



Dividend Frequently Asked Questions November 2016

1. What is a dividend?

A dividend is a return to employers of a portion of the premiums that those employers paid to Montana State Fund (MSF). The dividend comes from policyholder equity beyond what is determined necessary and prudent to meet current and projected long-term future obligations. Dividends are a way for MSF to share good financial results with the employers who helped make it possible. **They reward and encourage safe and cost effective behavior by employers and reduce the overall cost of workers' compensation insurance to employers.**

On September 16, 2016 our Board of Directors declared a \$35 million dividend to approximately 23,000 policyholders from policy year 2014 (July 1, 2013 – June 30, 2014). MSF has returned \$176 million to our customers in the past 18 years. This is one of the largest dividends distributed by Montana State Fund.

2. Will I get a dividend check?

Both current and former MSF policyholders with effective dates in the policy year of July 1, 2013 to June 30, 2014 may receive a dividend. Dividend recipients must have been insured with MSF for six months or more. We use an actuarially approved table that takes into account premium size and loss ratio to calculate the dividend amount.

Policyholders will **not** receive a dividend if:

- Their calculated dividend amount is less than \$10
- They did not have at least 6 months of coverage in a policy period beginning in policy year 2014
- Their loss ratio was too high
- They were written as a large deductible policy

Policyholders will receive an account credit for their dividend if:

- Their policy has an outstanding item such as a collection, bad debt, promissory note, bankruptcy, or cancelled with a balance or payroll report owed to MSF
- They are an active account and their dividend is less than the warrant minimum of \$100. The dividend will be credited to their active account and no warrant will be created.

3. Is there a minimum dividend check amount?

Yes, the minimum dividend amount is \$10. The minimum dividend check amount is \$100. If the dividend is in the \$10 - \$100 range, they will receive a credit towards their active policy.

4. How do you calculate my dividend?

Your general dividend size depends on your premium amount (policy size) combined with your loss ratio as of 06/30/2016 for policy year 2014. The average dividend for policyholders receiving a dividend is 26% of paid premium for policy year 2014. The maximum dividend available this year is 39%. This amount does not include any other returns you may receive as a member of our group association retro plans.

5. How much will my dividend check be?

If you are receiving a dividend, you should receive a letter in early November that indicates the amount. For further information, please contact your team's customer service specialist at 800-332-6102.

6. Do I need to apply for my dividend?

No. Montana State Fund will calculate the dividend for each employer and will automatically prepare a dividend check or credit for each qualifying customer.

7. What is a loss ratio?

The loss ratio on your account is simply the percentage of your premium that has been used, or is projected to be used, on claims during the policy period. A loss ratio of 0% indicates that none of the premium was used for claims; a loss ratio of 50% indicates that half of the premium has been used (or is projected to be used) for claims. A loss ratio of 500% indicates that the employer's claims cost five times as much as the premium paid. The nature of insurance is that the premiums paid by all policyholders are used to pay for the policyholders who do have claims. A policyholder dividend is a way to share MSF's favorable results with the employers who have good loss experience.

8. Do smaller accounts receive a lesser percentage of dividends than large accounts?

As a group, smaller accounts actually receive roughly the same amount of total dividend as do larger accounts. But there is greater reward for an individual large account with no losses than for an individual small account with no losses because a larger premium account with a low loss ratio demonstrates more success at lowering the cost of injuries. It is far more difficult to keep 5,000 people injury-free in a year's time than it is to keep 5 people injury-free.

9. When will I get my dividend check?

Montana State Fund will begin distributing checks in late November. Distribution should be complete by December 9, 2016. Your dividend will either be mailed to you directly or delivered to you by your local insurance agent or team representative.

10. My neighbor told me that she was getting a dividend check from MSF, but I didn't receive a letter of notification. Will I be getting a dividend check too?

Letters were mailed to all dividend recipients, so if you did not receive a letter, it is possible that you either did not get a dividend or MSF didn't have a valid address for you. Please

contact your team's customer service specialist at 800-332-6102 and ask to review the dividend results of your account.

11. I participated in a group association retro plan during 2014. Does that affect my eligibility for a dividend?

You are still eligible for a dividend. However, the calculation of the loss ratio (which is used to determine the dividend percentage) will use premium net of any premium adjustments or returns that have been applied, and the resulting dividend percentage also will be applied to premium net of any premium adjustments or returns.

