduct and Data Confidentiality and Acceptable Use program review in January.

Ms. Grosfield provided on overview of the agent incentive payout that she completed for the policy period of July 1, 2019 to June 30, 2020. She said the agent incentives are driven by profitability and retention factors at the agency level and MSF added a "new business" component this year. She noted that $1.4 million was paid out in agent incentive with 15 master agencies receiving a payout for approximately 1.3 percent of gross earned premium which was slightly below the target payout of 1.5 percent. She said profitability was .96 percent slightly below the target of 1.13 percent and the retention multiplier was above target at 1.33. The weighted average new business came in at 1.02 which was below the target of 1.15. She said the overall premium retention rate on the fiscal year 2020 agent book was 93.1 percent.

She said the upcoming internal audit activity would include a review and follow-up on Service Organization Control (SOC 1) reports, the employee performance-based pay plan which is in process, a dividend audit should a dividend be declared and on-going controls reviews and testing. Chair Zanto called for questions. There were none.

Ms. Moss said she had always been impressed with the oversight and due diligence of MSF and questioned how the Eide Bailly audit and the LAD audit relate to one another.

Ms. Grosfield said both audits seek to determine that MSF's financial statements are accurate and reliable while also reviewing MSF's adherence to legal regulations and statutes. She said each set of auditors may target different areas to dive deeper into each year.

Ms. Moss said she believed these audits provided a great example of the focus on due diligence and good governance and management of MSF.

Ms. Grosfield added that MSF is one of the few governmental agencies that have an internal audit function.

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

C. Legislative Update – Kevin Braun, General Counsel

Mr. Braun provided a legislative update and noted that the transmittal deadline for general bills had just passed. He noted there were five bills introduced, all of which would have done harm to MSF. He said ultimately, MSF's business partners rallied to the cause and those bills had been tabled.

House Bill 198 by Representative Derek Harvey provides for an increase to the burial benefits payable under the workers' compensation act. Current statute provides a maximum of $4,000 – this bill proposes to increase that to $10,000 which reflects current average funeral costs. The last increase of this benefit was in 1999. This bill passed the House of Representatives on a unanimous vote and was heard in the Senate committee two days ago and has been transmitted to the Senate Floor though it has not been scheduled for floor action in the Senate.

House Bill 199, also by Representative Harvey, revised workers' compensation information requirements on reopening claims. This bill has passed both chambers and essentially allows the Department of Labor and Industry (DOLI) to provide additional information regarding non-statutory program benefits that are offered to the families of injured workers by non-profit organizations. He said DOLI will be able to provide information on programs such as Kids Chance which offers college scholarships to the dependents of workers injured or killed on the job. The bill relieves the insurer of the burden of providing medical notes and documentation in situations where both the injured worker and the insurer petition to reopen medical benefits after the five-year closure. This bill also eliminates the security deposits for the Plan 2 or private insurance companies. DOLI has been collecting those security deposits and it is a rather archaic process particularly considering the guaranteed Fund that stand behind the Plan 2 insurers.

House Bill 283 by Representative Fred Anderson revises laws relating to student interns. Mr. Braun said due to the work force shortage this bill and the companion bill, House Bill 282, allow for pairing students up with business partners through the schools to get some on-the-job training. HB283 requires workers' compensation insurance coverage for student learners in elementary or secondary schools. The school and the business partner must agree inwriting who will provide the workers' compensation coverage for these unpaid internships. Paid learning opportunities are already covered by a different provision of the statute.

House Bill 446 which is carried by Representative Ron Marshall clarifies the definition of prosthetic devices. Mr. Braun noted that last year there was a DOLI rule that proposed to expand the definition of a prosthetic or prosthesis beyond that which was already envisioned at the time that House Bill 334 passed in 2011 and beyond where the workers' compensation court had established that definition. The current definition is that it is "an artificial substitute for a missing part of body." HB 446 puts this definition in statute. This is important for MSF because the repair or replacement of prosthesis is one of the exceptions to the five-year medical closure.

Senate Bill 118 from Senator Terry Gauthier concerns workers who make false statements in an employer-provided written questionnaire that calls for the disclosure of a medical condition that is relevant to the essential functions of the job. Mr. Braun noted that this is a permissible inquiry after a conditional offer of employment has been issued. Should the employee make a false statement knowingly or willingly made by omission or commission, and if the employer relies upon the representation and there is a causal connection to the false statement, the injured worker would not qualify for indemnity or wage loss benefits and medical benefits.

Senate Bill 366 by Senator Shane Morigeau revised laws regarding independent contractor certifications. This bill addresses situations where the worker does not have an independent contractor certificate, and they are to be classified as an employee. This bill will say there is no conclusive presumption that the worker is an employee in the absence of the IC certificate.

Chair Zanto thanked Mr. Braun and noted that the 2021 Legislative session had been busy for MSF, Mr. Braun and Ethan Heverly and thanked them for their efforts.

President Hubbard assured the Board members they would have ample opportunity to understand the workers' compensation system and why these bills are important to MSF. He noted that every insurance company must follows the laws Mr. Braun had just summarized and explained bills that change laws impact how MSF does business. He noted that the independent contractor bill could result in litigation situations for MSF, which illustrates the importance of following, tracking and providing input on proposed legislative changes. He commended Mr. Braun and Mr. Heverly for the remarkable job they have done representing MSF's position on the bills important to MSF. He added that MSF does not generally take a position on benefit bills as to whether they should be expanded or decreased unless the proposed benefit would be too difficult to administrate and would have a significant cost to the system. He said there have been cases where the impact was so significant that the Board of Directors has had discussions regarding those bills. He noted that due to the rapid progression of some bills, it is often quite difficult to gather the Board to vote on taking a position. In those cases, he reaches out to individual Board members to understand their position and to determine if further action, such as a special Board meeting needs to be held.

Chair Zanto added that there have been occasions when emergency Board meetings have been called to facilitate the discussions about the Board taking a position.

President Hubbard noted that the next portion of the Board meeting would address the Board establishing any manual rate change to MSF's rates for customers effective July 1, 2021 for the resulting 12-month period. He said this is an annual process and it involves the consulting actuaries, Russell Grieg and Alex Turrell from Willis Towers Watson. He noted that this decision is required by law and the Board must file proposed rates to be approved by the Commissioner of Securities and Insurance (CSI). He said the rates are reviewed to determine that they are not inadequate, excessive or unfairly discriminatory which is the legal standard that all companies must meet for rate filing in the state of Montana. This process is to provide a series of recommendations to arrive at a manual rate change, if any.

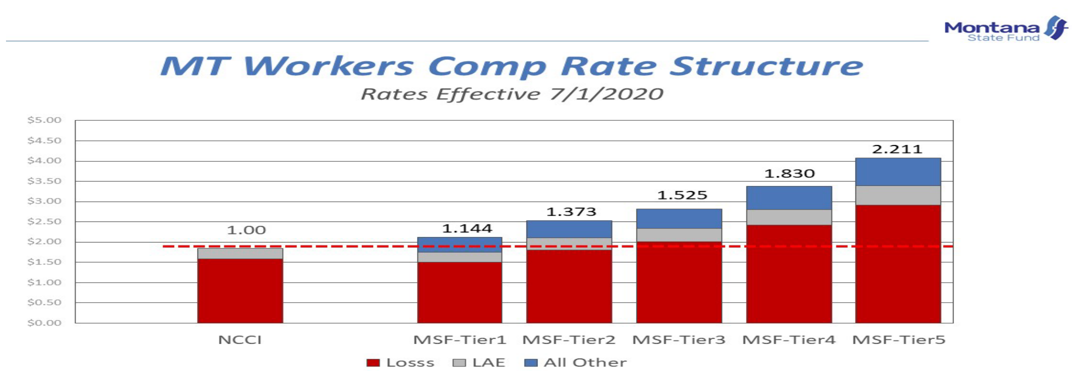
III. Ratemaking Decisions for July 1, 2021 to July 1, 2022

A. *Overview of Rate Filing Process – Darcie Dunlap, Internal Actuary*

Ms. Dunlap explained that her overview was presented to provide the Board with an understanding of the initial steps in the rate setting process and the key decisions the Board will be making.

She noted that this overview would use the National Council on Compensation Insurance (NCCI) loss costs and MSF's currently effective rates. She said NCCI's July 1, 2020 loss cost filing in Montana provided loss costs for approximately 560 different class codes, which represent numerous industries or types of work in Montana. She said the loss costs are what NCCI's actuaries estimate needs to be charged as a statewide average to cover claim benefits or losses and claim administration or the Loss Adjustment Expense (LAE). MSF writes business in approximately 430 of those approved class codes. She said the average loss cost based on MSF's payroll comes out to an overall average NCCI loss cost of $1.85, which means based on the business MSF insures, NCCI calculates that MSF must charge on average $1.85 per $100 of payroll. That amount is split between losses and LAE. She said in a competitive-rating state such as Montana, every carrier is free to propose their estimate of their average loss for their own book of business. She said NCCI represents the statewide average; however, each carrier can write a different segment which may cover a different industry or different size of business. She noted that a carrier can choose a different loss cost for their own book of business; however, they must support that selected level with CSI. She said for the business MSF writes in Tier 3, MSF proposed a loss cost of $2.34 which was $1.97 for losses and 37 cents for LAE which was 27 percent above NCCI's loss cost level. She noted that MSF's loss cost levels vary by the different rate tiers; however, for purposes of this discussion the focus would be on Tier 3 or MSF's middle tier.

