

# 2016 Annual Report



At Montana State Fund we know that our policyholders have a choice when it comes to purchasing workers' compensation insurance. That is why our employees go out of their way to learn their business, understand their employees' safety needs and work in partnership to improve claim outcomes. Throughout this report you will see how our value added services set us apart. We appreciate you taking time to read our 2016 annual report.

# LEADERSHIP



Montana State Fund's leaders work to develop the talents of their employees in order to build a strong team culture. By creating a clear vision for the team and communicating our goals, employees are energized and empowered to use their strengths to provide our customers the respect and superior customer service they deserve.

## Letter from the President



It is my pleasure to share with you Montana State Fund's (MSF) annual report for 2016. The report outlines the activities and accomplishments of our staff throughout the year.

### Seamless Transition

Effective January 1, 2016, MSF successfully moved from legislative to regulatory oversight under the State Auditor's Office (SAO). But this move didn't happen overnight. For

over two years our project team worked hand in hand with the SAO to ensure the transition went as smoothly as possible. This new oversight continues our pledge to offer Montana employers a competitively priced product while still fulfilling our role as the guaranteed market and keeping the trust Montana businesses place in us.

### Spirit of Collaboration

In 2016 our employees hosted a variety of educational conferences for the benefit of our staff and stakeholders. One significant event was the Investigating Workers' Compensation Fraud conference held in Helena. This first of its kind conference gathered work comp fraud professionals from around the country to share their expertise on this significant topic. Our medical team, in collaboration with St. Vincent Healthcare, held our 16th annual medical conference. Nearly 200 medical, legal and claims professionals from across the state came to the capitol city to discuss the physical, legal and psychological aspects of workers' compensation claims.

### Added Value

As a workers' compensation insurer it's easy to tell folks "be safe," but at MSF we offer the safety education tools and knowledge to back it up. Last year forty-nine employees from six Montana businesses completed our intensive WorkSafe Champion safety program. Over 700 Montana workers attended one of our free quarterly safety workshops. And, with the redesign of our safety focused website [safemt.com](http://safemt.com), our end users have more substantive safety resources and training video content.

### Strength in Numbers

At the very core of any organization is the bottom line. While we are vigilant to ensure the benefits owed our injured employees are covered, we too are cognizant of our responsibility to offer stable pricing for our policyholders. With our strong financial stability, the Board of Directors was able to declare an historic \$35 million dividend. We are proud to say that since 1999 we have returned a total of \$176 million in dividends to those policyholders who have made safety a top priority at their workplaces.

In closing, all of these accomplishments would not have been achieved if it was not for the support of our Board of Directors. These dedicated men and women fulfill the responsibility entrusted to them by the legislature and Governor to oversee the sound operation of Montana State Fund. I thank them, and you, for helping make Montana be a better, safer place to live and work.

Sincerely,

Laurence Hubbard

# LEADERSHIP

## Letter from the Chair



In my second year as the Chair of MSF's Board of Directors, I remain impressed with the superior service MSF's 280 employees provide Montana's working men and woman each day. I too am impressed with the talents of my fellow board members. Without their support and professionalism my role as chair would not be as rewarding.

In 2016, MSF staff accomplished a number of top priorities. They continued their efforts to partner with our policyholders to champion innovative safety education programs. They worked towards positive claims resolution and return to work efforts for our injured workers. From the financial perspective, due to excellent fiscal management and customer service, MSF remained strong; providing Montana businesses a stable workers' compensation market. In fact, our policyholders have not seen a rate increase since 2006.

Another testament of our fiscal stability was the declaration of our second consecutive \$35 million dollar dividend. While not guaranteed, a dividend rewards our policyholders who have demonstrated a dedication to providing a safe and efficient workplace, as proven in their safety results.

And finally, I would be remiss if I did not thank the insurance agents, medical providers, and most importantly, our policyholders and their employees for making 2016 another successful year. The board and staff of Montana State Fund are proud of what we do. We are dedicated to the health and safety of the people of Montana. Thank you for your continued support.

