# Montana State Fund

**FY2015 Business Plan Performance**

**Board of Directors Meeting**
**September 18, 2015**

# Key Success Measures

| KSM | 2015 Business Plan |
|---|---|
| **Net Earned Premium** | $167.0 M |
| **Fiscal Year Loss Ratio** | 74.7% |
| **Expense Ratio** | 27.2% |
| **Investment Income** | $49.2 M |
| **Net Operating Income** (before dividend) | $40.0 M |

# Generate Total NEP $167.0 M

- Implement board approved rate action

  **Result:** *Rate action approved and implemented – overall 0% decrease*

- $24.2M new premium

  **Result:** *$16.7M of new premium*

- 91.0% premium retention

  **Result:** *89.5% premium retention*

Total NEP **$164.6 M**

# Achieve FY Loss Ratio of 74.7%

- Planned current accident year performance of 74.7%
  **Result:** *70.5%*
- Planned to manage prior period development to $0
  **Result:** *$5.8M of prior period development*
- Decrease in reserve strengthening
  **Board decision:** *$32.1M decrease*

FY Loss Ratio 54.4%

# Achieve Expense Ratio of 27.2%

- Manage acquisition expense to 6.6%
  ***Result:*** *acquisition expense of 7.3%*

- Manage loss adjustment expense to 12.7%
  ***Result:*** *loss adjustment expense of 7.5%*

- Manage operating expenses to 14.2%
  ***Result:*** *operating expenses of 13.7%*

- Reinsurance contingent commission of (6.3%)
  ***Result:*** *contingent commission (5.3%)*

Expense Ratio 23.2%

# Achieve Investment Income of $49.2M

- Achieve earned investment income of $42.1M and realized gains of $7.1M

- Achieve Portfolio Composition

  Bonds: 81.0%
  ***Result:*** *79.9%*

  Equities: 12.0%
  ***Result:*** *11.7%*

  Short term investments: 1.5%
  ***Result:*** *2.4%*

  Real Estate: 5.4%
  ***Result:*** *6.1%*

# Achieve Investment Income of $49.2M

- Match Returns

  Barclays Capital Aggregate Bond Index: 1.68%
  ***Result:*** *2.15%*

  S&P 500 Index: 7.42%
  ***Result:*** *7.49%*

  MSCI AC World International Equity Index: -5.26%
  ***Result:*** *-5.20%*

  NCREIF ODCE (Net) Index: 12.40%
  ***Result:*** *12.38%*

- Earned investment income $41.4M and realized gains $9.3M

Investment Income **$50.7M**

# Achieve Net Operating Income of $40.0M (before dividend)

Net Operating Income

**$83.4 M (before dividend)**

**Statutory Reported**

**Premium to Equity Ratio**

**Plan: 0.36:1**

**Result: 0.32:1**

# Key Success Measures

| KSM | 2015 Plan | 2015 Result |
|---|---|---|
| **Net Earned Premium** | $167.0M | $164.6M |
| **Fiscal Year Loss Ratio** | 74.7% | 54.4% |
| **Expense Ratio** | 27.2% | 23.2% |
| **Investment Income** | $49.2M | $50.7M |
| **Net Operating Income (before dividend)** | $40.0M | $83.4M |

# Enterprise-Wide Initiatives

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

# Workforce – Engagement

## PARTIALLY MET

**Performance Indicator:** Implement engagement strategies identified in FY2014 to enhance organizational communication, organizational effectiveness, and employee perceptions of respect and fairness.

**Success Measures:**

- *Conduct a follow up engagement survey to measure the effectiveness of implemented engagement strategies.*
  - **Result:** Consulting firm administered full engagement survey in June, 2015.

# Workforce - Engagement

- *Show statistically significant improvement in engagement scores from FY2013 survey in the areas of:*
  - Communication
  - Organizational Effectiveness
  - Respect and Fairness
  - **Result:**

| FY13 Survey | FY15 Survey |
|---|---|
| Communication: 3.15 out of 5 | Communication: 3.09 out of 5 |
| Org Effectiveness: 3.10 out of 5 | Org Effectiveness: 2.95 out of 5 |
| Respect/Fairness: 3.11 out of 5 | Respect/Fairness: 3.02 out of 5 |

# Workforce - Engagement

- *Maintain voluntary non-retirement turnover rate below 6%.*
  - **Result:** voluntary non-retirement turnover rate of 9.78%

# Workforce – Succession

## COMPLETE

**Performance Indicator:** A well-defined and documented succession process that includes the continuation and enhancement of the Leadership Development Program based on year one results and feedback.

