

# 2013 Annual Report

[Year in Review] [Letter from the President] [2013 Financials]

## LEADERSHIP



### From our President

#### It's All About Relationships

To many, workers' compensation is an impersonal line of insurance. But for Montana State Fund employees, this idea could not be farther from the truth – our line of work is about building relationships. Each day our staff is in personal contact with policyholders, injured employees, medical providers, partnering insurance agents, and the general public. These stakeholders have separate issues and concerns that need to be addressed in a respectful,

accurate manner. We provide this service.

As you read our 2013 Annual Report (July 1, 2012 - June 30, 2013), you will see how we focused our energies to bolster our relationships with our customers. We identified three key areas - Customer Service, Claims and Medical Management, and Workforce, that furthered our mission and goals.

#### Customer Service

We continued to foster and promote a culture of safety within Montana businesses. We partnered with policyholders who had a higher number of injuries in order to help them improve their workplace safety culture through our ongoing WorkSafe Champions program. Second, we implemented a project that simplified the confusing and large volume of documents our policyholders receive. Our third customer service project was to conduct a survey for both policyholders and injured employees to identify what we were doing right and how we could improve our services.

#### Claim and Medical Management

In fiscal year 2012 we implemented new medical benefit requirements which resulted from the passage of House Bill 334 in the 2011 legislature. Last year we kept a close eye on how we were effectively managing these new provisions. To accomplish this,

we implemented additional reporting of specific claim metrics. We also continued to review our data by exploring if and how analytical tools can help us identify early potentially severe and complex claims. Identifying these claims early in the process allows us to apply targeted and intensive resources in order to make a positive difference in the outcomes of our injured employees.

#### Workforce

With many of the baby boomers retiring, we developed a strategy to address training needs for current claim and medical staff while addressing succession planning and turnover. In addition, we successfully expanded our claims examiner trainee program to sustain our ability to efficiently and effectively fill critical need vacancies to assure customers continued claim management excellence.

#### Board Changes

Our board is integral to the success of our organization. Without their guidance, Montana State Fund would not operate as effectively as we do today. In 2013 Governor Bullock appointed four new board members to serve in this capacity. We welcome Lynda Moss, Richard Miltenberger, Bruce Mihelish and Lance Zanto, and thank our ongoing members Chair Elizabeth Best, Joe Brennehan and Wayne Dykstra for their commitment to the state of Montana.

In closing, I am honored to lead Montana State Fund and work with a dedicated team of professionals who touch the lives of Montanans every day. We at Montana State Fund appreciate your support.

Sincerely,

Laurence Hubbard  
President and CEO

## Chairman's Letter



From the rancher in Alzada to the CNA in Butte, Montana State Fund is there for Montana's businesses who employ our working men and women. MSF's team of dedicated employees work closely with employers and employees alike, providing free safety workshops for businesses, and working with injured employees to ensure they get compensation and medical care for

their workplace injuries. MSF employees see our policyholders and injured employees as fellow Montanans, not as a policy or claim number.

Montana's workers' compensation system has evolved with Montana over the past century. Because MSF guarantees it will cover everyone, we are a vital part of Montana's economy.

With strong leadership, MSF successfully emerged from an unfunded liability in the 1990's. It is now a financially stable organization which promises Montana's workers and families that it will fulfill its mandate well into the next century. This stability also means that our board was able to return a \$10 million dividend to over 23,800 policyholders who made their work places safer for their employees. This solid return for workplace safety recognizes the importance we place on protecting the lives of real people.

As a Montanan and the Chair of MSF's Board of Directors, I play a role in guiding MSF in its mission as Montana's insurance carrier of

choice. As MSF nears its centennial, I am pleased to introduce our report for 2013.

A top priority for the staff in the past year was managing the changes created by the passage of House Bill 334 in 2011. Specifically, staff worked with employees to arrange prompt medical treatment and, working with employers to create stay at work/return to work programs to reduce the negative economic impacts of injury. These efforts also helped keep rates for employers even – we had a zero percent average rate change from fiscal year 2012.

MSF's successes were assisted and encouraged by the efforts of my fellow Board members. Our members are Montanans first. Some of us are employers, some are business owners, and some are employees. We understand the costs of workplace injuries on employees, their families, and Montana businesses. We do our best to think hard about all of these interests, as well as the rules laid out by our citizen Legislature, as we make our policy decisions. I thank the Board for their commitment to MSF's success.

It is my privilege to chair Montana State Fund. MSF has the unique mission of watching out for the safety of Montana's workers, and making sure they are treated right when they are hurt, while also recognizing and protecting the bottom line of Montana businesses. We look forward to positive work in 2014.

Sincerely,

Elizabeth Best,  
Chair

## Executive Team

Left to right: Peter Strauss, Vice President, Insurance Operations Support; Al Parisian, Chief Information Officer; Laurence Hubbard, President/CEO; Rick Duane, Vice President, Human Resources; Nancy Butler, General Counsel; Mark Barry, Vice President, Corporate Support; Dick Root, Vice President, Insurance Operations



## Board of Directors



Elizabeth Best, Chair  
Great Falls  
406-452-2933  
Term ending: April, 2015



Joe Brenneman  
Kalispell  
jdbrenneman@gmail.com  
Term ending: April, 2015



Lynda Moss  
Billings  
lyndamoss@mac.com  
Term ending: April, 2017



Laurence Hubbard  
Ex-Officio,  
Helena



Richard Miltenberger  
Helena  
406-459-0203  
Term ending: April, 2017



Bruce Mihelish  
Lolo  
bruce@cedarflats.com  
Term ending: April, 2017



Lance Zanto  
Helena  
Lzanto2@mt.gov  
Term ending: April, 2017



Wayne Dykstra  
Billings  
wdykstra@liquidengineering.com  
Term Ending: April, 2015

# YEAR IN REVIEW



Fiscal year 2013 (July 1, 2012 – June 30, 2013) was a time for reflection and action. One major initiative for the year was conducting a customer satisfaction survey. While it was not the first time we formally asked customers how we were doing, we had not organized a survey for several years. Our policyholders were also rewarded for their commitment to safety through our dividends and small business safety programs. In addition, our WorkSafe Champions 12-month intensive safety program partnered with an entire business, not just individuals to improve workplace safety. And finally, we launched our statewide Choices media campaign to showcase how we go the extra mile for our customers.