Sincerely,  
Lance Zanto

## Montana State Fund Executive Team



Left to right: Sam Heigh, Vice President, Insurance Operations Support; Kevin Braun, General Counsel; Laurence Hubbard, President/CEO; Al Parisian, Chief Information Officer; Rick Duane, Vice President, Human Resources; Julie Jenkinson, Vice President, Insurance Operations and Mark Barry, Vice President, Corporate Support

# LEADERSHIP

## Montana State Fund Board of Directors



**Lance Zanto, Chair**  
Helena, MT  
Lzanto2@mt.gov  
Term Ending April 2017



**Laurence Hubbard,**  
Ex-Officio  
Helena, MT



**Bruce Mihelish**  
Lolo, MT  
Bmihelish@cedarflats.com  
Term Ending April 2017



**Lynda Moss**  
Billings, MT  
Lyndamoss@mac.com  
Term Ending April 2017



**Richard Miltenberger**  
Helena, MT  
406-459-0203  
Term Ending April 2017



**Matt Mohr**  
Big Sky, MT  
Matthewcmohr@hotmail.com  
Term Ending April 2019



**Jack Owens**  
Missoula, MT  
Jack@stewartmt.com  
Term Ending April 2019



**Jan VanRiper**  
Helena, MT  
Jvr406@gmail.com  
Term Ending April 2019

# YEAR IN REVIEW



2016 was a year of accomplishments and beginnings. For the second year in a row, our Board of Directors declared an historic dividend for our policyholders, we furthered our goal to make Montana a safer place to work, we hosted a first of its kind conference, and we embarked on exploring a new policy and billing system.

## The Making Of Champions

Forty-nine employees from six Montana businesses graduated from our WorkSafe Champions program. The graduation was a celebration of their commitment to make Montana a better, safer place to work.

WorkSafe Champions is a free, 12-month intensive safety education program for MSF policyholders. The program, which graduated its first class in 2009, aims to reduce workplace accidents by helping participants develop a positive safety culture within their organization.

According to Kirk Smith, WorkSafe Champion Project Leader, "In the past, the WorkSafe Champions were trained by a number of safety professionals at offsite venues, but 2016 graduates were trained specifically by their assigned safety management consultant (SMC) at their workplace."

Smith said this new approach works because the SMC understands the needs of their policyholder and therefore they can adjust and adapt the trainings and schedules accordingly.

In order to graduate the participants must complete the program's eight modules, conduct an assessment of the organization's safety and health management system using the MSF safety dashboard tool, create a safety action plan based on the assessment, and take action on items in the plan.



## Safety Pays Big Dividends



In September 2016, MSF's Board of Directors declared a \$35 million dividend. This amount matches our record setting \$35 million distribution in 2015. Though never guaranteed, the dividend returns a portion of premium back to policyholders who have made a commitment to safety in the workplace

Since 1999, Montana State Fund has returned \$176 million in general dividend payments to deserving policyholders.

*Why Not Just Lower Rates?* We have been asked, why don't you just decrease premium rates each year so dividends wouldn't be necessary. Actually, MSF has reduced rates while still distributing dividends. First, MSF has not raised

our rates since 2007. In fact, the Board of Directors has reduced rates by a total of 34 percent over that same time period.

MSF works hard to maintain stable rates for Montana employers. If rates can be lowered, MSF will do so. However, the funds supporting the dividend primarily come from investment income not otherwise needed to pay claims. As we all know, investment markets can go up and down at times. Therefore, reducing and then increasing rates from year to year is disruptive to Montana businesses who need to reliably anticipate their costs of doing business.

Returning premium through a dividend allows the dividends to be paid to those deserving businesses showing positive safety practices and reduced losses. A general rate reduction for all customers, even those with poor loss experience does not encourage a focus on improving their loss experience by investing in safety. The dividend program allows MSF to emphasize to Montana businesses that "Safety Pays".

Recent history demonstrates the value MSF provides to businesses in Montana by both rate reductions and dividend payments.

## Replacing Our Policy & Billing System

Replacing a core insurance application is always a complex and challenging undertaking. And that statement rang true for our staff in 2016 as they investigated the first phase of replacing our policy and billing application. While our existing system is built on aging technology, the replacement is truly about enhancing the service we provide to our customers. We envision a modern flexible and efficient application that will provide an improved ease of doing business for our customers.

