

# 2015 Annual Report



Honor the past. Improve the future. These words were especially true for Montana State Fund in 2015 as we celebrated 100 years of the Montana Workers' Compensation Act. While the law has been amended over the past century, our mission to protect Montana's working men and women from workplace injuries has never wavered. As you read our 2015 annual report (July 1, 2014 – June 30, 2015) you will see how our organizational improvements will continue to positively impact our customers in the future.

## Leadership



At Montana State Fund, leadership is not a title, it's an attitude. And, our Executive Team takes that message to heart. On any given day our employees are encouraged to step up. Whether it's speaking with the CEO about a better way to streamline a company process or organizing an all employee community food drive, our employees take an active role to make MSF Montana's insurance carrier of choice and industry leader in service.



## From Our President *Prepared for the Next 100 Years*

*This has been a year of celebration.* We commemorated 100 years of Montana's Workers' Compensation Act of 1915. This was sweeping legislation that shaped how we care for and protect Montana's workers and businesses.

As the workers' compensation system has evolved over the years so too has MSF evolved as the guaranteed provider of workers' compensation insurance.

**And change.** Fast forward 100 years with another sweeping piece of legislation, Senate Bill 123. SB123 transferred regulation oversight of MSF from the Legislature to the State Auditor's Office (SAO). The SAO's job is to regulate all insurance companies doing business in Montana and ensure that insurance companies each maintain a strong financial condition. We fully support this move and believe this is positive change for Montana.

**Honor the Past, Improve the Future.** It is no secret that Montana has a high rate of injury. We recognize this flaw, but look to improve this in the future. Over the past decade we have made a concerted effort to focus on safety awareness and



## Chairman's Letter

In 1915 the Montana Legislature passed the Montana Workers' Compensation Act, thus beginning Montana State Fund's obligation to serve the needs of our states employers and injured workers. As you read through this annual report you will find that 100 years later the

programs and projects highlighted in this document continue to embody this responsibility.

One major responsibility of the board is to establish fair and equitable premium rates for our policyholders that are not excessive, inadequate, or unfairly discriminatory. However, in setting these rates, we must have the necessary funds to provide benefits that are promised to injured employees. Montana State Fund accomplishes this goal by creating cost-effective processes for our policyholders, working towards positive injured employee outcomes, championing proactive

education. In 2015 our statewide media message reinforced our message of safety. We trained nearly 200 policyholders, medical personnel and other workers' compensation professionals on the merits of Return to Work (RTW) through a series of webinars. Our safety team traveled throughout the state conducting 32 free safety workshops, and 87 individuals completed our 12-month intensive Worksafe Champions program.

**Rewards for Safety** We believe our safety efforts are paying off in dividends. For 17 consecutive years we have distributed policyholder dividends, amounting to \$141 million in returns. In those years, on average, 70% of eligible MSF customers have received a dividend each year. The dividend rewards businesses who have invested time, money and effort to create a safer workplace for their employees. Our ability to return a portion of our customers' premium back to them is also testament to our commitment to operate a sound financial organization as well as partner with our policyholders to efficiently manage claims that contribute to positive outcomes for injured workers.

But all of this work would never be accomplished without our Board of Directors. This team is vital to our success. With their thoughtful guidance they have helped us prepare for our next 100 years of providing Montanans reliable, cost effective workers' compensation insurance.

Thank you for your support.

Laurence A. Hubbard  
President/CEO

safety and return to work programs and keeping a keen eye on the bottom line.

All of these factors allow us to operate efficiently and remain financially strong. We have not increased premium rates since 2007 and have declared dividends for 17 consecutive years. We offer competitive rates for our policyholders and have built appropriate reserves to care for our injured workers into the future.

In closing, I would like to recognize my fellow board members who focus on building a viable workers' compensation insurance product. I want to especially thank three outgoing board members, Chair Elizabeth Best, Joe Brennehan and Wayne Dykstra.

These dynamic individuals and all of our members dedicated hundreds of hours of service to Montana State Fund and the working men and women of the state that will continue to make Montana an even better, safer place to work.