## 2013 HIGHLIGHTS

- Our safety services team trained 1062 Montana workers at 278 safety workshops held throughout the state.
- Sixty Montanans graduated from our 12-month intensive WorkSafe Champions safety training program. Since the program's inception in 2009, a total of 287 WorkSafe Champion graduates have continued to spread a message safety at their workplace.
- The Missoula Developmental Service Corporation (MDSC) was the first business to graduate from our WorkSafe Champions program.
- MSF staff conducted a total of nine trainings at three Department of Labor and Industry SafetyFest events. These weeklong safety trainings were held in Missoula, Helena and Lincoln.
- Our board of directors authorized a \$10 million dividend that was shared among 23,800 qualifying policyholders. Since 1999, MSF has awarded \$74 million in general dividend payments as a reward for workplace safety.
- Governor Bullock appointed four new board members - Bruce Mihelish of Lolo, Richard Miltenberger of Helena, Lynda Moss of Billings and Lance Zanto of Helena.
- The efforts of the Special Investigations Unit to uncover fraudulent claims saved more than \$1.7 million in FY13. Since the program's inception in 1993, MSF has recovered \$56.2 million in savings from fraudulent claims and employer misconduct.
- The use of opioids for treating injured employees was the main topic for Montana State Fund's twelfth annual medical education conference. Over 100 medical providers and workers' compensation professionals from across Montana attended.
- As part of our Montana Small Business Group Program, 850 Montana small businesses received premium returns totaling over \$360,000. These businesses were rewarded for their safe work environments.
- Our ACE (Assisting Charitable Endeavors) program awarded eight worthy projects \$11,676 in grant monies. ACE makes matching funds available to qualifying Montana nonprofit organizations that contribute to safety and community well-being in our state.
- Our scholarship program awarded a total of \$23,000 in scholarships to 12 individuals in 2013. The scholarship assists children and spouses of workers who were fatally injured in a work-related accident. While nothing can replace the untimely loss of a loved one, our scholarship program provides an additional benefit for those who are most affected by significant loss.
- NoJack.net, our young workers' safety website received the Workers' Rights Award as part of the U.S. Department of Labor Worker Safety and Health App Challenge.
- The American Association of State Compensation Insurance Funds (AASCIF) awarded MSF with two communications awards. Our internal newsletter 855 Front received a first place and our Choices Print ads received a second place.

# YEAR IN REVIEW

## CUSTOMER SATISFACTION SURVEY

In January 2013, Montana State Fund completed an extensive customer satisfaction survey with policyholders and injured employees. The last customer survey was completed in 2004, so it was time again to see how well we serve our customers and look for ways to provide improved service and solutions. Phone interviews with 800 policyholders and 538 injured employees were completed using a professional research company. In order to maintain consistency and meaningful comparisons to previous surveys, the questions were changed only where our business process had changed.

## Our Findings

### Policyholders

We found that overall 83% of policyholders are satisfied with their experience and interactions with Montana State Fund. An 11 percent increase from the 2004 survey. Nine in ten policyholders are also satisfied with MSF staff in terms of courteousness and professionalism (96%), and their knowledge of workers' compensation insurance (92%). In fact, we are pleased to see many of the operational improvements we've put in place over the last several years are making a difference for policyholders. Satisfaction levels are up on all customer service, policy service, and claim process areas from the 2004 results.

### Overall Policyholder Satisfaction



Base: All respondents

Q7. To begin this section, I'd like you to rate your overall satisfaction with Montana State Fund based on all of your experiences and interactions during the past year. Please use a scale of 1 to 5 where 1 means very dissatisfied and 5 means very satisfied.

