

Montana State Fund

FY 2012

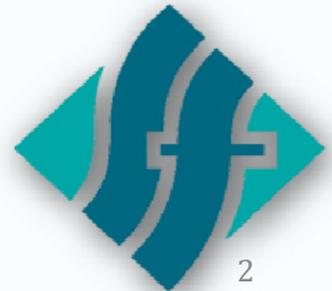
Business Plan Performance

September 21, 2012



Agenda

- Introduction
- Business Plan
 - Key Success Measures
 - Enterprise-Wide Initiatives
- Financial Summary
- Questions/Answers



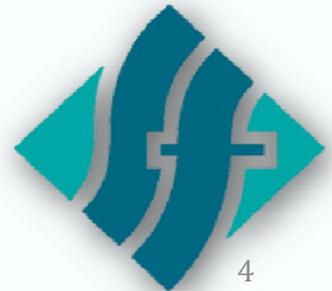
Key Success Measures

- Generate Total Net Earned Premium of \$132.9M
- Achieve Fiscal Year Loss Ratio of 76.7%
- Achieve Expense Ratio of 32.3% or Less
- Attain Investment Income of \$41.0M
- Generate Net Operating Income \$24.0M (Before Dividend)
- Achieve Enterprise-Wide Initiatives



Enterprise-Wide Initiatives

- Workforce – *Duane/Root/Butler*
- Customer Service – *Strauss/Root/Parisian/Barry*
 - Workplace Safety
 - Document Management
 - Refine Tiered Rating
- Claim and Medical Management – *Strauss/Root*
 - Legislative Reform
 - Provider Relationships
 - Medical Expertise on Claim Files
- Infrastructure – *Barry/Butler*
 - Enterprise Risk Management



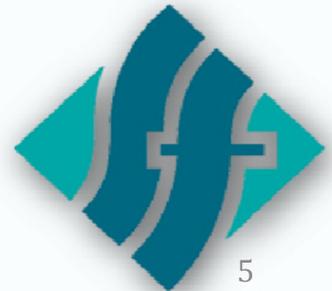
Generate Net Earned Premium of \$132.9M Achieved \$150.5M

Key Performance Indicators

- Implement Board Approved Rate Action
- Produce \$14.9M of New GPW
- Achieve 88.6% Premium Retention Ratio

Accomplishments

- Implemented Board Approved Rate Action
- Generated \$13.9M in New GPW
- Achieved Premium Retention Ratio of 89.1%



Achieve Fiscal Year Loss Ratio of 76.7% Achieved 79.4%

Key Performance Indicators

- Achieve Current AY Loss Ratio of 71.8%
- Manage Prior Period Reserve Adjustments and Reserve Strengthening to \$5.3M or Less

Accomplishments

- Achieved Current AY Loss Ratio of 75.2%
- Managed Prior Period Reserve Adjustments and Reserve Strengthening to \$1.9M
- Chose to Execute Additional Reserve Strengthening of \$12.4M
- Reinsurance Recoverable Offset of \$8.0M



Achieve Expense Ratio of 32.3% or Less Achieved 31.2%

Key Performance Indicators

- Manage Acquisition Expense to 6.7%
- Manage Loss Adjustment Expense to 14.4%
- Manage Operating Expenses to 17.5%
- Reinsurance Contingency Commission Offset of (6.3%)

Accomplishments

- Managed Acquisition Expense to 6.1%
- Managed Loss Adjustment Expense to 15.5%
- Managed Operating Expenses to 14.9%
- Reinsurance Contingency Commission Offset of (5.3%)



Achieve Investment Income of \$41.0M Achieved \$49.4M

Key Performance Indicators

- Achieve Portfolio Composition
 - Bonds (88.3%)
 - Equities (10.0%)
 - Short-Term Investments (1.7%)
- Match Return on Barclay's Government Credit, S&P 500, and MSCI AC World (ex. US) International Equity Indices

Accomplishments

- Achieved Portfolio Composition
 - Bonds (86.0%)
 - Equities (11.8%)
 - Short-Term Investments (2.2%)
- Returns
 - Barclay's (5.42%)
 - MSF (6.47%)
 - S&P 500 (5.45%)
 - MSF (5.55%)
 - MSCI (-14.57%)
 - MSF (-14.47%)



**Achieve Net Operating
Income of \$24.0M
Achieved \$29.8M**

Statutory Ratio

Premium to Surplus

FY 2012 Business Plan 0.42:1

FY 2012 Actual 0.47:1



Enterprise-Wide Initiatives

- Workforce – *Duane/Root/Butler*
- Customer Service – *Strauss/Root/Parisian/Barry*
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 - Document Management
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- Claim and Medical Management – *Strauss/Root*
 - Legislative Reform
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- Infrastructure – *Barry/Butler*
 - Enterprise Risk Management



Workforce

- Establish leadership development, claims examiner staffing and retention 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.



