



**Work Hard. Be Safe. Head Home.**



2017 Annual Report

**Montana**   
State Fund

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

# Letter from Leadership

With over 100 years of experience as Montana's workers' compensation company we have seen tremendous change in our state and our industry. But the one thing that has not changed is our commitment to Montana's business owners and their employees. We demonstrate our commitment through our tireless effort to put our customers first. And, this customer experience wouldn't be possible without the dedication of each of our 292 employees. These professionals understand their role in ensuring that everything they do does more for our customers, stakeholders and the public.

## ***Ease of Doing Business***

It's hard to stand still in this age of rapid innovation. With that said, in 2017 we continued our efforts to replace our 20-year-old policyholder and billing system. This multiyear initiative leverages our ability to provide 21st-century functionality that comes with modern online applications so that our customers experience service in a way that best fits their needs. At the same time we improve our responsiveness and productivity so that our customers truly benefit from the value of this long-term investment.

## ***Work Hard. Be Safe. Head Home.***

In the end what we want most for all Montanans is that they head home safely after a productive day at work. We zero in on safety through a number of efforts. Last year we educated nearly 950 Montanans at our free statewide safety workshops. Fifty-seven employees from eight of our policyholders graduated from our intensive safety curriculum, WorkSafe Champions. And we added three more videos to our library on our website, [safemt.com](http://safemt.com). In addition, we launched our Growing a Safer Montana initiative. The intent is to impart a culture of safety for the next generation of Montana workers. Within the initiative we established two programs. The first was the high school safety equipment grant program where we awarded safety gear to eight Montana high school industry and trade classrooms. The second project was \$1,500 academic scholarships for college students studying either Occupational Safety and Health / Industrial Hygiene or Construction Trade and Industry. In January 2018, we awarded 10 scholarships.

## ***Safety Pays***

We mean it when we say "safety pays." Last year we had the privilege of distributing a record \$40 million dividend among over 23,000 safety-conscience policyholders. When Montana State Fund is able to meet its long-term financial commitments and investment income exceeds what is needed to pay for past claims, it is only right that we share a dividend with our fellow Montanans who have made a commitment to workplace safety and return to work.

And all of the above efforts would have never come to fruition without the constant support and leadership of our board members. This diverse mix of Montana professionals offer their expertise and time to guide and support our mission, vision and values. And finally, we want to thank our policyholders who put their trust in us to ensure we give them a fair priced and stable workers' compensation product. We appreciate your business and your support.

Sincerely,

***Laurence Hubbard*** & ***Lance Zanto***  
*President / CEO*                      *Board Chair*

# Executive Team & Board Members



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



Laurence Hubbard  
Helena  
Ex-Officio



Lance Zanto, Chair  
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Term Ending May, 2021



Cliff Larsen  
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Term Ending May, 2021



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Term Ending May, 2021



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Term Ending May, 2021



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Term Ending April, 2019



Jan VanRiper  
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Term Ending April, 2019

# 2017 Highlights

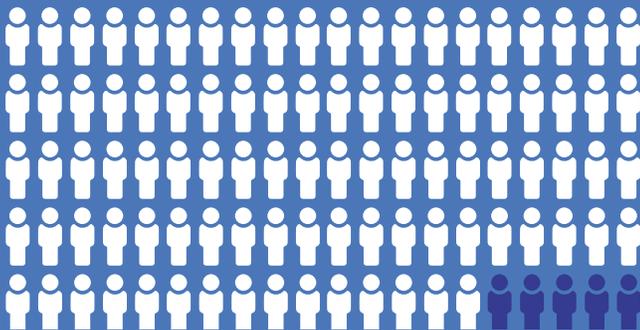


Fiscal year 2017 was a time for major momentum at Montana State Fund. Our staff tackled a number of initiatives that move us further toward our goals of building a culture of safety and improving our services for our customers and fellow Montanans. Among the year's highlights:

- Over 23,000 safety-minded policyholders shared a \$40 million dividend. Since 1999, MSF has returned \$216 million in general dividend payments to our customers.
- Nearly 950 Montana workers from around the state received free safety education training from our safety services specialist.
- Fifty-seven employees from eight of our policyholders graduated from our Work Safe Champions safety program.
- Through our new Growing a Safer Montana initiative, over 600 students from eight Montana high school construction trade and industry classes received safety equipment. In addition, 10 college students studying Occupational Safety and Health / Industrial Hygiene or Construction Trade and Industry each received a \$1,500 academic scholarship.
- Over 200 medical providers and workers' compensation professionals from across Montana attended our 17th annual medical education conference.
- We embarked on a multiyear initiative to replace our 20-year-old policy and billing management system.
- We awarded \$26,968 to 17 deserving nonprofit organizations through our ACE (Assisting Charitable Endeavors) program.
- Our scholarship program awarded a total of \$8,000 in scholarship money to four individuals in 2017. The scholarship assists children and spouses of workers who were fatally injured in a work-related accident.
- Governor Bullock appointed two new board members: Jim Molloy of Helena and Cliff Larsen of Missoula.
- Our employees contributed \$32,946 to the State Employee Charitable Giving Campaign (SECGC) – the fourth-highest contribution among the 30 state agencies involved. And they donated \$2,272.00 to the 2017 Helena Food Share Turkey Challenge.
- In 2017 we rolled out two statewide safety-focused media campaigns, the "Work Hard. Be Safe. Head Home." campaign and the young-worker-focused "Thumbs Up" campaign.
- The American Association of State Compensation Insurance Funds (AASCIF) awarded us first place for our safety education videos found on [safemt.com](http://safemt.com), and third place for our "Be a Champion for Safety" media campaign, "Be a Champion for Safety" TV and radio spots, and our 2016 electronic holiday card.

## 95%

The number of eligible MSF customers to receive a dividend in the last six years.



## \$15,000

The amount of academic scholarships awarded to Montana college students in 2017.



# 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 and state law. 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, 2017, 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 required 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, 2017. Clean 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, 2017, MSF also received a clean 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 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 policyholder equity between the GASB financial statements and the statutory financial statements is included in this report.

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# Report of Management (continued)



## A Comparison of Statutory Policyholders' Equity to GASB Net Assets

For the year ended December 31, 2017

Statutory policyholder equity (NAIC) \$554,701,083

Add:

Non-admitted assets	7,291,616
Change in investment value of bonds to fair market value	8,299,923
Change in investment lot inventory method	1,064,628
Change in investment value of other invested assets to equity method	(1,020,265)
Change in allowance for doubtful accounts	(2,116,392)
Effect of differences in pension account standards on income and policyholders' equity	(22,223,956)
Effect of differences in OPEB accounting standards on income and policyholders' equity	(6,905,704)
Rounding differences	(1)
GASB net position	\$539,090,932

## Quick Facts as of December 31, 2017

Net earned premium	\$166,767,685
Number of policies serviced	27,030
Number of new claims processed	9,340
Investment income earned	\$66,697,011
Net income after dividends	\$10,068,990
Policyholder dividends	\$40,002,289
Loss and LAE reserves	\$919,689,695
Statutory equity	\$554,701,083
Reserves to Equity Ratio (after dividend)	1.66
Premium to Equity Ratio (after dividend)	0.30

## 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.

Laurence Hubbard	President / CEO	\$359,058
Albert Parisian	Chief Information Officer	\$233,036
Mark Barry	VP – Corporate Support	\$215,343
Julie Jenkinson	VP – Insurance Operations	\$210,593
Kevin Braun	General Counsel	\$189,484

