



ANNUAL BUSINESS PLAN

January 1, 2018 through December 31, 2018



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MONTANA STATE FUND BOARD OF DIRECTORS

Lance Zanto, *Chair*

Lzanto2@mt.gov

Helena

Jack Owens

jack@stewartmt.com

Missoula

Matt Mohr

matthewcmohr@hotmail.com

Big Sky

Cliff Larsen

cliff@larsenusa.com

Helena

James Molloy

jim@galliklawfirm.com

Helena

Lynda Moss

lyndamoss@mac.com

Billings

Jan Van Riper

920 University Street

Helena, MT 59601



FROM THE PRESIDENT ...

Customer service is the foundation of our mission at Montana State Fund. The results employees accomplished in 2017 ensure we continue on track in 2018 with initiatives to enhance our customer's experience and ease of doing business with us. Fundamental to this improvement is the continuation of a multi-year initiative to replace our twenty-year-old policyholder system. The current system challenges our ability to provide the functionality and stakeholder access regularly demanded of modern applications. In addition, we are faced with business requirements for regulation compliance.

The policy and billing replacement team completed an exhaustive vendor selection process and detailed design work in 2017. This positions the team in 2018, the third year, for the majority of development and testing of core functionality. It is imperative we invest the time and resources necessary to produce high-quality applications with no impact on customer service. With this goal in mind, nearly 20 State Fund employees are assigned to this project full time and the team continually engages the entire company through change management activities. We expect the first phase of a project this size and complexity to continue through 2019.

We recognize Montana has a high rate of workplace injuries and Montana State Fund invests in multiple efforts to lower accident frequency. In addition to our safety website featuring tools and training content, awareness media campaigns, and free safety workshops this business plan invests in two additional safety initiatives.

Montana State Fund Safety Management Consultants will conduct our year-long Worksafe Champions program onsite with several policyholders. The onsite format creates a deeper impact for the customer by ensuring multiple employees participate and gain the knowledge and tools needed to directly improve safety and health programs, policies, and cultures. In the past two years nearly 100 employees from 14 policyholders have completed the onsite program. Worksafe Champions is also 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.

2017 proved a successful introductory year for our second safety initiative – Growing a Safer Montana. Safety equipment purchased for eight high school industry and trade classrooms reached 600 students. The program reinforced students' safety awareness and helped them work safer in the classroom. The project team is also in the process of awarding ten scholarships to students in higher education trades and occupational safety programs. This initiative reflects Montana State Fund's commitment to change the safety culture for the next generation of Montana employees and continues on a slightly larger scale in 2018.

With the investments in this plan Montana State Fund moves closer to meeting stakeholder expectations for business responsiveness and information access. I believe the safety initiatives provide our customers and Montana students with the tools and information they need to champion safety. This knowledge is certainly part of the solution to create the awareness and accountability necessary to build safe workplaces for current and future generations.

Sincerely,



Laurence A. Hubbard
President / CEO



“ I believe the safety initiatives provide our customers and Montana students with the tools and information they need to champion safety. ”

EXECUTIVE SUMMARY

In calendar year 2018 Montana State Fund (MSF) continues the multi-year effort to replace our 1997 Policyholder System (PHS) application. With the selection of Guidewire software and HCL as system integrator complete in 2017, the work in 2018 transitions to development and testing of core functionality in major components including policy administration, customer portals, billing and payment, and external system integrations. This large and complex project will involve nearly 20 full time MSF employees and an estimated 60 onsite and offsite employees from our system integrator.

MSF is committed to improving safety for Montana employers and employees and two 2018 initiatives work toward this goal. The Worksafe Champions program's practical education and tools will be provided both onsite for interested MSF policyholders as well as through statewide workshops. The onsite options allows Montana State Fund Safety Management Consultants to tailor the education specifically for the customer's safety challenges to improve any current issues as well as their long term safety culture.

In 2017, the Growing a Safer Montana project team generated interest in and awarded safety equipment grants for high school industry classes and college scholarships to those in trades and health programs. This initiative expands in 2018 with plans to reach even more young workers and underscore the importance of safety and build knowledge to use and share in their chosen profession.



ENTERPRISE-WIDE INITIATIVES:

Customer Service

- We continue the multi-year 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 features 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 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 2018 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 \$10.7 M
- 2) Achieve total Net Earned Premium of \$162.4 M
- 3) Achieve Loss Ratio of 75.1%
- 4) Maintain Expense Ratio of 40.5% or less
- 5) Achieve Investment Income (including realized gains on investments) of \$40.7 M
- 6) Achieve Enterprise-Wide Initiatives



ENTERPRISE-WIDE INITIATIVES

Enterprise-wide 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 – 2018 work includes development and testing of core functionality planned for phase one, continued organizational change management, and stakeholder communication.

Success Measures:

Policy and Billing System Replacement

1. Identify opportunities and plan what to continue, stop, and modify based on comparing overall organizational change readiness scores between the year-end 2017 benchmark survey measure and the mid-2018 survey measure completed by June 30, 2018. Present the analysis and any adjustments to the Executive Team in the August 2018 project status report.
2. Demonstrate system functionality supporting at least half of weighted business value metrics through analysis and provide written certification from IV&V by October 9, 2018.
3. Analysis and forecast provided to Board of Directors in time for December 2018 board meeting documenting that policy and billing system replacement is on track to manage to the Board approved six year budget (\$19.9M).

