

Montana State Fund

**FY2014 Business Plan Performance
Board of Directors Meeting
September 19, 2014**



Key Success Measures

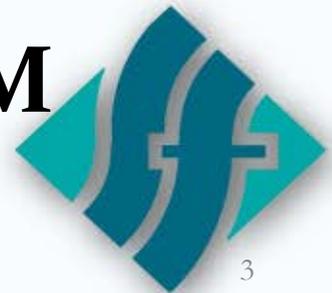
KSM	2014 Business Plan
Net Earned Premium	\$152.1M
Fiscal Year Loss Ratio	73.4%
Expense Ratio	31.3%
Investment Income	\$45M
Net Operating Income	\$32.3M



Generate Total NEP \$152.1M

- Implement board approved rate action
Result: *Rate action approved and implemented – overall 6% decrease*
- \$18.8M new premium
Result: *\$24M of new premium*
- 91.9% premium retention
Result: *91.0% premium retention*

Achieved Total NEP \$165.3M



Achieve FY Loss Ratio of 73.4%

- Planned current accident year performance of 73.4%
Result: 77.3%
- Planned to manage prior period development to \$0
Result: (\$4.1M) of favorable prior period development
- Reserve strengthening of \$10.0M

Achieved FY Loss Ratio 77.3%



Achieve Expense Ratio of 31.3%

- Manage acquisition expense to 6.6%
Result: acquisition expense of 6.7%
- Manage loss adjustment expense to 14.3%
Result: loss adjustment expense of 9.4%
- Manage operating expenses to 14.2%
Result: operating expenses of 13.6%
- Reinsurance contingent commission of (3.8%)
Result: contingent commission (7.7%)

Achieved Expense Ratio 22.0%





Achieve Investment Income of \$45M

- Achieve Portfolio Composition

Bonds: 82.0%

Result: 79.5%

Equities: 11.0%

Result: 12.3%

Short term investments: 2.0%

Result: 2.8%

Real Estate: 5.0%

Result: 5.5%



Achieve Investment Income of \$45M

- Match Returns

Barclays Capital Aggregate Bond Index: 2.86%

Result: 3.67%

S&P 500 Index: 24.61%

Result: 24.55%

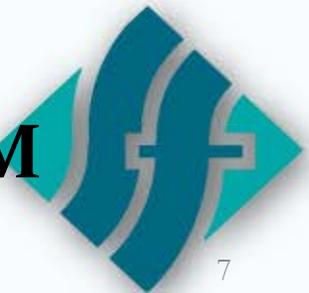
MSCI AC World International Equity Index: 21.75%

Result: 21.83%

NCREIF ODCE (Net) Index: 12.74%

Result: 11.23%

Achieved Investment Income \$56.7M



**Achieve Net Operating Income of
\$32.3M (before dividend)**

**Achieved Net Operating Income of
\$53.4M (before dividend)**

**Statutory Reported
Premium to Equity Ratio**

Plan: 0.38:1

Result: 0.37:1



Key Success Measures

KSM	2014 Plan	2014 Result
Net Earned Premium	\$152.1M	\$165.3M
Fiscal Year Loss Ratio	73.4%	77.3%
Expense Ratio	31.3%	22.0%
Investment Income	\$45M	\$56.7M
Net Operating Income (before dividend)	\$32.3M	\$53.4M



Enterprise-Wide Initiatives

- Workforce
 - *Rick Duane, VP Human Resources*
 - *Nancy Butler, General Counsel*
- Customer Service
 - *Peter Strauss, VP Operations Support*
 - *Rick Duane, VP Human Resources*
- Claim and Medical Management
 - *Al Parisian, CIO*
 - *Julie Jenkinson, VP Operations*
 - *Mark Barry, VP Corporate Support*
 - *Peter Strauss, VP Operations Support*
- Infrastructure
 - *Nancy Butler, General Counsel*
 - *Mark Barry, VP Corporate Support*