A team of experts from all policy related areas of Montana State Fund including underwriting, finance, safety services,

premium audit, regulation, and customer service worked for the majority of last summer to define application functionality. The work group captured the policy and billing functions necessary for operating an insurance company and innovative ideas that streamline workflow, improve communication, and allow us to exceed our customer's expectations.

We have successfully taken the first steps with this exciting and positive move to a new policy and billing application. The project will continue to take shape in 2017.

## Conferences For Collaboration

### Fraud Conference

Forty workers' compensation fraud professionals from around the country gathered in Helena in early October for the Investigating Workers' Compensation Fraud conference. The two day event was sponsored by Montana State Fund.

According to Curtis Larsen, MSF's Assistant General Counsel and Special Investigations Unit Director, the conference was the first of its kind.

"There are a number of conferences focused on property and casualty, medical and other consumer fraud issues, but there are never conferences targeted specifically for workers' compensation fraud. We organized this event so work comp fraud professionals had a forum to discuss issues unique to their profession," said Larsen.

The conference speakers delved into all aspects of employer, employee and medical provider workers' compensation fraud. The presentations included creating effective fraud units, the key elements for successful



fraud prosecution, detecting suspicious medical claims, tips to evaluate claims records and the latest tools for surveillance.

In the end, the group is hopeful this conference will be the impetus to further the dialogue and education necessary to assist fraud professionals to effectively and ethically protect all workers' compensation stakeholders from fraudulent activity.

### 2016 Medical Conference



*Causation: The Crucial Connection* was the theme for MSF's 16th annual medical conference. The day event was jointly presented by Montana State Fund and St. Vincent Healthcare in Billings.

Nearly 200 medical, legal and claims professionals from across the state gathered in Helena to discuss the physical, legal and psychological aspects of workers' compensation claims.

"We have sponsored this conference for 16 years as a way to foster collaboration between Montana State Fund, the medical community and other workers' compensation stakeholders to effectively help injured employees return to work as soon as possible after an injury or disease," said Michele Fairclough, MSF Medical Services Director.

The conference speakers offered insight on how to determine causation from a medical perspective as well as illustrate the intersection between the medical and legal components of the causation question.

# YEAR IN REVIEW



## 2016 Highlights

- As a reward for safety, the MSF board of directors declared an historic \$35 million dividend to deserving policyholders. Since 1999, MSF has returned \$176 million to policyholders in general dividend payments.
- We successfully transitioned to having regulatory oversight from the State Auditor's Office.
- Two new Vice Presidents joined the Executive Team. Kevin Braun, former Assistant General Counsel, was named General Counsel. He replaced long time General Counsel Nancy Butler who retired. Denise "Sam" Heigh was named Vice President of Operations Support. She is a former leader in our IT department.
- We hosted the first of its kind workers' compensation fraud conference in Helena. Over 40 participants from around the country attended the event.
- Nearly 200 medical, legal and claims professionals from across the state gathered in Helena for our 2016 medical conference. The topics discussed included the physical, legal and psychological aspects of workers' compensation claims.
- Our safety services team presented 64 safety topics to over 700 Montana workers at our free statewide safety workshops.
- Six Montana businesses with a total of 49 participants graduated from our WorkSafe Champions program. The 12-month intensive safety focused curriculum helps participants implement program elements to achieve the goal of reducing workplace accidents by developing a positive safety culture within their organization.
- Our safety staff gave a total of 11 presentations at the Montana Department of Labor's SafetyFestMT events held in Billings, Great Falls and Missoula.
- MSF employees Suzie Shute, Jacqui Garcia, and Josh Pallister completed our intensive leadership development program.
- Our employees contributed \$35,850 to the State Employee Charitable Giving Campaign (SECGC). MSF contributed the fourth highest total amount of all state agencies and we had the highest participation rate of all agencies that have at least 50 employees.
- We awarded \$19,000 to 14 deserving non-profit organizations through 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.
- Our scholarship program gave five college students a total of \$12,000. The scholarships assist 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 safemt.com went live in February 2016 to coincide with our new statewide Champions media campaign.
- We collected two communications awards from the American Association of State Compensation Insurance Funds (AASCIF) for our Celebrating 100 Years of the MT Workers' Compensation Act media campaign and the TV and radio ads elements.

