



2019 Annual Business Plan



January 1 - December 31, 2019
BUSINESS PLAN

Montana 
State Fund

montanastatefund.com



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From the President . . .

Montana State Fund recently completed an employee-driven effort to revitalize our mission, vision, and values. Service remains at the core of this framework and our new mission statement – We partner with employers and their employees to care for those injured on the job and we champion a culture of workplace safety for our fellow Montanans. We stay true to this mission each and every day. Our actions, our goals, and our business plan reflects this purpose and direction.



The Policy and Billing Replacement initiative builds a modern foundation for our stakeholder partnerships. As the five new applications become a reality it is evident to me that Policy Center, Billing Center, Rating, Customer Engage Portal, and Agent Engage Portal will enhance our customer's experience and significantly improve ease of doing business with Montana State Fund.

A change of this magnitude requires ongoing communication and organizational change management. With the introduction of the simulated environment employees have started hands-on familiarization and are seeing not only how intuitive the new applications are but also the efficiency and customer solutions the features provide. The team will continue to engage in internal and external change management and training activities to thoroughly prepare employees for implementation. We are committed to delivering a superior product and expect a project of this size and complexity to continue through 2019.

“ The benefits of safety are something every business can rally behind. To help build this culture Montana State Fund offers a unique combination of safety programs as part of our daily operations and are investing in two initiatives to provide practical tools and advice for a safer workplace. ”

Montana State Fund Safety Management Consultants will conduct our year-long WorkSafe Champions program onsite with several policyholders. Each policyholder ensures multiple employees participate and gains the knowledge needed to directly improve safety and health programs, policies, and cultures. In the past three years nearly 180 employees from 24 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 in a venue that works for them.

The earlier a safety mindset is established the better. Growing a Safer Montana initiative reaches high school industry and trade classrooms by providing needed safety equipment and reinforcing safety awareness. Over the past two years safety equipment purchased for classrooms impacted over 2600 students. Scholarships awarded to students in higher education trades and occupational safety programs through this initiative reflects Montana State Fund's commitment to changing the safety culture of Montana.

Montana employers and employees are more prosperous when we work together. The investments in this plan modernize our service delivery and provide practical safety tools to ensure our partnership with Montana State Fund stakeholders continues well into the future.

Sincerely,

A handwritten signature in black ink, appearing to read "L. A. Hubbard". The signature is fluid and cursive.

Laurence Hubbard, President / CEO

Executive Summary

The 2019 initiatives are focused on customer service. Replacing our 20 year old policy and billing system enhances our service with improved functionality and efficiency. The large and complex project to replace the Policyholder System (PHS) with five modern applications enters its third year. In 2019 the project team of nearly 20 full time MSF employees and dozens of consultants will focus on development, testing, and user training as the project nears implementation by the end of the year.

We continually look for ways to reduce Montana’s high rate of workplace injuries and we have two safety initiatives that work toward that goal. The WorkSafe Champions program’s practical education and tools are provided to policyholders both onsite as well as through statewide workshops. The onsite option allows Montana State Fund Safety Management Consultants to tailor the education specifically for the customer while the workshops allow smaller employers access to the training with less time away from their business.

In its first two years the Growing a Safer Montana project has impacted over 2600 high school students in trade classes from automotive to welding and awarded 21 college scholarships to students in trades and safety/health programs. This initiative continues in 2019 with the goal to reach more young workers and underscore the importance of safety and build knowledge to use 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 builds a positive safety culture for the next generation with the Growing a Safer Montana initiative.

Strategic Framework

Mission

We partner with employers and their employees to care for those injured on the job and we champion a culture of workplace safety for our fellow Montanans.

Vision

To be an indispensable partner in achieving a safer, healthier and more prosperous Montana.



Guiding Values

Do what's right

We operate with the highest levels of professionalism and integrity in all of our dealings with colleagues, customers and stakeholders.

Deliver with heart

It isn't only what we do, but how we do it. We are empathetic and compassionate about the needs and circumstances of every individual with whom we interact.

Focus on what matters

We make sure our work delivers an exceptional customer experience, adds value for all stakeholders and raises awareness of workplace safety.

Succeed together

As a team, we work collaboratively and take all MSF departments and roles into account. We are responsible for delivering a consistent and exceptional customer experience together.