Sincerely,

Lance Zanto, Chair

# LEADERSHIP

## Executive Team



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

## Board of Directors



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



Joe Brenneman  
Kalispell  
jcircle@montanasky.net  
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



2015 was a year of celebration and progressive change at MSF. We celebrated 100 years of the Montana Workers' Compensation Act by saluting our state's past and present workers through a statewide media campaign and a Capitol Rotunda event. In addition, our Board of Directors declared historic dividend distributions for our policyholders. The passage of SB123 changed regulatory oversight from the Legislature to the State Auditor's Office. And finally, we retooled our Operations Department in order to provide more efficient claims and policy management for our customers.

## State Auditor's Office To Oversee MSF



During the 2015 Legislative Session, MSF supported legislation (SB123) transferring oversight of MSF to the State Auditor's Office (SAO). SB123 was signed into law in April and took effect on January 1, 2016.

The SAO is charged with regulating all insurance companies doing business in Montana. They help assure financial solvency and perform regular examinations to ensure financially sound operations. The SAO is also responsible for consumer protection—holding us accountable to the customers we exist to serve.

We supported this move because, after many years of working toward key financial targets, MSF is a financially strong and stable provider of workers' compensation insurance to Montana businesses. We have helped our customers improve workplace safety and assist injured employees in returning to work. At the same time, we have significantly improved operations and maintained responsible and competitive premium rates – in fact, lowering rates an average of 39% since 2007. As such, it makes sense that MSF is regulated similar to other insurance companies in Montana.

This is a move we believe is right not only for today, but for the next one hundred years of workers' compensation in Montana.

## Honoring Montana's Workers



*Sisters Jane Geering and Kathy Spence, owners of Billings Monument, speak with MSF President Laurence Hubbard.*

“Hats off to Montana’s Workers” was the theme for Montana State Fund’s 100 years of workers’ compensation celebration in Helena’s Capitol rotunda on Thursday, March 12, 2015. Montana Labor Commissioner Pam Bucy and MSF President Laurence Hubbard spoke at the event. The continued commitment to develop safety initiatives and safety education for Montana employees and employers was a shared speaking point by the presenters.

In addition to the speakers, the event recognized Billings Monument Co. a custom granite headstone business, as the state’s longest policyholder at 100 years and the Montana School for the Deaf and Blind as the longest state agency to be covered, since 1917.

Also recognized was 17 year old Austin Brentlinger, a young worker who lost three fingers in an agricultural accident in June 2013. After seven operations and a positive relationship with his Montana State Fund claims examiner, Brentlinger returned to work as well as relearning how to write, tie his shoes and throw a shot put.

The culmination of the event included our guests being acknowledged on the Senate floor.



*Austin Brentlinger and his parents.*



*Staff from the Montana School for the Deaf and Blind in Great Falls enjoy the day.*

## Retooling for Efficiency

As an industry leader in customer service, we embarked on a project to optimize our Operations Department to align ourselves with our customers' wants and needs.

The end result was the consolidation of our six teams to form just two, Select and Premier. The Select Team handles the needs of our small business customers, while the Premier Team assists our larger customers. These changes have allowed us to foster consistency in our processes, require less service hand-offs, and supports the continuity of the relationships our policyholders have with their servicing team.

In most cases, our policyholders did not see a change in staffing. They remained with the same underwriter, claims examiner, customer service specialist and safety management consultant.

We also hired six new claims managers who are dedicated



to bring greater focus and technical knowledge to claims management. In addition to their claim knowledge, these individuals bring prior experience in the areas of management, sales and customer service.

## Safety Pays Historic Dividends

Safety has paid off for our policyholders for 17 consecutive years. Since 1999, MSF has returned \$141 million in general dividend payments to our deserving customers. The largest dividend amounts awarded by our Board of Directors have occurred over the past two years. In 2015 over 23,000 policyholders shared a \$20 million dividend. And most recently, the Board approved another \$35 million dividend to be shared with approximately 23,000 policyholders. Both of these amounts were the largest ever distributed in MSF history.

A dividend returns a portion of premium back to those policyholders who have made a commitment to provide a safe workplace for their employees and in turn lower injury rates. It is an incentive to focus on safety. In addition, the dividend is not only due to improved workplace safety and return to work programs, but prudent financial decisions of MSF

management and strong investment performance that allows the Board of Directors to safely return a portion of earnings to policyholders.