Workforce – Recruitment

COMPLETE

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

- *Identify and hire candidates into identified critical positions*
 - **Result:** Eight critical roles identified and ten people hired into those roles.
 - Entry level: Four Claim Assistants hired
 - Technology/social media: Career Builder, Linked In, and Facebook



Workforce - Recruitment

- *Hire at least 30% of external candidates through social media and four through the enhanced employee referral program by June 30, 2014.*
 - **Result:** Hired 59% of exempt positions using social media sources.
 - **Result:** Hired 5 applicants through the employee referral program.
- *Increase the number and use of enhanced Caliper profiles as part of the recruiting process.*
 - **Result:** Completed enhanced Caliper leadership profile.
 - Caliper – a competency assessment tool that identifies trait preferences for candidate fit and alignment
 - Incorporated in the hiring process for six Claims Managers



Workforce – Engagement

COMPLETE

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

- *Implement new training and development policy and procedure by December 31, 2013.*
 - **Result:** New training and development policy implemented December 18, 2013.
 - **Result:** Implemented new Quarterly Leadership Meeting format to enhance focus on leader development.



Workforce - Engagement

- *Maintain voluntary non-retirement turnover rate below 10%.*
 - **Result:** Voluntary non-retirement turnover rate 6.45%
- *Results of a FY 2015 engagement survey indicate overall improvement in employee engagement.*
 - **Result:** Suggestions and ideas implemented; survey to be administered at the end of FY 2015.
 - Efforts to increase communication
 - Department communication plans developed and shared
 - Skip-level meetings, one-on-one meetings, leader visibility/walking around
 - Span of control improved within Operations
 - Hired six Claim Managers
 - Enhanced training on policies and procedures at leadership meetings.



Workforce – Succession

COMPLETE

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

- *Implement strategies to address FY 2013 critical position review results.*
 - **Result:** Eight critical roles identified and ten people hired into those roles.
 - Increased bench strength within critical roles



Workforce - Succession

- *Complete high-potential assessment by December 31, 2013.*
 - **Result:** Assessment process developed and high-potential selection completed by November, 2013.
- *Finalize and implement leadership development program in FY 2014.*
 - **Result:** Pilot leadership development program kicked off with three participants in January, 2014.



Workforce - Succession

- Succession Management Process:
 - High Potential Assessment
 - Leadership competency model to guide decisions about hiring, promotion, evaluation, and potential
 - Leadership Development Program
 - Piloted with three participants with a focus on leadership competencies and engagement
 - One program participant hired as Claims Manager
 - Used program components to on-board and train eight leaders (6 Claims Managers, Provider Relations Manager, Finance Manager, Safety Leader)



Workforce – Transition

COMPLETE

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

- *Develop, adopt, implement, and communicate identified pre-retirement transition options.*
 - **Result:** Part-time work schedule policy completed and communicated as an option for retirement transition.
 - One employee worked part-time to train replacement and transition out.



Workforce - Transition

- *Use transitional options to extend employment and improve knowledge transfer of at least three critical positions in FY 2014.*
 - **Result:** Specifically budgeted transition positions used to double-fill two retiring Claim Examiners and Operations Vice President.
- *Report on program results and effectiveness by June 30, 2014.*
 - **Result:** Reported on and tracked employees who retired, length of notice, and if a transition strategy was used.
 - Communicated with and educated employees on providing early retirement notice to promote knowledge transfer options.



Customer Service – Worksafe Champions

COMPLETE

Strengthen our partnership with policyholders and their employees to make Montana a safer and more productive work environment.

- *Develop a scoring system and methodology to objectively analyze participant's progress on safety action plans by September 30, 2013.*
 - **Result:** Participant progress reports developed with comments provided by MSF Safety Professionals.
 - Individual employer Safety Action Plan improvements reviewed and documented, allowing for graduation in Sept. 2014.



