



Safe, Healthy and Prosperous



2021 Annual Report

Montana 
State Fund

montanastatefund.com | safemt.com

Letter from Leadership

Two words come to mind as I reflect on Montana State Fund's performance at the end of 2021 – resilience and stability. As COVID-19 continued to impact our state's personal and economic lives we began planning for the day everything would return to "normal" – whatever that meant to us then, it means something entirely different now. Yet through it all our state's businesses and their employees did what they could to weather the uncertainty that we all faced.

Our organization began the year with the challenge to implement our new policy/billing system that had been under development for the past four years. This multi-year initiative replaced our out-of-date 25-year-old legacy platform that was simply unable to adapt to our customer needs and expectations. All hands were on deck as we invested our energy and resources into launching our new system. I am proud to say that our team stayed focused on our objective, and we launched the new system in November 2021! Often we do not appreciate the effort and commitment of time and talent in projects of this nature but the results of their accomplishment is undeniable.

In March, our Board of Directors implemented another average rate decrease of -10 percent, giving Montana businesses an additional economic lift during challenging times. That decrease was the fourteenth consecutive year since the last rate increase in 2007, which reflects improvements in loss experience, declining accident frequency, and operational improvements. Strong investment gains enabled MSF to declare policyholder dividend of \$60M to safe Montana businesses as an incentive to promote a healthy and safe workplace.

MSF is the leader in workplace safety culture improvement in its Worksafe Champions and Growing a Safer Montana initiatives. These programs provide intensive work safety education and tools to enable employers and employees to instill a safety culture not only to current customers and workers but for the workers of the future. We are very proud of the impact we have been able to make through these and other initiatives.

In conclusion, as I write this final Annual Report letter as MSF's President/CEO, I want to thank our talented and professional staff for taking such good care of their customers and injured employees. None of these results could have been accomplished without their hard work and dedication to Montana. It has been an honor and a privilege to work with, and lead this organization to promote a safer, healthier and more prosperous Montana. I am also delighted to pass the torch to MSF's new President/CEO, Holly O'Dell, who is committed to elevating MSF to even higher levels of service to our customers and stakeholders.

Sincerely,

A handwritten signature in black ink, appearing to read "L. A. Hubbard", written in a cursive style.

Laurence Hubbard
President/CEO

Executive Team



From back left: Will Anderson, Interim Vice President Operations – Rick Duane, Vice President of Human Resources – Kevin Braun, General Counsel – Matt Mandell, Interim Vice President Operations Support – Mark Burzynski, Vice President Corporate Support.

From front left: Al Parisian, Chief Information Officer – Laurence Hubbard, President / CEO – Julie Jenkinson, Executive Vice President.

