



2013 BUSINESS PLAN

July 1, 2012 through June 30, 2013

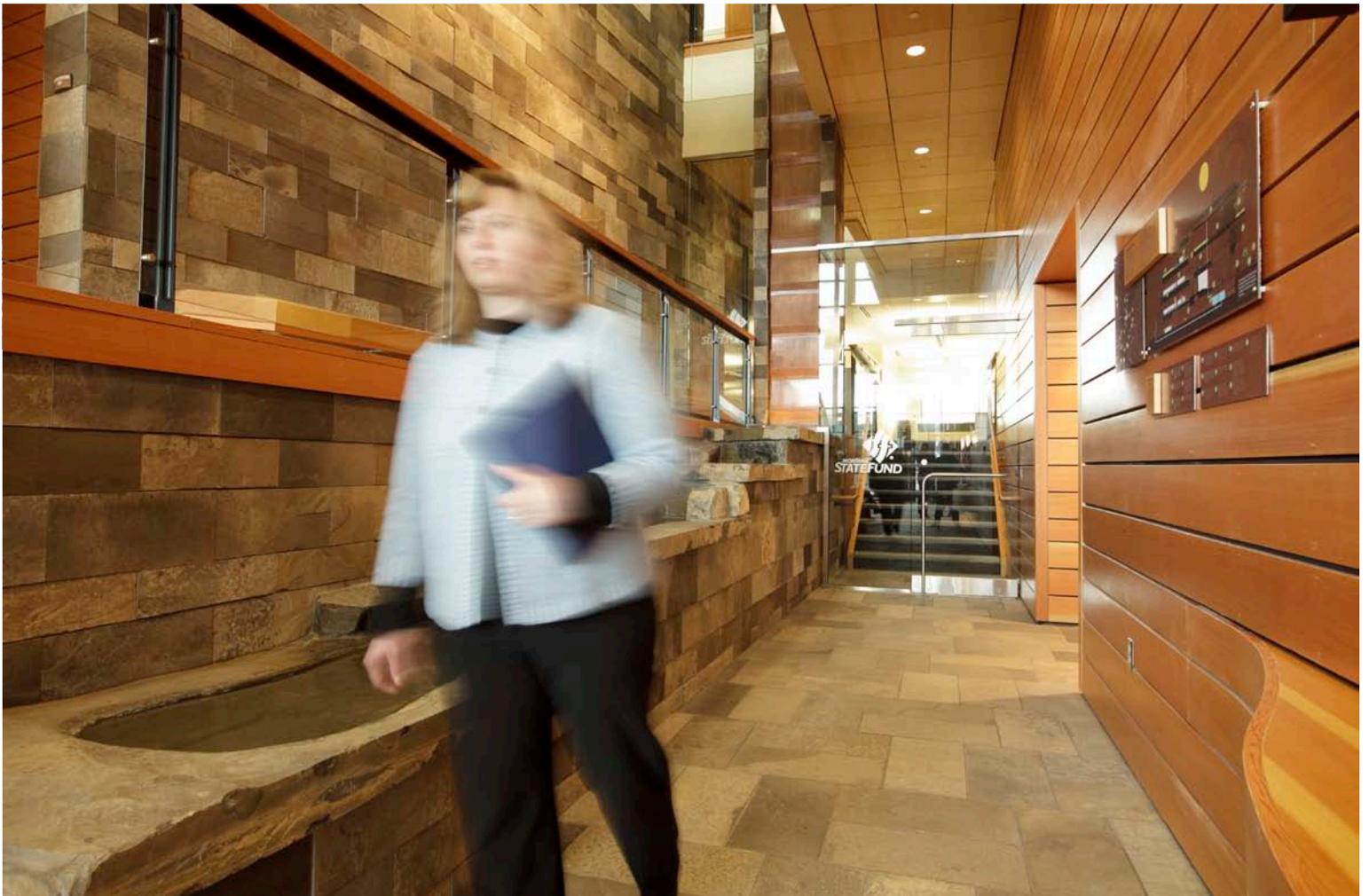


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FROM THE PRESIDENT ...

