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MONTANA STATE FUND
FINANCE AND AUDIT COMMITTEE

September 13, 2024

The Montana State Fund (MSF) Finance and Audit Committee meeting was held September 13, 2024, in MSF's Boardroom at 855 Front Street, Helena, Montana 59601.

Committee Members Attending

Karen Fagg, Billings
Wylie Galt, Martinsdale

John Maxness, Helena

Board Members Attending

Nancy Butler, Helena
Dexter Thiel, Sidney

Richard Miltenberger, Helena

MSF Staff Attending

Holly O'Dell, President/CEO
Verna Boucher, President's Assistant
Kent Schlosser, Controller
Patti Grosfield, Internal Auditor

Nick Mazanec, VP, Legal Services
Rene Martello, Director, Finance and Actuary
Darcie Dunlap, Internal Actuary

Others Attending

Representative Brandon Ler, Savage
Alex Turrell, WTW
Bob Biskupiak, IIAMT

Representative Jonathan Karlen, Missoula
Peter Strauss, MSIA

I. Meeting Preliminaries

A. Call to Order

The meeting was called to order at 9:00 a.m.

B. June 13, 2024 Finance and Audit Committee Meeting Minutes

The Committee took action to approve the minutes as presented; Mr. Maxness made the motion, Mr. Galt seconded, the motion passed unanimously.

II. Financial and Budget – Kent Schlosser, Controller

A. Second Quarter 2024 Financial and Budget Variance Report

Staff summarized year-end financial projections based on results as of June 30, 2024. Premium is projected to be \$173 million about \$3 million less than last year due to ongoing rate decreases (-5% effective 7/1/23 and -10% effective 7/1/24). Claim losses incurred are projected to be about the same as the prior year, despite more favorable reserve development this year over last. Expenses are higher than last year due to a few expense categories such as workforce, agent commissions, and IT consulting. Investment income is better than last year due to higher yields on bonds. Net income is projected to be \$50 million before consideration of a dividend.

Staff then shared the 2024 projected budget variance. Claim benefit payments are projected to be almost \$22 million under budget while operational expenditures are trending close to plan. A decrease in large settlements is the main driver behind the benefit payment variance.

III. Policyholder Equity and Dividend – Holly O'Dell, President/CEO

A. Analysis of Policyholder Equity Adequacy and Policyholder Dividend Program – Alex Turrell, Director – WTW

WTW shared its analysis of policyholder equity, which advises management and the Board regarding risks and considerations in how current equity levels support MSF's long term strategic

plans. It also informs whether the current financial situation supports a dividend. Equity has improved over the last 5 years similar to the national work comp industry. Loss reserves have decreased by almost 6 percent since 2019 which has improved reserve-to-equity leverage. WTW concluded that MSF has a strong level of policyholder equity relative to its risk, and that a dividend in line with past dividend levels is warranted at this time.

- B. Dividend Distribution Discussion – Darcie Dunlap, Internal Actuary
Policyholder Equity Level Determination and Discussion – Management Recommendation – Holly O’Dell, President/CEO
Management provided an overview of MSF’s dividend strategy and the amount of dividends that management considered.

	\$40M	\$43M
Premium Factor	24.20%	26.04%
Average Dividend	\$1,770	\$1,902

Dividend Distribution Discussion – Darcie Dunlap, Internal Actuary
Staff explained dividend eligibility and distribution parameters. Staff recommended a \$100 minimum dividend amount to ensure all customers receive a meaningful amount. Applies to policyholders with at least 6 months of continuous coverage in the dividend period and reported or audited premium.

- D. Declaration of Dividend – Committee Action

The Committee took action to recommend the Board declare a percentage of premium dividend of approximately \$40 million dollars, with a minimum dividend amount of \$100.00 payable to eligible policyholders not to exceed 2% above or below the declared dividend. Dividend eligibility applies to policies with either coverage expiration dates between January 1, 2023 and December 31, 2023 or coverage that was both effective and expired in 2022. The Chair called for discussion. The Chair called for public comment; there was none. The Chair called for the vote and the motion passed.

- C. Old Fund – State Fiscal Year 2024 Variance and Fiscal Year 2025 Funding Estimate – Rene Martello, Director of Finance and Actuary
Rene provided an overview of the Old Fund payment activity through June 30, 2024. For the fiscal year ending June 30, 2024, a total of \$4.4 million was needed to cover Old Fund benefit and administrative costs. In 2025 the total is estimated to be \$4.7 million. Claim counts and benefit payments continue to trend downwards, most recently at 336 open claims.

The Board appointed actuary provided an updated analysis of the outstanding OF claim liability as of 6/30/2024 which is displayed as a range, with the updated central loss estimate reported to be \$32.8M.