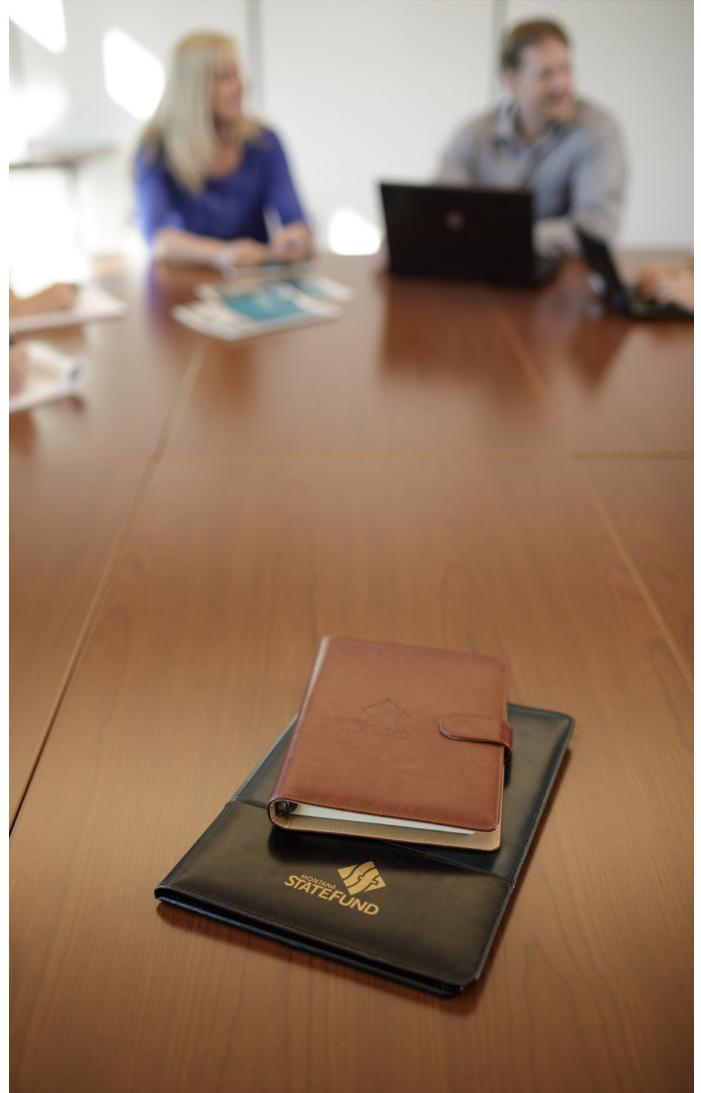
KEY PERFORMANCE INDICATORS

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. One hundred percent of all WorkSafe Champion onsite and central workshop graduates demonstrate positive behavior to improve their health and safety culture by developing a safety action plan and demonstrate progress (as measured by assigned MSF Safety Management Consultant) to implement the plan by December 31, 2018.



2. At least 92% of all WorkSafe Champion onsite and central workshop policyholders rate the overall course quality and content as good or better.
3. Provide a WorkSafe Champions Elite program that recognizes and encourages WorkSafe Champion alumni policyholders to continue to use the information, concepts, and tools from WorkSafe Champions to improve the safety and health of their organization. Engage at least five alumni policyholders to actively participate in the program by June 1, 2018.

Growing a Safer Montana

1. Educate young workers and begin to influence safety culture through:
 - a. Awarding up to 20 high school-level safety grants targeted at trade and industry classrooms by September 30, 2018.
 - b. Selecting up to 11 scholarship recipients in targeted trade / industry and safety / health programs beyond high school by December 31, 2018.

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 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.

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 2018 FINANCIAL PROJECTIONS

Projected Results of Operations Montana State Fund

Statutory Basis (\$000)

OPERATING STATEMENT

	ACTUAL FY15.5	ACTUAL CY16	PROJ CY17	PLAN CY18	PROJ CY19	PROJ CY20
Premium Income	\$88,495	\$169,677	\$164,814	\$162,350	\$165,170	\$167,908
Investment Income	21,728	51,014	55,838	40,728	36,403	37,409
Other Income	(2,107)	(3,845)	(3,965)	(4,779)	(5,292)	(5,835)
Total Losses and Expenses	85,639	171,030	178,980	187,563	177,761	181,418
Policyholder Dividends	(35,003)	(35,001)	(40,002)	TBD	TBD	TBD
Net Income	(12,526)	\$10,816	(\$2,295)	\$10,737	\$18,520	\$18,063

TBD - Future dividends to be determined by Board of Directors

Premium to Surplus (X:1)*	0.18	0.32	0.30	0.30	0.29	0.28
Loss Reserves to Surplus (X:1)*	1.78	1.75	1.68	1.69	1.62	1.55
Combined Ratio	96.8%	100.8%	108.6%	115.5%	107.6%	108.0%
Dividend to Premium Ratio	39.6%	20.6%	24.3%	TBD	TBD	TBD
Operating Ratio	78.4%	81.4%	88.9%	94.6%	88.2%	88.4%

*Prior to dividend declaration

BALANCE SHEET

	ACTUAL FY15.5	ACTUAL CY16	PROJ CY17	PLAN CY18	PROJ CY19	PROJ CY20
Total Assets	\$1,652,055	\$1,664,042	\$1,733,815	\$1,742,021	\$1,781,487	\$1,828,359
Unpaid Loss and LAE	900,296	921,532	920,904	920,322	922,658	926,055
Other Liabilities	246,602	216,044	264,452	276,229	289,248	302,963
Total Liabilities	\$1,146,897	\$1,137,576	\$1,185,356	\$1,196,551	\$1,211,906	\$1,229,017
Statutory Equity	\$505,158	\$526,467	\$548,459	\$545,470	\$569,581	\$599,342



855 Front Street • P.O. Box 4759 • Helena, MT 59604-4759
800-332-6102 • 406-495-5000 • 406-495-5020 Fax
TDD-TTY 406-495-5030
FRAUD HOTLINE • 888-MT-CRIME • 888-682-7463
montanastatefund.com
safemt.com