

**MONTANA STATE FUND
FISCAL YEAR 2013 ANNUAL BUDGET**

**Approved by the
Montana State Fund Board of Directors
June 15, 2012**

Montana State Fund (MSF) is a nonprofit, competitive workers' compensation insurance organization. Under state law, MSF provides Montana businesses with an option for workers' compensation and occupational disease insurance and also guarantees available coverage for all employers in Montana.

The Fiscal Year 2013 (FY13) Budget Request provides the funding to enable MSF to continue our role of providing a stable guaranteed workers' compensation market for Montana, implement our business plan initiatives, and effectively support business operations. The FY13 Budget includes funding for all expenditures of MSF operations, as supported by policyholder premiums and investment income.

This budget also includes the expenditures necessary to administer Old Fund claims. These are claims for injuries that occurred prior to July 1, 1990. By law, MSF is reimbursed by the state General Fund up to \$1.25 million a year for Old Fund administration costs. \$874,741 is the FY13 estimate for administrative costs. The General Fund also provides the resources to pay the Old Fund claim benefit payments. An estimate of the total FY13 Old Fund claim benefit payments and operating costs have been provided to the Governor's Office of Budget and Program Planning and therefore are not included in the following MSF budget.

The following table summarizes the MSF FY13 Budget and comparative prior year data.

	FY13 Budget	FY12 Projection	FY12 Budget	FY11	FY10
FTE	289.00	286.75	286.75	284.50	299.50
Personal Services	\$23,643,743	\$24,465,965	\$23,195,097	\$23,463,457	\$21,915,413
Operating Expense	20,414,426	17,880,628	18,569,810	18,520,723	21,449,205
Equip & Int Assets	538,659	685,979	394,504	706,758	4,352,911
ALAE	<u>4,065,860</u>	<u>3,964,266</u>	<u>4,547,212</u>	<u>4,258,378</u>	<u>4,112,715</u>
Operational Expenditures	\$48,662,688	\$46,996,837	\$46,706,623	\$46,949,316	\$51,830,244
Benefit Payments	<u>118,485,398</u>	<u>113,366,893</u>	<u>109,874,820</u>	<u>111,420,055</u>	<u>123,003,870</u>
Total MSF	<u>\$167,148,086</u>	<u>\$160,363,730</u>	<u>\$156,581,443</u>	<u>\$158,369,372</u>	<u>\$174,834,115</u>

The FY13 Budget (covering the period of July 1, 2012 to June 30, 2013) will provide the financial resources to support the FY13 Annual Business Plan (ABP) initiatives and the projects identified in the plan and noted below.

**FY13 Expenditures for the Annual Business Plan (ABP) and Enterprise Strategy
and Project Management (ESPM) Projects**

<u>Project Type</u>	<u>Project Description</u>	<u>FY13 Project Expenditure</u>
ABP	Claim Examiner Trainee Program (3.00 FTE / 4 positions)	\$145,896
ABP	Customer and Injured Employee Survey	250,537
ABP	Human Resources Management System	95,560
ABP	Organizational Development Research	85,000
ABP	WorkSafe Champions	23,784
ABP	Claim Analytics	<u>11,100</u>
	Subtotal	\$611,877
ESPM	Workflow Management System	\$84,681
ESPM	Mobile Device Use Case Study	<u>10,000</u>
	Subtotal	\$94,681
	<u>Total All Projects</u>	<u>\$706,558</u>

I. Executive Summary – Statutory Operating Expense Ratio

The statutory operating expense ratio is a standard measurement in financial statements for insurance organizations to analyze the cost of operations in relation to net earned premium and allows MSF to compare operational management to competitors and the industry. The statutory operating expense ratio encompasses insurance industry statutory accounting data that is not displayed in an expenditure driven budget. Based on the items included in the budget we have estimated the FY13 statutory expense ratio to be 29.4%.

The following table displays the Montana State Fund net earned premiums, statutory operating expense and the statutory operating expense ratios from the FY13 Budget with comparison to previous years.

