

Montana State Fund

*Board of Directors' Meeting
FY 2007 SBP Performance
October 12, 2007*

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Key Success Measures

- ❖ Generate Total Net Earned Premium of \$214.4 Million
- ❖ Achieve Fiscal Year Loss Ratio of 87.6%
- ❖ Achieve Expense Ratio of 25.8% or Less
- ❖ Attain Investment Income of \$35.5 Million
- ❖ Generate Net Operating Income of \$12.8 Million (Before Dividend)
- ❖ Achieve Enterprise-Wide Initiatives

Enterprise-Wide Initiatives

- ❖ **Focus on Employee Satisfaction**
 - *Tony Johnson, Vice President-Human Resources*
- ❖ **Focus on Customer Satisfaction**
 - *Layne Kertamus, Vice President-Insurance Operations*
- ❖ **Establish Standards as “Best in the Industry” Relative to Claim Handling and Resolution**
 - *Peter Strauss, Vice President-Insurance Operations Support*
 - *Nancy Butler, General Counsel*
- ❖ **Provide the Appropriate Infrastructure to Realize the Montana State Fund Vision**
 - *Mark Barry, Vice President-Corporate Support*
 - *Al Parisian, Chief Information Officer*

Generate Total Net Earned Premium of \$214.4 Million

**Achieved:
\$238.2 Million**

Key Performance Indicators:

- \$25.8M New Premium
- Achieve 89% Retention
- Board Approved Rate Adjustment

Accomplishments:

- \$24.8M New Premium
- 87% Retention
- Implement Board Rate level
- Premium Audit, Reinsurance Savings, Wage Growth

Achieve Fiscal Year Loss Ratio of 87.6%

**Achieved:
78.8%**

Key Performance Indicators:

- Accident Year Loss Ratio to 78.3%
- Prior Period Reserve Adjustments to \$20 Million

Accomplishments:

- AY 2007 Loss Ratio of 67.4%
- Prior Period Adjustments of \$21.9 Million
- Court Decisions \$7 Million

Achieve Expense Ratio of 25.8%

Not Achieved: 27.3%

Key Performance Indicators:

- Acquisition Expense to 6.8%
- Loss Adjustment Expense to 11.2%
- Operating Expenses to 7.8%

Accomplishments:

- Acquisition Expense – 6.3%
- LAE – 14.9%
- Operating Expenses – 6.1%

Achieve Investment Income of \$35.5 Million

**Achieved:
\$37.3 Million**

Key Performance Indicators:

- Realize Capital Gains of \$1.0M
- Modify Portfolio Composition
 - Bonds (84.1%)
 - Equities (11.0%)
 - Short-Term/ Cash (4.7%)
 - Real Estate (.2%)
- Match Return on Lehman Government/Credit Index and S&P 500 Index

Accomplishments:

- Capital Losses (\$655,806)
- Portfolio Composition
 - Bonds – 87.1%
 - Equities – 11.3%
 - STIP/Cash – 1.5%
 - Real Estate - .1%
 - Lehman – 5.54%
 - MSF – 5.47%
- S&P 500 – 15.13%
 - MSF – 15.16%

**Generate Net Operating Income
of \$12.8 Million (Before
Dividend)**

**Achieved:
\$25.9 Million**

Focus on Employee Satisfaction

- ❖ Employee Opinion Survey Follow-Up
- ❖ Training
- ❖ Career Development
- ❖ Succession Planning