### Action Steps

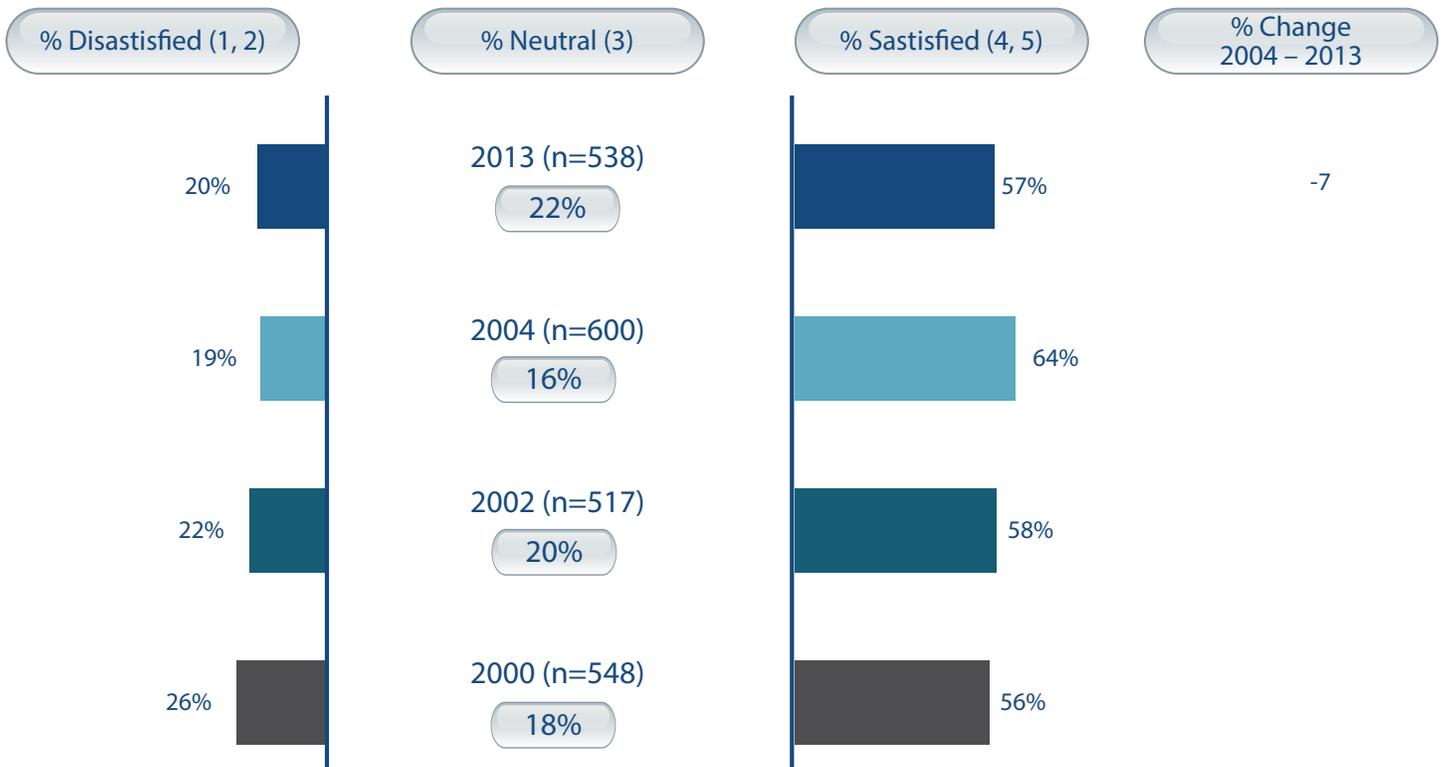
- With a focus on continuous improvement, we have created a Customer Service Specialist Trainer to ensure consistency as well as flexibility in providing service to each of over 26,000 policyholders. We want to ensure the high level of policyholder satisfaction is sustained as we hire replacements for our retiring customer service specialists.
- We are exploring a new policy system which will simplify our billing statements, making it easier for our policyholders to read and understand.

# YEAR IN REVIEW

## Injured Employee

Overall satisfaction for injured employees has moderated by 7% since 2004 with nearly six in ten (57%) satisfied with Montana State Fund regarding their claim. Injured employees provide the highest satisfaction rating to the courteousness and professionalism (75%) and knowledge of workers' compensation insurance (73%) of Montana State Fund staff.

### Overall Injured Employee Satisfaction



Base: All respondents

Q1. To begin, how would you rate your overall experience with Montana State Fund regarding your current or most recent claim? Please use a scale of 1 to 5 where 1 means very dissatisfied and 5 means very satisfied.

### Action Steps

- Our overall goal is to assist injured employees as they adjust to being off work, interact with medical providers to heal from their injury, and work with their employer to return to their job.
- We hired four new positions to provide support work to claim examiners, freeing up the claim examiners to spend more time interacting with injured employees. The survey results noted injured employees liked the service they received from MSF claim examiners, they just wished the claim examiners were available to them more often.
- We are revising the initial correspondence we provide to newly injured employees to make the information easier to read and understand.
- We are exploring the use of social networking to answer the questions injured employees have at the time they need the answers. We want to make the information available to them at the very moment it is needed and most useful for them.

## What Sets Us Apart



**CUSTOMERS  
CALL HER  
THE EXTRA MILE.**

[safemt.com](http://safemt.com)

*Our CSS Marie was featured in this billboard ad.*



Montana State Fund launched its statewide Choices media campaign in the fall of 2012. “Choices” was created as a way to emphasize how MSF staff and our services set us apart from our competitors.

The way we developed the campaign was by holding informal focus groups with our employees where we asked them what they thought ‘set us apart’ and why MSF was the choice in Montana for workers’ compensation coverage. From these meetings three major themes emerged:

- > We are Montanans and we understand the businesses we serve
- > We are experts in workers’ compensation insurance and will go the extra mile to serve our customers
- > We have in-house claims and medical staff working hand in hand to effectively resolve claims

Once the themes and creative were established, we then used our employees to tell our story in a mix of radio, newspaper, outdoor billboards, and online banner ads.

The 10-week campaign ran from late August 2012 through October 2012 and again in spring 2013 to coincide with our busiest renewal push.

Our Choices print campaign received an American Association of State Compensation Insurance Funds (AASCIF) communications award.



Our staff covers the state, corner to corner. Our service professionals visit policyholders to learn their business. Our medical specialists work with providers to improve care delivery. It's not just a commitment to service or safety. It's a commitment to our people—the people of Montana.

[www.safemt.com](http://www.safemt.com)



*Our CSS Heidi was featured in this print ad.*

## WORKSAFE CHAMPIONS: ONE BUSINESS AT A TIME

*(Below is a story that appeared in our Summer 2013 Perspectives (policyholder) newsletter)*

In June 2013, the WorkSafe Champion program graduated its' first WorkSafe Champion business, the Missoula Developmental Service Corporation. MDSC champions the needs of adults with severe intellectual disabilities who often do not know how to communicate their wishes. Today MDSC cares for over 75 adults living in 12 homes and manages two day activity centers. Karen Harrison is MDSC's Human Resources Director; she explains how the WorkSafe Champion program has and will continue to change the culture of safety at MDSC.