# Financials

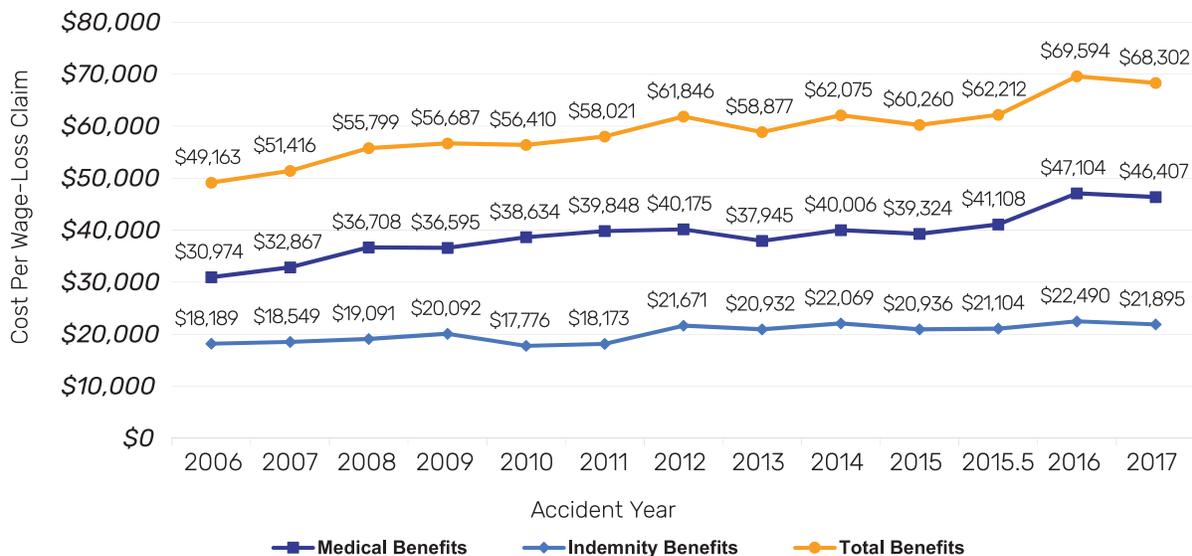


Effective January 1, 2016, MSF became regulated by the Montana State Auditor’s Office, Commissioner of Securities and Insurance (CSI) like other insurance companies operating in Montana. As a result, MSF’s financial statements are now being filed with the CSI and are periodically examined by that office. Since the effective date of the regulation, MSF has filed two annual financial reports and has undergone a financial examination by that office where there were no findings. The Board approved rate reductions of 5% for policies effective July 1, 2017, and another 8% rate effective July 1, 2018. With the 8% rate reduction effective July 1, 2018, premium rates charged by MSF will be 2.9% below the rates that were in effect when MSF was established under its current form in 1991.

In addition, during 2017, the Board of Directors approved a record \$40 million dividend returned to over 23,000 policyholders. Net income for 2017 was \$10 million after declaration of the dividend. MSF was also required to absorb a \$14.7 million transfer of assets to the State of Montana Fire Suppression Fund passed in the Special Legislative Session in 2017. A group of MSF policyholders has brought suit against the state of Montana and MSF arguing the legislation is in violation of state law and contract. This legal action has not yet been decided by the courts. However, as a result of strong operating results as well as continued strong investment market returns, MSF policyholder equity grew to \$555 million. Our financial position continues to provide valuable services to Montana businesses with stable costs for their workers’ compensation coverage and an opportunity to reward the employers for safe workplaces.

## Average Cost Per Wage-Loss Claim

The average wage-loss claim currently costs an estimated \$68,300, although the most catastrophic of claims can cost several million 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 5% per year, but are currently rising about 3.7% per year after HB334 benefit reforms were enacted in 2012.



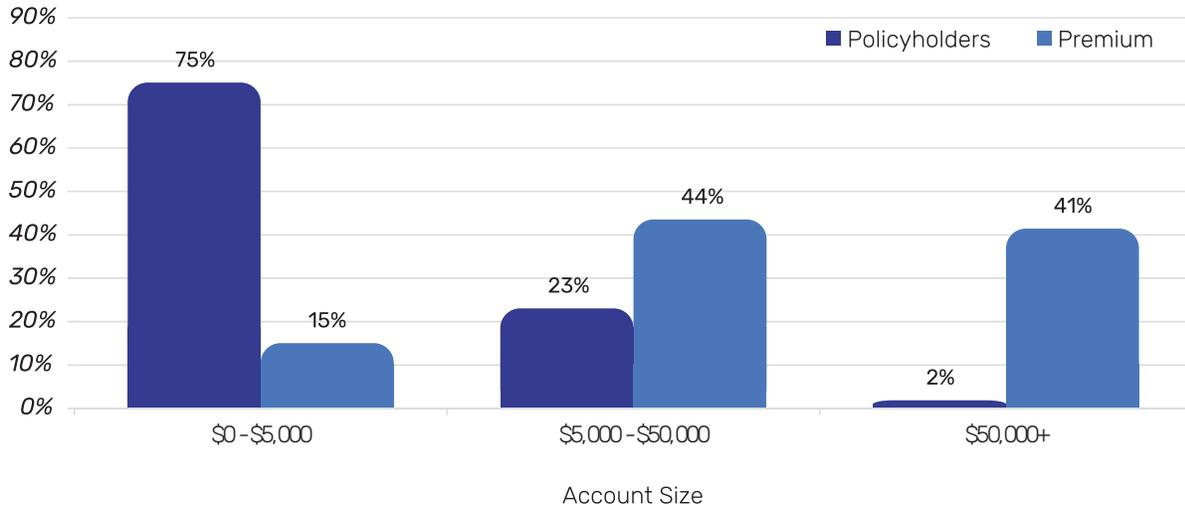
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# Financials (continued)

