



2014 BUSINESS PLAN

July 1, 2013 through June 30, 2014



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FROM THE PRESIDENT ...

The economic turmoil of the past five years certainly taught us the importance of a thorough environment analysis – both current and near future – in our planning activities. The management team completed this analysis and combined it with a clear understanding of strengths we can leverage to define focus areas. Through these focus areas we set the guideposts for our leadership team to work within and collaboratively build the FY 2014 plan. As a result, this year's plan considers both our near term reality and our vision for future success.

As more employees choose to retire MSF faces difficult competition to recruit and keep knowledgeable employees. We will use insights gained and the foundation built from last year's projects to further address this challenge. Training and development plans will position existing employees for growth opportunities as they occur. A short-term increase in several key position personnel frees up employees to grow their skills and transfer their knowledge without significant drain while reducing the adverse impact to customer service due to turnover. Through effective succession management employees will have the opportunity to grow their skills and further their career at Montana State Fund. Active and creative recruiting methods will attract the best talent for those vacated positions.

We are encouraged by the decrease in accident frequency trend yet we have no intention of decreasing focus on prevention. Through the WorkSafe Champions program and increased return to work and stay at work communication we will provide our customers with informative and practical safety education they can put to work in their business.

Projects this year keep us on top of our claim and medical management practices. Through claim analytics we explore ways our volumes of data will improve claim handling and overall injury outcomes. Upgrading our claim processing software ensures a key system takes advantage of enhanced claim management features and maintains cost effectiveness.

We are committed to ensuring Montana State Fund remains a financially strong insurance entity to continue to offer a cost effective option for Montana businesses for their workers' compensation coverage and to provide the necessary care for injured employees. During the interim leading up to the next legislative session, we will work to identify viable options the Board of Directors, the Governor and Legislators may consider that will ensure Montana State Fund remains a responsible and accountable organization with the appropriate regulatory oversight.

The FY 2014 plan continues our leadership team's commitment to serving Montana businesses with high-performance employees, valuable partnerships, and conservative business practices to ensure Montana State Fund is a strong and stable workers' compensation insurance presence in Montana far into the future.

Sincerely,

Laurence A. Hubbard
President / CEO

“ We are encouraged by the decrease in accident frequency trend yet we have no intention of decreasing focus on prevention. ”

EXECUTIVE SUMMARY

Montana State Fund's FY 2014 business plan takes ambitious steps to address shifting workplace demographics. Recruiting efforts take greater advantage of social media and invigorate internal referral programs. Formalized training and development programs will increase employee engagement, improve skills, and help position employees for growth opportunities that occur within the next five years. This year's projects establish processes to limit the impact of knowledge loss and resource strain as we transfer knowledge to manage through retirement and succession within the organization.

The successful WorkSafe Champions safety program continues this year to promote and improve workplace safety. We will also strengthen our education efforts on the benefits of return to work and stay at work opportunities through targeted communication with employers, employees, and medical providers.

Claim and medical management initiatives include the continuation of claim analytics research. The FY 2014 phase determines if our data provides predictive accuracy when used within modeling software. The second project, Claim Center upgrade, is a major core system project to ensure we use supported technology and provide new business features.

One of our top priorities is the long-term viability and financial strength of Montana State Fund. The structure review project keeps this financial focus in mind for our customers.

FY 2014 ENTERPRISEWIDE INITIATIVES:

1) Workforce

- Increase efficiencies in recruiting processes to better meet the needs of the organization by effectively increasing the number of quality candidates, the quality of each hire and decreasing time to fill.
- Implement employee development and planning strategies to improve organizational communication, effectiveness, and engagement.
- Formalize succession planning strategy to ensure a sustainable and proactive approach to workforce development and business continuity.
- Develop transition strategies and processes to diminish the effects of pending knowledge loss.

2) Customer Service

- Foster a culture of safety within Montana businesses and provide return-to-work educational resources to stakeholders.