I look at what lies ahead, not only for Montana State Fund but also for our state in general, with a degree of cautious optimism. While there remain mixed economic signals, I am heartened to note the increasing stability and modest improvement in Montana's economic indicators. It's been a rather long and arduous recovery for MSF and the businesses we serve throughout Montana from the depths of the economic recession that began in December 2007.

While the impacts of external economic conditions were certainly not pleasant for any of us, Montana State Fund has weathered the storm and emerged as a stronger, more focused organization. The same can be said for the majority of the businesses we count among our stakeholders. If nothing else, the past few years have forced us to utilize our creativity in dealing with reduced revenues and employee staffing without sacrificing our quality service commitment to all our policyholders and injured employees.

If the economy wasn't enough to keep our attention, we began implementing new requirements resulting from enactment of HB 334, a recent state law that put into place historic changes to the workers' compensation system in Montana. We have already made changes to support the promise that this legislation will reduce system costs. Beyond the overall 20 percent rate decrease attributed to this legislation we have taken additional steps. We have added significant medical resources to our staff in order to not only improve claim handling but also outcomes – including a medical director and staff nurses who assist claim examiners in ensuring appropriate medical treatment protocols are applied. MSF also added a provider relations resource to ease the burden of obtaining and to shorten the time line for doctor appointments and medical treatment for our injured employees. It is the goal of HB 334, and one shared by all of us at Montana State Fund, that claim outcomes will improve in addition to reducing costs – and that's a win-win proposition for everyone involved in workers' compensation in Montana.

It's always risky to predict the future, but I'm encouraged by what I see happening in Montana. While challenges remain, many things are looking up in our economy and in our business. I look forward to realizing the improvements intended by HB 334 and the positive benefit it can bring to the workers' compensation system. Finally, all of our staff at MSF considers it a privilege to protect and serve you, our policyholders, your businesses and your employees. We are committed to maintaining a strong, stable and dependable insurer for Montana's businesses and their employees.

Sincerely,

Laurence A. Hubbard
President / CEO

“ Knowledge is an unending adventure at the edge of uncertainty. ”

– Jacob Bronowski

EXECUTIVE SUMMARY

Last fiscal year, Montana State Fund successfully implemented substantial workers' compensation legislative changes. This took a major cross-functional team effort – however implementation is only the beginning. The FY 2013 business plan builds our organizational focus on the intended results for Montana businesses and injured employees. We will also extend familiar and ongoing programs and engage a professional research company to ask our customers what services and improvements they would like to see us provide.

Montana State Fund is committed to meeting the high service level expectations of all our stakeholders. WorkSafe Champions, a cornerstone of this commitment, will continue to highlight and promote workplace safety. This year we will partner with policyholders with a higher number of incidents in order to help them improve their workplace safety cultures. Second, a project to implement policy change endorsements improves communications by simplifying the confusing and large volume of documentation generated for policy changes. Our third customer service project is to conduct a survey and focus groups for both policyholders and injured employees. While it is not the first time we've formally asked customers how we can improve, we have not conducted a survey for several years. It is again time we ask what services and solutions they need from Montana State Fund. This feedback will be valuable in guiding future plans.

FY 2013 projects help Montana State Fund maximize opportunities provided by legislative changes and improve injured employee outcomes. Last year we continued to enhance our efforts to address the specific

medical needs of claims as we implemented HB 334. We will continue our focus on medical management. It is also important we track how effectively we manage the new medical provisions of HB 334. To accomplish this we will implement additional reporting of specific claim metrics. We will also continue to leverage our data by exploring if and how analytical tools can help us to identify early potentially severe and complex claims. Identifying these claims early in the process allows us to apply targeted and intensive resources in order to make a positive difference in the outcomes.

The key to success for these initiatives and for Montana State Fund is a knowledgeable, challenged and motivated workforce. A continued investment in organizational and workforce development will ensure Montana State Fund establishes structured and sustained programs that align with business needs as well as develop employees who achieve excellence through continuous improvement.

The FY 2013 plan builds on our momentum to provide the best customer service, sharpen our focus on injured employee outcomes and develop workforce programs that meet the needs of the business. These projects keep our eye on the results of recent legislative changes as well as ensure Montana State Fund continues to provide a stable workers' compensation option for Montanans.