# FINANCIALS

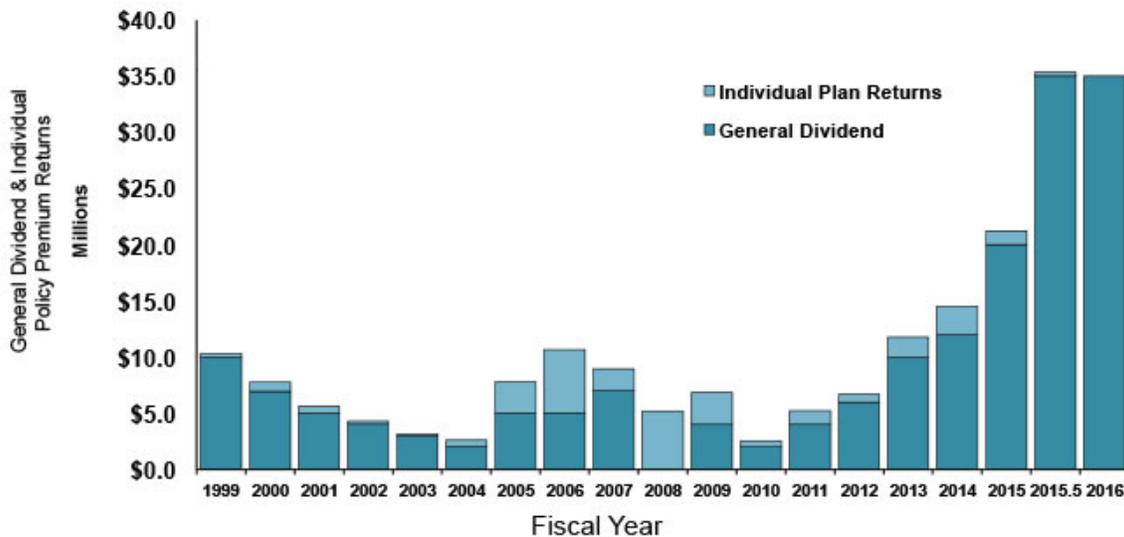


Effective January 1, 2016, MSF started to file and report financial results on a calendar year basis like other insurance companies regulated by the State Auditor's Office. The Board approved rate reductions of 5% for policies effective July 1, 2016 and similar to the year before, declared another \$35 million dividend for approximately 24,000 policyholders. Net income of \$10.8 million was recorded for 2016 after declaration of the dividend. 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.

## Graphs Tell the Story

### Dividend

Since 1999 when MSF began returning general dividends to its policy holders, 75% of all eligible MSF customers have received a dividend, and 95% of eligible MSF customers have received a dividend in the last five years. MSF has returned a total of \$176 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 the latest two periods). 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 PY 2014.



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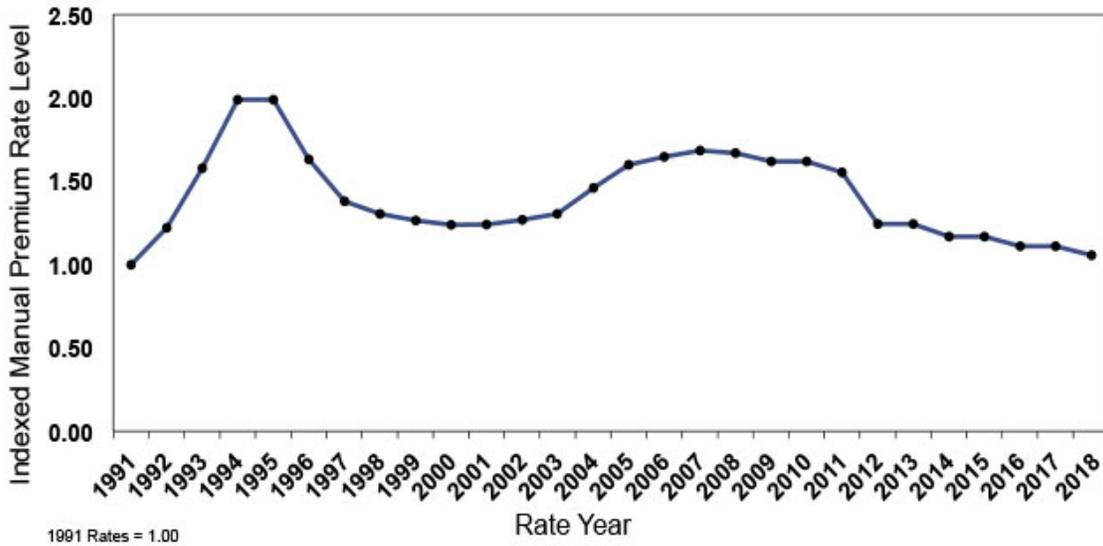
# FINANCIALS