Board Members



Richard Miltenberger,
Chair
Clancy
Term: March 31, 2025



Karen Fagg
Billings
Term: March 31, 2025



Michael Marsh
Billings / Helena
Term: March 31, 2025



John Maxness
Helena
Term: March 31, 2025



Jack Owens
Missoula
Term: May 31, 2023



Dexter Thiel
Sidney
Term: March 31, 2023



Jan VanRiper
Missoula
Term: May 31, 2023

2021 Highlights



- Governor Greg Gianforte appointed five new Board of Directors members. Chair, Richard Miltenberger, Clancy; Dexter Thiel, Sidney; John Maxness, Helena; Karen Fagg, Billings; and Michael Marsh, Billings/Helena. They joined members Jack Owens and Jan VanRiper of Missoula.
- Our Board of Directors declared a dividend total of \$60 million. A \$20 million dividend in Spring 2021 and a Fall \$40 million dividend. This marked the 22nd consecutive year MSF declared dividends. Since 1999, \$366 million has been returned to qualifying policyholders.
- We launched our redesigned safety focused website safemt.com.
- Two safety educational videos, (Safety Committees and Agricultural Safety) were added to our video library on safemt.com. In all, we have produced 24 safety videos that have been accessed by workers from around the world.
- We posted new educational content to our workingformontana.com website. A video explaining our financial stability and graphics detailing claims management and policyholder retention.
- Our Safety Management Consultants completed 1,709 policyholder visits. This was either in person or through remote channels.
- Our safety service specialist hosted 28 virtual safety workshops for nearly 400 attendees. In addition, we facilitated nine trainings for the Montana Department of Labor's SafetyFestMT.
- We graduated 17 WorkSafe Champion organizations and 11 WorkSafe Champion Elite organizations.
- Our Growing a Safer Montana high school personal protective equipment (PPE) program awarded 37 high school and 11 middle school trade classrooms with PPE. Since the program's 2017 inception, over \$100,000 worth of safety gear has helped 11,000 students.
- Our Growing a Safer Montana higher education scholarship program awarded 20 students studying Occupational Safety and Health / Industrial Hygiene or Construction Trade and Industry profession a \$4,000 scholarship. A total of 87 students have received the scholarships totaling \$309,500.
- We awarded 18 Assisting Charitable Endeavors (ACE) grants for a total of \$55,000. ACE grants offer matching funds to Montana nonprofit organizations that promote safety or purchase safety equipment.
- Six higher education students were awarded a total of \$11,000 in scholarship monies through our families of fatally injured Montana workers scholarship.
- The American Association of State Compensation Insurance Funds (AASCIF) presented MSF a first-place communications award for our 2020 virtual National Safety Month employee campaign.
- Our employees contributed \$38,916 to the State Employee Charitable Giving Campaign (SECGC). This contribution amount ranked third behind two larger state agencies. In addition, staff contributed \$2,490 or 100 meals to families through Helena Food Share's Holiday Virtual Food Drive.
- Forty MSF employees volunteered for a 2021 Helena Habitat for Humanity home build.

Report of Leadership



The Leadership of the Montana State Fund (MSF) is responsible for the results and stewardship of the resources entrusted to it, which is reflected in its financial statements and all other information presented in the Annual Report. MSF governance, culture, values, and system of internal controls are designed to provide reasonable assurance that resources are used appropriately, assets are safeguarded against loss, and that transactions are executed and recorded promptly and accurately. Attributes and tools include organizational structure and corporate governance practices, selection and training of personnel, communication and enforcement of policies and procedures, strategic and financial planning and budgeting, enterprise risk management, monitoring, and ongoing internal and external audit programs. The effectiveness of these systems, controls, and tools are continually being evaluated by Leadership. MSF's financial statements are presented on its website for the year ending December 31, 2021, and include financial results based on the best estimates and judgment of MSF Leadership. These results are presented on a statutory basis, which is consistent with insurance industry financial statement presentation. Inasmuch as MSF, which is domiciled in the State of Montana, is under the auspices of the Montana State Auditor, it compiles and reports its financial results according to Statutory Accounting Principles (SAP), which are the principles and standards required by the Montana State Auditor's Office.

The financial overview and results included in this Annual Report should not be considered MSF's audited financial statements. The results presented herein are summarized from the audited financial statements produced by the independent public accounting firm, Eide Bailly, LLP, for the year ending December 31, 2021. Eide Bailly issued a "clean" auditor's opinion, which means that MSF financial statements fairly represent results and balances and there were no material misstatements identified. MSF's complete audited financial statements, including the accompanying notes, are available on MSF's website. Furthermore, inasmuch as MSF is a component unit of the State of Montana, it is required by statute that the State of Montana's Legislative Audit Division (LAD) conduct an audit of MSF's financial statements in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The governmental financial statements and the related audit opinion for the year ending December 31, 2021, will be available on the State of Montana Legislative Audit Division's website once they have been presented and approved by the Legislative Audit Committee. Due to reporting differences between SAP and GASB and timing differences of the two audits, it should be noted that the statutory financial results differ from the GASB results. Therefore, a financial reconciliation of policyholder equity between the GASB financial statements and the SAP financial statements follows.

