



Economic Affairs Interim Committee
63rd Montana Legislature

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as of March 14, 2014

Costs Related To Montana State Fund Restructuring

Estimates from Montana State Fund & the State Auditor's Office (Commissioner of Securities/ Insurance)

	Current Costs to MSF	Proposed Costs to MSF
Actuarial Studies		
MSF Actuary -- used for setting rates, etc.	contracted for rate-setting, reserve reviews, equity adequacy, and dividend determination \$287,000	same as current
State Auditor's Office overview (examination of MSF actuary's assumptions)	\$75,000 (general fund)	could become part of CSI 5-year financial exam -- policy decision if needed yearly from general fund
Legislative Auditor contracted actuarial review of rates/claims liability (check of MSF actuary assumptions)	\$7,500 for 2013 review	most likely no longer needed -- policy choice
Oversight Now vs. Proposed Regulation		
Legislative Audit - Financial Reviews (annual) --	depends (information to come from LAD)	Legislative Auditor needs to weigh in; MSF says not necessary
Legislative Audit - Performance Reviews (occasional)	depends (information to come from LAD)	Legislative Auditor needs to weigh in
Leg. Finance Committee budget review (annual)	internal cost	policy choice if exempt
MSF Costs for State Auditor Regulation		
Market Conduct (minimum of every 5 years)	none now	CSI projects \$153,600/yr or \$768,000 every 5 yrs
Financial Exam (minimum of every 5 years), includes reserve review and actuarial analysis	none now	MSF - \$420,600 every 5 years or \$84,120/yr CSI - \$250,000 / 5 yrs or about \$50,000/year
Certificate of Authority	none now	\$1,900/year
Producer Licenses and Continuing Ed (initially)	none now	\$25,350 initially for 50 MSF staff + ongoing cost of \$12,675 for continuing education

MSF Costs for State Auditor Regulation, con't	Current Costs to MSF	Proposed Costs to MSF
Change in Experience Rating Approach -annual	none now	\$96,000
Change in Construction Credit Program (if needed to move to NCCI/CCPAP) - annual	none now	\$63,700
Consulting Actuary - rate filing exhibits (annual)	none	\$37,500
Consulting Actuary cost for tiered rating remodeling to \$2,500 level (if needed) one-time	none	\$30,000
MSF Statutory Audit -- annual	\$44,000	\$90,000
Electronic Quarterly/Annual Filing	none	MSF - \$3,500 CSI (per NAIC) \$5,035
IT System Changes for Policyholder Services (one-time)	none	\$201,200
Additional MSF Staffing for Regulatory Shift	none	\$287,100 -- 3 FTE
Cost of Remaining at 400% or better of RBC	already there	no additional cost
Cost of Additional Adverse Development Cover	none now	ranges from \$5 million one-time to \$12 million pro-rated over 5 years
Costs to MSF of State Agency Services		
Pension Plan		
Cost of moving new employees to new system	none now	\$101.6 million (at 1.5% GABA) out to 2033
Cost of moving all employees to new system		
Health Care and Benefits - \$806 x 12 x 304 FTE employees (\$887 in 2015)	\$2,940,288 in 2014	estimated about same cost if considered
Payroll Processing, Treasury Functions (Accounting, Banking, Warrant Writing) Procurement Printing*	MSF Calculates: Warrant Writer - \$43,348 HRIS Fixed Cost-\$60,019 Work Comp Management - \$6,622 SABHRS - \$67,801 Messenger Service -\$9,917 Professional Development Center overhead fees (9,917 Statewide Cost Allocation Plan - \$40,221 State ITSD - \$416,280	\$2.25 million (combined financial system costs) one time
IT Services* (switchover cost--Microsoft license)	Total state services - \$646,607	\$996,130 one-time \$706,000 ongoing
Risk Management/Tort Defense Ins. Coverage	\$279,500	\$265,000 (MSF estimate)

<i>Policy Decisions for MSF as Insurer</i>	Current Costs to MSF	Proposed Costs to MSF
Premium Tax (at full 2.75% value)	none now	\$164 million (in 2013) x 2.75% = \$4.5 million
Subject to punitive / exemplary damages	none now	depends
Fraud investigations / prosecutions in State Auditor's Office rather than through DOJ	\$350,000/yr under DOJ	\$0 cost to State Fund but CSI would seek spending authority of ~ \$200,000

Depending on actions by the Legislature to include, revise, or exclude certain aspects of regulation, one-time costs and ongoing new costs would differ.

*The Department of Administration has projected cost increases in these categories to other state agencies because the overall state pool would see the loss of the Montana State Fund's contributions so other state agencies would be billed to pick up the slack.