She said loss costs indicate what must be charged for losses and LAE; however, a carrier must consider all other expenses such as personnel, systems and business costs, agency commission, targeted profit level and offsets for investment income or underwriting off balances. She said to cover the other costs, MSF charged an additional 48 cents per $100 of payroll, which brought the total average manual rate to $2.82 for Tier 3. She noted that all the tiers go through this same process. She said NCCI's loss cost can then be considered as Montana's benchmark or starting point and then each carrier can determine how their manual rate compares to NCCI's loss cost using division or determining a ratio. The resulting factor becomes that carrier's loss cost multiplier (LCM). She said for 2020 for MSF's Tier 3 the LCM was 1.525 which means MSF must charge 52.5 percent more than NCCI's loss cost to cover all of the other losses and expenses. She said each carrier calculates their LCMs in the same manner and then files them with CSI. This process creates a level playing field for comparison.



She said last year MSF filed five different LCMs for MSF's five different tiers.

She provided a comparison of MSF's loss cost multipliers by rate tiers to the rest of the Montana market noting that MSF's rates are not the lowest or the highest. She said the majority of MSF's business is written in tiers 2, 3 and 4. She said the loss cost multiplier is just the starting point for pricing an individual business and that scheduled rating, construction credit, volume discount and experience rating are all examples of other pricing variables that are included to impact the final premium for any account.

She further explained that the Board's key decisions would be: 1) to formally adopt the NCCI loss cost filing as a starting point for MSF's manual rates, 2) determine the key tiered rating plan criteria which determine how accounts are assigned to tiers one through five, 3) adopt the other rating programs, such as minimum premium, expense constant, scheduled rating, retrospective rating, volume discount, employer's liability, deposit premium, short rate premium and domestic workers and 4) determine the loss cost multipliers for the five rate tiers. She noted that the decisions the Board makes at this meeting will determine what MSF files with CSI for rates and pricing effective July 1, 2021.

Chair Zanto called for questions. There were none.

B. NCCI Montana Loss Costs Filing Update Effective July 1, 2021 – Darcie Dunlap, Internal Actuary

Ms. Dunlap noted that the first step in the rate setting process is to formally adopt the NCCI loss costs as the basis for MSF's manual rates. She explained that Title 33 requires the use of approved NCCI loss cost filings for private carriers and MSF. Montana's Insurance Commissioner has already approved the NCCI loss cost filing for use by carriers in Montana for July 1, 2021.

She said NCCI filed a 14.6 percent decrease in loss costs for Montana. The decrease is a statewide average and the change varies by individual class codes. She explained that NCCI determines the loss costs for each class code by reviewing the past payroll and loss experience within each code. The class codes are then categorized within five different industries which reflect varying average decreases from minus 12.4 percent to minus 15.5. NCCI limits the change allowed by industry to plus or minus 25 percent off the average change. She said for MSF's inventory of 430 class codes, the loss cost for three different codes increased, three codes remained the same and all of the other codes reflect decreases. She said NCCI breaks down their overall loss cost change into three components; experience and trend, benefits and LAE. The combined total gets to their 14.6 percent.

She noted that NCCI's loss costs estimate is 30.6 percent below MSF's loss cost estimate. There are two main reasons for this difference - we are the guaranteed market and there are different actuarial methodologies being considered.

She said NCCI experience and trend indications are developed using three years of losses and premium and also looking at 12 years of frequency and severity levels to determine the overall loss ratio trend. She said MSF has also observed that losses are in a declining pattern; however, NCCI applies their selected trend for three to five years beyond the experience years and that prediction for that many years may be a strong assumption. She explained the variations between NCCI's recommended loss costs for Montana and MSF's loss costs beginning in 2000. She also noted that over the past three years, MSF has been diverging upward from NCCI because MSF serves as the guaranteed market in Montana, we have higher estimates for loss experience and our actuarial trend indications differ.

Ms. Dunlap said management requests the approval of the July 1, 2021 NCCI loss cost filing as the basis for MSF's upcoming rate year. She noted that the approval does not mean MSF's rates will match NCCI's loss costs; it simply means MSF will establish its rates using NCCI's most recent loss cost filing as its base or starting point. She added that MSF's variances will have to be justified with CSI when MSF files its rates.

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

C. *Adopt NCCI Filings/Loss-Costs Filing Effective July 1, 2021 – Darcie Dunlap, Internal Actuary*
Chair Zanto called for a motion.

Ms. Moss made a motion the Board adopt the NCCI filed loss costs for rates applicable to new and renewable policies effective July 1, 2021 to July 1, 2022 for Montana State Fund classification codes. Jack Owens seconded the motion. Chair Zanto called for further discussion from the Board and the audience.

Richard Miltenberger noted this was his first time hearing this presentation from Ms. Dunlap and he commended her for a wonderful presentation.

Chair Zanto called for further comments or questions from the Board and the audience; there were none. The Chair called for the vote and the motion passed unanimously.

D. Tiered Rating Remodel Analysis – Russell Greig, Senior Director and Alex Turrell, Director, Willis Towers Watson
Mr. Turrell provided an update on the tiered rating model and noted that the update was based on analysis that was completed in 2020 and the indications are meant to be effective for the policy year beginning July 1, 2021.

He said tiered rating has been a part of MSF's annual premium setting process for many years and is used as a compliment and enhancement to manual rating, experience rating and some of the rating variables that Ms. Dunlap mentioned as well as the use of classification codes. He said they use tiered rating to segment the insured population into relatively homogenous groups that reflect what are considered to be their expected future loss ratios which are based upon a set of predictive variables. He noted that the end goal of tiered rating, as with any rating process, is to maximize the fairness and reasonableness of any given member's premium.

Mr. Turrell said MSF uses a five-tiered system and he noted that the recent review was an update to the prior engagement conducted in 2014 and was intended to be a checkup not a rebuild of the overall tier rating structure. He noted that they performed multivariate analysis on policy and claim data from 2014 through 2018 to confirm the continued predictive value of previously selected rating variables. The review also allowed for an update of the rating parameter to reflect more recent data and to refresh tier boundaries to maintain balanced premium distribution. He noted that this process was very collaborative with the actuarial team at MSF to also reflect the business considerations in the final indications. He said specifically, they sought to assure that the tiered rating process did not change the overall premium. He added that also importantly, they sought to assure that the tiers did not exclude certain types of insured from a path to achieve a lower tier. Lastly, they sought to assure the distribution by account size across the various tiers was consistent with the previous iteration of the model.

He said the tier rating formula consists of three variables: historic frequency, claim free tenure and account size. He said the updated multivariate model confirmed that these variables are still predictive of future loss costs. He explained that the model parameters can be used to define a formula to assign a rate to each risk and he provided an example of that assignment. He said each risk is assigned to a tier based on the modeled rate and that more than 40 percent of premium is in Tier 3 and the majority of new insureds fall into Tiers 3 or 4. He said all things being equal, larger policies tend to fall into Tiers 2 & 3, whereas smaller policies tend to fall into 3 & 4.

Chair Zanto called for questions from the Board.

Ms. Moss asked what the communication procedure is for policyholders who may be moved from Tier 1 to Tier 2?

President Hubbard said that by law in Montana, the insurance company must give the policyholder 45-days notice of any change in terms or conditions of their insurance policy, including the price. When issuing renewals for MSF's policyholders, the newly calculated premium is provided in a notice.

Chair Zanto called for additional questions; there were none.

E. *Multiple Rating Tiers Criteria and Certification – Darcie Dunlap, Internal Actuary*

Ms. Dunlap presented management's request for the approval of MSF's Tiered Rating plan for the July 1, 2021 renewal process. She said MSF's objective in pricing is to match the rate level with the insured's statistical tendency to generate loss; however, MSF provides coverage to anyone who needs it. MSF insures approximately 25,000 policies per year and three-quarters of those have premiums under $5,000. She said the tiered rating model, created by the external actuaries, works in conjunction with experience rating to help reach an appropriate starting point for pricing. The tiered rating process must be actuarially sound and is certified annually by MSF's independent consulting actuary, Willis Towers Watson, and CSI's actuaries have approved past filings that have included this same tiered rating criteria.

She said the original tiered rating began in 2002 and was a simple table look-up process that was developed internally. The update to the more sophisticated program with statistical modeling began in 2012 and there have been three model adjustments since then. She said the rate tiers provide differentiation around MSF's average rate tier or Tier 3. She said the actuarial basis for the tiered rating program provides credits to Tiers 1 and 2 and debits to Tiers 4 and 5 which brings everything closer to average and provides pricing equity across MSF's book of business. She said the majority of MSF's business falls in Tiers 2, 3 and 4 while Tiers 1 and 5 are exceptions and contain very little of MSF's business. She noted that by policy count the distribution is different as MSF's book of business is dominated by small accounts. She said 52 percent of MSF's business has $1,500 or less in premium. She said businesses are most frequently assigned to Tier 2 and 3; however, businesses with no prior history generally begin in Tier 3, 4 or 5. She noted that as they establish a sufficient track record of loss-free experience, they progress to lower-rated tiers.

Ms. Dunlap said this model is based on three variables which the actuaries determined were statistically correlated with the potential risk of incurring loss. The variables are: 1) three-year claim frequency which is the count of three years of claims divided by the premium of those three years, 2) account size, which is based on the premium for the upcoming year and 3) claim-free tenure, which is the number of years a policy has gone claim free up to ten years. She noted that only claims at the $500 or more level are considered for claim frequency and claim-free tenure variables.