FY 2013 ENTERPRISEWIDE INITIATIVES:

1) Workforce

- Organizational development and workforce planning research to identify high-priority tactics.
- Human resource management system to integrate organizational development processes.
- Expand the claim examiner trainee program to sustain our ability to efficiently and effectively fill critical need vacancies.

2) Customer Service

- Foster and promote a culture of safety within Montana businesses.
- Improve communication with clear and concise insurance documents.
- Seek customer feedback through a survey and focus groups to gather insight on future improvements.

3) Claim and Medical Management

- Monitor existing and develop additional metrics to evaluate the impacts of HB 334.
- Review potential for predictive analytical tools to provide early identification of potentially severe claims in order to focus appropriate resources and improve injured employee outcomes.

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

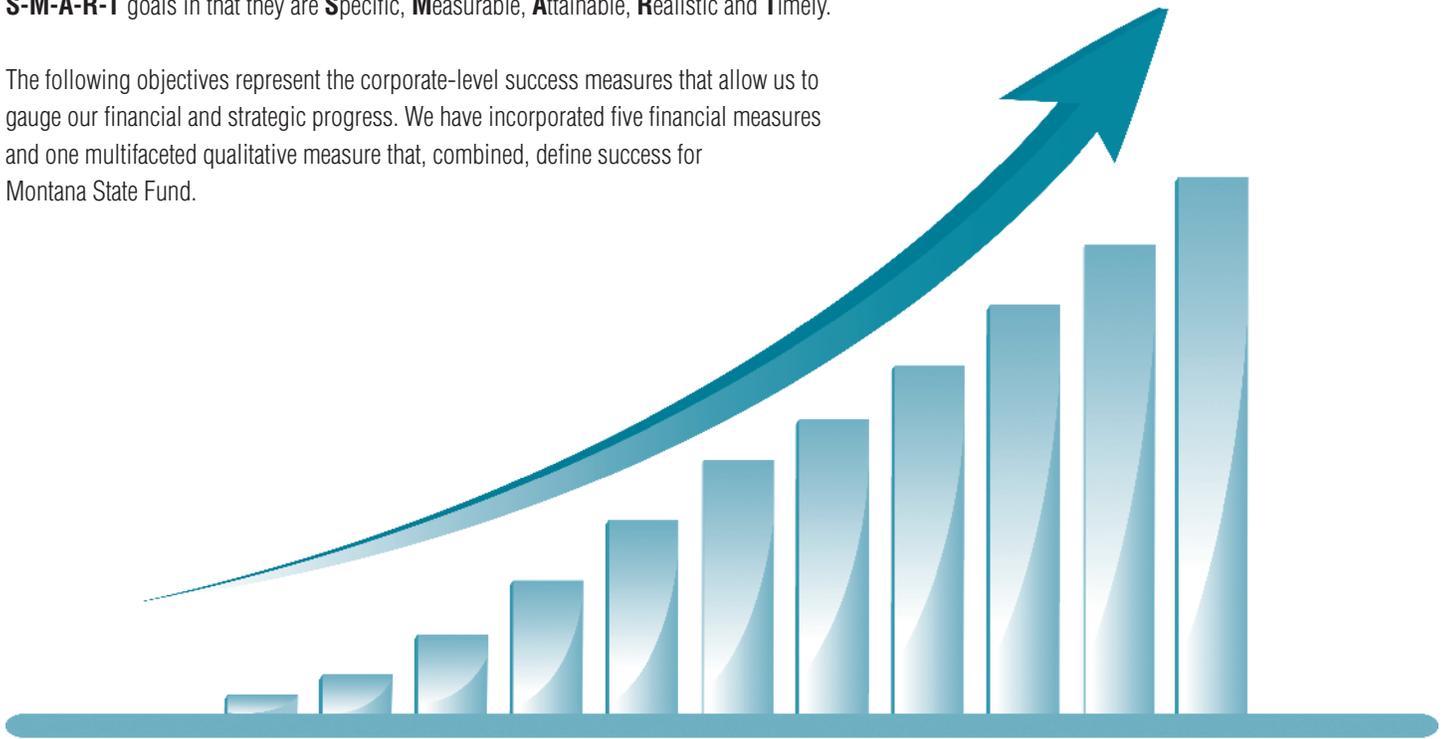
Dedicate ourselves to identify and implement new and better ways to efficiently and effectively operate and improve customer service.



