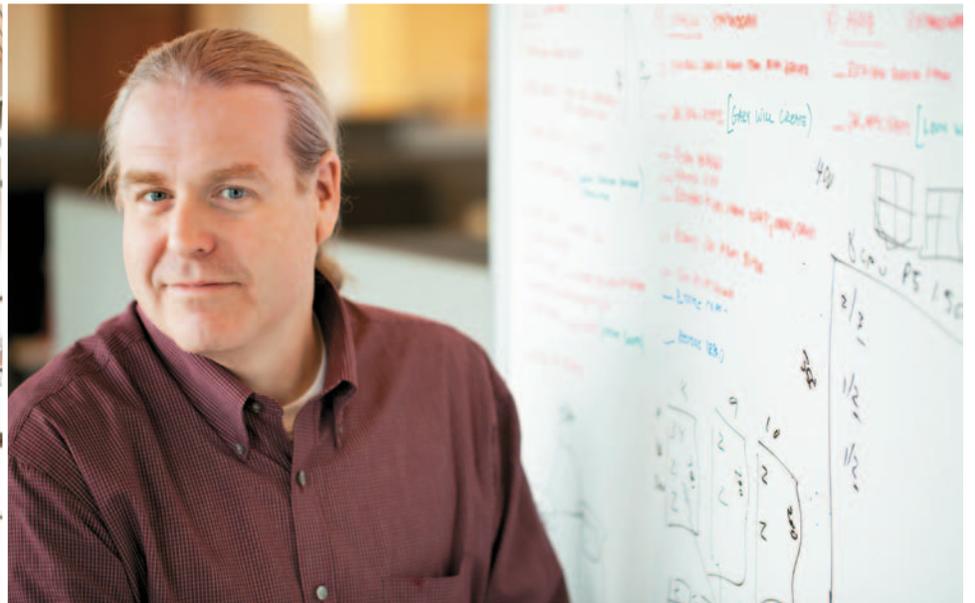




2012 Business Plan

[July 1, 2011 through June 30, 2012]



EMBRACE CHANGE. Our People. Our Service. Our Future.

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From the President ...

The passage of HB 334 introduced change of historic proportions to the workers' compensation system in Montana. Time will tell how the results of this legislation ultimately unfold, but MSF will work to effectively implement the change because of what it presents to all the people of our great state of Montana.

First and foremost, HB 334 provides significant rate relief to Montana employers – which will help them reduce their operating costs allowing expansion, salary and benefit increases, and in some cases helping them keep their doors open, strengthening the overall Montana economy.

HB 334 also streamlines the treatment process. This translates to more timely doctor appointments and optimal care for injured employees. This should result in better and more complete outcomes, which means less lost time from work. The bill also makes the workers' compensation system more “user friendly” among medical providers, allowing them more time to treat the injured employees due to fewer administrative requirements. HB 334 provides additional tools to help injured employees stay at work after an injury. Reducing system costs will contribute to a healthier economy – which is good for all Montanans.

Lastly, HB 334 provides tremendous opportunities for Montana State Fund employees to demonstrate our commitment to be part of the solution for what has troubled our workers' compensation system for some time. It reinforces our steadfast commitment of outstanding customer service to every individual.

This new law truly represents a great deal of work and compromise by all stakeholders. Effective and fair implementation of these changes will lead to lower workers' compensation costs and a stronger, more competitive Montana business climate.

Sincerely,

Laurence A. Hubbard
President/CEO

“ Change brings opportunity. ”

– Nido Qubein

Executive Summary

The president's letter provides a summary of the substantial workers' compensation legislation passed by the 2011 legislature as well as cautious optimism for improved growth in the state's economy.

Due to strong operational management, responsible fiscal discipline and our customer service commitment, we are well-positioned to implement the recent workers' compensation law changes and move Montana State Fund forward as the economy gains momentum.

FY 2012 gives us an opportunity to effectively implement legislative changes intended to reduce the cost of workers' compensation in Montana and ultimately provide savings to Montana businesses.

These are savings they can use to effectively compete and grow good paying jobs. At the same time, we are committed to meeting the high service level expectations of all our stakeholders through efficient operations and commitment to quality.