Tiered Rating 2.3 – Table of Factors

Effective 7/1/2021

Account Size	
Value	Factor
<$1,500	1.300
$1,500-$2,500	1.250
$2,500-$5,000	1.200
$5,000-$8,000	1.150
$8,000-$12,000	1.100
$12,000+	0.950

Claim-Free Tenure	
Value	Factor
New	1.100
0	1.100
1	0.919
2	0.802
3	0.730
4	0.694
5	0.667
6	0.642
7	0.618
8	0.594
9	0.572
10+	0.550

Claim Frequency	
Value	Factor
Insufficient History	1.600
0.00-0.00	1.500
0.01-0.10	1.020
0.10-0.15	1.134
0.15-0.20	1.207
0.20-0.25	1.276
0.25-0.30	1.342
0.30-0.35	1.405
0.35-0.40	1.462
0.40-0.45	1.515
0.45-0.50	1.563
0.50-0.55	1.607
0.55-0.60	1.646
0.60-0.70	1.697
0.70-0.80	1.752
0.80-0.90	1.795
0.90-1.00	1.831
1.00-1.25	1.894
1.25+	2.163

Rate Tier Assignment Ranges		
	Overall Factor	
	Lower	Upper
Tier1	0.000	0.900
Tier2	0.900	1.100
Tier3	1.100	1.550
Tier4	1.550	1.800
Tier5	1.800	& Above

One-Tier Swing Limit
Renewal policies shall be limited to a maximum change of one rate tier from one policy period to another.

LCM Relativities	
Value	Factor
Tier1	0.650
Tier2	0.825
Tier3	1.000
Tier4	1.200
Tier5	1.450

She shared the table of factors depicted above and noted that there is a one-tier swing limit upon renewal each year.

Ms. Dunlap said management requests the Board approve the tiered rating plan criteria as presented and noted that Board members had been provided the Willis Towers Watson certification letter affirming that MSF's tier rating structure meets statutory standards of not being unfairly discriminatory.

Chair Zanto confirmed with the Board members that they had received the email containing the certification letter. The members indicated they had. Chair Zanto called for questions from the Board.

President Hubbard thanked Ms. Boucher for emailing the certification to the Board members and noted that the certification letter was the Board's assurance from the independent consulting actuary that they have validated the equitability of the tier rating proposal and that the results and rates are neither excessive, inadequate or unfairly discriminatory. He asked Ms. Dunlap or Mr. Turrell for clarification as to why there was a $500 minimum for the claim frequency and claim-free tenure variables.

Mr. Turrell said that over time, they have tested a number of different limits to determine what is the most predictive of future losses, some lower and some higher. The $500 level seems to be the most predictive. He added that smaller losses such as $10, $15, or $20 would not be predictive of future loss ratios.

Mr. Miltenberger asked how long the $500 threshold has been in use or is that inflation adjusted from time to time.

Mr. Turrell said that threshold was in place for the previous iteration and deferred to Ms. Dunlap for the history prior to 2013.

Ms. Dunlap said MSF has been using the $500 threshold since the inception of the rate tier process and reiterated that the threshold is tested with each review.

Mr. Miltenberger said in the last decade there has been a higher rate of inflation for urgent care or emergency services which is something to consider for the future. He added that the same level of acuity or care and incident might be picking up a bigger cohort of claims.

Ms. Dunlap said that the decline in frequency also needs to be considered as the number of claims to review in the modeling is decreasing which could create an offset for the inflation factors.

Chair Zanto called for additional questions; there were none. He then requested that President Hubbard address the effect one bad claim can have on an employer and how that relates to the one-tier swing limit.

President Hubbard said that the Board and management had adopted a philosophy of stabilizing year-over-year impacts to customers on rating, pricing and a number of potential factors that create volatility in rates for MSF's policyholders. He said when the tier rating program was first adopted, a swing limit did not exist, which could be quite a shock for the policyholder if their business experienced a sufficient number of accidents or claims during that premium year. He said to temper the effects of that volatility, MSF initially adopted a two-tier swing limit and more recently moved that to a one-tier swing limit.

Chair Zanto made a motion the Board approve, for new and renewal policies effective July 1, 2021 to July 1, 2022, the Tiered Rating Plan which consists of five rating tiers and that policies be assigned to the tiers based on the factors as presented by management. Ms. Moss seconded the motion. Chair Zanto called for questions or discussion from the Board and the public; seeing none he called for the vote and the motion passed unanimously.

F. Minimum Premium and Expense Constant – Rene Martello, Controller

Ms. Martello explained that an expense constant is charged to all policies representing the common expense of issuing, servicing, maintaining and auditing a policy regardless of the size of the policy. She said MSF evaluates the staffing and processes required to issue and service a policy and the costs associated with that. She noted that over the last year the expense constant was held at $185 even though actual costs indicated that it could be more. The most recent estimates are showing the costs at $201 and MSF is recommending that the expense constant be increased to $200. She noted there is pressure on both sides of this equation due to an increase in the cost of issuance from new positions and a new operations team formed to focus on underwriting and account service management. She said the denominator which is the number of policies that this will apply to has been declining

She said the loss-based minimum premium component is assessed to policies representing the loss-based (medical and/or wage loss) portion of the insurance coverage provided to the smaller accounts. She noted that based on actuarial analysis there is support for raising this amount; however, due to declining claim frequency and stabilized loss levels, MSF supports leaving this at $240 as it has been since 2017.

Ms. Martello stated that the total recommendation for 2022 is $440 for the expense constant and the minimum premium.

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

Mr. Maxness made a motion that the Board approve an expense constant of $200 for all new and renewal policies effective July 1, 2021 to July 1, 2022. In addition, he moved the Board approve the amount of $240 for the loss-based portion of the Minimum Premium so that the total Minimum Premium is $440 for new and renewal policies effective July 1, 2021 to July 1, 2022. The motion *was seconded by Mr. Miltenberger. Chair Zanto called for questions or discussion from the Board and the public. Seeing none, he called for the vote and the motion passed unanimously.*

G. *Additional Ratemaking Decisions – Will Anderson, Interim VP, Insurance Operations Support*
Mr. Anderson presented a number of additional ratemaking decisions the Board would be asked to address.

1. Schedule Rating
Mr. Anderson explained that the schedule rating plan is to allow insurance carriers some pricing modifications on an individual-risk basis for characteristics that might be unique to a particular policyholder, such as their safety devices, hiring practices or if they have implemented a return-to-work program.

He said MSF's filed schedule rating plan as approved by CSI is modified from the filed NCCI plan and includes: an expanded classification for rating peculiarities, a maximum modification of plus or minus 40 percent, expanded modifications to support the 40 percent maximum modification and to allow more emphasis on management characteristics and a policy must have $5,000 or more in annual premium at Tier 3 manual rates in order to be eligible for schedule rating.

Category	Maximum Credit	Maximum Debit
Premises	-20%	+20%
Classification & Rating Peculiarities	-20%	+20%
Medical Facilities	-10%	+10%
Safety Devices	-10%	+10%
Employees-Selection, Training, Supervision	-20%	+20%
Management-Cooperation with Insurance Carrier	-20%	+20%
Management-Safety Organization	-20%	+20%

He added that there were no changes from the Board approved filing of the previous year.

2. Employer's Liability
Mr. Anderson explained NCCI publishes different limits of liability and different charges for those and MSF essentially follows those. MSF does not have a charge for the basic limits and there is a slight premium charge for the optional additional limits. These do not deviate from MSF's current filing and have not changed for a number of years.

Bodily Injury by Accident – Each Accident	Bodily Injury by Disease – Each Employee	Bodily Injury by Disease – Policy Limit	Premium Charge based on Manual Premium	Minimum Premium
$100,000	$100,000	$500,000	None	None
$500,000	$500,000	$500,000	0.8%	$75
$1,000,000	$1,000,000	$1,000,000	1.1%	$120

3. Short Rate Premium
Mr. Anderson said if MSF chose to it could apply a short rate premium penalty to policyholders. He said this would essentially impose a penalty to a policyholder who elects to cancel the policy before the expiration date. He said MSF uses a pro-rata approach to the day of coverage and there are no plans to change that.

4. Payroll Versus Per Capita for Domestic Workers

He said MSF diverges from NCCI on how the exposures of domestic workers are handled. He said NCCI made a change approximately 20 years ago as to how the premium is to be derived from a payroll-basis to a per-capita basis. MSF did not make that change, primarily due to the current computer system not being able to support that rating functionality. MSF has been using payroll for the basis of calculating premium for these workers since inception and intends to continue to do so until the Policy Center, which will have the functionality, goes live. MSF has sought and received approval from CSI to continue this process through 2021.

Chair Zanto called for questions; there were none.

President Hubbard asked how many policies are affected by this criterion?

Mr. Anderson said he did not have that policy count in front of him and he noted that the bigger issue might be the premium change which cannot yet be estimated to determine what MSF will charge on a per capita basis.

President Hubbard noted that Ms. Jenkinson had communicated through the chat feature that there were about 300 policies that would be affected. He added that the payroll-based system that MSF is using results in lower premium than the per capita base would, which means lower premium for MSF's policyholders. After the new system is implemented, MSF will be in full compliance.

5. Volume Discount

Mr. Anderson said the volume discount program is MSF specific and provides a discount based on the premium size of a policy. He said MSF recommends no change to this program.

Standard Premium	Discount
$0 - $12,000	0%
$12,001 - $150,000	5%
$150,001 - $750,000	7%
$750,001 & Over	9%

6. Retrospective Rating Plan Factors

Mr. Anderson said the retrospective rating parameters being proposed for 2021 are available for larger policyholders. The minimum premium to qualify for one of these plans is $100,000, which offers a risk-sharing policy to the policyholder. The policyholder may pay more or less than a guaranteed-cost type plan depending on their loss experience. The policyholder is taking the risk that their losses will come out more favorably than expected; if that is the case, they will see a return, if not they will owe additional premium.