Montana State Fund	FY13 Budget	FY12 Projection	FY12 Budget	FY11 Actuals	FY10 Actuals
Statutory Operating Expense	\$45,275,437	\$47,698,301	\$42,977,515	\$63,352,014	\$41,693,378
Net Earned Premiums	\$154,197,468	\$144,689,308	\$132,868,786	\$173,605,442	\$166,265,384
Statutory Operating Expense Ratio	29.4%	33.0%	32.3%	36.5%	25.1%

MSF’s *operational expenditures* (personal services, operating expenses, equipment and intangible assets, and allocated loss adjustment expense) are \$48,662,688 for the fiscal year’s budget. The statutory operating expense ratio excludes specific ‘expenditures’ but includes other ‘expenses’ based on Generally Accepted Accounting Principles (GAAP) and statutory accounting principles. The *MSF statutory operating expenses* are \$45,275,437.

The statutory operating expense is divided by the FY13 estimated net earned premium of \$154,197,468 to determine the FY13 estimated expense ratio of 29.4%. The following

table compares the MSF statutory operating expense ratio with the property and casualty insurance industry and other state funds based on 2010 data from 2011 A. M. Best's Aggregates & Averages.

A.M. Best's Total US PC Industry – (1,036 P&C Organizations)	A.M. Best's Work Comp Composite – (205 Organizations)	A.M. Best's Total US PC State Funds – (16 Organizations)	MSF FY10	MSF FY11	MSF Projected FY12	MSF Budget FY13
40.8%	50.2%	40.1%	25.1%	36.5%	33.0%	29.4%

II. Revenue

The premium revenue MSF generates in Montana's competitive workers' compensation insurance market, along with investment income, provides the funding for:

- Indemnity and medical claims reported by MSF policyholders;
- Operational expenses; and
- Contribution to equity.

For FY13, MSF is projecting net earned premium of \$154,197,468. The estimate assumes:

- 25,771 policies written in FY13
- Average manual rate change for policy year 2013 of 0.00%
- Wage growth of 4.0%
- Premium retention rate at 90.9%
- New business written of \$15.4M

III. Total Expenditures

The total budget request for FY13 expenditures is \$167,148,086. The FY13 budget is separated into four primary expenditure categories and displayed below with comparative expenditures from the year-end projection of FY12 and the approved FY12 budget.

Categories	FY13 Budget	FY12 Projection	FY12 Budget
MSF - Benefits and Claim Payments	\$118,485,398	\$113,366,893	\$109,874,820
Allocated Loss Adjustment Expenditures	4,065,860	3,964,266	4,547,212
Unallocated Loss Adjustment Expenditures	14,168,464	13,973,240	13,503,484
Underwriting Expenditures	30,428,364	29,059,332	28,655,927
Total MSF Expenditures	\$167,148,086	\$160,363,730	\$156,581,443

The total MSF budget of \$167.1 million is an increase of \$6.8 million or 4.2% from the FY12 projection of \$160.4 million. Claim benefit payments to injured employees increase by \$5.1 million and all other operational expenditures increase by \$1.7 million as compared to the FY12 projection.

The FY13 Budget for claim benefit payments to injured employees equates to 70.9% of the total budget and operational expenditures comprise 29.1% of the budget.

IV. Benefit Payments

The FY13 claim benefit payments budget of \$118.5 million is an increase of \$5.1 million or 4.5% from the FY12 projection of \$113.4 million. FY13 medical benefit payments are estimated to increase by 6.0% and indemnity benefit payments will decrease by 1.9% from amounts projected for FY12.

MSF expects FY13 claim benefit payments to increase above the projected FY12 level primarily due to an expected increase in business during the 2013 policy year. Changes to the workers' compensation benefit payment laws enacted in the 2011 legislative session were considered in setting the level of benefit payments budgeted for FY13.

Provisions enabling undisputed medical settlement are expected to accelerate benefit payments to injured employees in FY13 and reduce the liability in future years. The impact of the changes to the utilization and treatment guidelines are being monitored. The budget includes the addition of a new accident year's claim payments to the estimate of payment on existing claim liabilities. The benefit payments budget does not include contingency funds related to court decisions.

The following table reflects the budgeted FY13 MSF benefit payments, projected FY12 benefit payments, and ten years of actual payments.