Our three customer service initiatives this year – safety, insurance document management and tiered rating – keep that commitment in mind. First, we will continue efforts to improve Montana's workplace safety record through WorkSafe Champions, education outreach and an engaging and informative website presence. Second, we will provide clear customer communication – whether we're talking safety or explaining insurance coverage. The insurance document management project will ensure our customers receive concise, timely and accurate information. The project implements a content management tool we will use to efficiently modify the hundreds of documents we use. Third, refinements made through the tiered rating project will improve pricing equity.

In addition, our infrastructure initiative continues to build on the enterprise risk management and mitigation strategy foundation we started last fiscal year. To achieve across-the-board understanding, all employees will receive training on Montana State Fund's risk management framework and guidelines. The project team will also continue documenting controls and developing our reporting and monitoring structure.

We pride ourselves on claim and medical management practices designed for the best outcomes. Last year, we took action that provided additional medical expertise on claims, leading to more timely and appropriate treatment. In FY 2012 we begin a multi-year plan to address the specific medical needs of claims as we

implement HB 334. We will also work to build strong relationships with medical providers throughout the state in order to improve collaboration and positively impact injured employee outcomes.

The key to success for these initiatives and for Montana State Fund is a knowledgeable, challenged and motivated workforce. A continued investment in organizational talent management will ensure Montana State Fund promotes a culture of engagement and develops employees who achieve excellence through continuous improvement now and into the future.

The FY 2012 plan not only efficiently implements legislative reforms; it includes projects that embrace those changes. While initiative expenses remain relatively low this year compared with past years, the projects maintain focus on Montana State Fund's commitment to customer service and operational efficiency. These two key components help ensure Montana State Fund provides a stable workers' compensation option for Montanans.

FY 2012 Enterprise-Wide Initiatives:

1. Workforce

- Establish programs that provide opportunities to strengthen and improve leadership, business and industry skills and retain quality employees.

2. Customer Service

- Foster and promote a culture of safety within Montana businesses.
- Provide customers with clear and concise insurance documents.
- Refine tiered rating for improved pricing equity.

3. Claim and Medical Management

- Implement legislative reforms as mandated.
- Build collaborative relationships with medical providers throughout the state.
- Involve additional internal medical expertise on an increased number of claims.

4. Infrastructure

- Incorporate an enterprise risk management process at Montana State Fund and establish procedures to measure, model and manage risk.

Strategic Framework

Mission – *Montana State Fund is Montana's insurance carrier of choice and industry leader in service.*

Vision – *Montana State Fund is committed to the **health** and **economic prosperity** of Montana through **superior service**, **leadership** and **caring individuals** working in an environment of **teamwork**, **creativity** and **trust**.*

Guiding Principles

Integrity and Ethical Conduct

In the course of providing superior service to our policyholders, their injured employees and our insurance producers, we conduct ourselves with honesty, consistency and transparency.

Customer Focus

Enhance and maintain a partnership with stakeholders in the true spirit of cooperation and collaboration. Enter into strategic partnerships where appropriate to enhance the service and products we provide our customers. Educate stakeholders on the economic and human impacts of the Montana workers' compensation system.

Financial Strength

Set adequate rate levels to maintain financial strength and stability. Operate to ensure long-term viability and financial solvency.

Offer Quality and Competitive Insurance Products

Deliver high-quality products to Montana businesses at the lowest possible cost consistent with sound insurance principles. Foster and support a competitive insurance market in Montana. Function like a private insurer, offering a competitively priced product based upon actuarially sound rates while still fulfilling our role as the guaranteed market.

Employee Growth and Development

Provide a performance-driven culture that is conducive to the growth and development of our employees. Promote a customer-focused, team-oriented, high-performance environment that empowers, challenges and rewards our employees.