### **Perspectives: What motivated you to get your business involved in the WorkSafe Champion program?**

KH: We're always interested in bettering the safety for our clients and staff, alike. I participated in one of your earlier WorkSafe Champion Programs and found the program to be informative, energizing and extremely useful.

### **Perspectives How many of your employees took part in the WorkSafe Champion program?**

KH: We have a fairly large management team, so not all of them participated, but 16 of them did.

### **Perspectives: How has this course changed the way your organization looks at safety issues?**

KH: Since this course was just focused on our particular company, it really opened up some honest discussions about barriers we have had that need to be broken down to continue to improve safety awareness. When a group of managers can discuss their particular issues (especially in our unique environment), it takes the WorkSafe Champion Program to a whole new level. I absolutely recommend that this program take off in this direction with other companies.

### **Perspectives: Is there a particular part of the training you like best?**

KH: The best part of this program is the last class. Participants are expected to have a presentation on safety. They have proven to be creative and fun items that allow a lot of follow-up discussion on ways to improve safety, how to present these ideas to others in a fun way, and truly make a point while having fun.

### **Perspectives: What are some innovative programs you came up with to keep your employees safe?**

KH: I really have to credit Dani Solonar, our Director of Services, who came up with the Mobility Champions Program. She developed a binder with pictures and descriptions of every single severely developmentally disabled adult that we serve within our 12 group homes. This information allowed each manager to specifically train their staff. The results have



*MDSC staff role play a safety exercise*

been staggering. We have almost eliminated back and shoulder injuries, and our experience modification rate went down 11 points in one year! Dani presented this program to the others when she and I attended our first WorkSafe Champion Program outside of our company and it was a big hit. We'd like to share this program with other similar industries within Montana through Montana State Fund.

### **Perspectives: What advice would you give other businesses who are struggling to get a safety program put together?**

KH: It's true that safety starts at the top, but like Wayne Dillavou, Montana State Fund's Safety Services Leader has said, "It also starts at the bottom". It takes everyone to participate in a program like this and have faith that it works. Also, all employees need to be held accountable to a work-safe attitude. If they can't abide by a safety culture, they shouldn't be working at your company. It also takes time, effort and commitment to develop a program that can also be clearly communicated to everyone. And, another thing that I have learned is at MDSC, we need to communicate who is on our Health and Safety Committee through our website and make sure it is a transparent committee that posts its minutes for staff to see, offers an open avenue for staff to make suggestions or raise concerns, and allow them to be part of the solution. This piece is a goal of ours over the next few months.

### **Perspectives Anything else you would like to add?**

KH: We have been so pleased with the personal assistance we receive from the staff at Montana State Fund. Team 6 is an excellent partner when handling our claims, Wendy Forgey, our Safety Consultant is the best. She is practically an employee at MDSC. We invite her to our health and safety meetings, she presents to our staff about various aspects of safety, and she participates in solving safety problems. Wayne Dillavou's presentation skills are outstanding in the WorkSafe Champion Program and my staff and I have thoroughly enjoyed working with him. It's the people working at Montana State Fund that keeps us as a long-term customer!

# YEAR IN REVIEW



## Workplace Safety Pays

MSF Returned Over \$360,000 to Small Businesses

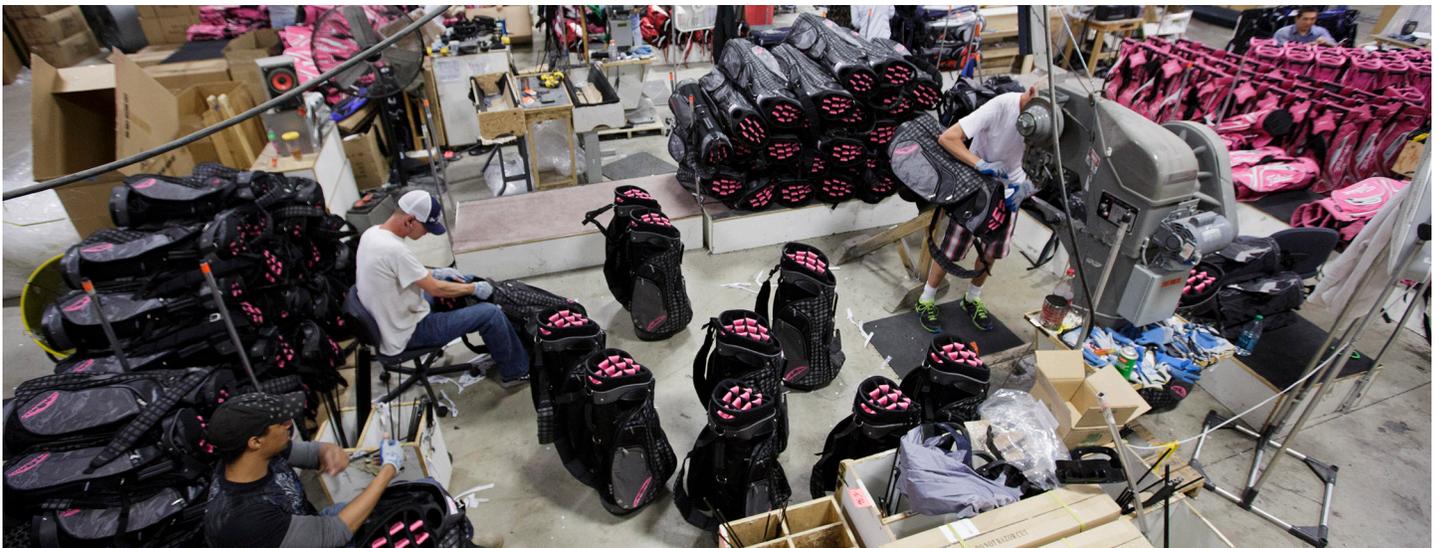
Approximately 850 Montana small businesses received premium returns from MSF totaling over \$360,000.