Report of Leadership (continued)

A Comparison of Statutory Policyholders' Equity to GASB Net Assets

For the year ended December 31, 2021

Statutory policyholder equity (SAP)	\$646,425,178
Adjustments to get GASB Net Position	
Non-admitted assets ¹	28,913,288
Change in investment value of bonds to fair market value ²	29,411,344
Change in investment lot inventory method ³	(1,321,325)
Change in investment value of other invested assets to equity method ⁴	(6,930,819)
Change in allowance for doubtful accounts ⁵	(2,062,893)
Effect of differences in lease accounting standards on income and equity ⁶	5,756
Effect of differences in pension accounting standards on income & policyholder equity ⁷	(24,981,016)
Effect of differences in OPEB accounting standards on income & policyholder equity ⁸	(1,061,220)
PBRI valuation adjustment timing difference ⁹	141,742
Rounding differences	(6)
GASB net position (subject to audit)	\$668,540,029

Quick Facts as of December 31, 2021

Net earned premium	\$159,679,855
Number of policies serviced	25,958
Number of new claims processed	8,345
Investment income earned	\$73,104,894
Net income after dividends	\$21,576,288
Policyholder dividends	\$60,001,990
Loss and LAE reserves	\$935,976,788
Statutory equity	\$646,425,178
Reserves to Equity Ratio (after dividend)	1.45
Premium to Equity Ratio (after dividend)	0.25

Transparency in Government

As part of the corporate governance practices of MSF, the following is the list of the top five compensated employees in the organization as well as their compensation for 2021.

Laurence Hubbard	President / CEO	\$463,660
Julie Jenkinson	Executive Vice President	\$332,862
Albert Parisian	Chief Information Officer	\$289,292
Kevin Braun	General Counsel	\$253,044
Mark Burzynski	VP - Corporate Support	\$252,659

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Report of Leadership (continued)



¹ Non-admitted assets – Under Statutory accounting standards, assets that are not readily convertible into cash and cannot be used to fulfill policyholder obligations are categorized as “non-admitted assets” and removed from the balance sheet via a direct charge to policyholders’ equity. Under GASB standards, these assets are recognized on the balance sheet subject to certain valuation allowances.

² Change in investment value of bonds to fair market value – Statutory accounting standards require investment valuation practices that differ from those required by governmental accounting standards.

³ Change in investment lot inventory method – Statutory accounting standards require investment valuation practices that differ from those required by governmental accounting standards.

⁴ Change in investment value of other invested assets to equity method – Statutory accounting standards require investment valuation practices that differ from those required by governmental accounting standards.

⁵ Change in allowance for doubtful accounts – Governmental accounting standards regarding accounts receivable require an assessment of collectability and the establishment of an allowance for doubtful accounts on the balance sheet. Statutory accounting standards require doubtful accounts to be charged directly against the income statement.

⁶ Governmental lease accounting standards (GASB 87) require assets and liabilities to be recorded for certain leases. Statutory accounting standards require lease payments to be expensed when paid.

⁷ Effect of differences in pension accounting standards on income and policyholders’ equity – Governmental pension accounting standards (GASB 68) require recognition of an allocation of the state’s unfunded retirement plan liability at the agency level. Under SAP, the recording of a portion of the unfunded liability is not required for a reporting entity, which participates in a plan sponsored by another entity, but is not directly liable for the obligations under the plan (SSAP No. 102 paragraph 86); however, the amounts contributed to the plan by MSF are recorded as expense in the current period.

⁸ Effect of differences in OPEB accounting standards on income and policyholders’ equity – Governmental postemployment benefit accounting standards (GASB 75) require recognition of an allocation of the state’s Other Post-Employment Benefit liability at the agency level. Under SAP, the recording of a portion of the liability is not required for a reporting entity which participates in a plan sponsored by another entity, but is not directly liable for the obligations under the plan (SSAP No. 92 paragraph 100).

⁹ An adjustment to the total PBRI project cost was made after the Statutory audit was complete, but before the Governmental audit began, causing a timing difference.

