



ANNUAL BUSINESS PLAN

January 1, 2017 through December 31, 2017



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FROM THE PRESIDENT ...

The significant effort to ensure Montana State Fund transitions to Title 33 Montana Insurance Code regulation is largely complete. I could not be more proud of the professional and committed effort Montana State Fund employees sustained over the last two and a half years to ensure a smooth evolution from legislative to regulatory oversight. I welcomed two new executives to my team in 2016 – Sam Heigh, vice president of operations support, and Kevin Braun, general counsel – and the companywide regulation initiative has been a remarkable success. While we will continue preparations for financial and market conduct exams conducted

by the State Auditor's Office, our calendar year 2017 business plan initiatives highlight our Mission: Montana's insurance carrier of choice and industry leader in service.

2017 marks the second year of a multiyear project to replace our Policyholder System. As this 20-year-old system continues to age we are increasingly challenged to provide the customer service functions and stakeholder access regularly demanded of modern service applications. In addition, we are faced with new business requirements for regulation compliance.

Replacing a core insurance application is an undertaking we take very seriously. Initial research began in 2014 with lengthy interviews of several insurance carriers who recently replaced or were in the midst of replacing a policyholder system. We gained valuable lessons learned from these peer discussions to help inform our project groundwork and planning assumptions. Last year the project team documented system requirements on all topics affecting a policy – everything from administration to safety services. I am confident the next steps of the request for proposal process and vendor selection are expertly informed by these business and technical requirements. Implementation of the new system begins in late 2017. We are investing the time and resources to produce a high-quality policy system with no impact on customer service and expect a project of this size to continue through 2019.

It is no secret Montana has a high rate of workplace injuries. We continually look for ways to impact this statistic and our 2017 plan includes two safety initiatives.

Montana State Fund safety management consultants will conduct our yearlong WorkSafe Champions program onsite with several policyholders. The onsite format allows multiple employees to participate and gain the knowledge and tools needed to directly improve safety and health programs, policies, and cultures. WorkSafe Champions will also be offered to policyholders as a workshop series in major cities. This provides smaller employers the same opportunity to obtain safety knowledge and tools in a venue that works for them. Montana State Fund is immensely proud of the WorkSafe Champions program – there are currently over 400 graduates who positively influence workplace safety on a daily basis.

Our second safety initiative – Growing a Safer Montana – reflects Montana State Fund's commitment to change the safety culture for the next generation of Montana employees. Montana State Fund will work with high schools to award grants to their trade and industry classrooms. These grants will help purchase needed safety materials, equipment, or protective gear and begin cultivating a continuous safety mindset in young workers. We will also reach young workers in trade / industry and safety / health programs by awarding scholarships to students who promote and embody the safety commitment necessary to impact culture change.

Customer service is the heart of Montana State Fund's purpose. 2017 is a year we will strengthen our service to Montana employers and employees through innovation of our policy system capabilities and safety education offered in a true collaborative spirit to ensure a safer Montana workforce.

Sincerely,
Laurence A. Hubbard
President / CEO

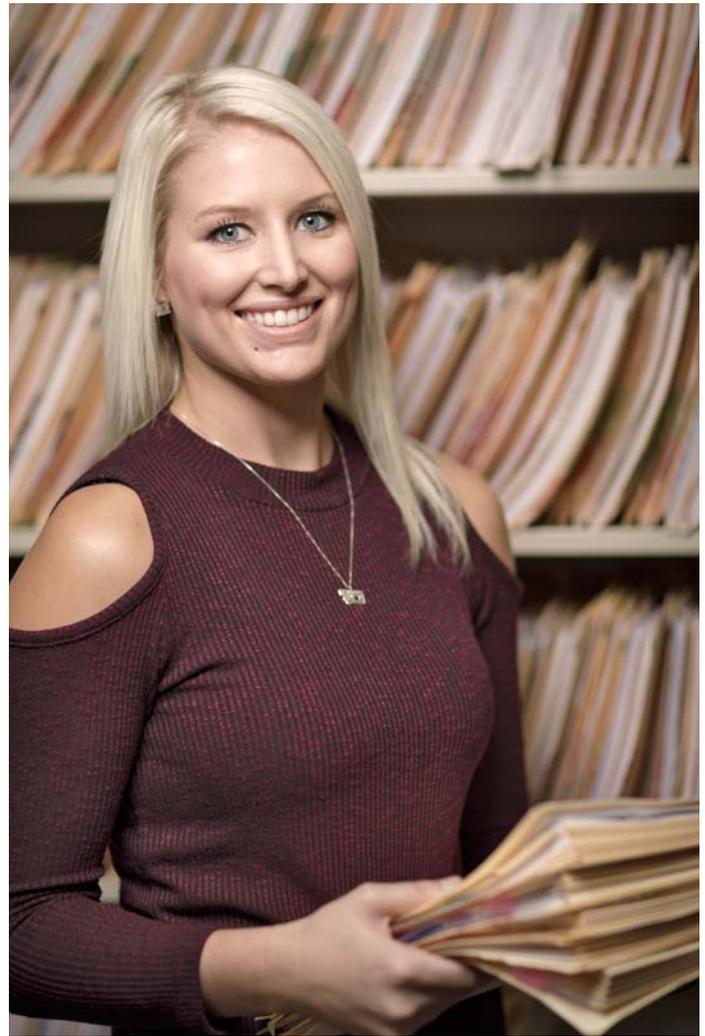
“ We are investing the time and resources to produce a high-quality policy system with no impact on customer service and expect a project of this size to continue through 2019. ”