A dividend cannot be guaranteed from year to year. If circumstances warrant, the board of directors can choose to not declare a dividend.



MSF President Laurence Hubbard presents a dividend check to Reynold's Market in Sidney, MT.



## 2015 Highlights

- In the past two years the MSF board of directors declared two historic dividend payouts. Policyholders shared a \$20 million dividend in November 2014 and most recently a \$35 million distribution. Since 1999, MSF has returned well over \$141 million in general dividend payments as a reward for workplace safety.
- Our safety services team traveled across the state to host 789 Montana workers at 32 of our free safety workshops.
- We educated nearly 200 policyholders, medical personnel and other workers' compensation professionals on the merits of Return to Work (RTW) through a series of four RTW webinars.
- Our 2015 WorkSafe Champions class graduated 87 individuals. Since the program's 2009 inception, 358 people have completed this 12-month intensive safety focused program.
- Our employees contributed \$32,651 to the State Employee Charitable Giving Campaign (SECGC). MSF is among the highest state agency contributors. This is a \$4,268 increase from last year. In addition to the SECGC, staff raised more than \$1,300 for the purchase of 65 turkeys for Helena Food Share's turkey challenge.
- Since 1993, the Special Investigations Unit has recovered more than \$62 million in savings from fraudulent claims and employer misconduct.
- Eleven non-profit organizations received a total of \$16,543 in grant monies from our ACE (Assisting Charitable Endeavors) program. ACE makes matching funds available to qualifying Montana nonprofit organizations that contribute to safety and community well-being in our state.
- Senate Bill 123 was passed by the legislature. This law transfers regulatory oversight of Montana State Fund from the Montana Legislature to the State Auditor's Office.
- Over 100 medical providers and workers' compensation professionals from across Montana attended our fourteenth annual medical education conference.
- Our scholarship program awarded a total of \$17,000 in scholarship money to nine individuals in 2015. 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.
- Our redesigned website [montanastatefund.com](http://montanastatefund.com) went live in May 2015.
- We garnered four communications awards from the American Association of State Compensation Insurance Funds (AASCIF). The awards were for our No Jack (Young Workers) safety TV and radio advertisements, our Facebook page and our MSF safety videos.

# FINANCIALS

The 2015 Annual Report is the last time the MSF financial results will be presented on a fiscal year of July 1 to June 30. As the result of SB123, effective January 1, 2016, MSF will be required to file and report financial results on a calendar year basis like other insurance companies regulated by the State Auditor's Office. In 2015, the Board supported decisions to hold rates steady for the upcoming year, and approved the issuance of a \$20 million dividend to approximately 23,200 policyholders in December of 2014. Net income of \$63 million was recorded in FY2015 in comparison to \$41 million the year before. More recently, the Board approved the declaration of \$35 million dividend to be paid in January 2016. Our strong financial position will continue to allow MSF to provide valuable services to Montana businesses at the most cost effective and stable price and to reward employer's for safe workplaces.

## 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, 2015 and 2014 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 audited financial statements as audited by independent public accounting firm Eide Bailly, LLP for the years ending June 30, 2015 and 2014. Unmodified opinions were issued on MSF's statutory financial statements for the years audited. After approval, the complete 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, 2015 and 2014, MSF also received unmodified audit opinions 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 POLICYHOLDER EQUITY TO GASB NET POSITION

*For the Year Ended June 30, 2015*

|   |               |
|---|---------------|
| Statutory policyholder equity (NAIC) .....                                  | \$516,904,860 |
| <b>Add:</b>   |               |
| Non-admitted assets .....   | 5,170,183     |
| Change in investment value of bonds to fair market value .....              | 38,467,142    |
| Change in investment value of other invested assets to equity method .....  | (1,909,059)   |
| Change in allowance for doubtful accounts .....                             | (2,046,366)   |
| Change in net income between NAIC SAP and GAAP for pension accounting ..... | (19,606,350)  |
| GASB net position.....  | \$536,980,410 |