## Graphs Tell the Story (continued)

### MSF Rate Level

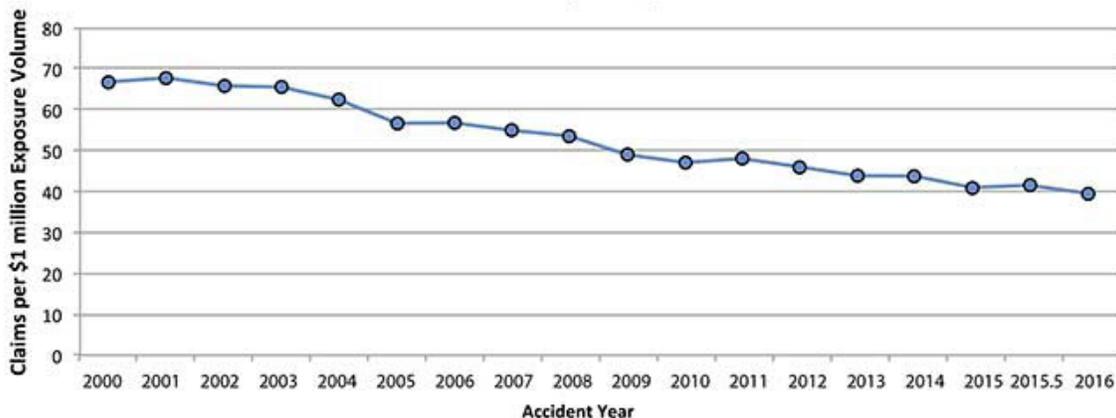
Manual Rates (average of MSF rate tiers)

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 in 2012. MSF rates effective July 1, 2017 are now 37% below the 2007 level.



### MSF Claim Frequency Rate

Claim frequency is measured in claims per exposure volume written in order to account for changes in business volume and rate level. MSF total claim frequency has declined by 3% per year over the past decade. NCCI finds a general pattern of declining workers compensation claim frequency throughout the country. NCCI research suggests that innovations which improve labor productivity in the economy tend to have secondary impacts on workplace injury rates. Reductions in claim frequency have helped offset increases in medical costs per claim.



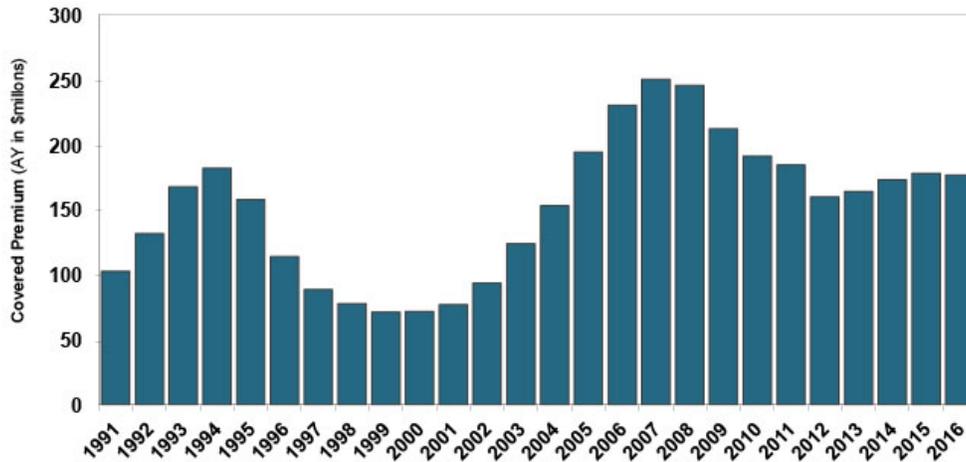
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# FINANCIALS