Focus on Employee Satisfaction

❖ FY 07 Employee Opinion Survey

❖ Goals

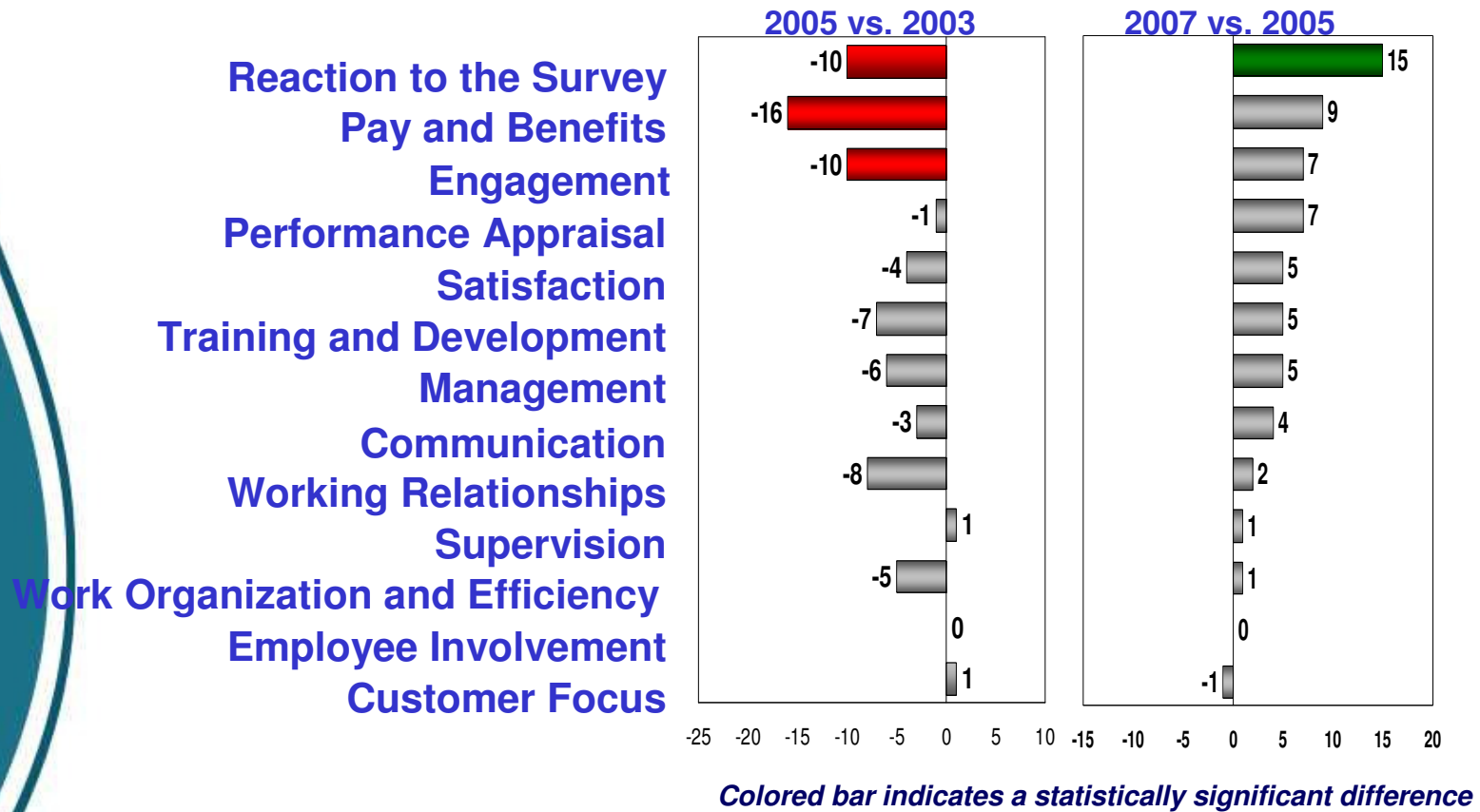
- ❖ To listen and learn from employees
- ❖ To be completed in time to identify potential FY 08 initiatives

❖ Accomplishments

- ❖ 11 of 13 categories showed improvement

MSF FY07 Survey Improvements

2003 through 2007 Historical Benchmarks



Focus on Employee Satisfaction

❖ Training

❖ Goals

- ❖ Create uniform body of leadership knowledge for consistency of application
- ❖ Build leadership in an Accountability Culture
- ❖ Train MSF employees to facilitate “Investment in Excellence” for co-workers

Focus on Employee Satisfaction

❖ Training

❖ Accomplishments

- ❖ Trained Team Leaders (24) in Mosaic Leadership Principles
- ❖ Trained facilitators (14) for “Investment in Excellence”
- ❖ “Investment in Excellence” training delivered to employees (125)

Focus on Employee Satisfaction

❖ Career Development

❖ Goals

- ❖ Continue career development for Claims Professionals at MSF
- ❖ Assist Claims Professionals in achieving advancement by a thorough demonstration of their body of knowledge

Focus on Employee Satisfaction

- ❖ **Career Development**

- ❖ Accomplishments

- ❖ Created Professional Development Council (PDC) to certify Claims Professional for advancement
 - ❖ Certified two employees for advancement of the six who applied for consideration

Career Development

Claim Professionals Career Advancement Ladder



**Senior Claim Examiner or Claim Specialist
(Technical and Leadership Path)**
– PDC Certified for Advancement

Claim Examiner III (Expert Level)
– PDC Certified for Advancement

Claim Examiner II (Journeyman Level)

Claim Examiner I (Associate Level)

Claim Examiner Trainees (Training Program 6 – 12 Months)

Focus on Employee Satisfaction

❖ Succession Planning (Phase III)

❖ Goals

- ❖ Develop “Leadership Readiness Plan” for CEO position
- ❖ Engage Hay Group to assess CEO position
 - ❖ MSF VP input
 - ❖ Board of Directors’ input
- ❖ Proposal to be delivered for discussion at future Board meeting