Workforce

- Organizational Talent Management
 - Executive Evaluation: (Completed)
 - Leadership Development
 - Claims Examiner Trainee Program
 - On-Boarding



Organizational Talent Management

- Leadership Development
 - Training Delivered via Quarterly Leadership Meetings (QLM)
 - State Fund Operations
 - MSF Financials
 - 80% Overall Satisfaction Level Achieved
 - 70% Overall Pass Rate Surpassed



Organizational Talent Management

- Leadership Development
 - Training Delivered in Following MSF Topic Areas:
 - Overview of State Funds
 - MSF Operations
 - Tiered Rating
 - Actuarial Services
 - Underwriting Services
 - Financial Services and Statements
 - Performance Management
 - Leave Without Pay Policy



Organizational Talent Management

- Claims Examiner (CE) Trainee Program
 - Completed “Apprenticeship Pilot” and Recommended Implementation of CE Training Program (October 2011)
 - Compared Types of Training Programs and Recommended Future Implementation (March 2012)
 - Combined “Apprenticeship” (OJT) with “Classroom” Instruction to Provide Trainees with Best Possible Outcome



Organizational Talent Management

- Claims Examiner Trainee Program
 - Determined Candidates with Work Experience and/or an Insurance Background are Currently our Best Potential Trainees
 - Hired Two Trainees in May 2012
 - Program to Continue With Four Trainees/Year
(2 trainees in July/2 trainees in January)



Organizational Talent Management

- On-Boarding
 - Outline and Template Developed and Tested Based on Best Practices and MSF Needs (March 2012)
 - Includes Checklist for Leader and Employee
 - Roll-Out and Training in Q3
 - Implemented with New Hires in Q4
 - Positive Feedback to Date



Organizational Talent Management

- On-Boarding
 - Consists of:
 - Established Process of Setting up a New Employee's Desk and Systems
 - Detailed Review and Check-Off of MSF Policies and Procedures
 - Performance Review Process
 - Probationary Period Reviews
 - Introductions (Including All Employee Meeting)
 - Building Tour
 - Safety/Emergency Procedures



Workforce

Success Measures

- Complete FY 2011 apprenticeship pilot and recommend future actions (October 2011).
- Develop a comparison/analysis of Claims Examiner training formats and recommend future actions (March 2012).
- Finalize on-boarding program outline and template (March 2012).
- Deliver leadership development program on MSF business knowledge areas with 80% overall satisfaction rating (April 2012).
- Train leaders in MSF business knowledge areas with a 70% pass rate (April 2012).

Results

- Completed September 2011.
- Completed March 2012.
- Completed March 2012.
- Delivered by April 2012 with additional training in June. Overall satisfaction rating of 80.4%.
- Delivered by April 2012 with additional training in June. Overall pass rating of 82.9%.



Customer Service

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



Customer Service

- Workplace Safety
- Document Management System
- Refine Tiered Rating



Workplace Safety

- Executive Evaluation: (FY 12 Complete)
 - 213 Work Safe Champions (WSC) Alumni
 - Safety Program Participants
 - Safety Message Contributors
 - Local Market Safety Advocates



Workplace Safety Performance Results

Class I (65)

Indemnity Frequency

-20.9%

Medical Frequency

-6.5%

Loss Costs

-25.7%

Class II (44)

Indemnity Frequency

- 20.0%

Medical Frequency

+0.1%

Loss Costs

-14.7%

Class III (58)

Indemnity Frequency

- 3.6%*

Medical Frequency

+15.1%*

Loss Costs

-7.0%*

* Preliminary results based on 8/31/12 data – final results to be based on 9/30/12 data



Workplace Safety

- Class V – WSC 2.0
 - Focused on “Higher Loss” Policyholders as Determined by Experience Modification Factor, Frequency, and Loss Ratio
 - Class Size is 90 Participants
 - Training Sessions Tailored to Address Industry-Specific Business Issues
 - New Standards/Rewards for Graduation