Montana State Fund Retrospective Rating Parameters Applicable to new and renewal policies and group association plans effective 7/1/21		
A.	Minimum Standard Premium Threshold	$100,000
B.	Maximum Premium Factor	1.00 to 1.75
C.	General Expense Ratio	15.1%
D.	Acquisition Expense	6.5%
E.	Contribution to Equity & Cat/Terr Offset	0.6%
F.	Loss Conversion Factor	1.189
G.	Tax Multiplier	1.00
H.	Expected Loss Ratio	0.35 to 0.65

He said MSF does not have many policies in these programs. He said the parameter values are actuarially derived and the process follows the NCCI filed and approved rating methodology.

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

7. Firefighter Presumptive Disease

Mr. Anderson explained that presumptive disease for firefighters was approved by the Board of Directors in March 2020. He said this is an optional endorsement to provide coverage of presumptive disease benefits to covered volunteer firefighters pursuant to SB160. He said for the volunteer fire departments who want this coverage the rate charge is 65.8 percent while conversely, MSF offered a discount of 20 percent for insureds who did not elect this coverage.

He noted that MSF currently has no active endorsements and no exposure to presumptive disease. He noted that the proposal was to not change the rate surcharge or the discount for the upcoming rate year. He also added that this program will have to be reviewed in 2024 when some of the other diseases come in per statute.

Chair Zanto called for additional questions; there were none.

Mr. Miltenberger moved the Board to adopt management's recommendations for the following additional ratemaking decisions to apply to new and renewal policies effective July 1, 2021 to July 1, 2022, as follows:

- *a. Schedule Rating*
- *b. Employer's Liability*
- *c. Short Rate Premium*
- *d. Payroll versus Per Capita for Domestic Workers*
- *e. Volume Discount*
- *f. Retrospective Rating plan factors*
- *g. Firefighter Presumptive Disease*

Mr. Owens seconded the motion. Chair Zanto called for further discussion and questions from the Board and the public. Seeing none, he called for the vote and the motion passed unanimously.

Chair Zanto noted that Troy Downing, the Commissioner of Securities and Insurance, had joined the meeting. He noted that Mr. Downing is the regulator for workers' compensation and other lines of insurance in Montana.

Mr. Downing thanked the Board for their hard work and noted that his office was always open to meet and speak with anyone with questions.

Chair Zanto asked the new Board members to introduce themselves when he called on them. He called first on Mr. Miltenberger and noted that Mr. Miltenberger would be replacing Chair Zanto as the Board Chair after this meeting. Richard Miltenberger said he was with Mountain Health Coop, a health insurance company in Helena. He said he resides in Clancy, Montana and was very pleased to be rejoining the organization.

John Maxness said he lives in Helena and owned and operated a flying service and air ambulance business in Helena for several years. He said he is happy to be on the Board and looks forward to the challenges.

Curt Laingen said he was from Curt Laingen Trucking in Billings and was also rejoining some old familiar faces.

Mike Marsh said he was from Billings and runs Midland Claims Service which is a third-party administrator that handles industrial claims for self-insured and Plan 2 insurers in workers' compensation in Montana. He said he has been very fortunate in the workers' comp industry in Montana and received the Top Professional of the year several years ago. He has served on the Governor's Labor Management Advisory Council (LMAC), is the outgoing Chairman of WorkSafeMT and is a founder of Kids Chance of Montana – a non-profit that provides scholarships to children of catastrophically injured and dead workers. He said he was pleased to be part of this Board.

Karen Fagg congratulated Commissioner Downing on his election win. She said she calls Anaconda home even though she has resided in Billings for the past 25 years. She said her background was natural resources, engineering and restaurants and bars in Anaconda. She said she is thrilled to be part of MSF and that it will be a new challenge and she is looking forward to it.

IV. Actuarial Report – Russell Greig, Senior Director and Alex Turrell, Director, Willis Towers Watson

Mr. Greig wished all outgoing board members all the best and welcomed the new Board members. He added that Willis Towers Watson practice leader, Ann Conway, also sends her best to the new and outgoing Board members.

He summarized Willis Towers Watson's analysis in support of MSF's management and Board selections of a rate level change for policies incepting from July 1, 2021 to June 30, 2022. He said consistent with prior years, an analysis was conducted of rate level changes to provide management with indications and support of targeting a reasonable contribution to policyholder equity for the financial risk of the cost of work-related accidents that MSF assumes from Montana employers. He noted that insurance is the only product where the price of the product is determined before the major costs are known.

He walked the Board through the process of estimating historical ultimate losses and the contingencies that can impact the analysis. He said the ultimate loss estimation is then used to project future ultimate losses. He said that because the aggregate amount of historical ultimate losses is an estimate, there are several contingencies that can impact the analyses, such as development, medical costs, trends, benefit changes, court cases, attorney involvement and economic cycles.

Mr. Greig noted after the ultimate actuarial central estimate is selected, the historical ultimate losses are adjusted so the future loss provisions for 2020/2021 can be selected. The selected low future loss provision is 58.5 percent expected loss ratio or ELR (based on manual premium at Tier 3 rates), the actuarial central future loss provision is 61.5 percent ELR and the high is 67.5 percent ELR. He said after projecting future loss amounts, expenses are then added in and for MSF the loss adjustment expense as a percent of loss is 18.9 percent and other expenses as a percent of earned premium are 24.8 percent. He said both expense components are lower compared to what is being seen for private carriers as listed in A. M. Best Aggregates and Averages information.

He said premium is received during the year; however, claims are paid out over many years. MSF recognizes the economic value of underwriting cash flow by discounting its rates in consideration of future investment income, which results in lower premiums. He said management considered a reasonable range of investment yields ranging from 3 percent to 3.75 percent. Mr. Greig said the last piece that must be rolled in is the contribution to policyholder equity. This recognizes the transfer of risk from the individual employer to MSF. He said the contribution to equity is there to build or maintain policyholder equity-to-target

Mr. Greig presented the summary of indicated contributions to policyholder equity depicted below.

Summary of Indicated Contributions to Policyholder Equity

Projected Contributions to Policyholder Equity			
Rate Level Change	High Estimate	Actuarial Central Estimate	Low Estimate
-12.0%	1.6%	-2.2%	-9.7%
-10.0%	3.5%	-0.1%	-7.5%
-8.0%	5.4%	1.8%	-5.3%
-6.0%	7.2%	3.7%	-3.3%
-4.0%	9.0%	5.5%	-1.4%
-2.0%	10.6%	7.3%	0.5%
0.0%	12.2%	8.9%	2.3%
+2.0%	13.8%	10.5%	4.0%

Assumed Investment Yield on Underwriting Cash Flow: 3.25%

WillisTowersWatson 91

Mr. Greig provided a review of the contribution to policyholder equity as a function of the proposed rate-level changes and offered to stand for questions.

Chair Zanto called for questions or discussion from the Board and the public.

Mr. Maxness asked how this year's ultimate losses compared to last year's?

Mr. Greig said over the last couple of years and more specifically, last year, medical losses have been coming down, so the loss experience has definitely stabilized and is improving.

Chair Zanto called for additional questions; there were none.

V. Ratemaking Decisions for July 1, 2021 to July 1, 2022 – Laurence Hubbard, President/CEO

A. Rate-level Recommendation and Contribution to Equity - Laurence Hubbard, President/CEO

President Hubbard noted that management was recommending a discount rate of 3.25 percent investment yield on the cash flow. He said this is supported by the performance of MSF's current investments and the expectations of the Board of Investments (BOI) management team in terms of what MSF can expect as reasonable yield. He said this is a judgmental estimate and the larger the discount assumption, the lower the indication is for the needed rate level because what you are assuming is that you need less money today with a higher yield rate than would be needed in the future.

He noted that MSF's financial health is strong and by any measure and all accounts, MSF performed very well over the last calendar year ending December 31, 2020. He said the overall financial health of MSF can be best calculated using a reserve to equity ratio. The most significant part of an insurance company's balance sheet is the ultimate liabilities that it incurs. The ability of the organization to meet its liabilities is fundamental to its long-term solvency. He added that MSF's overall financial operating health must be kept in mind going forward because there could be claims that can last for decades. He noted that in the last several years, MSF's investment performance, on cash flow and invested assets, has performed remarkably well.

President Hubbard said the question management asked is if there needs to be a contribution to equity carried by the policyholders going forward. The answer is dependent upon whether or not the Board believes the equity level needs to be increased. He said he and the management team believe there is no need to increase the equity in the rate level this year and he recommends a zero percent contribution to equity in the rates effective July 1, 2021. He said that recommendation would result in a 10 percent rate reduction in the average annual rates charged to MSF customers.

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

Mr. Laingen made a motion that the Board adopt a minus 10 percent overall change in rates with no additional contribution to policyholder equity for new and renewal policies effective July 1, 2021 to July 1, 2022. Mr. Maxness seconded the motion. Chair Zanto called for discussion, questions or comments from the Board and the public.

Chair Zanto noted that this was great news for the employers in Montana and for the effort to help the economy and give the rate payers some relief going forward. He asked what MSF's current reserve to equity ratio was and what it would be at 10 percent and negative 12 percent?

Mr. Greig said the current reserve to equity ratio is at the low end of MSF's range at 1.56 to 1. He said in a perfect world where Willis Towers Watson's estimates and models are perfect, at the end of 2021 the reserve to equity ratio should still be the same at 1.56 to 1 because the rate level at minus 10 means you are going to collect the exact amount of premium needed to cover the exact amount of benefits and expenses. He said the Chair's question about what will happen in the future is the exact reason policyholder equity is needed. He clarified that if any of the losses come in at a higher-than-expected level, those would have to be absorbed by the policyholder equity.