Continuous Improvement

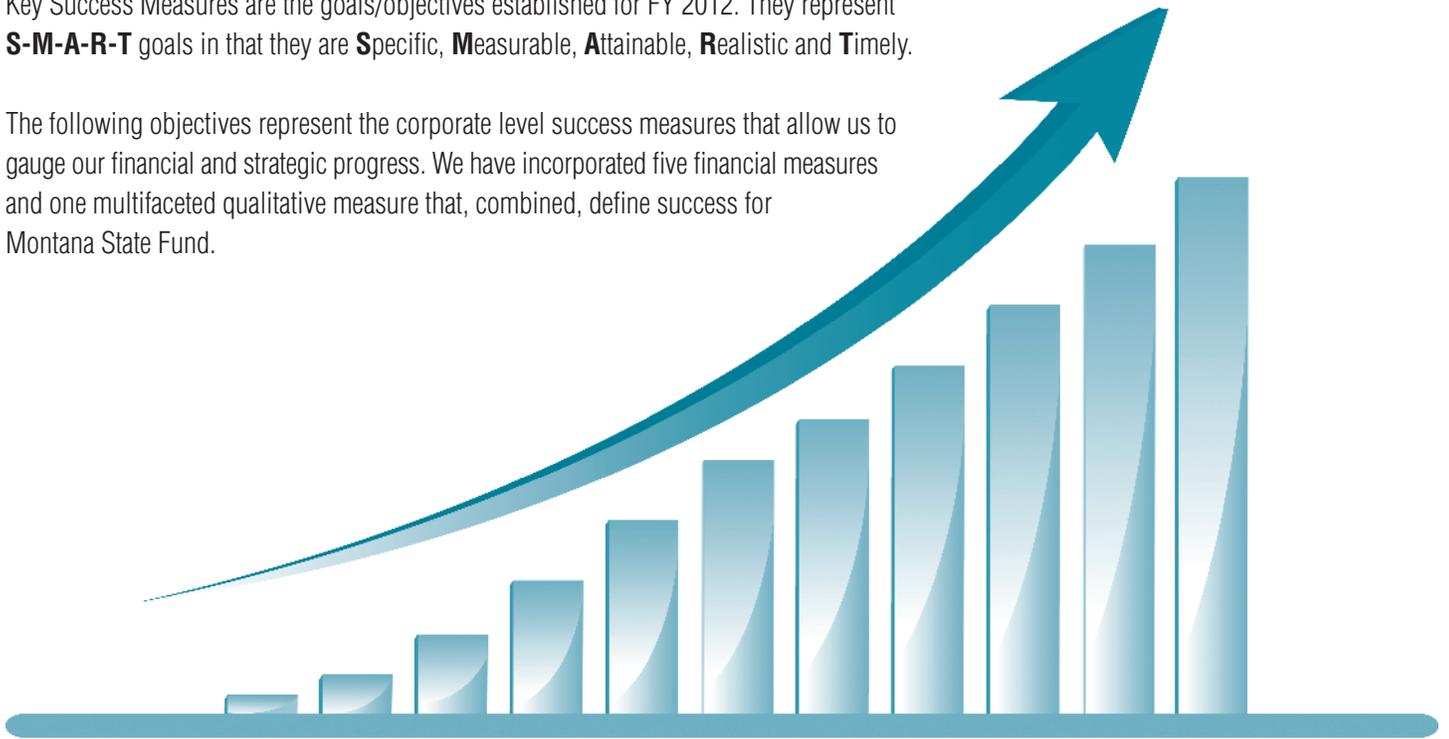
Dedicate ourselves to identifying and implementing new and better ways to efficiently and effectively operate and improve customer service.



FY 2012 Key Success Measures

Key Success Measures are the goals/objectives established for FY 2012. They represent **S-M-A-R-T** goals in that they are **S**pecific, **M**easurable, **A**ttainable, **R**ealistic and **T**imely.

The following objectives represent the corporate level success measures that allow us to gauge our financial and strategic progress. We have incorporated five financial measures and one multifaceted qualitative measure that, combined, define success for Montana State Fund.



1. Achieve targeted FY Net Operating Income before dividend of \$24.0M
2. Achieve total Net Earned Premium of \$132.9M
3. Achieve Fiscal Year Loss Ratio of 76.7 percent
4. Maintain Expense Ratio of 32.3 percent or less
5. Achieve Investment Income of \$41.0M
6. Achieve Enterprise-wide Initiatives

Enterprise-Wide Initiatives

Enterprise-wide initiatives are critical elements for the continued success of Montana State Fund. They are supported by a number of multifunctional efforts comprised of key performance indicators and success measures to ensure the accomplishment of our stated goals and objectives. In addition, they support our Mission, Vision and Guiding Principles.