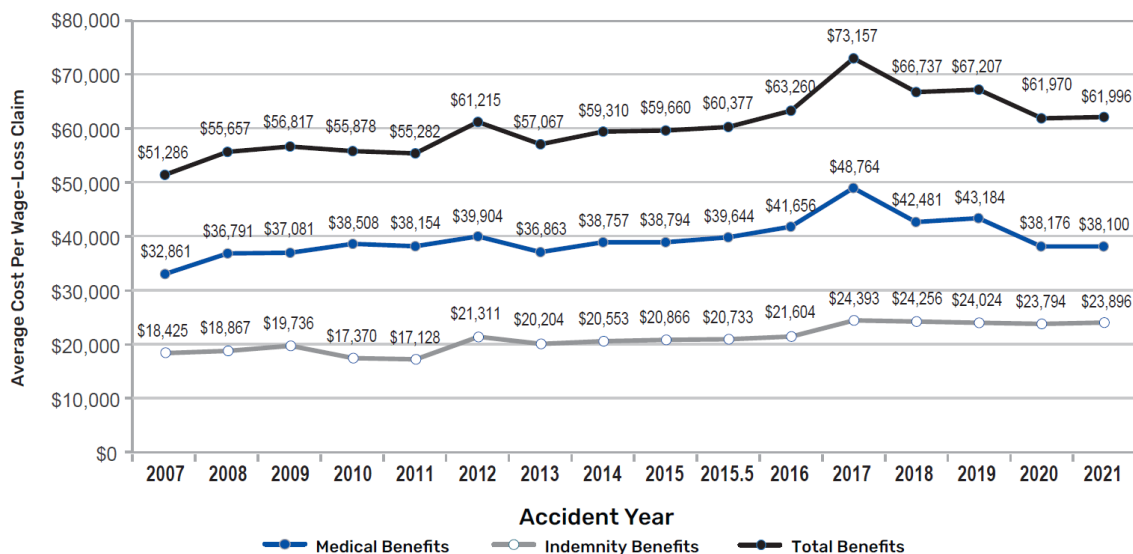
Financials



MSF annually files audited financial statements and all other required reports and documentation with the Montana State Auditor's Office (SAO) Commissioner of Securities and Insurance (CSI). The MSF Board of Directors (Board) decreased rates 10% for policies effective July 1, 2021. During 2021, the Board of Directors issued \$60 million in dividend to policyholders. Since 1999, MSF has returned a total of \$366 million to policyholders through dividends. MSF recorded net income of \$22 million for 2021. Decreasing claim benefit costs and continued strong investment market returns supported MSF policyholder equity increasing \$45.4 million to \$646 million at the end of 2021. MSF's strong financial condition allows MSF to offer efficacious safety programs and training, stable year-to-year costs for workers' compensation coverage, and dividends rewarding policyholders for safe workplaces.

Average Cost Per Wage-Loss Claim

The average wage-loss claim currently costs an estimated \$62,000, although the most catastrophic of claims can cost several million dollars. About 68% 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 slowly increasing at 2.4% per year for the last 8 years. Workers' compensation medical costs were rising 5.8% per year prior to 2012, but have only been rising about 2.1% per year since HB334 benefit reforms were enacted in 2012.