Customer Service - Worksafe Champions

- *Achieve a 15% decrease in overall average claim frequency (from the three year average baseline level) in Worksafe Champions course participants within two years of attendance.*
 - **Result:** Class 5 frequency and loss cost impacts measured at 15 months post graduation – January 2015
- *Achieve an average 5 percent decrease in overall average loss costs (from the three year average baseline level) for Worksafe Champions course participants within two years of attendance.*
 - **Result:** Class 5 frequency and loss cost impacts measured at 15 months post graduation – January 2015



Customer Service - Worksafe Champions

Ongoing Effort

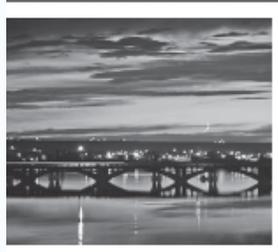
Maintain a focus on developing a culture of workplace safety in Montana

- Invited higher loss policyholders
 - Determined by e-mod, frequency and loss ratio
- FY 2014 Class 5: Graduated 61 participants in six locations in September, 2013



WORKING IN GREAT FALLS JUST GOT SAFER.

CONGRATULATIONS WORKSAFE CHAMPIONS.



Weatherguard Corporation
Cascade County - Clerk and Records Office
Cascade County - Juvenile Detention Center
Cascade County - Public Works
Cascade County - Sheriff's Office Admin
Cascade County - Weed and Mosquito
Great Falls Emergency Services
Irish Engineering & Construction Co.
Johnson-Madison Lumber Company
MT Gems
Skills Kin
District 4 Human Resources Development Council
Somont Oil Company
Great Falls Clinic

Jordan Smith
Brad Clark
Kelsey Klundt
Rick Schutz
Amanda Brooks
Norma Bergstrom
Justin Grohs
J. D. Twitchel
Fred A.H. Thompson
Ryan Fleek
James Pope
Diane Savasten Getten
Stacey Koon
James Reed

Please join us in applauding the commitment of these companies and their employees who took the lead in making Montana a safer place to work and live. By participating in Montana State Fund's 12-month WorkSafe Champions certification program, they are building a culture of safety across our state. Find out how your company can be a WorkSafe Champion by visiting www.safest.com.



Work hard.
Be safe.



Customer Service - Worksafe Champions

Ongoing Effort

- FY 2014 Class 6: Started with 102 participants in six locations
- New application process to ensure policyholder engagement prior to enrollment
- New graduation requirements
 - Complete self-assessment, create action plan, demonstrate progress on plan



Customer Service - Worksafe Champions

Ongoing Effort

- Overall: 283 graduates and mentors
 - Safety message contributors
 - Local market safety advocates
- Class 5 frequency and loss cost impacts measured at 15 months post graduation – January 2015



Customer Service - Worksafe Champions

Class I	Class II	Class III	Class IV
Ind Frequency -20.9%	Ind Frequency - 20%	Ind Frequency - 4.0%	Ind Frequency +19.6%
Med Frequency -6.5%	Med Frequency +0.1%	Med Frequency +14.0%	Med Frequency +10.5%
Loss Costs -25.9%	Loss Costs -14.7%	Loss Costs -13.0%	Loss Costs +16.3%



Customer Service – Return to Work COMPLETE

Improve stakeholders understanding of stay at work and return to work opportunities through targeted education and communication.

Complete employee and employer communication materials to establish initial understanding of stay at work and return to work opportunities and benefits by September 30, 2013.

- **Result:** Informational materials incorporated into the employer and employee claim notification process in September, 2013.
 - Claim Process workflow (to both employee and employer)
 - Employer Incident Management Checklist (to employer only)



Customer Service – Return to Work

- *Expand the job description bank on the MSF safety website to add a minimum of 50 additional job descriptions (doubling existing inventory) by June 30, 2014.*
 - **Result:** Job description bank on safemt.com website expanded by 54 descriptions.
 - Job descriptions selected based on jobs with claims generating highest use of vocational rehabilitation services



Customer Service – Return to Work

- *Complete medical provider communication materials to provide initial understanding of stay at work and return to work opportunities and benefits by June 30, 2014.*

Result:

- Claim process for medical providers flow chart
- Workers' compensation return to work definitions
- Medical oriented return to work benefits page on safemt.com website completed
- Materials distribution:
 - Provider page on website
 - Medical manager meetings (Missoula and Helena)
 - One-on-one office visits by MSF provider relations team



Claim and Medical Management Claim Center Upgrade to Version 8 **MULTI-YEAR**

Maintain currency of a core business processing system and take advantage of new performance and business features.