## Graphs Tell the Story (continued)

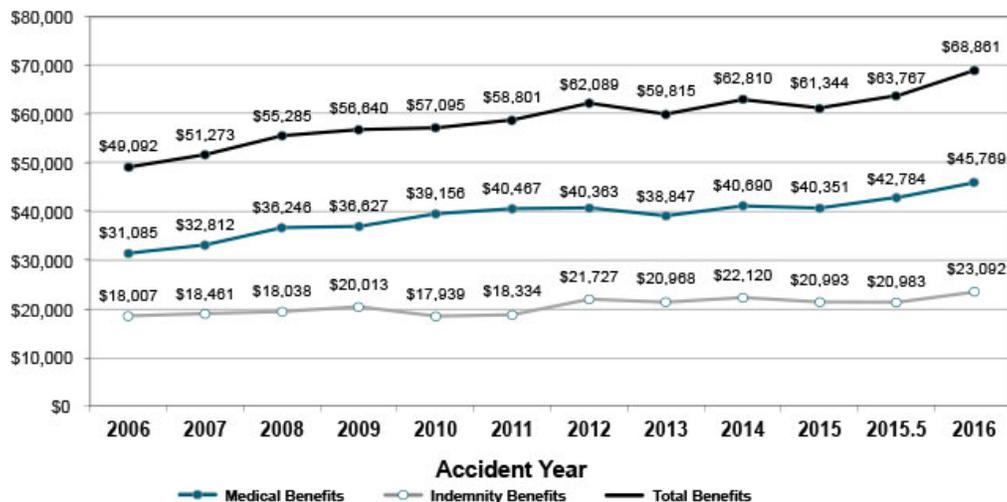
### MSF Covered Premium MSF Gross Earned Premium

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 additional rate decreases in Rate Years 2014 and 2016. MSF estimates \$177 million in gross earned premium for Calendar Year 2016.



### Average Cost Per Wage-Loss Claim

The average wage-loss claim currently costs an estimated \$69,000, 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 were rising 6% per year but are currently seen rising 3% per year after HB334 benefit reforms were enacted in 2012.



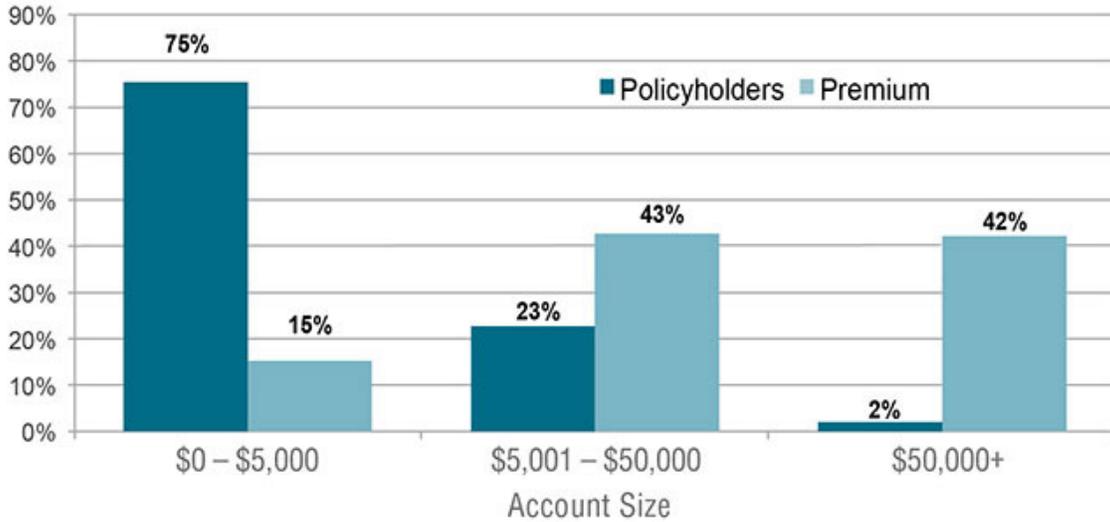
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# FINANCIALS