These businesses were members of the Montana Small Business Group Program. This group of MSF policyholders committed to practice a culture of safety in the workplace. Their workers had very few injuries and low injury costs during the program year (July 1, 2010-July 1, 2011).

MSF created the Montana Small Business Group as a result of Senate Bill 192 passed by the 2009 Legislature. One of the major requirements for eligible employers was having a written safety plan in effect for at least one year prior to joining the group.

Most of the small businesses in this group realized a return of nearly 40% of their premium for the year.

## Fourteenth Year for Dividend Distribution



*The MSF board of directors authorized a \$10 million dividend in November 2012. Over 23,800 qualifying policyholders received a part of the dividend. This was the fourteenth consecutive year MSF rewarded customers with superior safety records. The \$10 million dividend ranks as one of the highest amounts MSF had ever distributed to their customers.*

*MSF's staff has worked hard to focus their energy on helping businesses reduce workplace injuries. In turn the dividend sends a powerful safety message to our employers that the longer you provide your employees with a safer workplace and avoid injuries, you not only have a healthier workforce you are ultimately paying lower premium costs because your accidents are down.*

# OUTREACH

Our communications team realizes that trying to explain the complexities of workers' compensation insurance can at times be a tough proposition. But with the help of our advertising agency, Partners Creative in Missoula, each brochure we create, website we develop and ad campaign we launch, the safety of Montana's employers and employees are at the heart of our message. So rest assured through our communications efforts we do our part to impact the lives of all Montanans in a way that is practical, understandable and sincere.



## Bakken Media Campaign

In recent years, hundreds of new businesses and tens of thousands of workers have come to the Bakken oil fields in the northeast corner of Montana. That is why MSF launched a Bakken safety awareness campaign in April 2013. The goal of the campaign was to urge employees and employers alike to start thinking about on the job safety.



Gas Station Pump Ads



Bathroom Stall Ads in Bars and Restaurants



Billboard

## Choices Media Campaign

In 2013 we wanted to create an advertising campaign that said to current and potential customers, "By partnering with Montana State Fund, I'm able to work with friendly Montanans who understands the challenges and working conditions of Montana companies." The result of this statement was our Choices Campaign.

**SHE'S ALL THE WORK COMP YOU NEED TO KNOW.**

[safemt.com](http://safemt.com)

*Our CSS Cheri was featured in this billboard ad.*

**MONTANA STATEFUND**

**MONTANANS. IT TAKES ONE TO KNOW ONE.**

[www.safemt.com](http://www.safemt.com)

**MONTANA STATEFUND**

*Our Claims Examiner Jim was featured in this website banner ad.*

**WHEN WE NEED MEDICAL ADVICE, WE GO DOWN THE HALL.**

The only way to handle a claim is quickly and completely. That's why, from the moment a claim is filed with us, our on-site team of claims specialists and registered nurses provide process, medical and claims support. So no matter what area you need assistance with, your team can provide it.

[www.safemt.com](http://www.safemt.com)

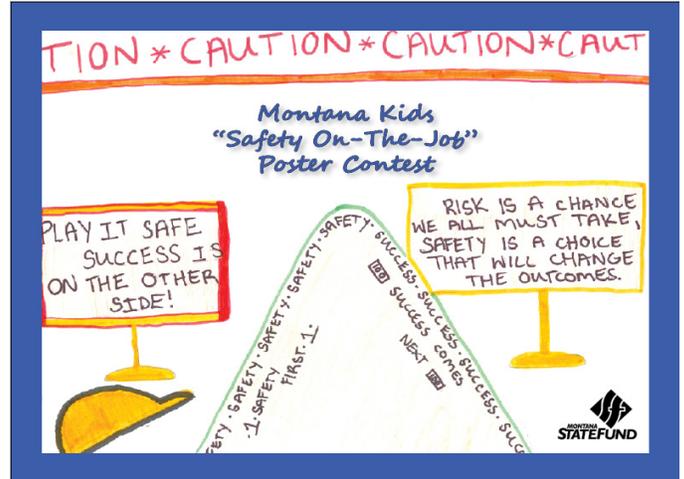
**MONTANA STATEFUND**

*Our Claims Examiner April and Strategic Nurse Consultant Jan were featured in this print ad.*

# OUTREACH



NoJack.net Young Worker's Website



Safety Calendar

www.montanastatefund.com

**PROTECTING MONTANA  
WORKERS AND BUSINESSES  
EVERY DAY.**

Montana State Fund's guide to the Workers' Compensation System



Legislative Brochure

www.montanastatefund.com

**YOUR WORKERS'  
COMPENSATION BENEFITS**

Your guide to workers' compensation benefits for injuries occurring on or between July 1, 2012, and June 30, 2013.



Workers' Compensation Benefits Guide

# FINANCIALS

MSF continued to hold premium rates steady in FY13. Net rate levels have decreased since 2007, in large measure due to legislative reform in HB 334. MSF has achieved a sound level of financial stability to offer a stable market for workers' compensation insurance to Montana businesses. The results for 2013 once again show that through sound management practices, MSF is the insurance carrier of choice for Montana businesses. Income for the year was \$31.4M after providing a dividend to over 23,800 Montana businesses totaling \$10M. MSF achieved premiums earned of \$156.1M or about a 4% increase from the previous year as Montana's economy continues to grow.