FY 2013 KEY SUCCESS MEASURES

Key Success Measures are the goals/objectives established for FY 2013. They represent **S-M-A-R-T** goals in that they are **S**pecific, **M**easurable, **A**ttainable, **R**ealistic and **T**imely.

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



- 1) Achieve targeted FY Net Operating Income before dividend of \$39.2M
- 2) Achieve total Net Earned Premium of \$154.2M
- 3) Achieve Fiscal Year Loss Ratio of 71.1 percent
- 4) Maintain Expense Ratio of 29.3 percent or less
- 5) Achieve Investment Income of \$44.7M
- 6) Achieve Enterprisewide Initiatives

ENTERPRISEWIDE INITIATIVES

Enterprise-wide initiatives are critical elements for the continued success of Montana State Fund. They are supported by a number of multifunctional efforts composed of key performance indicators and success measures to ensure the accomplishment of our stated goals and objectives. In addition, they support our Mission, Vision and Guiding Principles.

1. WORKFORCE

Montana State Fund continues its focus on organizational development in order to promote a high-performance environment that both challenges and motivates. Our efforts will be directed toward measuring causes and impacts of employee vacancy and turnover, training and succession-planning needs. In addition we will develop elements of a human resource management system and address critical position turnover by expanding the claim examiner trainee program.

KEY PERFORMANCE INDICATORS

Organizational Development Strategy – Develop a workforce development strategy for MSF that is identified and supported by research and analysis of employee engagement, training needs, succession planning and turnover.

Human Resource Management System – Integrate record keeping and management of employee development processes to support programs such as succession planning, training and performance management.

Claim Examiner Trainee Program – Growing our own resources has proven to be an effective strategy. We will implement the next generation claim examiner training program developed through the FY11 and FY12 business plans and increase the number of trainees.

Success Measures:

Organizational Development Strategy

1. Develop RFP for a consultant to conduct the study of vacancy/turnover, employee engagement, training and succession needs by September 30, 2012.
2. Select consultant and begin study of vacancy/turnover, employee engagement, training and succession needs by December 31, 2012.
3. Complete development needs assessment for claim examiners and medical staff by March 31, 2013.
4. Complete all studies and analysis and provide a workforce development strategy that prioritizes actions for mission-critical positions by May 15, 2013.

Human Resource Management System

1. Complete evaluation of the requirements for an integrated system by August 2012.
2. Complete RFP and acquire approved HRMS solution by January 15, 2013. This milestone represents a possible exit/decision point for MSF executive management.
3. If HRMS continuation is approved, at least two major features of an HRMS will be in production use by end of fiscal year.

Claim Examiner Trainee Program

1. Implement the claim examiner trainee program with additional trainees by July 2012 and January 2013.
2. Trainees will effectively manage claims as follows:
 - a. Three months into trainee program: 45 medical-only claims assigned and managed.
 - b. Six months into trainee program: 85 medical and indemnity claims assigned and managed.



2. CUSTOMER SERVICE

We continuously look for ways to enhance our service and products as part of our commitment to our policyholders, their employees and system stakeholders.

KEY PERFORMANCE INDICATORS

Workplace Safety – Continue our focus to develop and instill a culture of safety among Montana employer/employee stakeholders. Nurture and strengthen our partnerships with policyholders and their employees to make Montana a safer and more productive work environment for all its citizens.

Information Page/Endorsements – Provide customers with clear and concise policy documentation, and reduce the overall volume of documents printed and mailed.

Customer Survey and Focus Groups – Continue to deliver superior service to our customers, by enhancing our understanding of evolving customer wants, needs and expectations.

Success Measures:

Workplace Safety

1. Conduct a survey of WorkSafe Champion participants before and after the classes to measure the degree of improvement in their level of safety awareness.
2. Achieve a minimum score of 80 percent satisfaction in the WorkSafe Champion course content.
3. Achieve a 15 percent decrease in overall average claim frequency (from the three-year average baseline level) in WorkSafe Champion course participants within two years of their attendance.
4. Achieve an average 5 percent decrease in overall average loss costs (from the three-year average adjusted baseline level) for WorkSafe Champion course participants within two years of their attendance.