EXECUTIVE SUMMARY

In calendar year 2017 Montana State Fund (MSF) continues the multiyear effort to replace our 1997 Policyholder System (PHS) application. The requirements completed in 2016 provide detailed information regarding mandatory and preferred functionality in the areas of policy administration, underwriting, billing, premium audit, safety services, and agent / agency management. In 2017, the team will complete the request for proposal process, select a policy and billing system, and begin work to implement the new system.

To further workplace safety we will continue to develop and instill a culture of safety among Montana employer / employee stakeholders. The WorkSafe Champions program's practical education and tools will be provided both onsite for interested MSF policyholders as well as through statewide workshops. This service highlights workplace safety and strengthens our partnership with policyholders and their employees to help make Montana a safer and more productive work environment for all its citizens.

We challenge ourselves to impact safety for the next generation of Montana employees through the Growing a Safer Montana initiative. Montana State Fund will enhance safety awareness with young workers through grants to high school trade and industry classrooms and scholarships to students in trade / industry and safety / health programs beyond high school.



ENTERPRISEWIDE INITIATIVES:

Customer Service

- We continue the multiyear initiative to replace our legacy policy handling and billing system. The new systems will provide easy access to modern workers' compensation insurance policy products and functionality as well as accommodate regulatory environment requirements.
- Workplace safety is a perennial focus for Montana State Fund. Our initiatives impact current workforce safety with our revitalized WorkSafe Champions program and starts impacting safety culture for the next generation with the Growing a Safer Montana initiative.

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

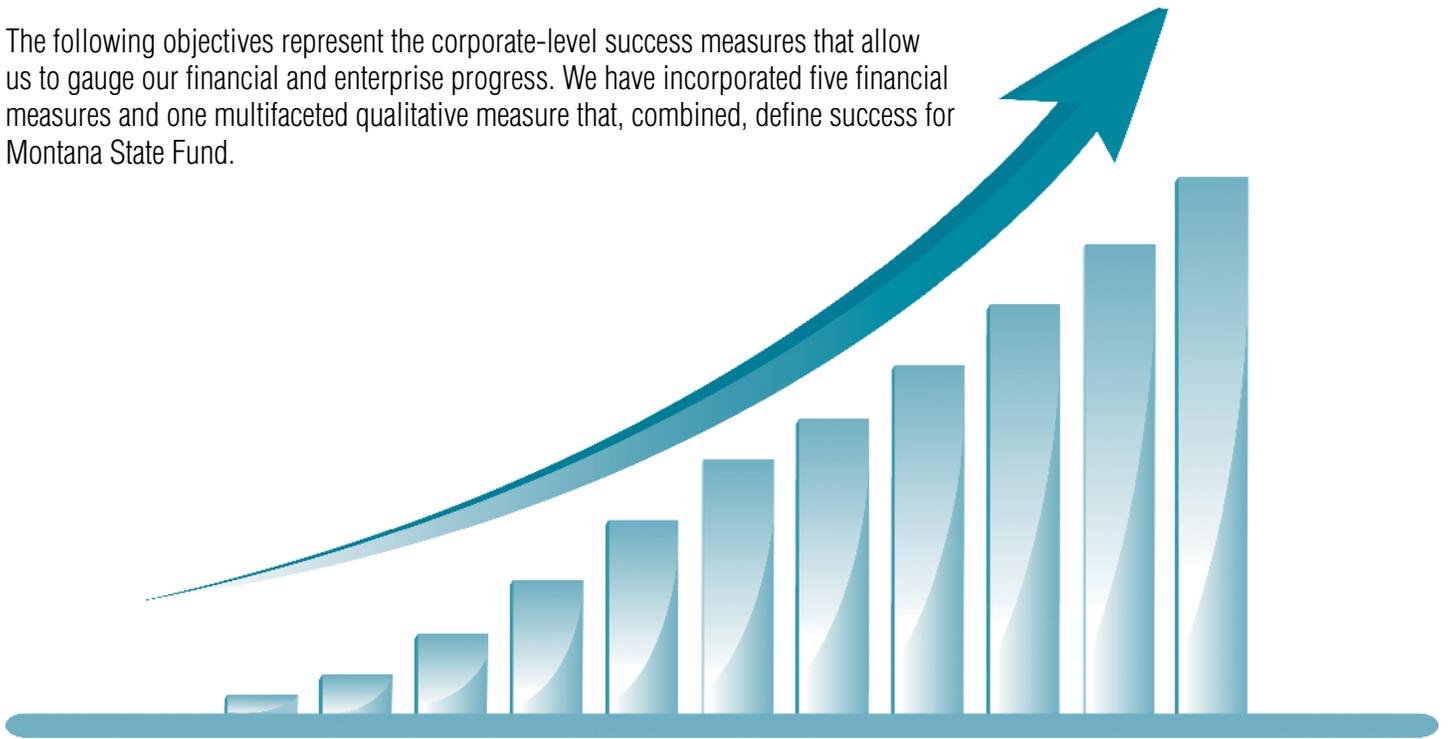
Dedicate ourselves to identify and implement new and better ways to efficiently and effectively operate and improve customer service.