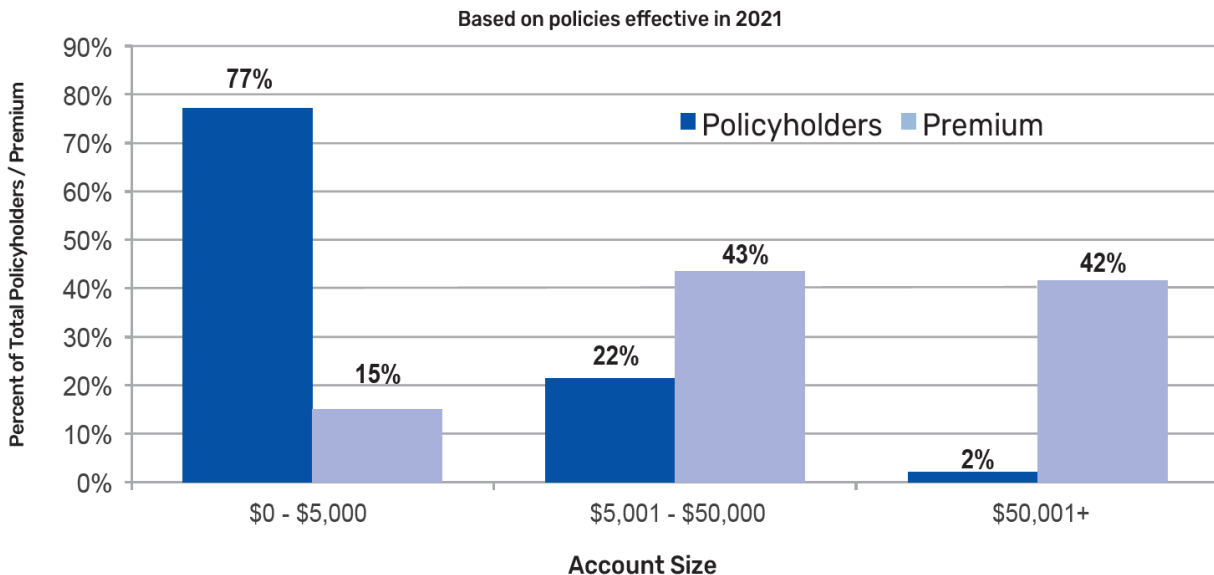


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Financials (continued)

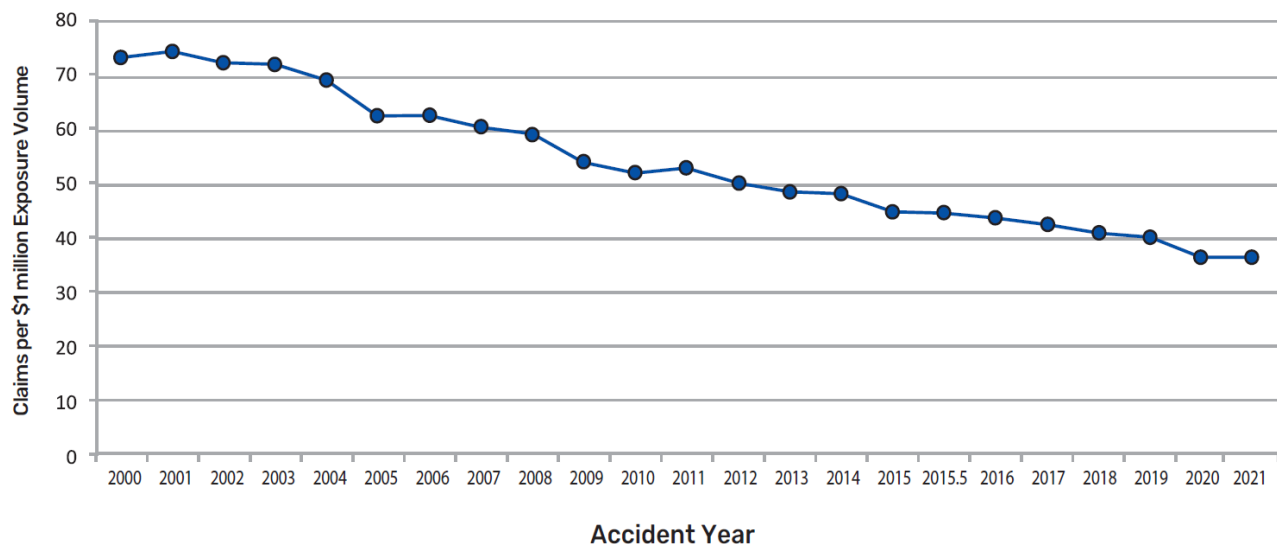
MSF Book by Account Size

MSF predominantly serves small employers in Montana who would not otherwise have access to affordable workers' compensation insurance. However, MSF's role as a competitive guaranteed market allows MSF to maintain lower and more stable rates as well as a high level of customer service for all policyholders (the premium volume from medium and large account employers who choose to insure with MSF creates economies of scale and reduces financial variability, benefiting all Montana employers regardless of size).