- *Complete project plan including sponsor approval by September 30, 2013.*
 - **Result:** Claim Center version 8 available in September, 2013 (three months later than plan). Additional dependency on Oracle version 12C which was not available until December, 2013. MSF moved the project start date to January, 2014 and completed the project plan in February, 2014.



Claim and Medical Management Claim Center Upgrade to Version 8

- *Complete major data feeds to Claim Center by the latter of June 30, 2014 or nine months after availability of version 8.*
 - **Result:** Work on over 30 interfaces is on track to meet the nine months post availability date of October 2014.
- *Implement Claim Center upgrade in production environment by the latter of November 30, 2014 or 14 months after availability of version 8.*
 - **Result:** Development and testing is ongoing with plan to implement in production by the 14 months post availability date of March 2015.



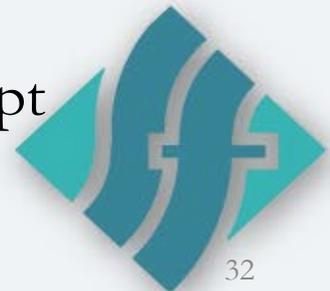
Claim and Medical Management

Claim Analytics

COMPLETE

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.

- *Contract for readiness assessment and proof of concept modeling services by September 1, 2013.*
 - **Result:** Three proposals were received. The evaluation committee selected and contracted with Milliman in August, 2013.
 - MSF claim data was sufficient for potential predictive analytics and the project continued to proof of concept phase.



Claim and Medical Management

Claim Analytics

- *If readiness assessment is within expectations of credible results, deliver report on modeling results and recommendation for next steps by February 1, 2014.*
 - **Result:** Proof of concept modeling results were sufficiently predictive for early identification of initially non-serious claims that could develop into severe claims.
 - Recommendation to move forward complete in January, 2014.



Claim and Medical Management

Claim Analytics

- *Deliver report on how claim analytics output would be integrated into claim management process and recommendations for claim operations by April 1, 2014.*
 - **Result:** The project team recommended a conceptual framework for integrating analytics into claim management process on April 1, 2014.
- Implementation project in FY 2015



Infrastructure – Structure Review

MULTI-YEAR

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.

- *Review the MSF organization and regulatory environment in conjunction with the legislative Economic Affairs Interim Committee (EAIC) assignment of the House Joint Resolution 25 (HJ 25) study bill which includes the study of MSF.*

Result:

- MSF staff educated on scope of regulatory examinations (market conduct and financial)
- Review of Title 33 Insurance Code requirements and work with CSI on applicability to MSF
- Reviewed cost impacts and identified timeline for oversight and regulation under Title 33
- MSF staff provided input and information as requested at seven EAIC meetings held in FY 2014.



Infrastructure – Structure Review

- *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.*
 - **Result:** Updates provided at regular Board of Directors meetings regarding information provided to EAIC. In addition, a special Board of Directors meeting was held on February 28, 2014 on HJ 25, which included public comment from interested parties. MSF staff also met with CSI at regular intervals to prepare for EAIC meetings.



Infrastructure – Structure Review

- *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.*
 - **Result:** Report provided to Board of Directors in June to summarize decisions points from EAIC to form the basis of potential legislation to be drafted for consideration by the 2015 Legislature.

Key Items:

Regulation and Oversight under Title 33 with exceptions
Continue Guaranteed Market Role
Continue as Governmental Entity



Questions