Document Management

- Executive Evaluation: (FY 12 Complete)
 - 172 Claim Documents Implemented March 2012
 - 161 Policy Documents Implemented June 2012
 - Bar Coding Added to Enhance Document Sorting for Mail
 - Software Allows for Business Users to Edit Text and Change Documents
 - Approximately 1.5 Million Document Pages “Stuffed” Automatically on an Annual Basis



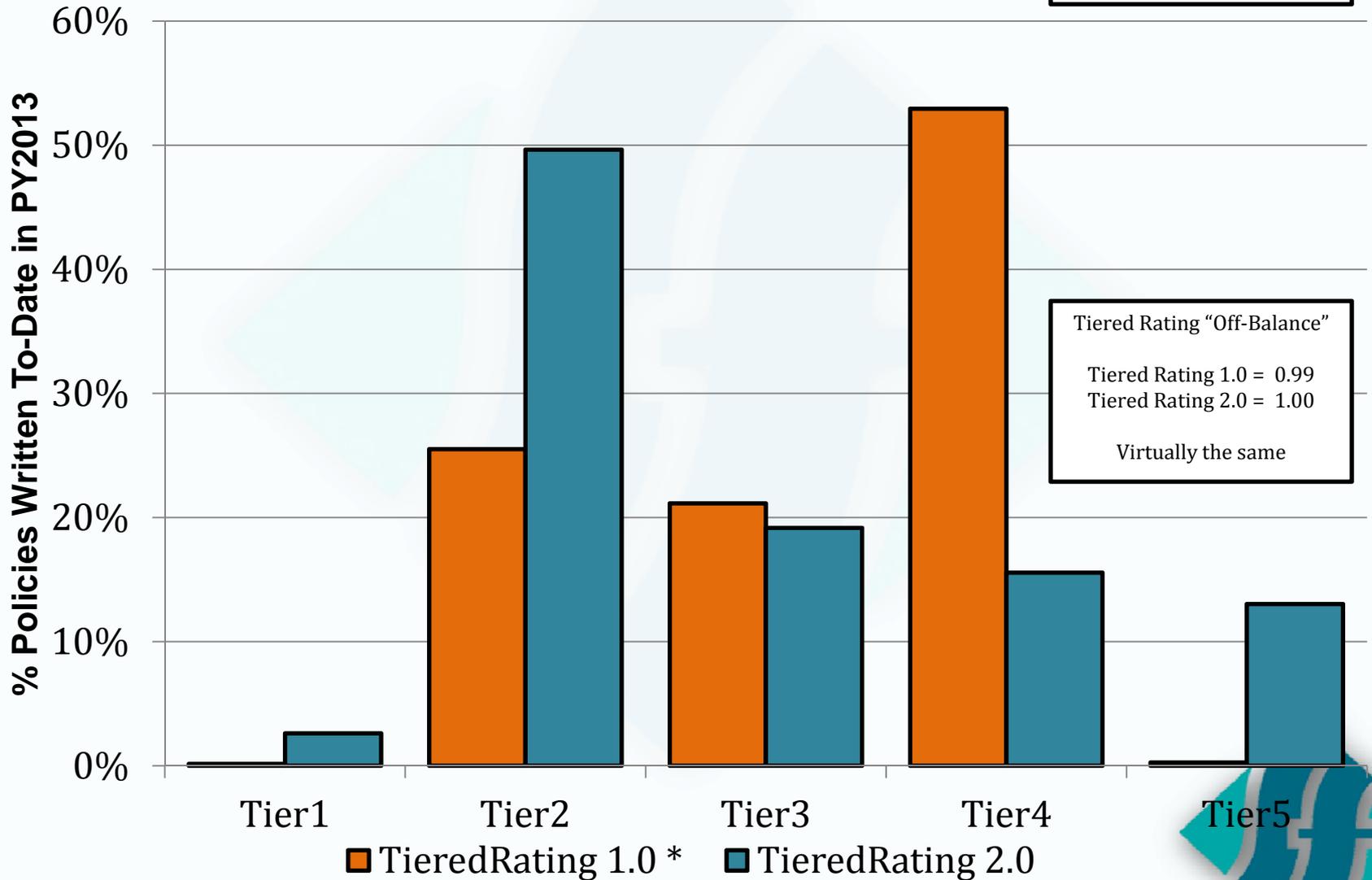
Refine Tiered Rating

- Executive Evaluation: **(Completed)**
 - Presentation of Program to Board January 2012
 - User Testing Completed and Program Put into Production February 2012
 - Training Guide Created February 2012 and Training Provided to Leaders, Underwriters (UW), Customer Service Specialists (CSS), and Safety Management Consultants (SMC) February-May 2012
 - Agent Notification Provided Spring 2012