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 4% 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. Claim frequency for 2020 is exceptionally low due to business disruptions caused by the COVID-19 pandemic.



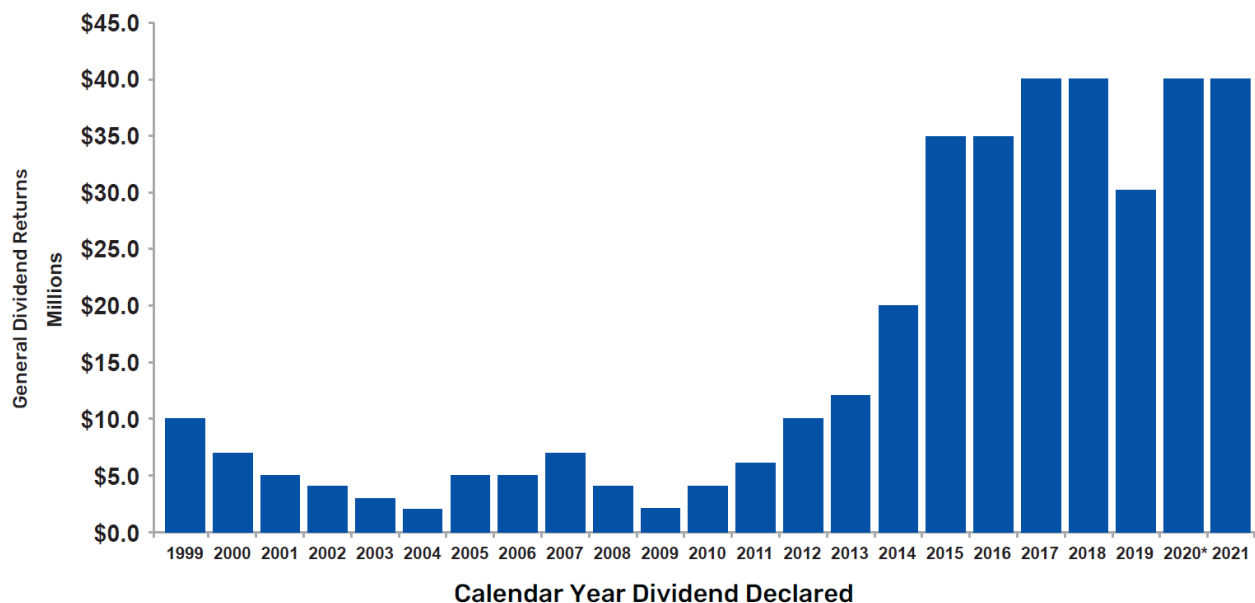
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Financials (continued)

MSF Dividend Returns

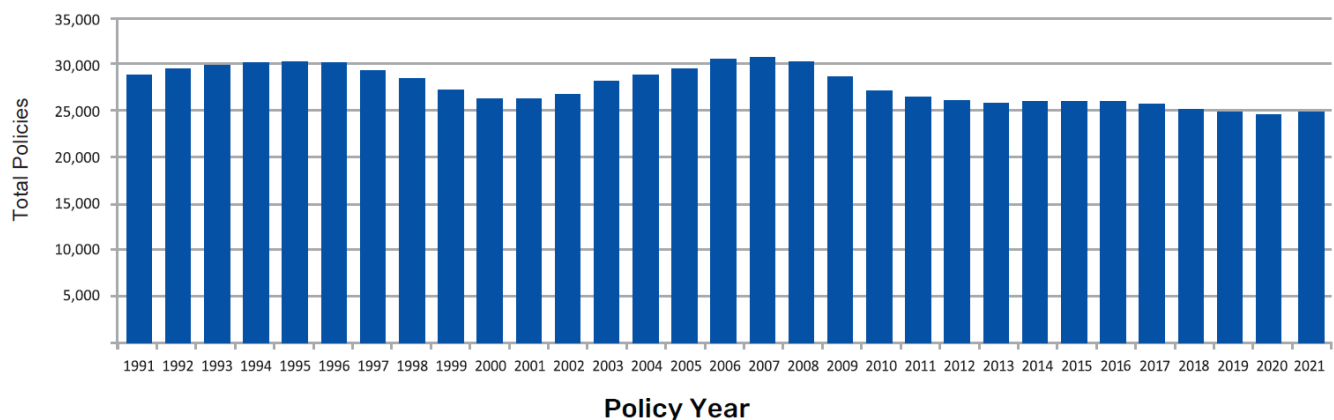
Over the last 24 years, MSF has returned a total of \$366 million to policyholders through its general dividend program. Primarily as a result of interest income and stock market gains, MSF's last 7 dividend returns have exceeded \$30 million each year. MSF's dividend program helps stabilize rates by distributing excess capital when conditions are favorable as opposed to having rates increase and decrease in unpredictable ways depending on the whims of financial markets. About 95% of eligible MSF policyholders receive a dividend each year. Dividends are an effective incentive in favor of workplace safety that is noticed by policyholders when they receive a reward for having no or few employee injuries that year.