KEY SUCCESS MEASURES

CY 2017 Key Success Measures

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



- 1) Achieve targeted Net Operating Income before dividend of \$28.3 M
- 2) Achieve total Net Earned Premium of \$167.0 M
- 3) Achieve Loss Ratio of 79%
- 4) Maintain Expense Ratio of 30.3% or less
- 5) Achieve Investment Income (including realized gains on investments) of \$48.1 M
- 6) Achieve Enterprisewide Initiatives

ENTERPRISEWIDE INITIATIVES

Enterprisewide initiatives are critical elements for the continued success of Montana State Fund. They are supported by multifunctional efforts comprising key performance indicators and success measures to ensure we accomplish our objective. In addition, they support our Mission, Vision, and Guiding Principles.

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

Policy and Billing System Replacement – Complete the request for proposal process to select system, vendor and implementation partners. Complete initial plans and begin core functionality implementation phase of the initiative.

Success Measures:

Policy and Billing System Replacement

1. Final selection and contract for vendor partner(s) – July 31, 2017.
2. Executive approval of plan to implement core functionality – October 31, 2017.
3. Executive approval of plan for the new system to materially reduce the need for manual business process steps by November 30, 2017.

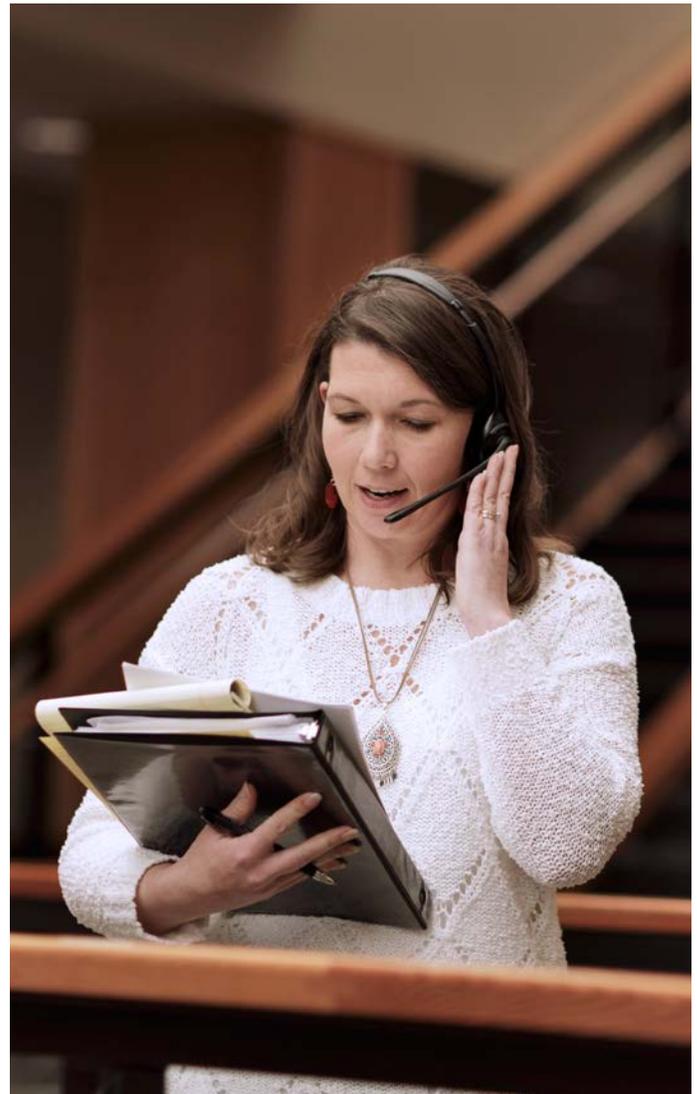
KEY PERFORMANCE INDICATORS

Workplace Safety – Provide practical tools to enhance our customers' abilities to prevent workplace accidents. Work to positively impact the safety culture for the next generation of employees by addressing challenges for young workers in targeted high-risk trades.

Success Measures:

WorkSafe Champions

1. At least 95% of all WorkSafe Champions onsite companies and central workshop attendees develop a safety action plan and demonstrate progress (as measured by assigned MSF safety management consultant) to implement the plan by December 31, 2017.
2. Identify and enroll up to 10 policyholders for onsite WorkSafe Champion program.
3. At least 92% of all WorkSafe Champion onsite companies and central workshop attendees rate the overall course quality and content as good or better.



Growing a Safer Montana

1. Educate young workers and begin to influence safety culture through:
 - a. Awarding eight high school-level safety grants targeted at trade and industry classrooms by December 31, 2017.
 - b. Selecting 10 scholarship recipients in targeted trade / industry and safety / health programs beyond high school by December 31, 2017.

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 implemented 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, 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 processes, and work with provider offices to ensure ease of documentation.

The 2015 Legislature passed legislation to move Montana State Fund under regulation by the State Auditor's Office and Title 33, Montana Insurance Code. We see this latest evolution in our oversight as continued opportunity to preserve our financial strength and remain a stable partner with Montana business.

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.



CY 2017 FINANCIAL PROJECTIONS

Projected Results of Operations Montana State Fund

Statutory Basis (\$000)

OPERATING STATEMENT

	ACTUAL FY15	ACTUAL FY15.5	PROJ CY16	PLAN CY17	PROJ CY18	PROJ CY19
Premium Income	\$164,557	\$88,495	\$166,707	\$167,014	\$170,306	\$174,446
Investment Income	50,708	21,728	50,101	48,135	47,494	47,951
Other Income	(4,064)	(2,107)	(3,508)	(4,301)	(4,790)	(5,310)
Total Losses and Expenses	127,761	85,639	171,451	182,529	189,964	195,483
Policyholder Dividends	(20,005)	(35,003)	(35,001)	TBD	TBD	TBD
Net Income	\$63,435	(12,526)	\$6,848	\$28,318	\$23,047	\$21,605

TBD - Future dividends to be determined by Board of Directors

Premium to Surplus (X:1)*	0.32	0.18	0.32	0.31	0.30	0.30
Loss Reserves to Surplus (X:1)*	1.73	1.78	1.76	1.70	1.65	1.61
Combined Ratio	77.6%	96.8%	102.8%	109.3%	111.5%	112.1%
Dividend to Premium Ratio	12.2%	39.6%	21.0%	TBD	TBD	TBD
Operating Ratio	62.0%	78.4%	82.8%	87.8%	89.5%	89.8%

*Prior to dividend declaration

BALANCE SHEET

	ACTUAL FY15	ACTUAL FY15.5	PROJ CY16	PLAN CY17	PROJ CY18	PROJ CY19
Total Assets	\$1,659,647	\$1,652,055	\$1,591,256	\$1,631,789	\$1,676,358	\$1,723,647
Unpaid Loss and LAE	\$895,543	\$900,296	\$911,961	\$918,938	\$929,057	\$941,477
Other Liabilities	247,199	246,602	162,564	172,542	184,283	196,856
Total Liabilities	\$1,142,742	\$1,146,897	\$1,074,525	\$1,091,480	\$1,113,341	\$1,138,333
Statutory Equity	\$516,905	\$505,158	\$516,730	\$540,309	\$563,017	\$585,314



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