3) Claim and Medical Management

- Evaluate predictive claim analytic tools for their effectiveness in identifying minor claims that have an increased risk of becoming major claims and the potential of integrating such a tool into the MSF claim management practices.
- Upgrade claim processing system to maintain current technology and implement valuable business features.

4) Infrastructure

- Assure Montana State Fund structure and regulatory oversight meets Montana business and injured employee needs while ensuring the financial strength and integrity of the organization.

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 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 identify and implement new and better ways to efficiently and effectively operate and improve customer service.

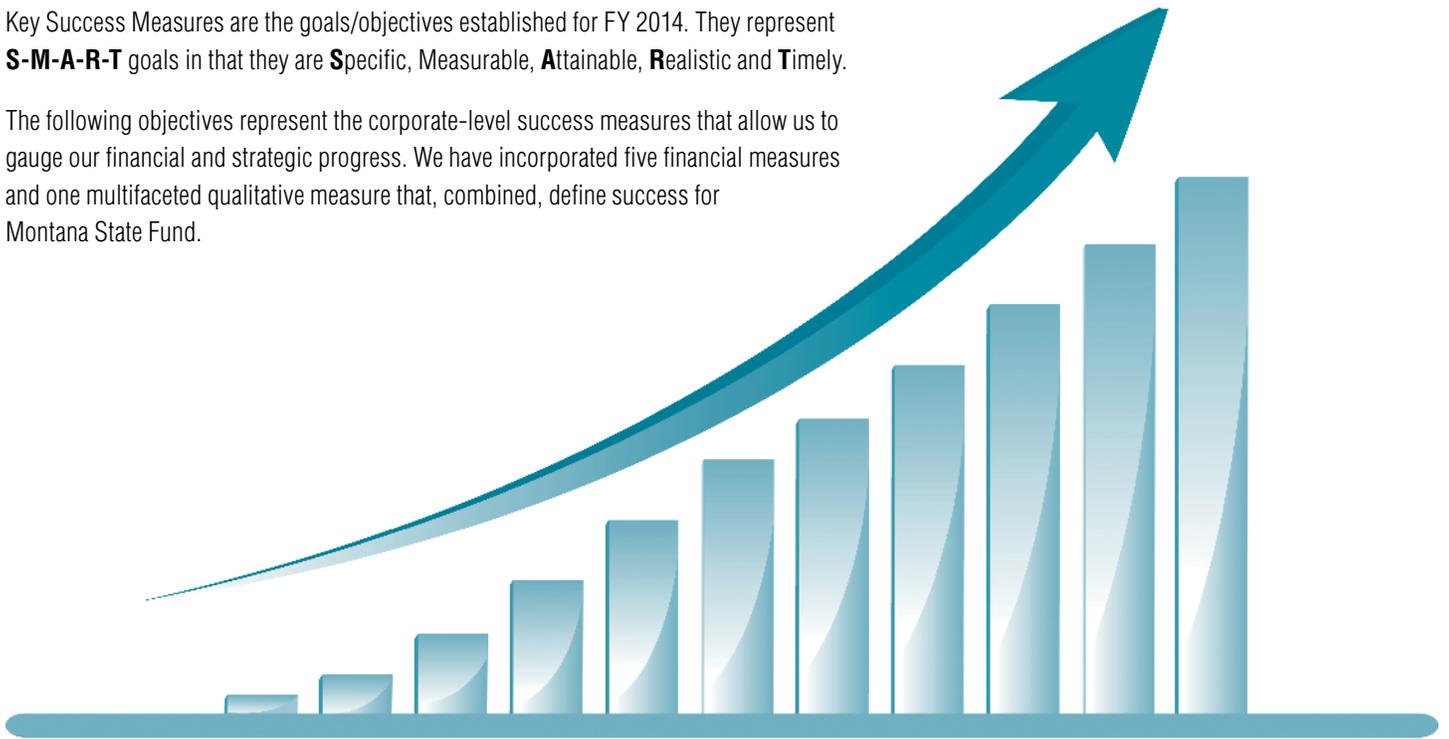


KEY SUCCESS MEASURES

FY 2014 Key Success Measures

Key Success Measures are the goals/objectives established for FY 2014. 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 \$32.3M
- 2) Achieve total Net Earned Premium of \$152.1M
- 3) Achieve Fiscal Year Loss Ratio of 73.4%
- 4) Maintain Expense Ratio of 31.3% or less
- 5) Achieve Investment Income of \$45M
- 6) Achieve Enterprise-Wide Initiatives