1. Workforce

Montana State Fund continues its focus on talent management and development in order to promote a high-performance environment that both challenges and motivates.

Key Performance Indicators

Organizational Talent Management – Establish leadership development, claim examiner staffing and retention program platforms that address skill growth and knowledge exchange, talent identification/acquisition and employee retention. These programs will better prepare Montana State Fund for vacancies, help with rapid on-boarding and reinforce our commitment to being an employer of choice.

Success Measures:

1. Complete FY 11 apprenticeship pilot and make a recommendation to Executive Team on whether to continue with a second pilot by October 2011.
2. Develop a comparison/analysis of types of claims examiner training formats and provide recommendation for future implementation by March 1, 2012.
3. Final on-boarding program outline and template by March 30, 2012.
4. Deliver leadership development program on MSF business knowledge areas (State Fund Operations overview and MSF Financials) with an 80 percent overall training satisfaction by April 30, 2012.
5. Train leaders in MSF business knowledge areas (State Fund Operations overview and MSF Financials) with a 70 percent pass rate by April 30, 2012.

2. Customer Service

We continuously look for ways to enhance our service and products as part of our commitment to our policyholders, their employees and system stakeholders.

Key Performance Indicators

Workplace Safety – Communicate and continue to develop and nurture a culture of safety among Montana businesses and workers. Strengthen our partnerships with policyholders and enlist their support to make Montana a safer work environment for all its citizens.

Document Management System – As the first step in unbundling the architecture of our legacy policy application, implement a single source insurance document generation package that will serve the needs of both our policy and claims applications. This initial step is part of an overall strategy to modernize our policy application.

Refine Tiered Rating – Implement recommended changes to the tiered rating plan to refine policyholder placement and improve pricing equity.

Success Measures:

1. Achieve fiscal year loss ratio for WorkSafe Champion graduate businesses at or below FY 2012 plan. Decrease accident frequency by 3 percent for June 2010 WorkSafe Champions graduates.
2. Graduate 75 percent of WorkSafe Champions Class 4 in June 2012.
3. WorkSafe Champions post-graduate engagement through participation in safety education programs.
4. Deliver 50 MSF Speakers Bureau events including safety messages through a variety of communication vehicles including WorkSafeMT, electronic safety STAR messages, speaking engagements and trade shows. Deliver 60 statewide safety seminars. Achieve a satisfaction survey rate of 80 percent or higher from measured events.
5. WorkSafeMT participation including funding and in-kind assistance.
6. In FY12: Implement a document management system (150 claim and 150 policy documents, including Information Page) allowing business users to directly modify claim and policy document language and layout.
7. Educate Montana State Fund stakeholders on changes to tiered rating program by May 2012 and implement tiered rating program changes for rates effective July 1, 2012.

3. Claim and Medical Management

Work toward positive Stay at Work/Return to Work (SAW/RTW) results and appropriate claim outcomes through open and collaborative relationships with injured employees, employers and medical providers. Increase internal medical expertise on claims and successfully implement legislative reforms.

Key Performance Indicators

Legislative Reform – Fully implement business processing and application system changes as mandated in HB 334.

Provider Relationships – Enhance collaborative relationships with Montana medical providers to improve business understanding and claim management processes.

Medical Expertise on Claim Files – Positively impact outcomes and stabilize medical expenditures by focusing additional internal medical expertise on claims to ensure timely and appropriate treatment.

Success Measures:

1. Communicate medical management changes to stakeholders consistent with HB 334 by August 1, 2011.
2. Create a provider relations program and develop measures for provider relations effort by October 1, 2011.
3. Develop measures to monitor medical outcomes for claims by October 1, 2011.
4. Implement HB 334 SAW/RTW program by June 30, 2012.

4. Infrastructure

Establish an enterprise risk management (ERM) program and incorporate risk identification, prioritization and mitigation into operational procedures.

Key Performance Indicators

Enterprise Risk Management – Establish a comprehensive enterprise risk management program to identify, mitigate and monitor current and emerging risks and opportunities.