## Graphs Tell the Story (continued)

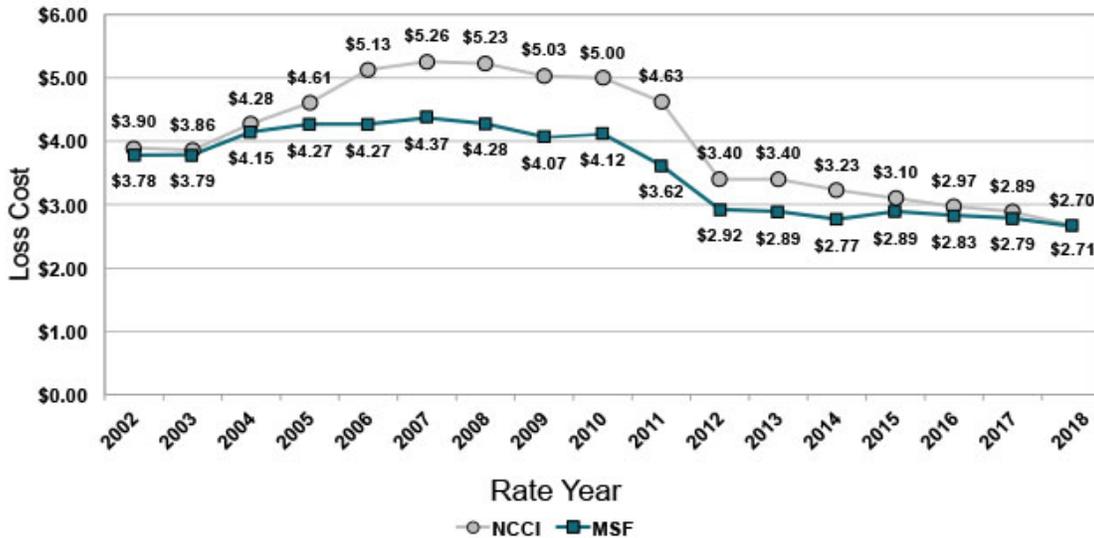
### MSF Book By Account Size

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 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 were an average 21% higher than MSF’s. MSF’s independent consulting actuary determined that MSF did 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 several rate years.



## 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 the year ending December 31, 2016 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 year ending December 31, 2016. Unmodified opinions were issued on MSF's statutory financial statements for the year 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 the financial statements of MSF presented in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). For the year ending December 31, 2016, MSF also received an unmodified audit opinion from the LAD. The audited governmental financial statements and the related audit opinion are issued under separate cover. Copies of the full governmental financial statements will be 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 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 December 31, 2016*

Statutory policyholder equity (NAIC) \$526,466,458  
*Add:*  
 Non-admitted assets 5,963,516  
 Change in investment value of bonds to fair market value 15,910,026  
 Change in investment lot inventory method 71,766  
 Change in investment value of other invested assets to equity method (924,764)  
 Change in allowance for doubtful accounts (1,879,304)  
 Change in net income between NAIC SAP and GAAP for pension accounting (20,303,727)  
 GASB net position (subject to audit) \$525,303,971

### Quick Facts as of December 31, 2016

Net earned premium \$169,677,070  
 Number of policies serviced 27,345  
 Number of new claims processed 9,489  
 Investment income earned \$51,014,248  
 Net income after dividends \$10,815,717  
 Policyholder dividends \$35,000,685  
 Loss and LAE reserves \$921,531,632  
 Statutory equity \$526,466,458  
 Reserves to Equity Ratio (after dividend) 1.75  
 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 year.

<i>Name</i>	<i>Position</i>	<i>Salary</i>
Laurence Hubbard	President / CEO	\$320,837
Albert Parisian	Chief Information Officer	\$230,353
Mark Barry	VP Corporate Support	\$206,438
Julie Jenkinson	VP Insurance Operations	\$185,060
Rick Duane	VP Human Resources	\$165,020

# PUBLIC EDUCATION



Montana State Fund has created a brand built not on insurance or coverage, but on a broader, more vital and more public mission — the prevention of injury and death in the workplace. We have distinguished ourselves not only by the products we provide, but by the services we deliver to help make customers safer. In this past year, we've created focused campaigns aimed at workplace safety education and useful online and website content intended to help Montanans make their business a better, safer place to work.