ENTERPRISEWIDE INITIATIVES

Enterprise-wide initiatives are critical elements for the continued success of Montana State Fund. They are supported by multi-functional efforts comprised of key performance indicators and success measures to ensure we accomplish our goals. In addition, they support our Mission, Vision, and Guiding Principles.

1. WORKFORCE

Montana State Fund continues its focus on employees in order to promote a high-performance environment and manage through pending changes in workforce demographics. Our efforts this year work to improve employee engagement and address workforce planning through creative recruiting, succession management, enhanced development, and transitional employment programs.

KEY PERFORMANCE INDICATORS

Recruitment – Enhance recruiting efficiency through the use of technology and social media with an emphasis on entry level positions.

Engagement – Improve organizational communication, organizational effectiveness, and respect by implementing engagement strategies using FY 2013 survey results.

Succession - Formalize forward looking succession process and opportunities to ensure sustainable knowledge transfer and employee growth/development for critical positions and identified high potentials.

Transition – Manage pending critical institutional knowledge loss through retirement with transitional employment programs.

Success Measures:

Recruitment

1. Identify and hire candidates into identified critical positions.
2. Hire at least 30% of external applicants through social media and four through the enhanced employee referral program by June 30, 2014.
3. Increase the number and use of enhanced Caliper profiles as part of the recruiting process.

Engagement

1. Implement new training and development policy and procedure by December 31, 2013.
2. Maintain voluntary non-retirement turnover rate below 10%.
3. Results of a FY 2015 engagement survey indicate overall improvement in employee engagement.



Succession

1. Implement strategies to address FY 2013 critical position review results.
2. Complete high-potential assessment by December 31, 2013.
3. Finalize and implement leadership development program in FY 2014.

Transition

1. Develop, adopt, implement, and communicate identified pre-retirement transition options.
2. Use transitional options to extend employment and improve knowledge transfer of at least three critical positions in FY 2014.
3. Report on program results and effectiveness by June 30, 2014.

2. CUSTOMER SERVICE

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

KEY PERFORMANCE INDICATORS

WorkSafe Champions – Strengthen our partnerships with policyholders and their employees to make Montana a safer and more productive work environment.

Return to Work – Improve stakeholder understanding of return to work and stay at work opportunities through targeted education and communication.

Success Measures:

WorkSafe Champions

1. Develop scoring system and methodology to objectively analyze participant's progress on safety action plans by September 30, 2013.
2. Achieve a 15 percent decrease in overall average claim frequency (from the three year average baseline level) in WorkSafe Champion course participants within two years of their attendance.
3. Achieve an average 5 percent decrease in overall average loss costs (from the three year average adjusted baseline level) for WorkSafe Champions course participants within two years of attendance.

Return to Work

1. Complete employer and employee communication materials to establish initial understanding of return to work and stay at work opportunities and benefits by September 30, 2013.
2. Expand the job description bank on the Montana State Fund safety website to add a minimum of 50 additional job descriptions (doubling of existing inventory) by June 30, 2014.
3. Complete medical provider communication materials to provide initial understanding of return to work and stay at work opportunities and benefits by June 30, 2014.

3. CLAIM AND MEDICAL MANAGEMENT

Maintain core processing systems and proactively identify ways to streamline process, consistently communicate with stakeholders, and improve claim outcomes.

KEY PERFORMANCE INDICATORS

Claim Center System Upgrade – Maintain currency of a core business processing system and take advantage of new performance and business features.