❖ Accomplishments

- ❖ “Leadership Readiness Plan” delivered by Hay Group on time and within budget

Focus on Customer Satisfaction

- ❖ Young Workers Safety Awareness Program
safetyrocks.us
- ❖ Training
- ❖ Customer Focus Recognition/Reward

Focus on Customer Satisfaction

❖ Young Workers

❖ Accomplishments

- ❖ Ad campaign May 7 – June 3, 2007
- ❖ Nine radio interviews, two television interviews, eight print pieces
- ❖ Sponsored FFA Annual Meeting
- ❖ 1,500 visits on safetyrocks.com

Focus on Customer Satisfaction

❖ Customer Service Training

❖ Accomplishments

- ❖ Created half day training program – “Through the Customers’ Eyes”
- ❖ 33 MSF employees registered to participate in online certification program
- ❖ 260 MSF employees trained

Focus on Customer Satisfaction

❖ Customer Service Recognition/Reward

❖ Accomplishments

- ❖ Created customer service feedback process
- ❖ Distributed initial customer service feedback forms
- ❖ Quarterly review by Customer Service Committee to recognize employees

Establish Standards as “Best in The Industry”

Relative to Claim Handling and Resolution

- ❖ Performance Metrics
- ❖ Legal/Legislative Involvement
- ❖ Training
- ❖ Claim Center

❖ Performance Metrics

❖ Goals

- ❖ Provide recommendations and begin to build information access for future performance measures

❖ Accomplishments

- ❖ Future company/Team metrics identified
 - ❖ Enhanced QA requirements
 - ❖ TTD duration
 - ❖ New caseload measures
 - ❖ New closure/reopening measures
 - ❖ Timeliness of benefit delivery

❖ Legal/Legislative

❖ Goals

- ❖ Update legislature on workers’ compensation issues
- ❖ Contribute to Department of Labor study

❖ Accomplishments

- ❖ Updated Workers’ Compensation overview for Legislators
- ❖ WCRI study on Montana Workers’ Compensation system completed
- ❖ Addressed legislature on Workers’ Compensation issues
 - ❖ New medical fee schedule legislation authorized
 - ❖ Law passed authorizing treatment and utilization guidelines

❖ Training

❖ Goals

- ❖ Create vision statement
- ❖ Survey company for training needs/desires
- ❖ Design and deliver training

❖ Accomplishments

- ❖ Vision statement adopted
- ❖ Survey completed/responses compiled
- ❖ Formal technical and soft skills training kicked-off

Montana State Fund proactively manages claims to their best outcomes in a respectful, supportive culture utilizing superior resources, creating results that make us best in claims.

❖ Claim Center

❖ Goals

- ❖ Upgrade original Claim Center product to most current version (3.1)

❖ Accomplishments

- ❖ Claim Center upgrade implemented ahead of schedule

Provide the Appropriate Infrastructure to Realize the Montana State Fund Vision

- ❖ Administrative Support Systems
- ❖ Business Intelligence
- ❖ Physical Plant

MONTANA **STATEFUND** Infrastructure

❖ Administrative Support System

❖ Accomplishments

- ❖ Prepared business case documentation
- ❖ Completed demos with two potential vendors
- ❖ Completed additional vendor research
- ❖ Provided financial training
- ❖ Secured State Accounting Bureau support to move forward

MONTANA **STATEFUND** Infrastructure

❖ Insurance Intelligence

❖ Accomplishments

- ❖ Prepared and published RFP
- ❖ Evaluated RFP responses
- ❖ Completed demos with two vendors
- ❖ Finalized contract and statement of work
- ❖ Acquired necessary assets

MONTANA STATEFUND Infrastructure

❖ Building

❖ Accomplishments

- ❖ Conducted extensive site selection process
- ❖ Prepared internal design requirements
- ❖ Evaluated sustainability options
- ❖ Developed and signed memo of understanding with the city of Helena for parking
- ❖ BOI purchased selected property
- ❖ Prepared and published RFP for architectural services
- ❖ Evaluated architectural services RFP responses

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MONTANA STATE FUND

Montana State Fund SBP 2007 (in 000s)

	Strategic Business Plan		Actual	
Premium	\$	214,400	\$	238,203
Losses & Expenses		(234,696)		(247,526)
Investment Income		35,500		37,264
Other Income/Expense		(2,353)		(2,025)
Policyholder Dividend				(7,001)
Net Income	\$	12,851	\$	18,915
Unpaid Loss Reserves	\$	644,079	\$	679,209
Equity	\$	188,399	\$	199,169
Premium to Surplus Ratio		1.14		1.20
Loss Reserve to Surplus Ratio		3.42		3.41
Combined ratio (Before Dividend)		109.5%		103.9%
Dividend to Premium Ratio		N/A		2.9%

MONTANA
STATEFUND



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