## MSF Book by Account Size

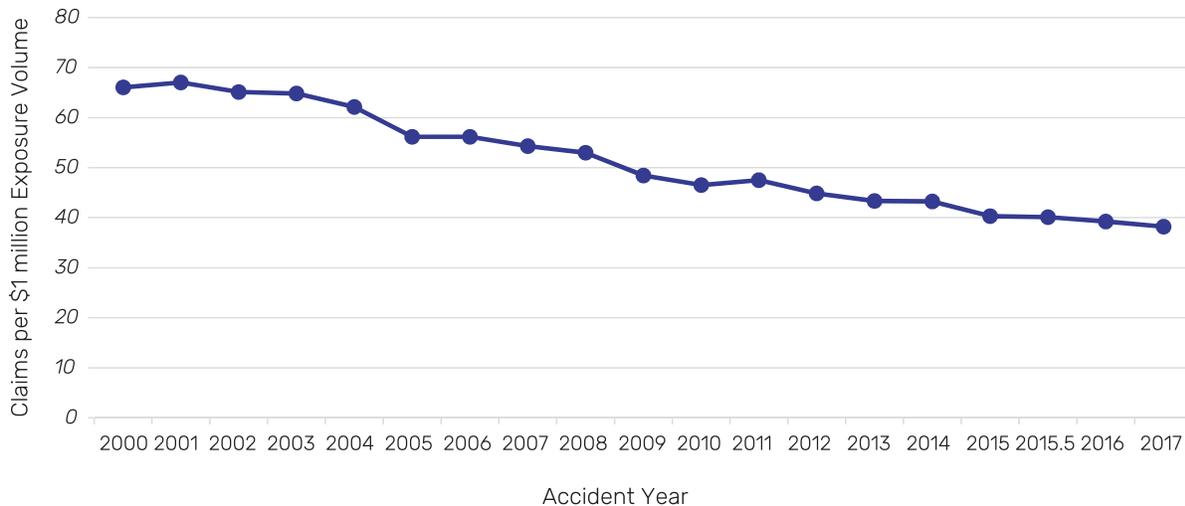
Based on policies effective in 2017

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 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.