Tiered Rating 1.0 vs 2.0

12,073 Policies Written
Since 7/1/2012



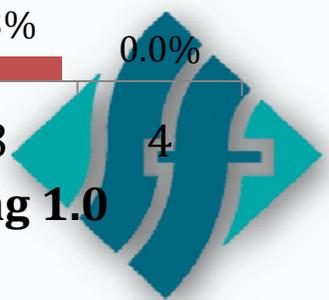
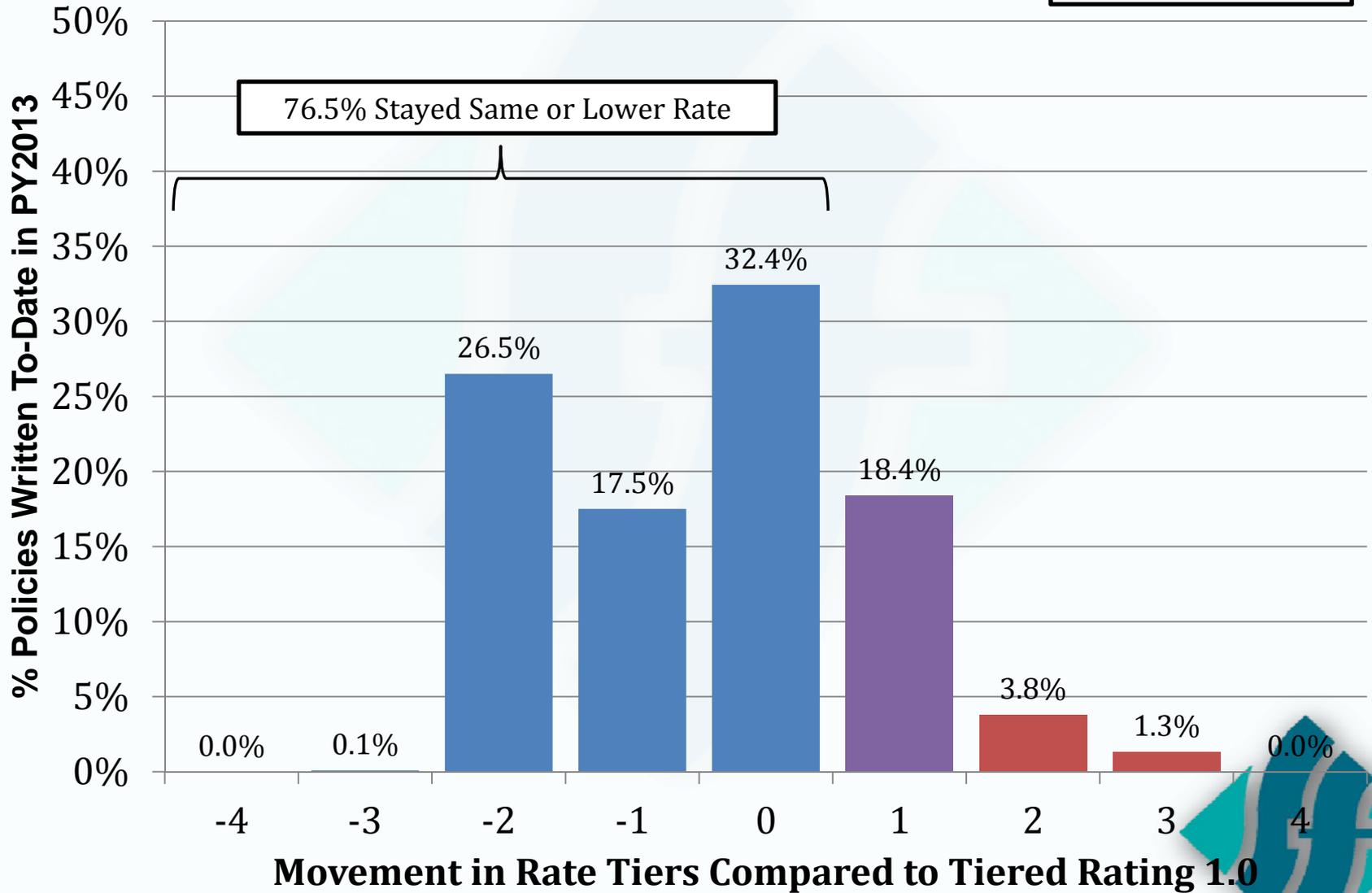
Tiered Rating "Off-Balance"
Tiered Rating 1.0 = 0.99
Tiered Rating 2.0 = 1.00
Virtually the same