This summary and the updated liability estimate will be provided to the State Budget Office, as the State is responsible for the financial reporting of the Old Fund. There is no committee action or board action required.

III. Internal Audit Report – Patti Grosfield, Internal Auditor

External audits being completed by Eide Bailly include the CY23 GASB/GAAP financial audit which was presented at the September 12, 2024, meeting of the Legislative Audit Committee (LAD). The audit found an unmodified or clean audit opinion with no recommendations.

Internal Auditor Report

An audit to review MSF's business processes surrounding its tired rating program to determine compliance with regulatory requirements was completed by the internal auditor. The audit found no deviations from regulatory requirements noted and contained no recommendations.

Staff provided a review of a number of past audits and the ongoing efforts to address or complete the recommendations.

The fourth quarter audit plan includes the review and testing of the dividend declaration should one be declared.

VIII. Old Business/New Business

Staff provided the President's Report.

Financial and Strategy

- Staff informed the Committee about the newly adopted budget and strategy processes and procedures being use to complete the budget.
- The GASB Financial Audit was heard at the Legislative Audit Committee on September 12, 2024 and was unmodified and clean with no recommendations.
- Staff has been setting up and attending various legislative visits in Helena and throughout the state to establish strong relationship prior to and for the upcoming legislative session.

Customer Experience

- Staff is completing a pilot injured employee texting project which has been very successful. The pilot is wrapping up, received a high opt in rate, and has seen very fast turn-around time. The text project is contributing to faster return to work rates, medical appointments being met and has an added bonus of language translation services if needed.
- Policyholder survey saw strong responses and the NPS indicates that MSF is at a score of 44 which is above the industry average.
- Sandbox is a means to allow MSF to do something not currently permitted under the Insurance Code that, if successful, may warrant a change in statute. MSF has submitted its first sandbox project and we are awaiting the Commissioner of Securities and Insurance's response.
- Lead by marketing and communications, staff went on the road again to the Billings Fair and once again, bought a steer. There was also a booth to talk to customer, about workers' compensation and get feedback on how it was working for them.
- The approach for discounts for groups has been revised to offer the discount up front based on expected results. The new approach was currently being tested with two groups.
- Staff have been attending as many group events as they can to continue building on those relationships.
- Montana Auto Dealers Association is one of those group events we are attending and encouraging to attend in their new discount program. New submissions are being received.
- An email collection project has begun to gather information to reduce the number of cancellations that MSF is doing and reduce the underlying friction of cancellations. Staff began calling customers about pending payroll reporting lapses and missed payments to provide reminders to avoid cancellations.

Operations

- The reimagine our brand strategy is proceeding at different speeds. MSF employees developed mission, vision and values and we still embrace those. We are working to get an understanding of what Montanans know about us so that we have input on how to work on our website, ads, letters and outreach. We will share out any changes.
- Claim Center is moving forward upon the Board's urging to move to the cloud and we are negotiating with the core system vendor for the price of the licensing costs for our Claim Center, Billing Center and Policy Center. This will be brought back to the Board in December.
- Staff are building a vendor management program that identifies risks and owners.
- The timely quote turnaround scorecard has shown that quote turn around is improving every quarter.
- NCCI provides a report card on our data every year and they flew here to tell us we got an A+ which reduces our costs to them each year.
- The request for proposal was recently issued for our medical and bill review services and pharmacy management services.
- The internal communication project to understand communication needs continues to roll out intentional communication to better inform our employees.

Our Culture

- The recently completed engagement survey received a 90 percent participation rate with 259 responses which is a very high benchmark countrywide.
- WCI presentation was done by President O'Dell in Florida and Michael Marsh will speak on the same topic next month on behalf of the Board in Las Vegas.
- MSF's Employee of the Year is Marika Spradlin. She was nominated by an agency in Missoula who provided comments about how much they truly valued her service to them.
- The 2024 AASCIF Annual Conference was in Rhode Island, which is a meeting we attend with all the other states to network.
- The MSF Annual Picnic returned to become the 2nd annual event.
- Assistant General Counsel, Procurement, Al Bowen was sworn into the Montana State Bar on Tuesday, September 11, 2024. He is working for us to negotiate our new contracts.

IX. Public Comment

The Chair called for public comment; there was none.

The meeting adjourned at 11:11 a.m. The next scheduled Finance and Audit Committee meeting will be held on Thursday, December 12, 2024 at Montana State Fund, 855 Front Street, Helena, Montana in the first floor Boardroom.

Respectfully submitted,
Verna Boucher
Special Assistant to the President/CEO