President Hubbard clarified that there are other impacts that affect the ending equity level such as overall performance of the entire investment of our reserves. He said if everything were held static and we were only looking at the ratio level that it should not change the reserve to equity ratio at the end of 2021.

Chair Zanto asked if the Board were to adopt a 12 percent rate reduction rather than the recommended 10 percent, would it move the 1.56 to 1 to a 1.6 or 1.7 to 1 or would it move the reserve to equity ratio the other way?

Mr. Greig responded that if there is a negative contribution to equity, which means MSF would be using up equity, that moves the reserve to equity ratio up a marginal amount. He said it will not move it from 1.6 to 2.56 or anything like that. He noted that the one thing to keep in mind is that if you implement a minus 2 percent contribution to policyholder equity, you may be violating Montana law because you will then be charging rates that are below your costs. And then you have other complicating impacts such as other carriers accusing MSF of trying to corner the market.

President Hubbard clarified that there are two provisions that the Board needs to be aware of. One is MSF enabling legislation is Title 39 which requires that when a cost or expense affecting premium or rates is uncertain, the Board must select a factor that is more than likely, not less than likely to meet the obligations of MSF. This statutory conservatism was built by the legislature for the very reason to prevent the Board and MSF from pricing or rating inadequately which is part of the very circumstance that caused the Old Fund liabilities. He noted that the legislature is very concerned that MSF make sure to operate in a more conservative manner when those things are unknown. He said the other very important legal standard that the Board must be sensitive to is the statutory requirements of Title 33, the insurance code, that require a carrier to have rates that are not inadequate, excessive or unfairly discriminatory. If the Board adopts rate levels that are below what is necessary to cover the expected losses and expenses, the rates could be rejected by the Insurance Commissioner's actuaries as being inadequate.

Mr. Miltenberger said he felt the 3.25 investment yield percent seemed a bit conservative and expressed concern that recommendation may be overly cautious on what our investments are going to do this year.

President Hubbard ask Mark Burzynski, Vice President of Corporate Support to provide the background on the choice of the 3.25 percent.

Mr. Burzynski said MSF worked with BOI to arrive at the estimates. He said the actual range for returns have ranged from 1 percent to 3.75. He said the important point to remember is that only 12.5 percent is due to equities. He said 80 percent of MSF's investments are in bonds. He noted that our coupon rates were 2.6 to 4 percent; however, when we are reinvesting our bonds, the coupon rates are at less than one percent. He said when you think about how much of our portfolio is in bonds, it is very difficult to achieve what we do in a given year. For instance, the past year, we were slightly over four percent; however, that also includes realized gains which are very hard to predict over a 35 to 40-year timeframe. He said there is heavy reliance on the bond reinvestment.

Chair Zanto called for further discussion from Board members; there was none. He noted that this was a lot of information for the new Board members. He said he wanted to entertain this discussion so that the new Board members could see why MSF came to what it is and illustrate the reserve-to-equity ratio and the balance needed there. He also wanted to illustrate the fiduciary responsibility as Board members. He said he would entertain further discussion if there was additional interest. He said this was a very good position to be in as had been discussed, it is much easier to have discussion about rate reductions that about rate increases.

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

B. Loss Cost Multipliers and Components – Darcie Dunlap, Internal Actuary

Ms. Dunlap presented the proposed lost cost multipliers based on the ten percent rate reduction from current rates. She explained that each of the rate tiers begins with a comparison to the NCCI loss costs. She noted that MSF's loss cost levels are 30.6 percent above NCCI's. She said that the loss costs variances will need to be justified to CSI in MSF's rate filing. She said to get to the manual rate other expenses must be included: general and commission expenses, offsets for underwriting credits/debits, contribution to equity and offsets for investment income on next year's premium. She said the proposed rates have been expressed in relation to the NCCI lost costs as five LCMs. She explained that whatever the loss cost is for a specific class code, say Tier 3, the loss cost for that class code is multiplied by 1.607 to attain the tier rate. She clarified the 10 percent overall rate reduction does not mean that all of the manual rates for each class code will lower by 10 percent. She said all codes change by varying amounts because NCCI has changed the loss cost for every individual class code by anywhere from minus 40 percent to increasing it by 13 percent. These loss costs are just the starting point and then the multipliers are used to get to the rate.

Recommended Loss Cost Multipliers

(-10% Rate Change)

Analysis of LCM Components

	Tier1	Tier2	Tier3	Tier4	Tier5
Loss & LAE	0.849	1.077	1.306	1.567	1.894
Offsets for UW Pricing	0.116	0.147	0.178	0.213	0.258
Genl & Commission Expense	0.208	0.263	0.319	0.383	0.463
Profit & Investment Income	-0.127	-0.161	-0.196	-0.235	-0.284
Loss-Cost Multiplier	**1.045**	**1.326**	**1.607**	**1.929**	**2.331**

Ms. Dunlap provided the high-level summary of the LCMs that will be filed with CSI. She noted that MSF requested that the consulting actuary review the proposed LCMs and Willis Towers Watson also approved them. She said these are the LCMs that the Board would need to approve to implement the minus-ten-percent rate change.

Chair Zanto called for questions from the Board and the audience; there were none.

B. *Adopt Loss Cost Multipliers for new and renewal policies effective July 1, 2021 to July 1, 2022.* Chair Zanto called for a motion.

Chair Zanto made a motion the Board adopt loss-cost multipliers as recommended by management to be applied to the loss-costs as approved by the Board, resulting in rates for new and renewal policies effective July 1, 2021 to July 1, 2022 as follows:

For Tier 1, a loss-cost multiplier of 1.045
For Tier 2, a loss-cost multiplier of 1.326
For Tier 3, a loss-cost multiplier of 1.607
For Tier 4, a loss-cost multiplier of 1.929, and
For Tier 5, a loss-cost multiplier of 2.331

Mr. Miltenberger seconded the motion. Chair Zanto called for questions or discussion from the Board; there were none. Chair Zanto called for discussion and comments from the public. Seeing none, he called for the vote and the motion passed unanimously.

VI. Financial and Budget Reports – Montana State Fund – Rene Martello, Controller

A. *Loss Reserve Year-End Reconciliation and Calendar Year 2020 Financial Report Update*
Ms. Martello explained that she would be providing an overview of the year-end loss reconciliation and a summary of the year-end financials. She said for the year-end loss and loss adjustment expense (LAE) reserves were provided to the Board at the December 2020 meeting; however, they were based on the reserves at the end of September 2020 and this report would provide the actual numbers for 2020. She explained that the largest change was to the projected cumulative benefits paid which was $969 thousand less than projected at the December 2020 Board meeting. She said with the adjustment in payments, the reinsurance recoverable on the excess of loss decreased by $89,000. This change resulted in a $1.2 million change in reserves resulting in a total loss and LAE reserve for 2020 at $940 million. She noted that in the Board

member materials the statement of actuarial opinion concludes that the changes are immaterial and their statement of actuarial opinion references the same numbers depicted in the presentation and were what was included in MSF's 2020 filing with CSI.

She provided the unaudited balance sheet and reported that the 2020 audit was under way and MSF was hopeful to have the final audit in the next week. She said total cash and invested assets has held very level at $1.5 billion. She said this further indicates how heavily weighted MSF is in the fixed market. She said bonds are at $1.2 billion which is approximately 80 percent of MSF's total portfolio and drives MSF's rate of return. She said MSF purchased $20 million more in equity securities and they also increased in value by $22 million. There was also about $20 million purchased in real estate funds which is indicated in other invested assets and that purchase lost about $3 million. She said cash and short-term investments was $69 million at the end of 2019 which was because BOI was holding some cash to make a purchase of $30 million which did not settle until 2020. She said other admitted assets increased by $15 million with the most significant contributing factor being an $8 million premium account receivable and changes in the billing scheduling. The premium deferment from March to October altered the timing of when the funds were coming back into MSF and increased the accounts receivable for the end of the year. She added the other big piece was the $8.6 million withheld for reinsurance contracts.

Ms. Martello said unpaid losses and unpaid loss adjustment expenses decreased by $16.4 million, partly due to adding in the most recent accident year which was smaller than normal or $8.8 million better than the 2019 accident year. She said the rest is favorable development on past accident years of almost $8 million. Through HB334 and settlement actions as well as improved claims management, MSF is seeing results that are shortening the medical tail on prior year claims. She said MSF is also seeing a decrease in claim frequency. She said typically an increase is expected here because a new accident year is being added to the mix; however, 2020 saw a significant decrease which is not common.

She said policyholder equity was $601 million which was a $50.3 million increase from 2019 and also $37 million more than was projected for the end of the year at the September 2020 Board meeting when the dividend amount was declared.

She covered the income statement and noted that net earned premium was at $148.6 million for 2020 which was $8.2 million lower than the prior year. It came in very close to the original plan and $4 million better than was projected at the third quarter. She said all through 2020 MSF had a difficult time trying to project what the impacts of the pandemic would be on Montana businesses. She noted that not all of the effects of the pandemic have been seen yet, but it did not decrease premium as much as originally anticipated. She added that declines in payroll were also offset by $5 million of new business written during the year. Loss incurred and loss expense incurred developed favorably and overall operations expenditures were about $6.5 million below what was planned for the year. That results in a net underwriting gain of $5.2 million. MSF and most insurance companies typically run at a net underwriting loss such as the 2019 loss of $9.3 million. She noted that net investment income was $37.2 million for the year and was trending down slightly as low interest rates on bond holding are driving that. There were also significant realized gains from the equities sale to balance the portfolio distribution and there were also some gains on the bonds sales through the year. She said net income came in better than planned due to the favorable loss development and continued growth in the equity markets and was at, before dividend, was at $59 million and after the $20 million dividend was at a net income of $39 million.