## Report of Management

The management of Montana State Fund (MSF) is responsible for the financial statements and all other information presented in this Annual Report. MSF maintains a system of internal controls, designed to provide reasonable assurance that assets are safeguarded against loss and that transactions are executed and recorded in accordance with management's authorization. This system encompasses the organizational structure and corporate governance practices, selection and training of personnel, communication and enforcement of policies and procedures, monitoring, and ongoing internal and external audit programs. Internal controls are continually reviewed and evaluated by management.

The financial statements are presented for our fiscal years ending June 30, 2013 and 2012 and include amounts based on the best estimates and judgments of management. These financial results are presented on a statutory basis (NAIC), which is consistent with insurance industry financial statement presentation. MSF governs, operates and completes its financial reporting as an insurance company domiciled in the State of Montana, and its financial statements are presented on the basis of accounting practices prescribed or permitted by the Montana State Auditor, Commissioner of Securities and Insurance. Evaluating the

financial results of MSF in comparison to other insurance companies aids in assessing and maintaining the financial security and stability of MSF as a workers' compensation insurer. The statements included in this Annual Report should not be considered complete audited financial statements. The statements presented are representative of financial statements as audited by our external independent public accounting firm Eide Bailly, LLP for the years ending June 30, 2013 and 2012 and the complete copy of the audited financial statements including the accompanying notes are available on the MSF website. In addition, MSF is a component unit of the State of Montana. As required in law, the Legislative Audit Division (LAD) of the State of Montana conducts independent audits of financial statements of MSF presented in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). For the financial periods ending June 30, 2013 and 2012, MSF received an unmodified audit opinion from the LAD. The audited governmental financial statements and the related audit opinions are issued under separate cover. Copies of the full governmental financial statements are available on the State of Montana Legislative Audit Division website. The presentation of the statutory financial statements in this report differs from the governmental presentation basis. A financial reconciliation of equity between the audited GASB financial statements and the audited statutory financial statements is included in this report.

## A COMPARISON OF STATUTORY POLICYHOLDERS' EQUITY TO GASB NET POSITION

**For the Year Ended June 30, 2013**

Statutory policyholder equity (NAIC) .....	\$372,277,435
<b>Add:</b>	
Non-admitted assets .....	6,416,890
Change in investment value of bonds to fair market value .....	56,320,430
Change in investment value of other invested assets to equity method .....	(508,996)
Change in allowance for doubtful accounts .....	(2,962,481)
<b>Change in net income between NAIC SAP and GAAP for:</b>	
Deferred acquisition costs .....	5,178,674
<b>GASB net assets .....</b>	<b>\$436,721,952</b>

## QUICK FACTS AS OF JUNE 30, 2013

Total net earned premium.....	\$156,062,478
Number of policies serviced.....	27,589
Total number of claims processed.....	9,701
Investment income earned.....	\$53,729,794
Net income after dividends.....	\$31,417,929
Policyholders dividend.....	\$10,005,214
Loss and LAE reserves.....	\$902,847,928
Statutory equity.....	\$372,277,435
Reserves to Equity Ratio (after dividend).....	2.42
Premium to Equity Ratio (after dividend).....	0.41

# FINANCIALS

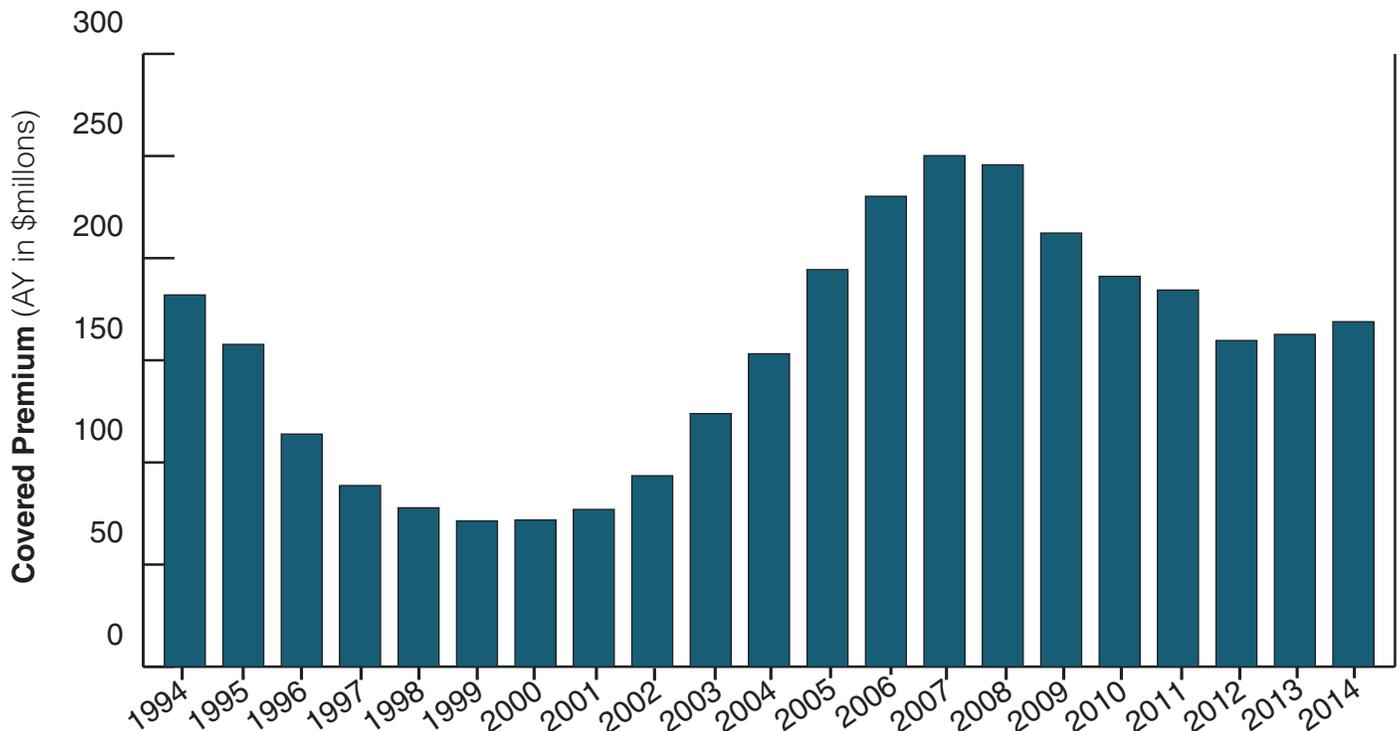
As part of the corporate governance practices of MSF, the following is the list of the top five compensated executives/employees in the organization as well as their compensation for the fiscal year.