* Rate tier that would have been assigned under Tiered Rating 1.0



Change in Rate Tier

12,073 Policies Written
Since 7/1/2012



Customer Service

Success Measures

- Achieve FY Loss Ratio for WSC graduate businesses at or below FY 2012 Plan. Decrease accident frequency by 3% for June 2010 WSC graduates.
- Graduate 75% of WSC Class IV in June 2012.
- WSC post-graduates engagement through participation in safety education programs.
- Deliver 50 MSF Speakers Bureau events including safety messages through a variety of communication vehicles. Deliver 60 state-wide safety seminars with 80% satisfaction level.

Results

- FY Loss Ratio of 61.8%* vs. PLAN of 76.7%. Class III combined frequency increased, but overall loss costs were reduced.
- 72% graduation rate (policy cancellations).
- WSC Alumni provided local safety presentations, electronic distribution of safety articles and participated in Safety Seminars.
- 126 Speakers Bureau events were delivered. 87 state-wide safety seminars were delivered with 90% satisfaction level.



Customer Service

Success Measures

- WorkSafeMT participation including funding and in-kind assistance.
- Implement a document management system (150 claim/policy) including Info Page allowing users to directly modify document language and layout.
- Educate MSF stakeholders on changes to tiered rating program by May 2012 and implement changes for rates effective July 1, 2012.

Results

- MSF provided financial support, leaders and staff were active on the Board and Committees, and provided experts for SafetyFest presentations.
- Info Page deferred to FY 13. All other documents implemented as planned.
- Extensive internal training to UWs, CSSs, and SMCs. Board provided program overview and agents notified. Programming completed ahead of schedule and implemented February 2012.



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.



Claim and Medical Management

- Legislative Reform
- Provider Relationships
- Medical Expertise on Claim Files



Claim and Medical Management

- Legislative Reform
 - Fully Implement Business Processing and Application System Changes as Mandated in HB 334
 - SAW/RTW
 - Stakeholder Education



Claim and Medical Management

- **Provider Relationships**
 - Enhance Collaborative Relationships with Montana Medical Providers to Improve Business Understanding and Claim Management Processes
 - Dedicated Resource
 - Participation with Provider Associations
 - Medical Forums



Claim and Medical Management

- 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
 - Additional Dedication of Medical Resources
 - Application of Utilization & Treatment (U&T) Guidelines



Legislative Reform

- Executive Evaluation: (Completed)
 - System Changes to Support:
 - Mid-Term Loss Cost Impact
 - Annual Loss Cost Decrease
 - Medical Management and SAW/RTW
 - Communications Supporting Statutory Changes
 - Data Reporting to Track Impacts of Changes
 - New SAW/RTW Policy Statement Created, Filed with Department of Labor & Industry – New Program Implemented and Training Completed
 - Medical Provider Relations Outreach Program Created and Implemented
 - Reform Impacts Communications Program Created and Implemented



Provider Relationships

- Executive Evaluation: **(Completed)**
 - Medical Forums and Medical Office Manager Meetings Held in August, December, and June
 - Provider Relations Position Created and Staffed
 - Individual Provider/Hospital/Group Meetings Held Throughout the Year
 - Provider and Claims Examiner Customer Surveys Taken in December and June
 - Provider Relations Team Meetings (Monthly)
 - Medical Management FAQs, U&T Guidelines and Fee Schedules Updated and Published



Medical Expertise on Claim Files

- Executive Evaluation: **(Completed)**
 - Medical Director Position Created and Staffed
 - Medical Advisors Recruited and Retained
 - New Strategic Nurse Consultant Position Created, Staffed, Claim Assignments Made
 - Additional Medical Case Manager Positions Created and Staffed
 - Nurse File Review Meetings Established with Results of Additional Medical Management Input Monitored



Claim and Medical Management

Success Measures

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

Results

- Medical Management law change meetings held throughout the state.
- FAQs for providers published July 2011.
- Provider relations program created July 2011.
- Provider and Claims Examiner customer surveys crafted and administered.
- Performance measures recommended with partial implementation.
- New SAW/RTW program to meet statutory requirements implemented and training completed.