12. How many employers will receive a dividend?

Approximately 23,000 employers will receive a dividend from MSF this year, or roughly 95% of all eligible policyholders in policy year 2014.

13. Does every insurance company declare dividends to policyholders?

No. Many insurance companies are owned by stockholders and are more likely to pay dividends to the stockholders than to policyholders. Others pay stockholders and policyholders. Montana State Fund pays dividends solely to policyholders.

14. Does Montana State Fund declare dividends each year?

Dividends cannot be guaranteed. Each year, MSF's Board of Directors may examine our independent actuary's analysis of our policyholder equity and determine if a dividend can be declared.

15. Why don't you just lower my premiums instead of giving me a dividend?

If claim costs (losses) decrease or prove to be systematically less than expected, MSF will reduce rates. However, MSF rates are currently set essentially at cost, with no target contribution to equity (profit margin). MSF's financial gains in recent years have largely been driven by investment returns, in particular, both realized and unrealized gains in stocks. If MSF rates were set below cost the rates would be deemed actuarially inadequate, and if MSF were selling insurance at a loss, it would tend to drive private carriers out of the market. This would have a negative impact on the functioning of a healthy, competitive workers' compensation insurance market, leaving Montana employers with fewer choices in the insurance marketplace. Moreover, when investment returns inevitably turn negative, MSF rates would be subject to significant increases.

MSF strives to create a stable rate environment while returning a share of the financial gains to policyholders through a dividend declaration, rather than fluctuate rates up and down as financial gains or losses occur. In addition, dividends are distributed proportionate to losses (or lack thereof) which creates an incentive for employers to focus on workplace safety. An employer who controls losses and consistently receives a dividend year after year as they are declared, is effectively paying lower rates.

16. I just received a letter telling me that my dividend would be applied to my account as I have an outstanding item due to Montana State Fund. What does this mean?

This letter only applies to those who have an outstanding debt, payment or payroll report with MSF. This also applies to a policy that is pending cancellation for nonpayment. MSF Finance will research your account to identify the outstanding item (bad debt, promissory note, collection, cancelled with balance owed or missing payroll report, pending cancellation, as examples). If the amount you owe is greater than your dividend amount, the entire amount will be applied to your debt. If your dividend is greater than the amount owed, Finance may issue a refund for the remaining dividend. Dividends to active accounts where the amount is less than \$100 will be credited to the account to offset current or renewal policy premium. If the account is cancelled and all outstanding issues are resolved, such as final payroll, we will issue a refund for any remaining dividend amount.

17. I am part of a Professional Employer Organization (PEO) and I have a good loss ratio, but I did not receive a dividend letter. Why?

Call your team's customer service specialist at 800-332-6102 and we will look up your account. If our system indicates that you belonged to one of our PEO organizations, your premium and loss experience was combined with all accounts belonging to the PEO. If a dividend was awarded, it was mailed to your PEO as one check.

18. I believe my loss ratio is too high because MSF didn't handle my claims correctly. What can be done to correct this situation?

Claims handling involves a partnership with the injured employee, employer, medical providers and your Montana State Fund examiner. If this partnership breaks down at any level, then the cost could be impacted. For example, if the employer cannot temporarily or permanently modify an injured employee's job due to a significant injury, then rehabilitation, temporary total disability, and permanent disability costs increase. If you have concerns, you should immediately address them with the claims examiner handling the claim or the team leader. Generally, we will not adjust a dividend for accounts that have questions about how claims were handled or how losses were incurred.

19. I was told that I'd receive a dividend check by December, but I haven't received it yet. What's going on?

Please contact your team's customer service specialist at 800-332-6102 and we will find out what happened. It may be that your address or business name has changed and the check was initially sent to the wrong place.

20. With all the good things happening at Montana State Fund, I'd like to bring my account back. What do I need to do?

Montana State Fund has partnerships with many independent insurance agents throughout the state, and these agents will be able to assist you with reestablishing your policy with us. There is no extra charge to use an agent. If you have questions about which agents to contact in your area, please go to www.montanastatefund.com. On the top of the page you will see the Workers' Compensation tab, click there and then the link to agent locator.