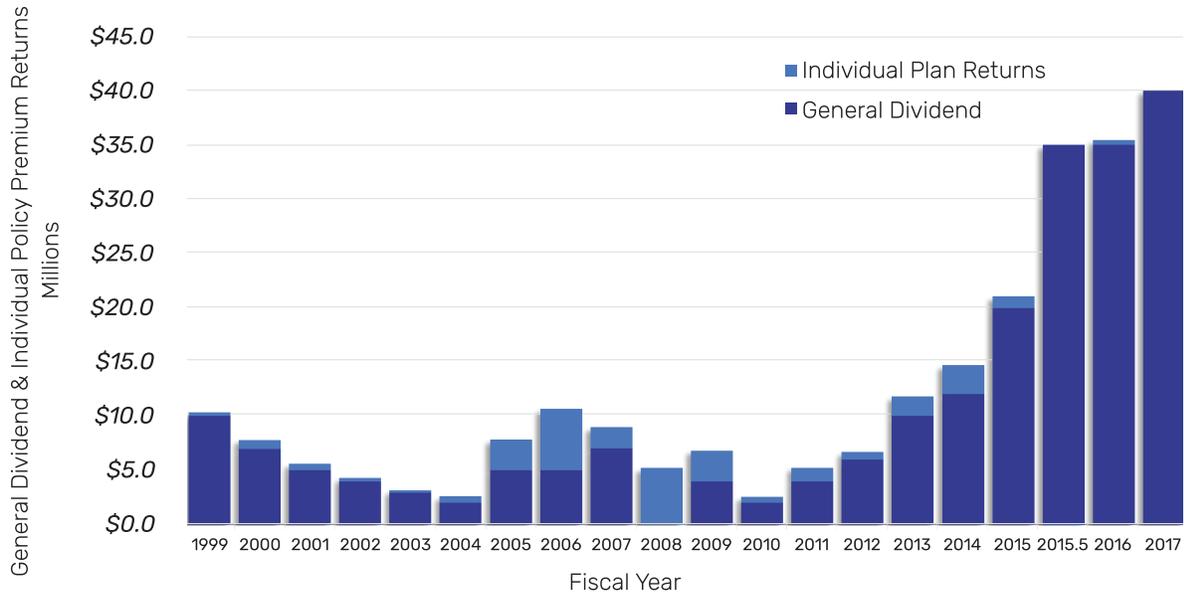


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# Financials (continued)

## MSF Dividend and Premium Returns

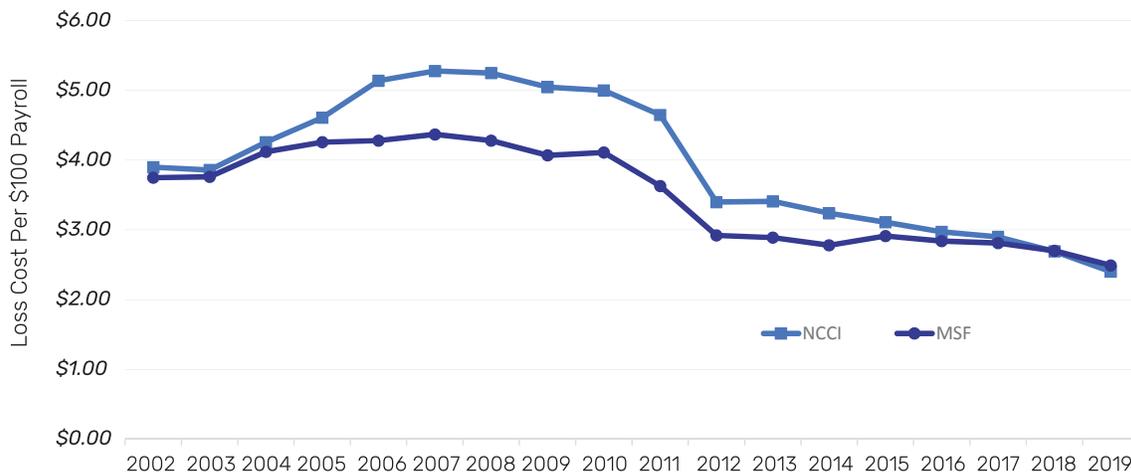
Since 1999 when MSF began returning general dividends to its policy holders, an average 75% of all eligible MSF customers have received a dividend each year, and 95% of eligible MSF customers have received a dividend in the last six years. MSF has returned a total of \$216 million to policyholders through 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 \$40 million dividend to its customers who had policies in PY 2015.



## NCCI vs MSF Loss Costs

*Assumes MSF CY2017 Payroll Distribution @ 12/31/17*

“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’s estimated loss costs were an average 21% higher than MSF’s estimates. 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.