Infrastructure

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



Infrastructure

- Enterprise Risk Management (ERM)
 - Establish a Comprehensive Enterprise Risk Management Program to Identify, Mitigate, and Monitor Current and Emerging Risks and Opportunities



Enterprise Risk Management

- Executive Evaluation: **(Completed)**
 - Building on the Initial Project Work Begun and Completed in FY 2011, the Project Team Accomplished the Following:
 - Combined Risks, Corrected Data on Risk Matrix, Completed Gap Analysis and Identified Risk Owners **(July-September)**
 - Identified (with Executives) Top Risks and Completed Risk Responses for Top 15 and Narrowed to Top 5 for Business Plan Consideration **(October)**
 - Provided Training to All Employees and Posted Risk Reporting Form on Portal



Enterprise Risk Management

- Executive Evaluation: **(Completed)**
 - Created ERM Transition Plan from Consultant-Led Project to Internally-Led Program Effective January 2012
 - Established Cross-Functional Enterprise Risk Management Committee (ERMC)
 - Created Central Repository for ERMC to Streamline Administrative and Reporting Processes



Enterprise Risk Management

- Executive Evaluation: (Completed)
 - January
 - Started Refinement of Activity and Sub-Activity Listing in Risk Matrix
 - Completed Risk Owner Guide Outlining Roles and Responsibilities and Instructions for Documenting Risk Action Plans
 - Provided Risk Owner Training
 - Eide Bailly led Executive Training and Discussion on ERM Program



Enterprise Risk Management

- Executive Evaluation: (Completed)
 - February
 - Began Monthly ERM Committee Meeting Format
 - Other
 - Identified Risk Summary Provided to All Employees
 - Provided Update of ERM Initiative Program/Progress at June Board of Directors Meeting



Infrastructure

Success Measures

- Align and link ERM with FY 2013 business planning and budgeting processes by January 1, 2012.
- Deliver risk mitigation response plans for 3-5 high impact risks, including actions, responses, monitoring and reporting by January 1, 2012.

Results

- Evaluation/ranking of MSF top risks occurred October 2012 with Project Team and Executives.
- Mitigation Response Plans for 5 high impact risks submitted to Executives for consideration in planning November 2012.



Infrastructure

Success Measures

- Establish customized reporting and monitoring of ERM to meet MSF's needs by January 1, 2012.
- Train MSF staff to ensure smooth transition of the ERM process throughout the organization by January 1, 2012.

Results

- Risk Matrix populated and continues to be reviewed and monitored.
- Risk Committee established and meeting monthly to review risk action plans and new/emerging risks.
- Established risk users guidelines for Risk Owners to assist in preparation of Risk Action Plans.
- ERM transition plan approved by ESPM November 2011.
- MSF employees trained on ERM process and risk reporting December 2011.



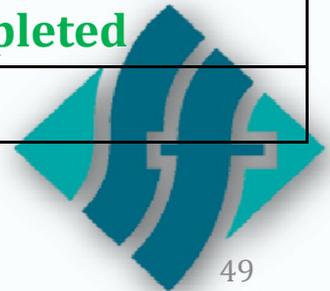
Key Success Measures (KSM) Summary

<u>KSM</u>	<u>FY 2012 Business Plan</u>	<u>FY 2012 Actual</u>
Net Earned Premium	\$132.9M	\$150.5M
FY Loss Ratio	76.7%	79.4%
Expense Ratio	32.3%	31.2%
Investment Income	\$41.0M	\$49.4M
Net Operating Income	\$24.0M	\$29.8M



Enterprise-Wide Initiatives Summary

<u>Category</u>	<u>Detail</u>	<u>Executive Evaluation</u>
WORKFORCE	Organizational Talent Management	Completed
CUSTOMER SERVICE	Workplace Safety	FY 12 Complete*
	Document Management	FY 12 Complete*
	Refine Tiered Rating	Completed
CLAIM and MEDICAL MANAGEMENT	Legislative Reform	Completed
	Provider Relationships	Completed
	Medical Expertise on Claim Files	Completed
INFRASTRUCTURE	Enterprise Risk Management	Completed
* Multi-year Initiative		



Questions