Find a better way

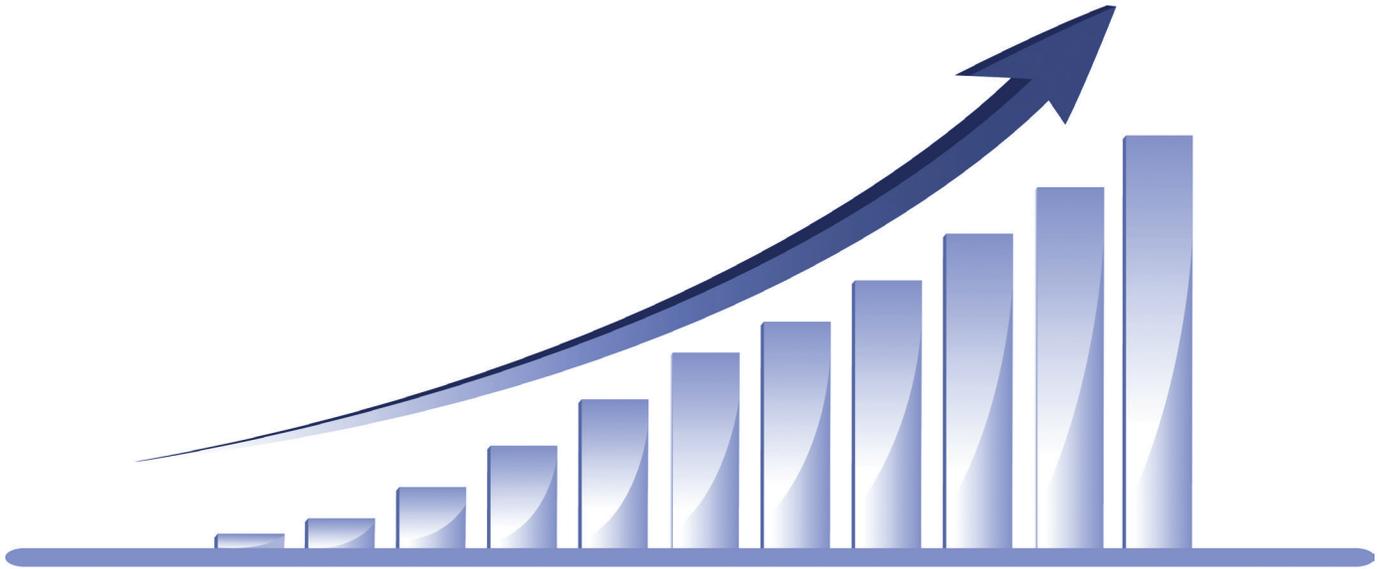
We innovate and improve our services to create better experiences and outcomes for our customers, colleagues and fellow Montanans. We are adept at both leading and adapting to change.

Take the long view

We are all in it for the long haul. Our financial strength and the stability of Montana's workers' compensation insurance market is critical for our state and its people.

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 multi-faceted qualitative measure that, combined, define success for Montana State Fund.



1. Achieve targeted Net Operating Income before dividend of \$16.0M
2. Achieve total Net Earned Premium of \$151.1M
3. Achieve Loss Ratio of 80.9%
4. Maintain Expense Ratio of 35.2%
5. Achieve Investment Income (including realized gains on investments) of \$43.4M
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 multi-functional efforts comprised of key performance indicators and success measures to ensure we accomplish our objective. In addition, they support our Mission, Vision, and Guiding Values.

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

Development and testing of core functionality continues in 2019. This year also includes in-depth user training, continued organizational change management, and stakeholder communication. Go live will occur before calendar year end.

Success Measures:

Policy and Billing System Replacement

- Policy and Billing applications go live and are in production use by calendar year end.
- At system implementation, all identified tasks will have at least 90% of primary direct system users at a Level Three proficiency (able to perform task independently). Metric will be based on employee skills reports and certified by IV&V.
- Analysis and forecast provided to Board of Directors in time for December 2019 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' ability to identify hazards and prevent workplace injuries. 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

- 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).
- At least 92% of all WorkSafe Champion onsite and central workshop policyholders rate the overall course quality and content as good or better.

Success Measures:

Growing a Safer Montana

- Educate young workers and begin to influence safety culture through:
- Awarding up to 25 high school level safety grants targeted at trade and industry classrooms by September 30, 2019.
- Selecting up to 13 scholarship recipients in targeted trade/industry and safety / health programs beyond high school by December 31, 2019.

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.

2019 Financial Projections

Projected Results of
Operations
Montana State Fund
Statutory Basis (\$000)

Operating Statement

	Actual CY16	Actual CY17	Proj CY18	Proj CY19	Proj CY20	Proj CY21
Premium Income	\$169,677	\$166,768	\$158,921	\$151,126	\$151,247	\$154,954
Investment Income	51,014	66,697	56,359	43,448	41,282	42,546
Other Income	(3,845)	(4,023)	(3,641)	(3,056)	(3,452)	(3,886)
Total Losses and Expenses	171,030	179,371	180,523	175,540	182,099	181,418
Policyholder Dividends	(35,001)	(40,002)	(39,998)	TBD	TBD	TBD
Net Income	\$10,816	\$10,069	(\$8,881)	\$15,978	\$6,978	\$7,881

Premium to Surplus (X:1)*	0.32	0.30	0.30	0.28	0.26	0.26
Loss Reserves to Surplus (X:1)*	1.75	1.66	1.80	1.71	1.64	1.56
Combined Ratio	100.8%	107.6%	113.6%	116.2%	120.4%	119.9%
Dividend to Premium Ratio	20.6%	24.0%	25.2%	TBD	TBD	TBD
Operating Ratio	81.4%	88.0%	92.5%	93.4%	96.2%	95.6%

Total Assets	\$1,664,042	\$1,684,538	\$1,645,192	\$1,656,692	\$1,694,838	\$1,740,801
Unpaid Loss and LAE	921,532	919,690	939,944	937,850	940,189	943,903
Other Liabilities	216,044	210,147	181,772	170,329	179,781	191,616
Total Liabilities	\$1,137,576	\$1,129,837	\$1,121,716	\$1,108,179	\$1,119,971	\$1,135,520

Statutory Equity	\$526,467	\$554,701	\$523,475	\$548,513	\$574,867	\$605,281
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