Information Page/Endorsements

1. Implement revised policy documents by March 31, 2013.

Customer Satisfaction Survey

1. Develop customer survey focus, content and composition by December 14, 2012.
2. Administer customer phone survey to selected customer segments and establish focus groups for further discussion of survey results by March 1, 2013.
3. Conduct in-person customer focus groups and generate preliminary report for use in FY14 business planning by May 15, 2013.
4. Prepare and present final reports in June 2013.

3. CLAIM AND MEDICAL MANAGEMENT

Improve injured employee outcomes through early recognition and proactive medical management of potentially severe claims. Expand use of claim management metrics.

KEY PERFORMANCE INDICATORS

Medical Management Effectiveness – Track metrics to measure the long-term impacts of HB 334, including the new Stay at Work/Return to Work (SAW/RTW) programs.

Claim Analytics – Determine if using analytics and predictive modeling will help identify claims, at an early stage, that have the potential to be more complex in nature.

Success Measures:

Medical Management Effectiveness

1. Report observations on loss indications following implementation of HB 334 with currently available data by September 30, 2012. Reports made twice per year, September and March.
2. Implement additional metrics (SAW/RTW, Treating Physician) intended to provide additional monitoring following implementation of HB 334 by June 2013.

Claim Analytics

1. Conduct retrospective analysis of a specific set of claims to determine what aspects of claim information might serve as predictors for ultimate claim issues, the potential impact a different course of action in claim management might have had, and make recommendations to management for next steps in developing predictive modeling application for MSF by March 2013.
2. Contingent on findings in retrospective analysis, develop RFP for proof of concept modeling by a consultant to further evaluate the degree to which claim analytics can accurately differentiate high-risk claims at early maturities by April 2013.