## Media Campaigns

### Be a Champion For Safety

Our *Be a Champion for Safety* statewide media campaign was created to promote the idea that anyone can be a safety champion and that MSF has the tools and services to help. The media strategy for our Championships Campaign was comprised of multiple media tactics targeted to the business professional adults 25-54 demographic and general workers across Montana. Broadcast television and radio ad placements provided high frequency of message, while newspaper, cable television and bathroom ads provided targetable placements and added to the campaign's broad reach. The online digital advertisements provided a more focused audience and added to the campaigns overall reach.

### Television



Continued on page 15

## Media Campaigns (continued)

### Print Advertisements



*Champions*

**ALWAYS GOT  
EACH OTHER'S BACKS.**

Adam was about to lift a stack of heavy boxes, when Diane called an audible — providing Adam a hand truck to move the load. The job safely completed, an epic celebration of back-saving safety ensued.

Be a champion for safety. Get tips, tools and assistance at [safemt.com](http://safemt.com).



MONTANA  
**STATEFUND**  
WORKERS' COMPENSATION INSURANCE

☆ ☆

## Media Campaigns (continued)

### Bathroom Ads



**BE**  
*Celebrated.*

Be a champion for safety. Get tips, tools and assistance at [safemt.com](http://safemt.com).



**MONTANA  
STATEFUND**  
WORKERS' COMPENSATION INSURANCE

# PUBLIC EDUCATION

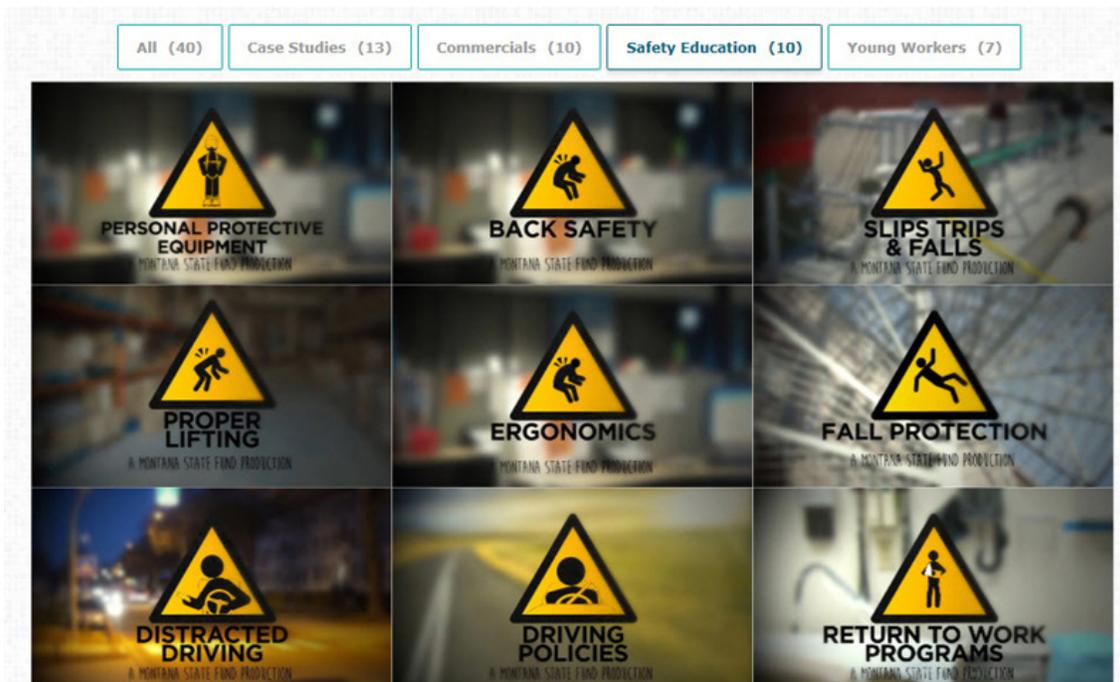
## Outreach Materials

There is nothing like hands on tools to help educate and build awareness. We couldn't agree more. That is why we strive to create the right safety tools and resources to assist Montana's employers and employees. But our resources have not just benefited Montanans, we have also received requests from companies around the world to access our materials for the safety of their employees.

### Our Redesigned Safety Website – safemt.com



### Safety Education Videos



Continued on page 18

## Outreach Materials (continued)

Safety Poster