*In 2020, an initial dividend of \$20 million was paid in November; an additional \$20 million dividend was approved after year-end results were available in March 2021, totaling \$40 million distributed to the same set of policies.



MSF Policies Written

Since the inception of the Montana State Fund in 1990, private carriers have variously expanded and contracted their written workers' compensation insurance volumes in Montana, depending on the business conditions at the time. General economic conditions also affect the number of insured employers. As the guaranteed market, MSF insures any Montana business, offering employers a stable, locally controlled, reliable, and competitively priced source for workers' compensation insurance.

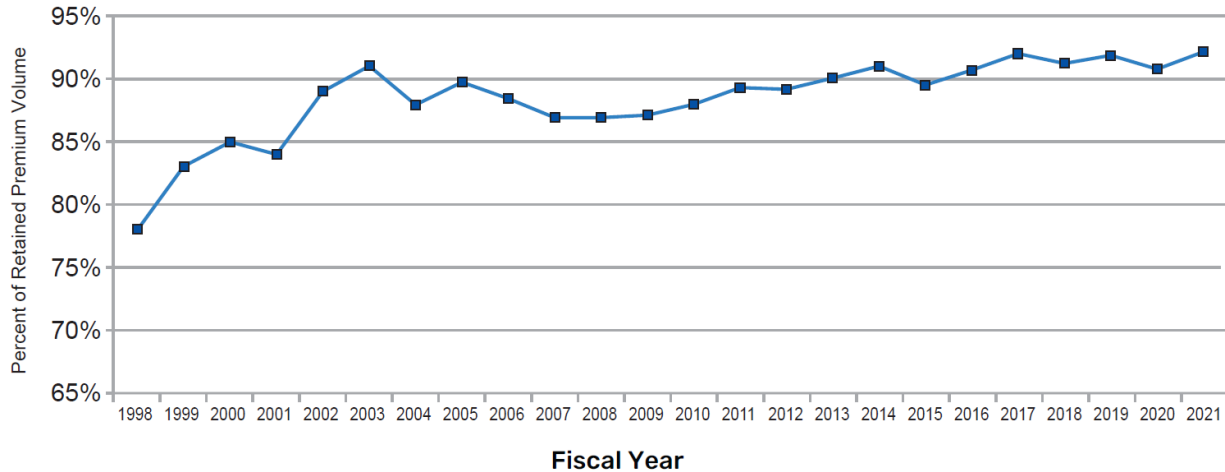


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Financials (continued)

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 MSF has established itself as the industry leader in service for workers' compensation in Montana, 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), which is a very high retention rate by industry standards.



MSF Rate Level

MSF manual rate levels rose in the early 2000s due to increasing medical costs and statutory and judicial benefit expansions. Rate levels have decreased since 2007, particularly as a result of legislative benefit level reforms enacted with HB334 in 2012. MSF rates effective July 1, 2022 are now 54% below the 2007 level and are the lowest rates ever in the history of the Montana State Fund.