Fiscal Year	Net Earned Premium	Benefit Payments	Percent Change in Benefit Payments from Prior Year
FY13 Budget	\$154,197,468	\$118,485,398	4.5%
FY12 Projection	\$144,689,308	\$113,366,893	1.7%
FY11 Actual	\$173,605,442	\$111,420,055	-9.4%
FY10 Actual	\$166,265,384	\$123,003,870	0.4%
FY09 Actual	\$203,976,354	\$122,460,166	-1.4%
FY08 Actual	\$230,965,307	\$124,139,778	7.2%
FY07 Actual	\$238,202,708	\$115,849,169	5.1%
FY06 Actual	\$211,892,198	\$110,237,048	11.9%
FY05 Actual	\$189,378,858	\$98,479,963	-1.8%
FY04 Actual	\$139,360,612	\$100,271,014	20.3%
FY03 Actual	\$117,776,580	\$83,319,729	22.7%
FY02 Actual	\$92,971,868	\$67,899,056	

FY13 benefit payments are separated by MSF and Other States Coverage (OSC) and compared to the FY12 projected and FY11 actual expenditure levels below.

Benefit Payments	FY13 Budget	FY12 Projection	FY11 Actual	\$ Change FY13 from FY12 Proj.	% Change FY13 from FY12 Proj.
MSF	\$117,511,600	\$112,512,470	\$110,579,091	\$4,999,130	4.4%
OSC	973,798	854,423	840,964	119,375	14.0%
Total	\$118,485,398	\$113,366,893	\$111,420,055	\$5,118,505	4.5%

\$117,511,600 is budgeted for MSF (no OSC) claim benefit payments to injured employees in compliance with state laws governing claim payments. This budget is based on:

- Actual ‘Accident Year’ benefit payments for each fiscal year from 1991 through April 30, 2012.
- FY11 and FY12 benefit payments for all ‘Accident Years’ are weighted most heavily in the determination of the FY13 benefit payments to be made on all ‘Accident Years’.

Based on payment activity, FY13 MSF accident years’ benefit payments are:

- Indemnity - \$42.5 million or 36.2% of total medical and indemnity
- Medical - \$75.0 million or 63.8% of total medical and indemnity

Benefit payments are budgeted to be higher than the FY12 projection due to an increase in business volume.

- Premium decreased from \$238M in FY07 to a low of \$166M in FY10, because of a decrease in covered payroll that resulted in a decrease of reported claims. In FY11 premium from covered payroll increased and is expected to increase further in FY13 and therefore additional loss exposure is expected.
- HB-334, enacted in the 2011 legislative session, significantly impacted MSF rates for FY12. An average manual rate decrease of 20% was assumed for the policy year, but the majority of the savings will occur in future years.

Other States Coverage (OSC) program benefit payments are estimated to be \$973,799 and are included in the amounts above. There is \$307,514 for indemnity and \$666,285 for medical.

V. Operational Expenditures

Operational expenditures include personal services, operating expenses, equipment and intangible assets, and Allocated Loss Adjustment Expense (ALAE).

Operational Expenditures	FY13 Budget	FY12 Projection	FY12 Budget	FY11	FY10
MSF					
FTE	289.00	286.75	286.75	284.50	299.50
Personal Services	\$23,643,743	\$24,465,95	\$23,195,097	\$23,463,457	\$21,915,413
Operating Expense	20,414,426	17,880,628	18,569,810	18,520,723	21,449,205
Equip & Int Assets	538,659	685,979	394,504	706,758	4,352,911
ALAE	4,065,860	3,964,266	4,547,2132	4,258,378	4,112,715
Total MSF	\$48,662,688	\$46,996,837	\$46,706,623	\$46,949,316	\$51,830,244

MSF Staffing

MSF continually evaluates and re-aligns our staff to meet the changing work processes. The State Fund is requesting approval of 289 FTE (full time equivalent) for FY13. This is a net increase of 2.25 FTE from the approved and current level of 286.75 FTE, and is made up of the following changes:

- There are four proposed Claim Examiner Trainee positions comprising 3 FTE to be added as proposed in the Annual Business Plan. Two Claim Examiner Trainee

positions (1 FTE each) will be effective July 1, 2012, and two positions (0.5 FTE each) will be effective January 1, 2013.

- In the FY12 budget three janitorial positions at 0.75 FTE each were added beginning October 1, 2011. These janitorial positions will become 1 FTE each in FY13 adding an additional 0.75 FTE.
- A vacant Claim QA Analyst (1 FTE) has been deleted from the Operations Support Department.
- A vacant half-time Medical Case Manager position (0.5 FTE) has been deleted from the Operations Support Department.