Success Measures:

1. Align and link ERM with FY 2013 business planning and budgeting processes by January 1, 2012.
2. Deliver risk mitigation response plans for 3 – 5 high-impact risks, including actions, responses, monitoring and reporting to the MSF Executive Team by January 1, 2012.
3. Establish customized reporting and monitoring of ERM to meet MSF's needs by January 1, 2012.
4. Train MSF staff to ensure a smooth transition of the ERM process throughout the organization by January 1, 2012.



Organizational Profile

The state of Montana originally established the predecessor to Montana State Fund (MSF) in 1915 to function as a competitive workers' compensation insurance carrier. Since then MSF has operated under a number of different forms, with its current structure resulting from legislative actions taken in 1990. At that time the legislature separated the workers' compensation regulatory function (originally established in the Montana Department of Labor and Industry) from the day-to-day insurance operations responsibilities (which were vested in a separate, new entity known as Montana State Fund). A seven-member Board of Directors, appointed by the governor, governs the operations of Montana State Fund. The board is also responsible for appointing the president/CEO.

Montana State Fund is a self-sufficient, not-for-profit workers' compensation insurance carrier. Our statutory purpose is to act as a competitive insurance carrier, providing an available market and thereby guaranteeing coverage to all employers in Montana. We receive no taxpayer or general fund money, operating solely on the premium dollars paid by the insured employers and the net proceeds from our investments. We function like a private insurance

carrier in a competitive marketplace and, as provided by law, perform all the functions and exercise all the powers of a private insurance carrier that are necessary, appropriate or convenient for the administration of the Montana State Fund.

MSF has undergone a number of changes since our creation in 1990. We have transitioned from a traditional organizational structure to one that is more adapted to the demands of the information age. A comprehensive corporate redesign in 2000 enhanced our operational flexibility with the addition of multifunctional teams that are aligned with specific groups of employers. This change resulted in a "flatter" organization that increased employee empowerment and allows us to work more closely with our policyholders and their injured employees. We continue to strive to improve efficiencies in all operational areas and have made a major investment in our safety management services as we work diligently with Montana employers in developing accident prevention programs. As our state's economic structure continues to evolve, we stand ready to fulfill our critical role as the guaranteed workers' compensation market for all Montana employers.



Financial Projections

Projected Results of Operations

Montana State Fund

Statutory Basis (\$000)

Operating Statement

	ACTUAL 2010	ESTIMATE 2011	PLAN 2012	PROJECTION 2013 2014	
Premium Income	\$166,265	\$167,761	\$132,868	\$135,493	\$138,505
Investment Income	47,126	50,039	41,045	43,086	45,369
Other Income	(4,944)	(4,018)	(5,079)	(5,608)	(6,170)
Total Losses and Expenses	185,216	184,224	144,856	147,131	151,585
Policyholder Dividends	(2,001)	(4,005)	TBD	TBD	TBD
Net Income	\$21,230	\$25,553	\$23,978	\$25,840	\$26,119

TBD - Future dividends to be determined by Board of Directors

Premium to Surplus (X:1)*	0.68	0.55	0.42	0.39	0.37
Loss Reserves to Surplus (X:1)*	3.44	2.86	2.70	2.46	2.27
FY Combined Ratio	111.4%	109.8%	109.0%	108.6%	109.4%
Dividend to Premium Ratio	1.2%	2.4%	TBD	TBD	TBD
Operating Ratio	83.1%	80.0%	78.1%	76.8%	76.7%

* Ratios prior to any dividend declaration

Balance Sheet

Total Assets	\$1,391,144	\$1,434,738	\$1,441,045	\$1,476,106	\$1,515,904
Unpaid Loss and LAE	\$838,765	\$866,663	\$857,093	\$852,393	\$851,391
Other Liabilities	310,834	268,604	266,368	277,607	289,628
Total Liabilities	\$1,149,599	\$1,135,267	\$1,123,461	\$1,130,000	\$1,141,019
Surplus	\$241,545	\$299,471	\$317,584	\$346,106	\$374,885
Total Liabilities and Surplus	\$1,391,144	\$1,434,738	\$1,441,045	\$1,476,106	\$1,515,904



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