Chair Zanto called for questions or comments from the Board and the public; there were none. He then asked Ms. Jenkinson if the reduced number of claims and the lag in medical treatment is expected to impact the underwriting gain going forward?

Ms. Jenkinson said she did not expect to see an increase in the net paid or net incurred on claims. She said they have been watching our impact to COVID 19 very carefully as well as watching the severity and frequency levels. She said our frequency levels are pretty flat. She said the industry is recognizing there is a downward trend; however, MSF's downward trend is very small, essentially flat. She said they began watching the impact, due to the COVID shutdown in doctor's office and hospitals, we have now since that time last summer all but resolved those delays. They are 98 or 99 percent resolved. She said she does not expect to see an uptick in treatment unless there is an uptick in treatment from our normal inventory which we have no reason to expect that will happen.

Mr. Marsh asked for an explanation of the negative $8.5 million line item for contingent commission income?

Ms. Martello explained the contingent commission is associated with our reinsurance program for our aggregate stop loss program. There are two major reinsurance contracts: 1) excess of loss which is a catastrophic type of coverage and 2) aggregate stop loss program which protects against the loss ratio growing more than anticipated. With that program there is a contingent commission based on our results and how our losses are performing and if our loss expenses and reserves are going down it is a benefit and recognizes a commission in the reinsurance program which helps to offset our underwriting expenses. She said a lot of times for insurance financial statements this gets netted into the underwriting expense line but because it is such a significant amount for MSF, we show it as a separate line item.

President Hubbard added that the reason the contingent commission is there at all is because when MSF pays the premiums for the aggregate stop loss program there is an amount set aside called funds withheld which is subject premium. He said if MSF does better than expected, which the reinsurers want, MSF can earn some of that funds withheld back. He said this line item tracks the flow of debits and credits over time under any one of those reinsurance contracts.

B. *Budget Variance Reports as of December 31, 2020*

Ms. Martello noted that claim benefits were $1.8 million under budget for 2020 and she clarified that this category did include the $10 million Board budget amendment that was approved in September 2020. She said 2020 saw increased settlement activity and staff requested the amendment to cover those costs. She said total operational expenditures were $6.9 million or almost 10 percent under budget for 2020.

She said indemnity or wage loss was budgeted at $35 million and the actual was $37.3 million due to wage loss components in settlement activity that occurred. She said medical was approximately $4 million under budget. Other states coverage, which is when a Montana business works outside of Montana and MSF writes that coverage through another carrier, was very close to budget.

Ms. Martello explained that as far back as 2012 MSF's benefits and indemnity settlements made up about $17 million of total benefit payments; however, in 2020, settlements made up $40 million of the total. This indicates a gradual decrease in regular indemnity and medical benefits payments and although some variability exists from year to year in settlements, MSF is seeing that become a larger portion of the overall benefits structure.

President Hubbard noted that HB334, which was the major workers' compensation act reform passed by the 2011 legislature, made it possible for insurance companies and injured workers to settle not only disputed claims but also undisputed claims. Following that legislation, MSF was then able to resolve disputes or claims for medical and indemnity benefits in a much more mutually convenient fashion. It allows MSF to resolve the long-term liabilities with injured workers in a way that is fair. Those settlements are reviewed and approved by the Department of Labor and Industry for fairness. This allows MSF to put closure on those otherwise potentially long-tail multi-decade-long claims. He noted that not every claim is right for settlement and said in fact, a number of them are not; however, when that opportunity does exist, MSF tries for this mutual agreement.

Ms. Martello continued her presentation and noted that operational expenditures were under budget. She said personal services were $1.2 million under budget. She said of the 309 positions budgeted, MSF ran at an 8.7 percent vacancy rate. She noted that it was assumed 3 percent for the year and at the end of the year MSF had 23 positions vacant. She noted that the pandemic caused hiring and recruiting issues for the year though MSF did manage to hire 44 position for 2020. She said operating expenses and transfer was $6.5 million under, due primarily to agent commissions being $1.2 million under and less IT consulting for projects that were not completed as planned such as the producer portal accelerator. She added that meeting and conference costs were down as well as travel, mailing costs and fleet maintenance costs. She said capital expenditures reflects assets that are expected to have a useful life of more than one year and this includes the PBRI project. It is overbudget by $1.3 million which was for additional consultants hired to complete the development of the policy system; however, they were offset by savings from the IT consultants on the other projects that did not occur. The ALAE was under budget by approximately $500,000 which includes the fees paid for medical invoicing and processing payments to providers and payments to claims investigation services.

She explained some of the unexpected expenditures that were absorbed into the budget to cover costs due to COVID-19. She said safety supplies and building sanitation were purchased for the building; however, $240,000 was used to purchase items for the Personal Protective Equipment grant program that MSF provided to high-risk and vulnerable frontline workers. Thermometers and masks were issued to about 2,000 different policyholders. She noted that computer software and hardware as well as maintenance was at $150,000 to get laptops and equipment to employees so they could work effectively from home. The communications costs was for policyholder mailings communicating the deferred premium program as well as equipment staff with cell phones and new long distance charges and Zoom licenses to assure employees could communicate with each other and our customers. Total projected costs due to COVID 19 were $575,273.

Safety Expenditures	2020 Actuals	2020 Budget	2019 Actuals
Operations - Safety Services Team	$1,578,577	$1,689,058	$1,606,971
Communications - Safety Campaigns	911,743	982,151	$886,952
Facilities and Cars	136,600	212,605	$160,717
Operations Support - Safety Workshops	121,354	141,893	$131,765
WorkSafe Champions	76,658	79,106	$87,403
Growing a Safer Montana	93,425	100,948	$59,788
ACE Grants and Scholarships	26,213	51,000	$27,288
Covid-19	$257,656	$0	$0
Total	**$3,202,227**	**$3,256,762**	**$2,960,883**

She noted that safety expenditures were budgeted at 3.256 million; however, that cost was slightly down at $3.202 million due to decreased travel for safety consultants and trainings. She said safety workshops continued and WorkSafe Champions and Growing a Safer Montana programs grew in 2020. She mentioned that ACE Grants and Scholarships were down slightly and if the MSF's scholarship program is not utilized, those monies are donated to the Kids Chance program.

Chair Zanto called for questions; there were none.

Ms. Martello then provided the Old Fund funding estimate summary for the quarter ending December 31, 2020 which is paid from the General Fund on a fiscal year basis. She explained that MSF provides a funding estimate to the budget office in June to let them know what is estimated for the upcoming year. She said overall, total Old Fund is projected to be $7.8 million compared to the original 8.6 million estimate which is approximately $750,000 under the original estimate. She said claim benefit payments are trending in line with what is anticipated with $758,000 under and operational expenses, which includes MSF administrative costs and DOLI assessments and LAE, are slightly over. She noted that at the end of February 2021 there were 460 open claims in the Old Fund. She said at the beginning of the fiscal year there were 495 open claims in the Old Fund. She said claims can reopen and that number fluctuates; however, more and more claims are being closed all the time. She said claim benefits payments were under budget for the year and noted that it is trending steadily; however, it could change quickly. She stated that the Old Fund administrative cost was $18,000 over due to increased legal consultation; however, that is typically less than anticipated. ALAE is on track to meet budget.

Chair Zanto asked what the change was last session regarding the budget and the Old Fund?

Ms. Martello said in the previous session a $625,000 limit on the administrative costs for the Old Fund had been put in place. At that time, MSF's costs were running approximately $1 million per year so MSF had to limit the assigned resources and manage and watch that closely. She said that limit was lifted in fiscal year 2020 and as the claims are closing there is less administrative costs to manage and support those so MSF has naturally dropped under that limit.

Chair Zanto called for additional questions.

Mr. Miltenberger thanked Rene for the excellent report.

President Hubbard noted that the next large item for the Board was the potential declaration of a dividend. He noted that the dividend policy was provided to the Board in their packets. He said this policy had been developed by the Board some years ago recognizing that dividends cannot be guaranteed by law and that they are discretionary based on the Board's assessment in consultation with the independent consulting actuary on the level of equity necessary for MSF to assure and meet MSF long-term obligations. He noted that this is the first time in MSF history that a mid-term dividend is being considered on behalf of the policyholders. He said the reason is twofold; first, the usual decision is made in September of the year when MSF has a fairly strong view of how the fiscal year has developed and how the losses for the dividend year have developed. He said the dividend reflects back on the performance of that accident year and determines if the safe policyholders should have a portion of their premium returned. He said MSF has been declaring dividends since 1997; some were as low as $2 million and in recent years, as much as $40 million. The ability to declare dividends is based on the earnings on MSF's investments. He noted that in September 2020 the Board received a presentation from Willis Towers Watson on the strength of MSF going forward. At that time, the Board made a dividend declaration of $20 million due to the uncertainty of the affects the pandemic could have had on the financial security of MSF. He said the Board was very conscientious to the effects of COVID-19 and respected management's conservativism at that time. He explained to the Board the factors that must be considered when declaring a dividend and mentioned that the Board adopted reserve-to-equity ratio is at the 1.5 to 1.56 to 1 which is well within the targeted ratio.

He said management feels secure, based on the current financial projections, that the Board can declare another $20 million dividend for the 2018 policy year and asked Mr. Greig to provide a policyholder equity level analysis.