The 289 FTE equate to 291 positions. In FY13, MSF will have 287 positions that are 1 FTE each, 2 new positions that are 0.5 FTE each as they will be filled midyear, and, 2 positions that are 0.5 FTE each (half day all year).

The following table reflects MSF staffing by department for the FY13 Budget back to FY10.

MSF Department Staffing (FTE)	FY13 Budget	FY12	FY11	FY10
Corporate Support	33.00	32.25	30.00	32.00
Executive Offices	6.00	6.00	6.00	6.00
General Counsel	16.00	16.00	16.00	16.00
Human Resources	6.00	6.00	6.00	6.00
Information Technology	52.00	52.00	52.00	53.75
Operations	137.00	134.00	137.00	143.00
Operations Support	39.00	40.50	37.50	42.75
MSF Total	289.00	286.75	284.50	299.50

Personal Services

To support the necessary staff of 289 FTE, MSF requests funds of \$23,643,743 for the FY13 personal services budget. A vacancy savings factor of 2% was applied to the personal services estimates of Corporate Support, General Counsel, Information Technology, Operations, and Operations Support to reduce the budgeted amount.

The FY13 personal services budget does not include funding for the employee incentive and compares to the FY12 personal services projection, excluding any funds for the employee incentive, as follows.

	FY13 Budget	FY12 Projection	Dollar Variance	Percentage Variance
Salaries	\$18,256,142	\$17,454,228	\$888,032	5.1%
Employee Benefits	5,387,601	5,153,953	256,284	5.0%
Total Personal Services	\$23,643,743	\$22,608,181	\$1,144,316	5.1%

Regular Salaries - \$17,966,153

The regular salaries account includes base salaries, merit based salary adjustments, and an adjustments for vacancy savings:

- \$17,592,919 for base salaries is calculated on the hourly wage for all active employees as of January 16, 2012. Vacant positions were based on the compensation at 95% of mid-point for the position's expected salary band. FY13 will have 2,080 annual payroll hours for each FTE. Partial FTE salaries are prorated.
- \$373,234 for merit based salary adjustments. The merit salary adjustments for employees are paid after the final STAR (Skills, Talents and Results) performance reviews are completed. For the FY13 budget an average merit adjustment of 2.8% was assumed. Merit salary adjustments have been budgeted to be effective September 8, 2012. No merit adjustment was budgeted for the President.

Overtime - \$25,817 – Supports additional workload coverage during the policy renewal periods. Provides for on-call and call-out compensation to support computer systems and infrastructure.

Personal Leave Program Payouts - \$124,602 – MSF's Personal Leave Program provides for the annual payment of unused personal leave balances to eligible participants. The FY13 budget estimate is based on FY12 payments and review of leave balances of participants.

Retirement Payouts – \$139,570 - Includes funds for leave balance payouts for twelve expected retirements in FY13. This amount is for the salary portion of the leave balances of retirees. The associated employee taxes and benefits for these retirement payouts are budgeted to those specific accounts.

Employee Taxes and Benefits - \$5,387,601

Employee Taxes and Benefits are payments / contributions MSF makes on behalf of our employees as a tax or as worker's compensation premium. The following lists employee tax and benefit categories, and the dollars budgeted.

- FICA / Medicare – 7.65% of applicable salary - \$1,364,326
- Retirement (PERS) – 7.17% of applicable salary - \$1,307,111
- Workers' Compensation Premium – approximately 1.07% of salary - \$195,486
- State Unemployment Tax (SUT) – 0.15% - \$27,364
- Group Insurance - \$2,493,314

The FY13 annual employer contribution for group insurance is \$8,796 per eligible employee, the same as in FY12. In FY13, MSF will have a maximum of 291 employees eligible for the group insurance contribution.

Operating Expenses

The MSF budget for Operating Expenses is \$20,414,426 and includes funding in the following categories:

Category	FY13 Budget	FY12 Projection	Variance Dollars	Variance Percent
Other Services	\$15,037,880	13,014,274	\$2,023,606	15.5%
Supplies & Materials	673,821	654,876	18,945	2.9%
Communications	1,305,565	1,256,030	49,535	3.9%
Travel	263,069	172,699	90,370	52.3%
Rent	331,375	312,393	18,981	6.1%
Utilities	239,000	200,971	38,029	18.9%
Repairs & Maintenance	1,527,045	1,420,032	107,013	7.5%
Other Expenses	1,036,671	849,353	187,319	22.1%
Total Operating Expenses	\$20,414,426	\$17,880,628	\$2,533,798	14.2%

Other Services

- **Consulting and Professional Services** - \$2,610,469 – This is an increase of \$566,225 or 27.7% from the FY12 projection of \$2,044,244. The following table compromises 82% of the total Consulting and Professional Services budget request. The expenditures are necessary to complete Annual Business Plan initiatives and other operational aspects of MSF business.