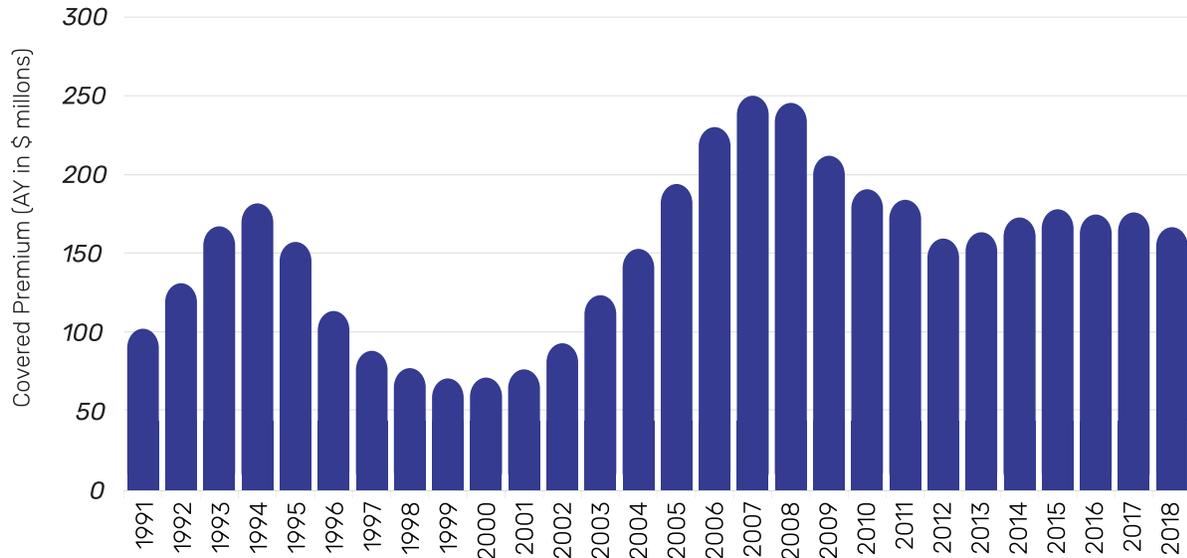


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# Financials (continued)

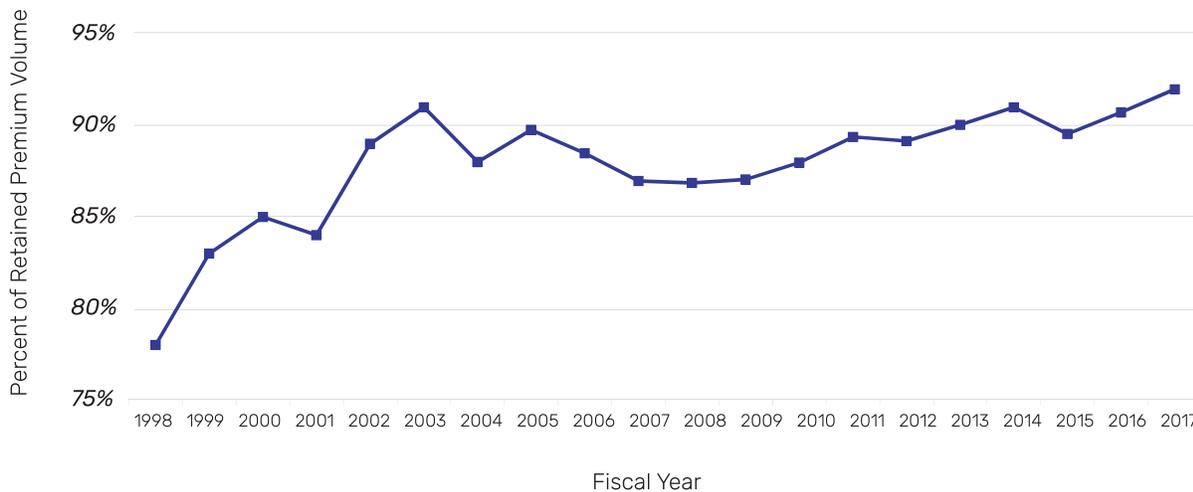
## MSF Gross Earned Premiums

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 slightly due to a growing economic recovery and despite additional rate decreases in four of the last six years. MSF estimates \$167 million in gross earned premium for Calendar Year 2018.



## MSF Premium Retention Rate

In the soft market conditions of the late 1990s, MSF's retention of written premium was relatively low by industry standards. However, in the last few years as market conditions have changed and the MSF has established itself as the industry leader in service and carrier of choice in Montana, the MSF's retention of written premium has dramatically improved. In recent years, we typically retain more than 90% of our business from year to year, based on premium dollars.



# Financials (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, 2018 are now 42% below the 2007 level.