# FINANCIALS

## QUICK FACTS AS OF JUNE 30, 2015

|  |               |
|--|---------------|
| Total net earned premium.....                  | \$164,556,709 |
| Number of policies serviced.....               | 27,570        |
| Total number of new claims processed.....      | 9,889         |
| Investment income earned .....                 | \$50,708,023  |
| Net income after dividends.....                | \$63,434,953  |
| Policyholder dividends.....                    | \$20,004,917  |
| Loss and LAE reserves .....                    | \$895,543,243 |
| Statutory equity .....                         | \$516,904,860 |
| Reserves to Equity Ratio (after dividend)..... | 1.73          |
| Premium to Equity Ratio (after dividend).....  | 0.32          |

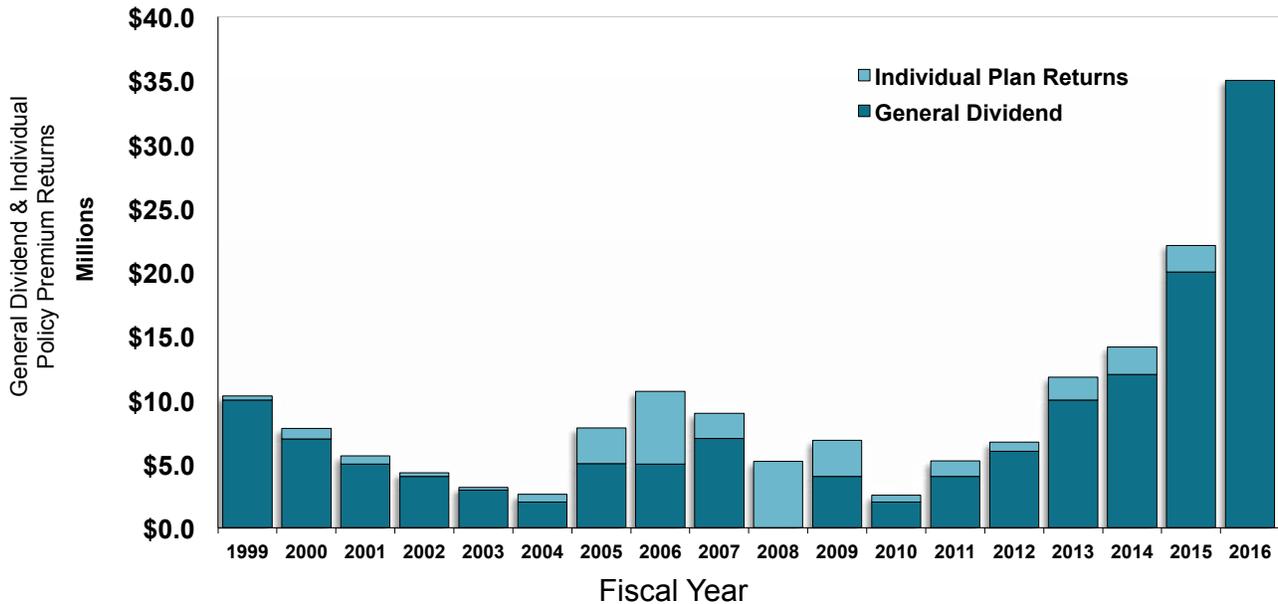
## TRANSPARENCY IN GOVERNMENT

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 | Other Compensation* |
|------------------|---------------------------|-------------|---------------------|
| Laurence Hubbard | President / CEO           | \$291,494   | \$15,188            |
| Albert Parisian  | Chief Information Officer | \$206,283   | \$15,773            |
| Nancy Butler     | General Counsel           | \$180,114   | \$9,404             |
| Mark Barry       | VP Corporate Support      | \$180,114   | \$9,384             |
| Julie Jenkinson  | VP Insurance Operations   | \$160,416   | \$0                 |