Name	Position	Base Salary	Incentive	Other Compensation*
Laurence Hubbard	President/CEO	\$270,885	\$46,988	\$18,900
Al Parisian	Chief Information Officer	\$189,853	\$25,733	\$5,520
Mark Barry	VP Corporate Support	\$164,189	\$23,113	\$10,423
Nancy Butler	General Counsel	\$164,189	\$19,246	\$9,866
Richard Root	VP Operations	\$157,945	\$17,289	\$3,679

\* Other compensation is for earned excess annual leave payouts.

## MSF COVERED PREMIUM MSF Gross Earned Premium

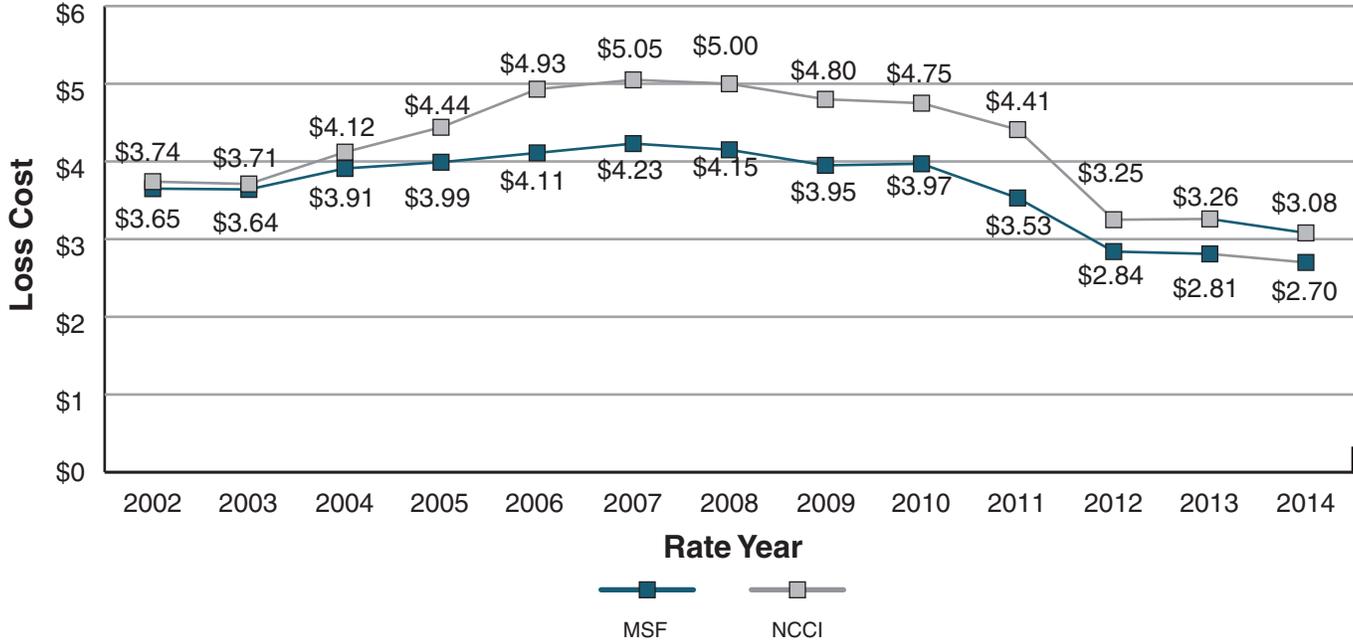
MSF gross earned premium declined from approximately \$182 million in 1994 to \$71 million in 1999. From 1999 to 2007, MSF premium increased significantly as market conditions changed and MSF gained market share. Rates also increased during this period to cover the increasing cost of claims. MSF premium fell from 2007 to 2011 due to recessionary economic conditions. In 2012, premium fell due to a 20% rate reduction associated with major benefit reform legislation (HB334). Since 2012, MSF premium has grown somewhat due to a growing economic recovery despite an additional 6% rate decrease in 2014. The MSF will have an estimated \$169 million in gross earned premium in 2014 (estimate subject to change as the year progresses).