**Success Measures:**

- *By September 30, 2014 modify the Leadership Development Program as appropriate based on learnings from FY2014 pilot.*
  - **Result:** Thirteen recommendations made by FY2014 participants and all incorporated into FY2015 program by September, 2014.

# Workforce - Succession

- *Identify high potential candidates for FY2015 Leadership Development Program by December 31, 2014.*
  - **Result:** Four candidates selected by Executive team for FY2015 Leadership Development program by December 19, 2014.

- *Launch FY2015 Leadership Development Program with any approved and funded modifications from the FY2014 program by March 31, 2015.*
  - **Result:** FY2015 Leadership Development Program launched on February 9, 2015.

# Customer Service –

## Stay at Work/Return to Work

**COMPLETE**

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

**Success Measures:**

- *Reduce Temporary Total Disability from FY2014 baseline by 5% by June 30, 2015.*
  - **Result:** Reduction of 20.3%. Temporary Total Disability baseline as of August 31, 2014 was 34.13 weeks. Temporary Total Disability as of August 31, 2015 was 27.18 weeks.

# Customer Service –
## Stay at Work/Return to Work

- *Host quarterly stay-at-work/return-to-work education webinars and achieve at least an 80% satisfied attendee evaluation rating.*
  - **Result:** Four education webinars hosted. 86.8% of attendees very satisfied or satisfied with the presentations.

- *Expand the job description bank on the Montana State Fund website to add a minimum of 50 additional job descriptions by June 30, 2015.*
  - **Result:** 52 job descriptions added to safemt.com job description bank.

# Claim and Medical Management

## Claim Center Upgrade to Version 8

**COMPLETE**

**Performance Indicator:** Maintain currency of a core business processing system and take advantage of new performance and business features.

**Success Measures:**

- *Complete configuration and integration development by October 31, 2014.*
  - **Result:** User front end screens, interface system code, and majority of nightly batch processing complete by October 31, 2014.

# Claim and Medical Management
## Claim Center Upgrade to Version 8

- *Complete all testing phases by February 28, 2015.*
  - **Result:** Developer system testing, quality assurance testing, and user testing complete by February 12, 2015.

- *Implement Claim Center upgrade in production environment by March 31, 2015.*
  - **Result:** Claim Center 8 implemented in production on February 14, 2015.

# Infrastructure – Structure Review

## COMPLETE

**Performance Indicator:** Based on final action by the Economic Affairs Interim Committee on the Montana State Fund study under HJR 25 that includes a decision to move forward with proposed legislation; draft legislation through collaborative efforts. MSF will continue to provide the Board of Directors a status of 2015 legislation and Montana State Fund legislative efforts and provide the Board the impacts and recommendations for implementation of any legislative outcomes.

# Infrastructure – Structure Review

**Success Measures:**

- *Montana State Fund's goals in working with the Economic Affairs Interim Committee study under HJR 25 and any subsequent proposed legislation continues to be focused on the following objectives.*
  1. MSF will continue to serve as the guaranteed market for employers seeking workers' compensation insurance coverage in Montana.
  2. MSF will continue to meet the federal tax exempt status.
  3. MSF will continue to use the unique agricultural and public entity class codes.
  4. Ensure MSF's ability to establish and file multiple rating tiers for its book of business.
  5. MSF will avoid unnecessary duplicative regulatory oversight.

# Infrastructure – Structure Review

– **Result:**

1. Senate Bill 123 was introduced and passed by the 2015 legislature and signed by the Governor to evolve MSF from legislative oversight to regulation under Title 33, Montana Insurance Code, beginning effective January 1, 2016.

# Infrastructure – Structure Review

– **Result:**

2. MSF worked cooperatively with the State Auditor's Office, Economic Affairs Interim Committee, bill sponsor Senator Tutvedt, and other interested parties to draft the bill language. Senate Bill 123 met all five of MSF's objectives.

# Infrastructure – Structure Review

– **Result:**

1. MSF continues as the guaranteed market
2. MSF continues to meet federal tax exempt status
3. MSF continues to use the agriculture and public entity class codes as they have been adopted by the Classification and Review Committee and are now part of NCCI's class code inventory for use by MSF and private workers' compensation insurers
4. MSF retained the ability to establish and file multiple rating tiers
5. MSF reduced duplicative regulatory oversight

# Questions