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

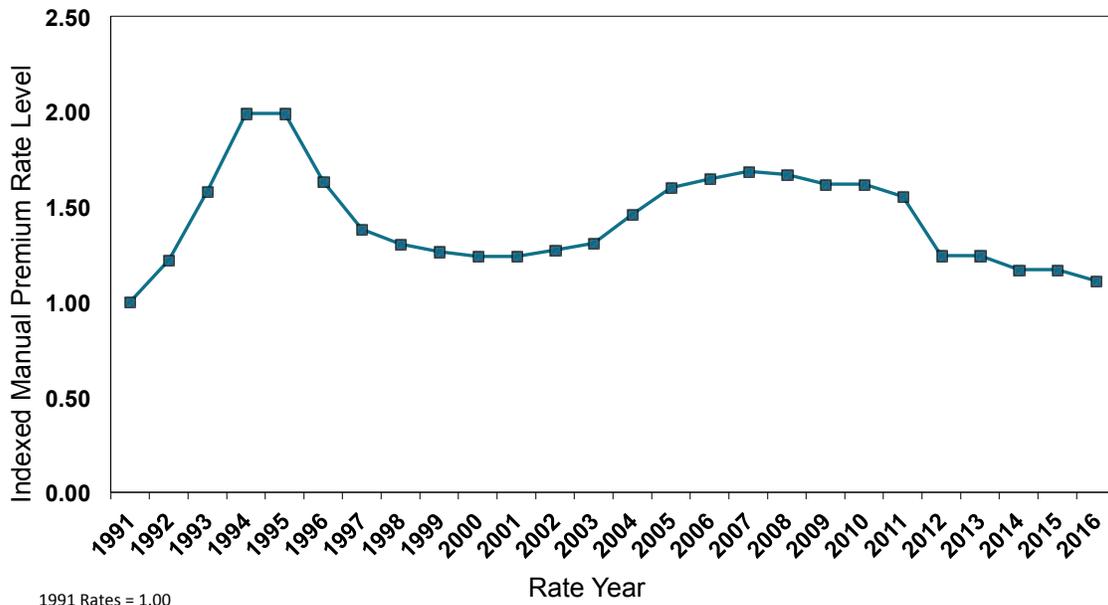
## Dividend



Since 1999 when MSF began returning general dividends to its policyholders, over 70% of eligible MSF customers have actually received a dividend each year. MSF has returned a total of \$141 million to policyholders through its general dividend program plus another \$30 million in individual loss sensitive plan returns (individual loss sensitive plans generally take about 2 years before the returns can be calculated and therefore are not yet shown for FY 2016). Primarily as a result of interest income and stock market gains, MSF recently declared a record \$35 million dividend to its customers who had policies in FY 2013.

## MSF Rate Level

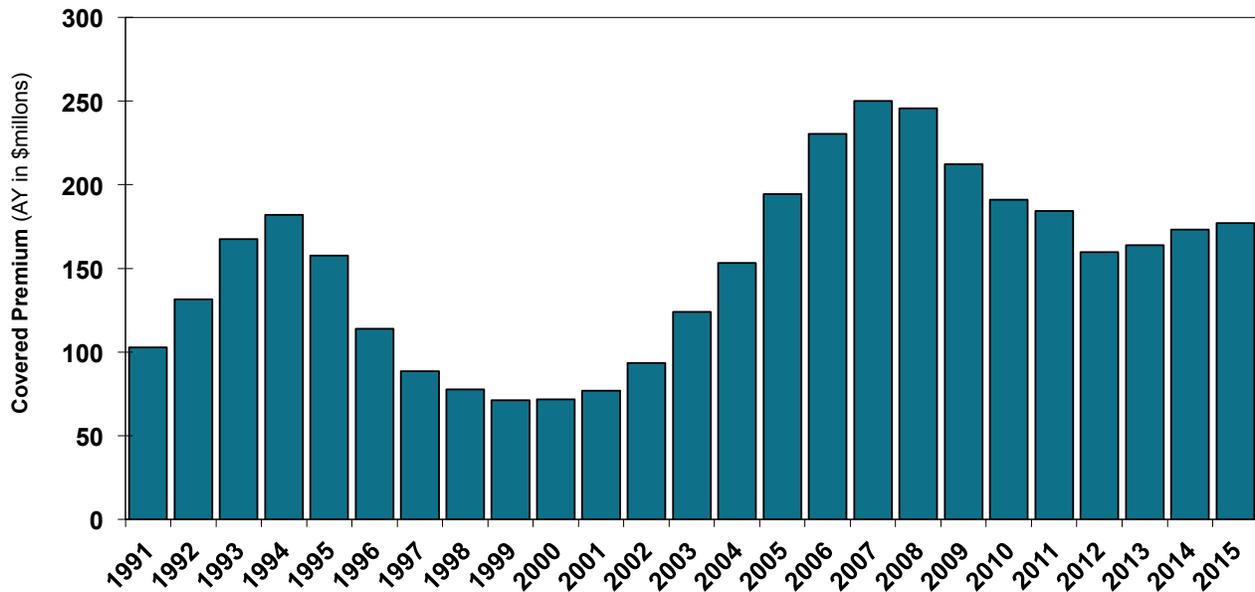
Manual Rates (average of MSF rate tiers)



MSF manual rate levels doubled in the early 1990s but then 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 2016 rates are 44% below the peak 1994 rates.