VII. Dividend Analysis – Russell Greig, Senior Director and Alex Turrell, Director – Willis Towers Watson

A. Analysis of Equity Adequacy and Policyholder Dividend Program – Russel Greig, Senior Director and Alex Turrell, Director – Willis Towers Watson

Mr. Greig said he agreed that MSF is fortunate to be considered strong. He said the definition of policyholder equity is a simple subtraction; liabilities subtracted from assets results in policyholder equity. He said policyholder equity serves several important functions the biggest of which it to assure there is a high level of financial security and employers, injured workers and taxpayers are confident that legitimate benefits will be paid from MSF. It also minimizes the risk of insolvency or bankruptcy by providing a substantial cushion or buffer against the inherent and normal financial variations from underwriting, loss development and investment experience. He said policyholder equity also serves the good purpose of providing a consistent long-term program of policyholder dividends, which supports the long-term strategy of reducing injuries to workers.

He said that MSF's policyholder equity of $601 million significantly exceeds the "regulatory solvency perspective" equity benchmarks and noted that the regulatory benchmarks are focused on catching a company when it is weak and potentially on a death or negative spiral and most of the time it is too late to save the company from insolvency. He said MSF's equity is strong and far away from being considered weak. He said a comparison to A- and A rated state funds and the workers' compensation industry suggested that MSF's policyholder equity range is approximately $365 to $955 and MSF falls in the middle of that range.

Mr. Greig said the strong equity range for MSF is in the $365 million up to $1.102 billion range and MSF is considered strong with its current equity level. He said he believes the Board should consider an additional dividend declaration and said MSF does have the financial strength to do so. He offered to answer any questions.

Chair Zanto called for questions.

Ms. Moss thanked Mr. Greig for his presentation. She asked if in his analysis they look at the investment portfolios and how they may vary from business to business and from state funds and private carriers.

Mr. Greig said they do not specifically look at the composition of one company's asset portfolio versus another one – that is embedded in their rating. He said all insurance companies are constrained in the types of investments they can have in their portfolio so from another state fund to MSF to a private carrier the vast majority of the investment portfolio is in bonds with a small amount in equities and probably zero percent in hedge funds or bitcoin.

Mr. Miltenberger asked Mr. Greig what MSF's current Risk Based Capital level is as a percentage?

Ms. Martello clarified that the percentage is 883.

Chair Zanto called for additional questions. He mentioned that one thing that has always served him well and is particularly poignant in this conversation, is because typically the Board is not talking about rates and dividends in the same meeting. He said given today's discussion, it is a good education in realizing that rates are prospective and dividends are retrospective. He said the Board gets these questions a lot about why MSF's rates are so high and why the Board is able to give the large dividends back. He said it can be difficult to educate people to the understanding that MSF has been living off of its investment portfolio for years. He said even with that ability we are able to function as a financially strong organization. He noted that the Board is looking back at what was done in September and determining if there is the ability to give a little bit more. He asked President Hubbard if employers who were insured by MSF in 2018 but may have moved on or closed would still be eligible for this dividend.

President Hubbard said yes, any policyholder that had at least six months of continue coverage in Policy Year 2018 would be eligible regardless of whether they are still with MSF or out of business. Dividends are a great reminder of the importance of workplace safety.

Chair Zanto called for additional questions from the Board and the public.

Mark Burzynski added that as mentioned in September, MSF modeled its bond investments over the next seven years and based on reinvestment rates MSF expects bonds to return $65 to $75 million based on the coupon rates. The second item relative to MSF's equity is that it must be a savings account for a number of items, including perhaps, an unfunded pension issue.

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

B. *Surplus Level Determination and Declaration of Dividend – Management Recommendation – Laurence Hubbard –*

President Hubbard thanked the Board for the discussion and thanked Mr. Greig for the presentation. He said as of the year ended December 31, 2020 unaudited financial statements which indicate that MSF's equity is $601 million which is up from $550.6 million. He recommended the Board declare another $20 million dividend to policyholders for dividend year 2018. He noted that this action would make the total dividend for policy year 2018 $40 million. He also recommended the Board use the same parameters for distribution as were adopted in September 2020. He said approximately 95 percent of policyholder for 2018 will receive this additional dividend amount.

Chair Zanto made a motion that the Board, based on the unreserved surplus of $600,993,271 as reported in the unaudited financial results dated December 31, 2020, declare an additional dividend to dividend year 2018 policies of approximately $20 million dollars, not to exceed 2 percent above or more than 2 percent below the declared dividend, exclusive of any uncashed warrants. Ms. Moss seconded the motion. Chair Zanto called for discussion from the Board.

Ms. Moss commented that she appreciated this opportunity to declare this dividend for MSF's policyholders and said this illustrates that MSF can be a very nimble organization to be able to do this again despite the pandemic.

Mr. Miltenberger commented that he thought it was wonderful way for the old Board to exit with dignity after a great run. It has been a well-managed company and lots of kudos to President Hubbard and team and also to this Board that they can manage this company so well in the interest of the policyholders. He offered kudos all around.

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

Chair Zanto thanked the MSF management team and Mr. Greig for preparing for that discussion.

VIII. Dividend Distribution – Rene Martello, Controller and Darcie Dunlap, Internal Actuary

A. *Overview of Dividend Distribution Parameters – Rene Martello, Controller*

Ms. Martello said the dividend distribution parameters that were approved in September call for a minimum dividend payment to be set at $10 and for dividends of $100 or more to be paid via check while less than $100 are paid via a credit directly to the customer account. She explained that the dividend will be applied to the account if the following exist: the current policy has a past due premium or other debt pending or a canceled policy has an obligation owed to MSF including past due premium or an outstanding payroll report.

Chair Zanto called for questions; there were none

B. *Table of Dividend Factors and Actuarial Certification of Approved Table of Dividend Factors – Darcie Dunlap Internal Actuary*

Ms. Dunlap congratulated the Board on once again being able to give out a significant dividend to Montana businesses.

Montana State Fund

MSF Table of Dividend Factors: $20.0m Declaration

	Loss Ratio											
Account Size	0.00 to <0.05	0.05 to <0.10	0.10 to <0.15	0.15 to <0.20	0.20 to <0.25	0.25 to <0.30	0.30 to <0.35	0.35 to <0.40	0.40 to <0.45	0.45 to <0.50	0.50 to <0.55	0.55 to <0.60
$0 - $2,499.99	16.4%	12.7%	9.0%	5.3%	1.6%							
$2,500 - $4,499.99	16.5%	12.9%	9.3%	5.7%	2.1%							
$4,500 - $6,999.99	16.7%	13.2%	9.7%	6.2%	2.7%							
$7,000 - $9,999.99	16.8%	13.4%	10.0%	6.6%	3.2%							
$10,000 - $13,999.99	16.9%	13.7%	10.5%	7.3%	4.1%	0.9%						
$14,000 - $18,999.99	17.1%	14.0%	10.9%	7.8%	4.7%	1.6%						
$19,000 - $25,999.99	17.2%	14.2%	11.2%	8.2%	5.2%	2.2%						
$26,000 - $34,999.99	17.4%	14.5%	11.6%	8.7%	5.8%	2.9%						
$35,000 - $49,999.99	17.6%	14.9%	12.2%	9.5%	6.8%	4.1%	1.4%					
$50,000 - $74,999.99	17.9%	15.3%	12.7%	10.1%	7.5%	4.9%	2.3%					
$75,000 - $119,999.99	18.2%	15.8%	13.4%	11.0%	8.6%	6.2%	3.8%	1.4%				
$120,000 - $199,999.99	18.6%	16.5%	14.4%	12.3%	10.2%	8.1%	6.0%	3.9%	1.8%			
$200,000 - $349,999.99	19.0%	17.1%	15.2%	13.3%	11.4%	9.5%	7.6%	5.7%	3.8%	1.9%		
$350,000 - $799,999.99	19.6%	18.0%	16.4%	14.8%	13.2%	11.6%	10.0%	8.4%	6.8%	5.2%	3.6%	2.0%
$800,000+	20.7%	19.3%	17.9%	16.5%	15.1%	13.7%	12.3%	10.9%	9.5%	8.1%	6.7%	5.3%

Applicable to policies written 7/1/2017 - 6/30/2018 with >180 days continuous coverage, PEOs combined
Reflects $20.0 Million Dividend Declaration; $10 Minimum
Loss Experience as of 6/30/2020

She explained that this dividend table exactly matches the table approved in September 2020. She said the factors within the table represent a percent of premium to be returned as a dividend to each of the eligible policyholders. She said eligible policies must have a policy effective between July 1, 2017 and June 30, 2018 with at least six months of continuous coverage. She said the table distributes the dividend pro rata to the actuarial determined underwriting results for each row. She noted that the process was quite complex to assure that the total dividend returned is as close to the declared amount as possible within plus or minus two percent. She said these highly technical calculation are reviewed by the Board's independent consulting actuary. She noted that out of the approximately 23,800 eligible policies for this year, about 95 percent of them will receive a dividend. She said only the policies with higher losses related to their premium will not receive a dividend which further illustrates the reward effect of dividends for better safety practices.

She noted that the average percent return of premium for this time period comes to 14.8 percent which if added to the dividend that was declared in September that comes to 29.6 percent of premium being returned on average. She said this is very even across most of our account sizes though there is a slight drop for some of the larger accounts which is not because of higher losses; it is because of the small number of large accounts in MSF's book of business and the difficulty of distributing the dividend across fewer account in those ranges.

She shared the underwriting and rating policy and noted that Willis Towers Watson had supplied a certification letter for the table of dividend factors.

Ms. Dunlap noted that management recommended this table of dividend factors be approved to distribute the $20 million dividend to eligible policyholders.

Chair Zanto called for questions; there were none.

Ms. Dunlap added that of the policyholders that will receive this dividend this time around 77 percent of them are still active with MSF.