# FINANCIALS

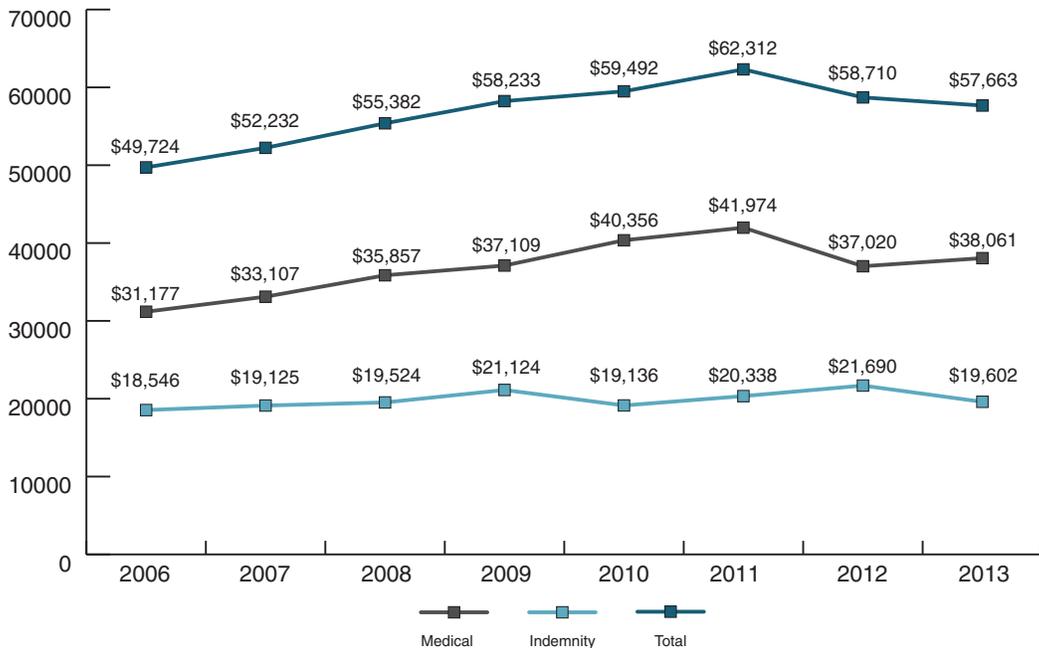
## MSF VS NCCI LOSS COSTS

"Loss Costs" refers to the amount estimated to cover the cost of workers' compensation benefits and claim administration. Loss costs currently represent approximately 75% of MSF premium rates. In a competitive rating state like Montana, carriers use the NCCI loss cost as the starting point in establishing their rates but may adjust the level for the book of business they write. For the past 10 years, MSF has charged an average of 16% less than NCCI loss costs. MSF's independent consulting actuary has determined that MSF does not need to charge as much as estimated by NCCI.



## AVERAGE COST PER WAGE-LOSS CLAIM

The average wage-loss claim costs about \$58,000, although the most catastrophic of claims can cost several millions of dollars. About 67% of workers' compensation claim costs are for medical services, which is a fast growing driver of Montana claim costs. Wage replacement (indemnity) costs are rising by an average of 1%-2% per year, consistent with the rise in general wage levels. However, workers' compensation medical costs are rising 6%-8% per year. The average cost per claim dropped beginning in 2012 due to benefit reforms enacted in HB334.



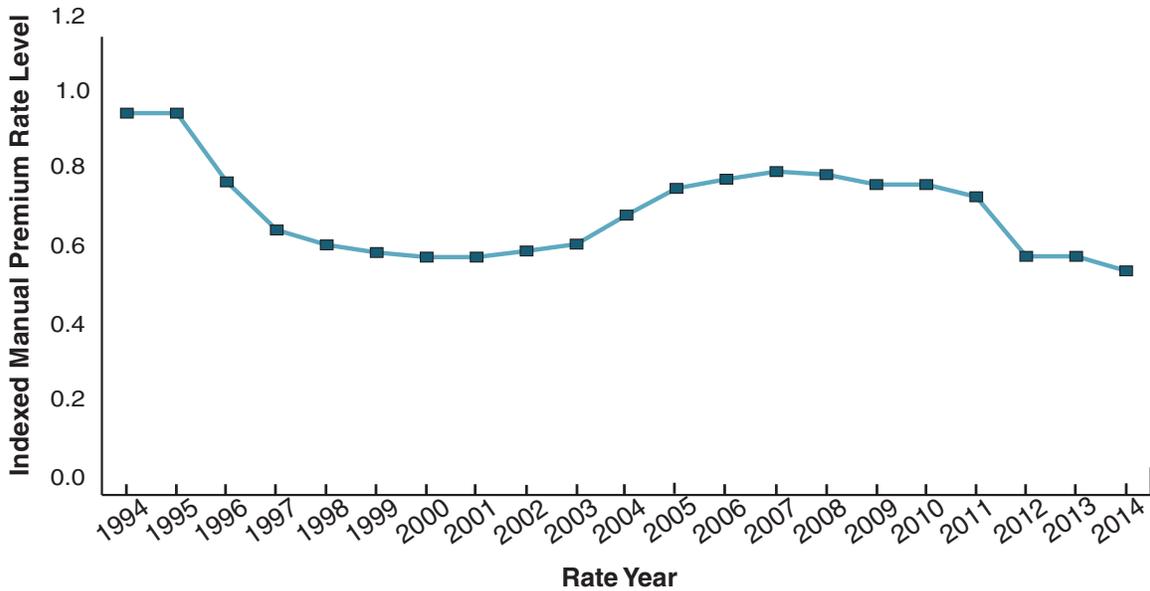
'AY Severity Trend: Based on Towers Watson Central Estimate Ultimate Losses (6/30/2013 Reserve Report) Wage Loss Claims Only.

# FINANCIALS

## MSF RATE LEVEL

Manual Rates (average of MSF rate tiers)

MSF manual rate levels decreased from 1994 to 2000 due to improved conditions in the workers' compensation arena including lower medical inflation, declining claim frequency, and statutory benefit changes enacted in 1995. MSF manual rate levels rose through 2007 due to increasing medical costs and statutory and judicial benefit expansions. Net rate levels have decreased since 2007, in large measure due to legislative benefit level decreases in HB 334. MSF 2014 rates are 41% below 1994 rates, the lowest in 20 years.



## MSF BOOK BY ACCOUNT SIZE

MSF predominantly serves small employers in Montana. However, the premium volume from larger employers enables MSF to maintain lower and more stable rates as well as a high level of customer service for all policyholders.