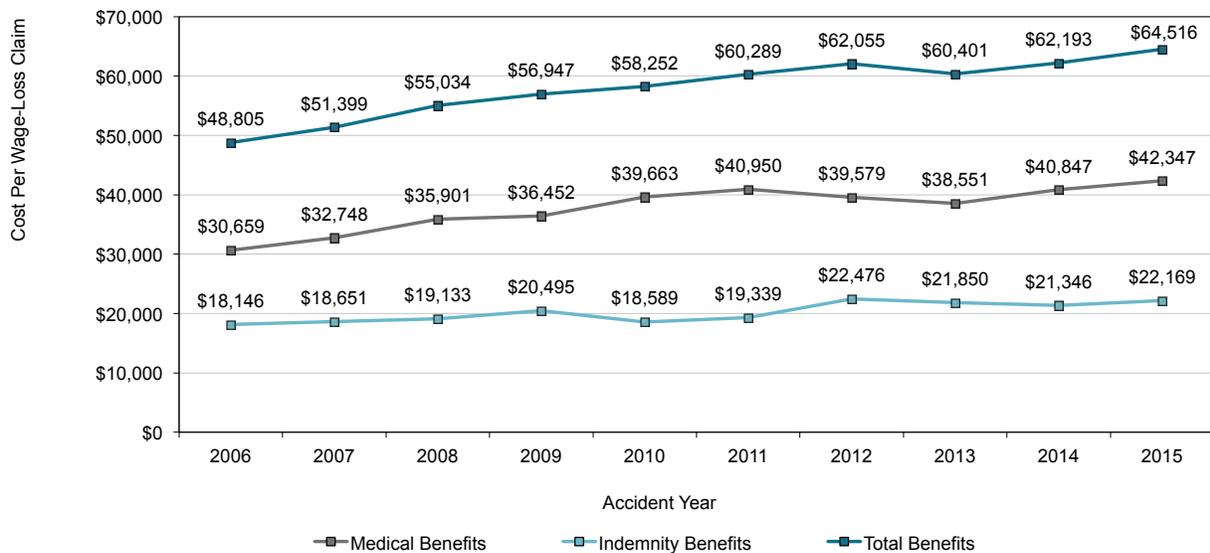
## MSF Covered Premium

MSF Gross Earned Premium



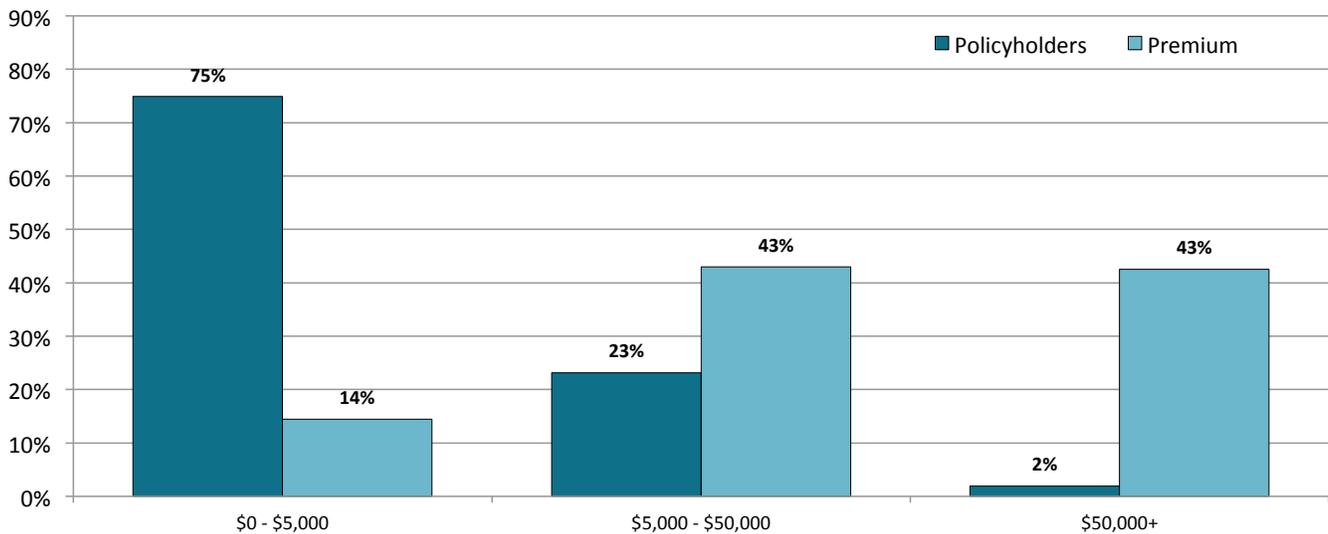
MSF premium volume grew rapidly in the early 1990s as private carriers withdrew from the market and MSF rates doubled. Benefit reforms in 1995 led to rate reductions and the return of private carriers. From 1999 to 2007, MSF premium increased significantly as MSF gained market share and rates increased due to rapidly rising medical costs. MSF premium fell from 2008 to 2011 due to recessionary economic conditions. In 2012, major benefit reform (HB334) led to a 20% rate reduction. Since 2012, MSF premium has grown somewhat due to a growing economic recovery despite an additional 6% rate decrease in 2014. The MSF had an estimated \$177 million in gross earned premium in 2015.