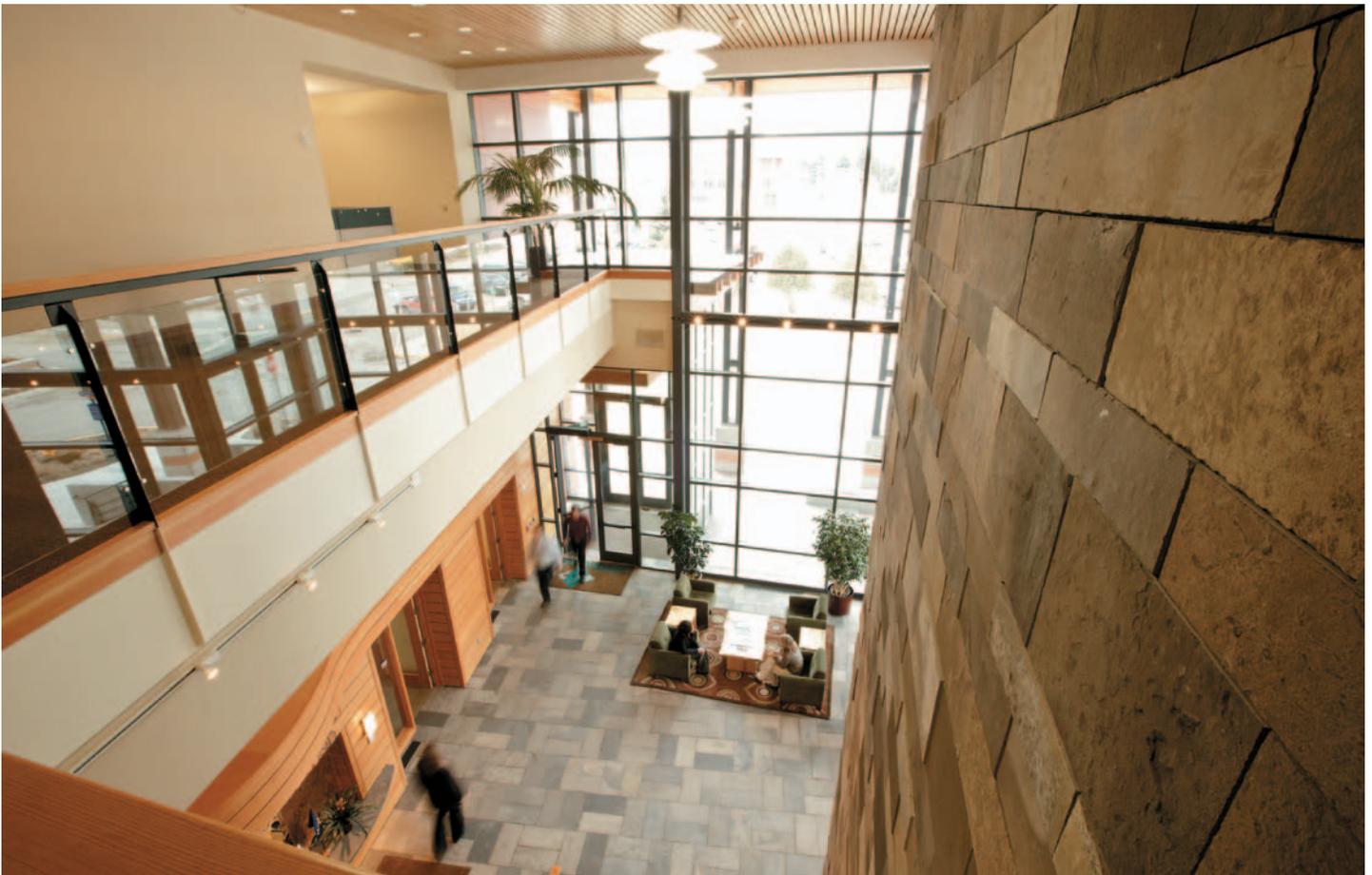
ORGANIZATIONAL PROFILE

The state of Montana originally established the predecessor to Montana State Fund 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 taken in 1990. At that time the Montana 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 are not funded by the state general fund, 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 management services as we work diligently with Montana employers in developing accident prevention programs. 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.



FINANCIAL PROJECTIONS

Projected Results of Operations Montana State Fund

Statutory Basis (\$000)

OPERATING STATEMENT

	ACTUAL 2011	ESTIMATE 2012	PLAN 2013	PROJECTION 2014	2015
Premium Income	\$173,605	\$144,689	\$154,197	\$159,220	\$166,483
Investment Income	50,495	48,460	44,689	46,108	47,716
Other Inc./Exp.	(3,871)	(4,271)	(4,989)	(5,559)	(6,181)
Total Losses and Expenses	(193,857)	(152,935)	(154,727)	(162,568)	(171,744)
Policyholder Dividends	(4,005)	(6,001)	TBD	TBD	TBD
Net Income	\$22,367	\$29,942	\$39,170	\$37,201	\$36,274

TBD - Future dividends to be determined by Board of Directors

Premium to Surplus (X:1)*	0.58	0.42	0.41	0.39	0.38
Loss Reserves to Surplus (X:1)*	2.91	2.56	2.32	2.13	1.99
FY Combined Ratio	111.7%	105.7%	100.3%	102.1%	103.2%
Dividend to Premium Ratio	2.3%	4.1%	TBD	TBD	TBD
Operating Ratio	82.6%	72.2%	71.4%	73.1%	74.5%

*Prior to dividend declaration

BALANCE SHEET

	ACTUAL 2011	ESTIMATE 2012	PLAN 2013	PROJECTION 2014	2015
Total Assets	\$1,384,906	\$1,494,619	\$1,542,662	\$1,593,386	\$1,649,666
Unpaid Loss and LAE	\$874,802	\$874,173	\$871,460	\$874,746	\$882,786
Other Liabilities	213,761	284,548	296,494	308,803	322,597
Total Liabilities	\$1,088,563	\$1,158,721	\$1,167,954	\$1,183,549	\$1,205,383
Surplus	\$296,343	\$335,898	\$374,708	\$409,837	\$444,283
Total Liabilities and Surplus	\$1,384,906	\$1,494,619	\$1,542,662	\$1,593,386	\$1,649,666