Claim Analytics – Evaluate claim analytics applications to determine if such an application, in conjunction with MSF available data, can accurately differentiate high risk from low risk claims at early maturities.

Success Measures:

Claim Center System Upgrade

1. Complete project plan including sponsor approval by September 30, 2013.
2. Complete major data feeds to Claim Center by the latter of June 30, 2014 or nine months after availability of version 8.
3. Implement Claim Center upgrade in production environment by the latter of November 30, 2014 or 14 months after availability of version 8.

Claim Analytics

1. Contract for readiness assessment and proof of concept modeling services by September 1, 2013.
2. If readiness assessment is within expectations of credible results, deliver report on modeling results and recommendation for next steps by February 1, 2014.
3. Deliver report on how claim analytics output would be integrated into claim management process and recommendations for claim operations by April 1, 2014.

4. INFRASTRUCTURE

The overall objective is to ensure MSF remains a financially sound workers' compensation insurance entity structured to best serve Montana businesses and their employees into the future.

KEY PERFORMANCE INDICATORS

Research and evaluate impacts, costs, and implementation criteria of alternative regulatory and organizational structures with the overall objective of best serving the state of Montana stakeholders.

Success Measures:

Montana State Fund Structure Review

1. Review the Montana State Fund organizational and regulatory environment in conjunction with the legislative Economic Affairs Interim Committee assignment (EAIC) of the House Joint Resolution 25 (HJ 25) study bill which includes the study of MSF.

2. Provide regular updates to the Board of Directors on the status of the HJ 25 study by the EAIC including analysis of proposals being considered by that committee. The updates will reflect MSF's active participation before the EAIC and other stakeholders.
3. Deliver report to the Board of Directors on the status of HJ 25, MSF analysis, and any recommendation including possible legislation for change by June 30, 2014.



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 re-design in 2000 enhanced our operational flexibility with the addition of multi-functional 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, nurse case management, and provider relations services. We work diligently with Montana employers to develop accident prevention programs yet recognize that accidents will still occur. When an injury does occur on the job, we have resources to assist with appointments, understand medical issues and treatment process, and work with provider offices to ensure ease of documentation.

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 2012	ESTIMATE 2013	PLAN 2014	PROJECTION 2015 2016	
Premium Income	\$150,483	\$156,123	\$152,104	\$154,599	\$159,957
Investment Income	49,432	48,118	44,951	44,081	47,616
Other Income	(3,729)	(4,390)	(5,408)	(5,944)	(6,539)
Total Losses and Expenses	166,381	156,721	159,362	167,338	177,312
Policyholder Dividends	(6,001)	(10,005)	TBD	TBD	TBD
Net Income	\$23,804	\$33,125	\$32,285	\$25,397	\$23,722

TBD - Future dividends to be determined by Board of Directors

Premium to Surplus (X:1)*	0.47	0.42	0.38	0.37	0.38
Loss Reserves to Surplus (X:1)*	2.80	2.39	2.23	2.17	2.17
FY Combined Ratio	110.6%	100.4%	104.8%	108.2%	110.9%
Dividend to Premium Ratio	4.0%	6.4%	TBD	TBD	TBD
Operating Ratio	85.3%	79.1%	81.4%	84.8%	85.9%

*Prior to dividend declaration

BALANCE SHEET

	ACTUAL 2012	ESTIMATE 2013	PLAN 2014	PROJECTION 2015 2016	
Total Assets	\$1,491,802	\$1,552,295	\$1,585,965	\$1,617,913	\$1,647,259
Unpaid Loss and LAE	\$889,940	\$891,515	\$889,643	\$896,202	\$906,948
Other Liabilities	284,193	288,000	297,184	308,394	321,474
Total Liabilities	\$1,174,133	\$1,179,515	\$1,186,827	\$1,204,596	\$1,228,422
Surplus	\$317,669	\$372,780	\$399,138	\$413,317	\$418,837
Total Liabilities and Surplus	\$1,491,801	\$1,552,294	\$1,585,966	\$1,617,913	\$1,647,259