## Average Cost Per Wage-Loss Claim



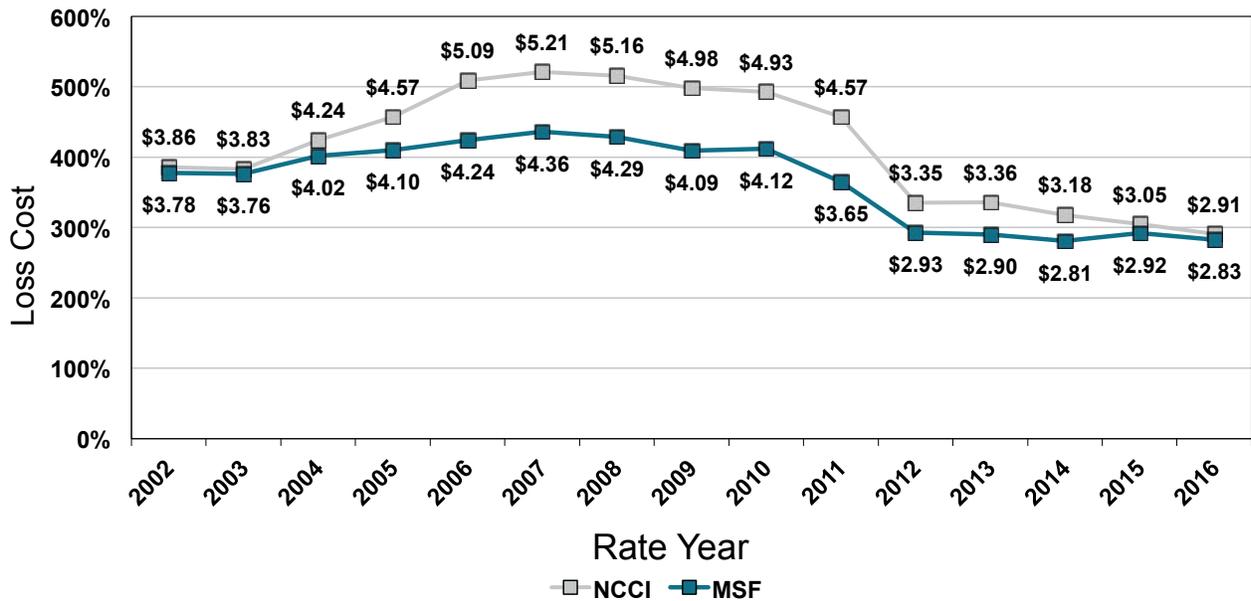
The average wage-loss claim costs about \$65,000, although the most catastrophic of claims can cost several millions of dollars. About 70% of workers' compensation claim costs are for medical services, which is a fast growing driver of Montana claim costs. Wage replacement (indemnity) costs have been relatively constant over the past 10 years. However, workers' compensation medical costs are rising 4% per year. The average cost per claim dropped circa 2012 due to benefit reforms enacted in HB334.