Chair Zanto made a motion the Board approve the recommendations of staff to:

-Approve the table of dividend factors as presented and as certified by the independent actuary; and

-Distribute the dividend, using the same distribution parameters approved at the September 11, 2020 Board meeting, to all qualifying policyholders with new or renewal dates within the dividend year of July 1, 2017 through June 30, 2018, and who had at least six months continuous coverage during their policy period. Mr. Owens seconded the motion. Chair Zanto called for discussion or comments; there were none. He called for the vote and the motion passed unanimously.

IX. Public Meeting on Calendar Year 2020 Annual Business Plan

A. *Presentation of Results – Shannon Copps, Director of Enterprise Strategy and Project Management*

Ms. Copps presented the summary of the results of the Calendar Year 2020 business plan, beginning with a report of the Key Success Measures (KSM) depicted below.

Ms. Copps said net earned premium was targeted to be $149.1 million and the result was $148.6 million. She noted there was $15.9 million in new premium and premium retention was at 90.8 percent. She reported that the loss ratio target was 74.2 percent and the result was 65.3 and noted that the current accident year performance was 71.5 percent and there was more favorable prior period development than was planned at 9.3 million. She said the major components of the expense ratio target were the loss adjustment expense and the operating expenses which were lower than expected for 2020 and resulted in an expense ratio of 31.3 percent which was seven percent below plan. The investment income target was 44.1 million and the final result was $57 million. She said net operating income was targeted at $21 million before dividend and came in at $59.1 million before dividend. She reported that the statutorily required report of the premium to equity ratio was .25 to 1. She noted that MSF has really phenomenal results for the 2020 business plan.

Chair Zanto called for questions. There were none.

Ms. Copps provided a review of the Enterprise-Wide Initiatives which were focused on customer service with initiatives in the Policy and Billing Replacement Initiative (PBRI), WorkSafe Champions and Growing a Safer Montana.

She noted that the project results are based on the objectives within each published plan and that she would be reporting specifically on those metrics on each project.

She said the multi-year PBRI project continued through 2020 to replace the 20-year-old policy and billing system with a more modern application to help MSF improve its service and efficiency. She said the old system is being replaced with five modern applications that will improve our service and efficiency. In 2020 the team planned to complete the development, testing and defect resolution of the policy, billing and rating application as well as the two new portals; one for agents and one for customers. The team also planned to continue with change management activities and complete formal training. She noted that implementation was planned at the end of the year. She said quality is the number one priority and they are committed to launching systems that are free of material defects for both our employees and customers. She said the team did make good progress on testing, fixing the defects and user training; however, due to critical defects remaining in November, the decision was made to delay implementation. She said the team is currently working through a validation test cycle and pending results will identify a new implementation date in which they have confidence. She said in depth training did occur in late 2020 and as of the end of the year, 94 percent of primary direct system users were able to perform tasks independently. She said employees have used the additional time before launch to practice the new applications in the training environment and in addition will complete some refresher training before it goes live.

Ms. Copps said its specific goal regarding the six year budget is on track to meet the $19.9 million for major categories; system integration costs, which is for HCL, our vendor, the Guidewire software and for some major hardware infrastructure pieces for this project. She said, however, they do know that as the schedule extended, the project incurred unanticipated expenses. She said these expenses such as Guidewire resources, are directly to complete the project and are support costs to backfill our employees who remained on the project longer than planned.

Chair Zanto called for questions on that project; there were none.

Ms. Copps said the WorkSafe Champion program is a cornerstone program to impact our policyholders' workplace safety through education and consultancy. She noted that COVID-19 did impact the WorkSafe Champions delivery to some extent as our policyholders and MSF put in-person training on hold. She said the first way for policyholders to participate is to have a Safety Management Consultant (SMC) work with MSF's customers on-site with at least 3 people dedicated to the program. She said there were seven policyholders and 48 participants signed up for the on-site option and three of the policyholders paused their training due to COVID-19. She said that both formats of the WorkSafe Champion program were performed in a virtual training environment. She added that the second format is a centralized class that allows smaller policyholders to group together and receive the training. She said there were nine participants who attended workshops. She noted that 100 percent of those that participated did develop the safety action plan and demonstrated progress on their plan. She said participants also rate the quality and content of each module and over 100 percent of participants rated the content as good or better.

She said 2020 was the fourth year of the Growing a Safer Montana initiative. This project expands MSF's efforts to reach young workers and invests in the safety future of Montana. The project continues to expand its scope and the team is focusing on building positive working relationships with the schools, providing benefits for students and establishing a quality process. She said 37 classrooms were awarded the safety grants and they received the equipment and materials by the end of August as planned. Instructors selected from a variety of personal protective equipment based on their class needs. She said this program impacted 3,214 students in 2020 and over the last four years the grants have reached nearly 8,000 students.

Ms. Copps said the second component of Growing a Safer Montana included awarding scholarships to students in trade and industry and safety and health programs beyond high school. The team awarded fifteen $4,000 scholarships in November and they went to five students at Montana Tech and to 10 students studying trades including building construction and electrical from several colleges throughout the state.

Ms. Copps said while we did not implement the policy and billing applications in 2020 all of the other projects completed as planned.

Chair Zanto called for questions.

Ms. Moss asked if the virtual training is a better way to reach people or if on-the-ground training is better?

Ms. Copps said the virtual training will not replace in person training but we would like to add it as an option because it is more efficient for policyholders and for MSF staff in helping to get more people together in a virtual setting and possibly reaching more policyholders.

Ms. Moss commented that it seems as if businesses are looking for a blend.

Mr. Marsh asked about the presentation of the new PBRI system. He said it was indicated on the presentation that the $19.9 million budget is correct and yet, he had heard or read that it may actually creep up to $30 million. Is there a budget variance that we can expect on the new system? He said his second question was that the cost of the WorkSafe Champions program combined seemed like really good outreach and he wondered what the cost is and then compare that to the number of employers who receive training?

Ms. Copps said she would address the question on the policy and billing replacement initiative budget variance. She said that is a little confusing in terms of their goal that was published in the Board business plan. That was for the six-year budget of $19.9 million on three major categories. The first was what we planned to pay our system integrator, HCL, the second was what we planned to pay for the Guidewire Software suite and the third was what we planned to pay for major pieces of hardware that we knew we needed to build the infrastructure for these five new systems. She said those three main categories are on track to be at or under the $19.9 million that we planned but because of some of the extension of the schedule and the need to pull in additional specific Guidewire resources to complete the project and to backfill for employees who are still on the project, yes, we recognize that we are having unanticipated expenses at this point.

Mr. Marsh said that answered his question and asked if the Board would have more delineation on the extension costs by the next Board meeting?

Ms. Copps said that was a good question and they actually are working on compiling that information currently and getting an accurate picture on all of the extra expenses. She asked Mr. Marsh to repeat his question about WorkSafe Champions.

Mr. Marsh asked again about the WorkSafe Champion program, he said it is a great idea to get safety out into the public and it helps spread the message that safety is a good thing. He said he was wondering, as a matter of efficiency, with the budget that was actually spent, how many employers were training in the program?

Mr. Duane responded to the question and said there were seven employers that were signed up for the on-site program and four of those graduated. He said in addition to that with the centralized program which is for smaller employers, we were able to be efficient with training through virtual means so that MSF staff did not have to travel and incur those costs. He said the additional costs that we were able to use from our budget were for our Elite program which is for WorkSafe Champion graduates who have an opportunity to apply for grants up to $3,000 for safety equipment and other safety training and we were able to use some of the travel savings to provide additional grants there. He commented that what was really interesting is that even with the pandemic this year, we had a lot more interest going forward in 2021 than we have in the past and we may actually exceed that number in 2021. That remains to be seen and we'll know more as we go through the year.

Mr. Marsh followed up and said the seven on-sites were great. He asked approximately how many were reached through virtual last year and what are you looking forward to in the next year.

Mr. Duane said there were ten organizations sign up for the centralized classes and those are still in process.

Chair Zanto called for further questions; there were none.

X. President/CEO Calendar Year 2020 Performance Review and Determination of Calendar Year 2021 Performance Goals

A. Introduction – Notice of Closure of Meeting – Lance Zanto, Chair of the Board

Chair Zanto announced the closure of the meeting for the President/CEO Calendar Year 2020 Performance Review and Determination of Calendar Year 2021 Goals. He invited Mr. Marsh and Ms. Fagg to join the closed session as well. He asked President Hubbard if he wished to waive his right to privacy for the performance review.

President Hubbard said he did not wish to waive his right to privacy with the exceptions of consultation with Neville Kenning, the Board's CEO compensation consultant; Kevin Braun, General Counsel and Rick Duane, Vice President, Human Resources.

Chair Zanto closed the meeting at 2:25 p.m.

XI. President/CEO Determination of Calendar Year 2021 Performance Goals

A. Introduction – Lance Zanto – Chair of the Board

Chair Zanto reconvened the meeting at 3:56 pm. He thanked the Board for sticking it out during this long meeting. He noted that they discussed the transition for the new Board while in the closed session and said the performance review was completed. It was determined during that session that the new Board will determine the goals for the President/CEO at a future meeting.

Chair Zanto called for questions from the Board and the audience; there were none.

B. Calendar Year 2021 Performance Goals of President/CEO

No action was taken on this item.

XII. Old Business/New Business

Chair Zanto called for old or new business. There was none.

XIII. Public Comment

Chair Zanto called for public comment. There was none.

The meeting was adjourned at 4:00 p.m. The next regularly scheduled Board meeting will be held on Friday, June 18, 2020 at MSF, 855 Front Street, Helena, Montana.

Respectfully submitted,

Verna Boucher
Special Assistant to the President/CEO