



# *Legislative Background Brief*

*for the*  
*Economic Affairs Interim Committee*

11/20/2015

## **Montana State Fund**

Prepared by Pat Murdo, Legislative Staff

The Montana State Fund Board is responsible for running the statutorily created nonprofit, independent public corporation known as the State Compensation Insurance Fund, also called Montana State Fund or State Fund.

**Budget** -- The Montana State Fund budget for FY 2015, as amended, was \$169.44 million. For FY 2016 the budget is projected at \$178.33 million, with benefit payments accounting for 70.25% of that amount and operating expenses making up the remainder. See [budget report](#) from MSF.

The Montana State Fund market value of investments as of June 30, 2015, was \$1.463 billion, as reported by the Board of Investments. A financial results summary provided at the State Fund Board meeting in September showed admitted assets as of June 30, 2015, at \$1.659 billion. This amount must cover liabilities for unpaid claims, estimated at \$780.9 million, and loss-adjustment expenses of \$114.6 million for claims management for 2015. The remaining assets are for other liabilities and undeveloped claims, in part because occupational disease may be reported as soon as discovered, a time that may be years after the date for which a premium was paid, and there is no ability to go back and ask for more money from the specific employer for that injured worker. Assets also include the headquarters building in Helena, which has been paid for and now is being depreciated. MSF's FY 2015 financial information includes the building with a net value of \$26.4 million, representing 2% of MSF assets.

MSF has two key tools for financial health. One is to keep rates at an adequate level each year for long-term financial stability in an industry that has a long "tail" of potential claims. Another is maintaining a sound reserve to equity ratio. Montana State Fund worked for years to reach a sound-business model reserve to equity ratio of 2.5 to 1, which means \$2.50 in loss reserves (scheduled to be paid out for workers' compensation benefits) for each \$1 in the bank as a type of insurance if unexpected claims or higher medical costs develop. In that time, independent actuarial reviews of MSF rates by the State Auditor's Office and the Legislative Audit Division concluded that MSF rates were not excessive, inadequate, or unfairly discriminatory. In September this year Montana State Fund reported that its reserve to equity ratio had reached 1.73 to 1. Prior to 2011, the reserve to equity ratio routinely was above 3 to 1, which provided less of a cushion but generally indicated a healthy company. Now that the reserve to equity ratio is on the other side of 2.5 to 1, the MSF Board may declare a dividend or take other measures if there are concerns that the reserve to equity ratio is too high.

**Key 2015 Legislation** -- Senate Bill 123's passage in 2015 created a new world for State Fund. Prior to SB 123 the board of directors had total responsibility for adopting premiums that maintained State Fund's solvency. With SB 123, the board is still responsible for premiums but the State Auditor will determine if rates are excessive, inadequate, or unfairly discriminatory and will oversee Montana State Fund's financial situation, as that office does for all private workers' compensation insurance companies.

The switch to oversight by the State Auditor's Office has involved some changes in operations for Montana State Fund, including revision of accounting from fiscal years to calendar years. Conversion costs were estimated at \$292,594 one time only and at \$663,401 a year ongoing, if 5-year market conduct examinations and financial examinations are prorated for each year. The amount also includes two staff members and related expenses that MSF was required (in SB 123) to cover at the State Auditor's Office. The benefit to State Fund reportedly is more assurance of financial solvency and for competitors a slightly greater equalization of regulatory treatment.

## Related information for Montana State Fund and its Board of Directors

Staffing: Total and # of management	308 positions (305 full-time equivalent positions). Includes 7 senior managers.
Staff exempt from state pay plan?	yes. The board sets the executive director's salary and in September revised the salary from the \$292,500 paid in FY 2014 to \$305,000.
Number of board members	7 voting members + executive director as nonvoting member. There are 2 legislative liaisons (Rep. Lynch and Sen. Vance).
Member requirements - Listed in 2-15-1019, MCA	a) 4 members "shall represent State Fund policyholders" and may be employees of policyholders"; b) 1 member "may be" a licensed insurance producer; c) 1 member must have executive management experience in an insurance company or executive level experience in insurance financial accounting. d) 4 members (at least) must represent private enterprises. --The insurance producer member may represent a competitor.
Limit on terms?	No more than two 4-year terms
Per diem	Paid \$50/day for each day in which member is actively engaged. Also get travel expenses. Legislative liaisons get legislator's daily rate plus travel.

### **Montana State Fund Board** (members are listed alphabetically):

**Bruce Mihelish**

*term ends 4/2017*

Served as President, CEO of Western States Insurance, a \$50 million agency ranked as 50th largest insurance agency operation in U.S. Also was board member for Two Medicine Health and Wellness and on the University of Montana Business School Advisory Board.

**Richard Miltenberger**

*term ends 4/2017*

Executive Vice President and Partner in Mountain West Benefits, a consulting firm specializing in employee benefits for associations, trusts, government units, and Taft-Hartley plans. Former vice-president Blue Cross Blue Shield of Montana. Directed sales and marketing at Willis-Knighton Health System and worked at United Healthcare of Louisiana. Served as senior director, employee benefit management, for Montgomery Ward and Co. and at Marsh and McLennan Cos.

**Matt Mohr**

*term ends 4/2019*

Big Sky Fire Department Firefighter and Emergency Medical Technician. Since 1999 has served on ski patrol for Big Sky Ski Resort. Since 1995 has served as volunteer ski and outdoor sports instructor for Eagle Mount in Bozeman.

**Lynda Moss**

*term ends 4/2017*

Executive Director of Foundation for Community Vitality, which focuses on conservation of landscapes, indigenous cultures, and economic development in the Yellowstone region and in Patagonia, Argentina. State Senator 2003-2012. Was Executive Director of the Western Heritage Center, a private advisor to the U.S. Delegation to the United Nations Session of the Permanent Forum for Indigenous Peoples, president of the Absaroka-Beartooth Wilderness Foundation and on the Billings Housing Authority Commission.

**Jack Owen**

*term ends 4/2019*

Operates his own title insurance company, specializing in commercial business, wind farms, ranch and land and mineral interests, mining and railroad operations. Lives in Missoula, raised in Phillipsburg. Graduated at UM in business in 1998.

**Jan Van Riper**

*term ends 4/2019*

Interim Executive Director for the Institute for Health and Humanities, Missoula. Director for online course in Healthcare Law and Ethics, Creighton University. Consultant for Compassion and Choices. Formerly was executive director of the National Alliance for State Health Co-Ops, director of the Brody School of Medicine Healthcare Reform Initiative at East Carolina University, counsel at Blue Cross Blue Shield of Montana, and bureau chief for the State Workers' Comp Fund when State Fund was part of the Department of Labor and Industry.

**Lance Zanto** (chair)

*term ends 4/2017*

Bureau Chief, Montana workers' compensation program in the Department of Administration. Former vice president at Mergenthaler Transfer and Storage in human resources and employee benefits. Was State's Risk Manager and Human Resource, Safety and Loss Control Manager. Was MSF senior insurance adjuster and loan officer and assistant branch manager at American General Finance Co.