## 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.

## 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 81% 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. Throughout the mid-2000s, NCCI loss costs have been an average 21% higher than MSF's. MSF's independent consulting actuary determined that MSF does not need to charge as much as estimated by NCCI. NCCI's loss costs have been coming down to the level assumed in MSF rates over the past four rate years, narrowing the gap.

## Public Education

The methods of how we disseminate our advertising and information resources has changed over the past 100 years. The days of brochures, direct mail and print ads are giving way to Facebook, YouTube videos and electronic newsletters. However, the one thing that has stayed the same is our message of on-the-job safety. We accomplish this by creating a variety of resources that Montanans can use to help them make our state a better, safer place to work.



## Media Campaigns

### Hats off to Montana Workers

We marked our 100 years of the Montana Workers' Compensation Act with a statewide media campaign focused on honoring Montana's tradition of hard work with a commitment to work smarter and safer in the future. We featured real Montana workers in all of our advertising components. We broadcasted this message through traditional television, radio and print ads while incorporating the more modern methods of Facebook, YouTube, and website banner ads. The campaign aired in May and September, 2015.

### Television and Video Advertisement

RETURN TO WORK    IMPROVING WORKPLACE SAFETY    MONTANA STATE FUND PROGRAMS    Search

LET'S BE MONTANA'S SMARTEST GENERATION

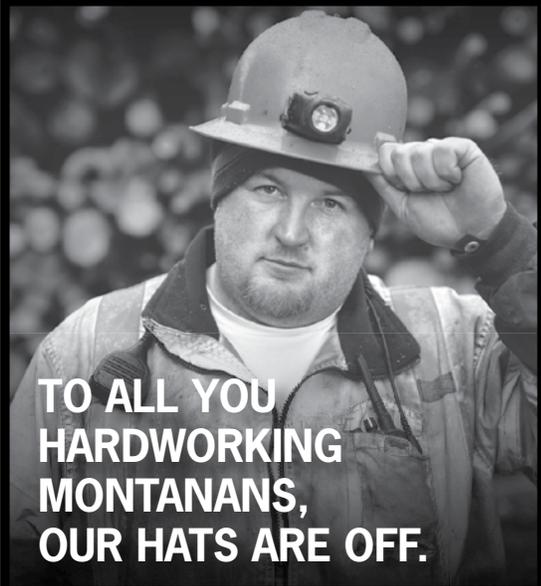
- Planning >
- Resources >
- Dashboard >
- Educational Videos >
- Request Safety Services >

### Honor the past, by improving the future.

One hundred years ago the Montana Legislature passed the Montana Workers' Compensation Act, which began a tradition of caring for injured employees and their families. We spoke with workers in some of Montana's iconic industries about work, traditions, safety and how those are changing. What we found is a workforce bent not on being Montana's hardest working generation, but on being its smartest working generation.



## Rural Newspaper Advertisements



**TO ALL YOU  
HARDWORKING  
MONTANANS,  
OUR HATS ARE OFF.**

**OR, ACTUALLY, ON.**  
Work safe. Work smart. And honor  
Montana's hardworking past.



**MONTANA  
STATEFUND**  
safemt.com  
*Honoring 100 years  
of Montana's Workers' Compensation Act*

## Facebook Campaign



**MONTANA  
STATEFUND**

*Honoring the 1915 Montana Workers' Compensation Act*

## Outreach Materials

It's our goal to inform our stakeholders about a wide variety of issues associated with workers' compensation insurance. Whether it be the legislative brochure created to educate our legislators about Montana's workers' compensation system or our safety video series that assist our employers on how to keep their employees safe-on-the job, we work to ensure the right tool is used to relay the message to the intended target audience.

### Legislative Brochure

**MONMONTANA STATE FUND**

safemt.com

*Honor the past.  
Improve the future.*

**GUIDE TO WORKERS' COMPENSATION**

*100 Years of the Montana Workers' Compensation Act*

## Safety Education Videos Series



Our redesigned website: [montanastatefund.com](http://montanastatefund.com)