Consulting and Professional Services

FY13 Budget	Department	Item / Description
\$1,029,536	Operations	NCCI Membership Fee Agreement and transaction based charges (membership required by law)
\$380,500	Executive	Actuarial services
\$370,500	Information Technology	Annual Business Plan and Enterprise Strategy & Project Management projects
\$357,267	Operations	Other States Coverage

- ✓ **National Council on Compensation Insurance (NCCI)** – \$1,029,536 – This is an increase of \$131,016 or 14.6% from the FY12 projection of \$898,520. The budget reflects the following:
 - The current contract with NCCI that became effective January 1, 2012.
 - The NCCI Membership Fee is primarily based on percentages, that vary by core service, of net direct written premiums from FY11. The net direct written premium used to calculate the membership fee was \$173,139,862. Total FY13 budget for the membership fee is \$504,732.
 - NCCI is completing an examination in conjunction with a request from the National Association of Insurance Commissioners (NAIC). MSF has budgeted \$8,000 for State Mandated Services that are estimated to be charged by NCCI for this project.
 - Other fees are associated with the services provided by NCCI, such as eMods, unit statistical reporting, proof of coverage, and additional data. MSF is charged a transaction fee when providing data to NCCI. These fees are budgeted to be \$516,804.

- ✓ **Independent Actuary** - \$380,500 – The Board is required by law to use the services of an independent actuary when estimating losses, dividends, and other areas of business. This budget will fund actuarial services to consult on rate levels, loss cost multipliers, loss reserves, equity and dividend analysis, and additional expenses associated with legislative session information requests.

- ✓ **ABP and ESPM Projects** - \$370,500 – Consulting and professional services portion of ABP and ESPM projects:
 - \$240,000 – Customer and Injured Employee Survey – ABP
 - \$85,000 – Organizational Development Research – ABP
 - \$16,000 – Human Resources Management System - ABP
 - \$4,500 – Claim Analytics – ABP
 - \$25,000 – Workflow Management System - ESPM

- ✓ **Other States Coverage (OSC)** – \$357,267 - The budget is based on total OSC premium of \$1,863,729.
 - \$143,923 - Per OSC contracts MSF pays percentages, which vary by carrier, of the written premium as agent and fronting fees.
 - \$120,144 - Contracts provide for 12% of incurred losses as unallocated loss adjustment expense for expenses not attributable to a specific claim. This is the cost of providing claims adjusting and supervision services required to support the classes of business reinsured under our agreement.
 - \$82,000 - A letter of credit is required of MSF per contract.
 - \$11,200 –Safety services provided by Zurich.

- ✓ **Other Consulting and Professional Services Items** - \$472,666
 - \$114,000 – consulting services associated with compensation structure, position assessments, executive coaching, and flu shots
 - \$100,000 - consulting services for business support deemed appropriate by the President
 - \$56,000 – consulting for IT technical, management, and mobile computing, and programming support for specific software used by MSF
 - \$50,000 – support to WorkSafe Montana at the Dept. of Labor and Industry for safety program
 - \$50,000 – Medical Director expense for researching new technologies, training providers and MSF staff
 - \$40,200 – National Fraud Indexing service and asset searches
 - \$27,000 – on-going support for Enterprise Risk Management project
 - \$25,391 – communication services for social media, e-blast, website redesign, hosting and maintenance
 - \$5,000 – accounting and audit standards and regulation research for legislative fiscal note preparation
 - \$5,075 - Board member stipends and ergonomic reviews

- **Insurance and Bonds** - \$245,158 – this is a \$2,430 or 1% increase from the FY12 payment of \$242,729. All MSF insurance is provided through the state’s division of Risk Management and Tort Claims. The state is self-insured. This is a cost charged to MSF based on the Governor’s Office of Budget and Program Planning’s (OBPP) ‘Fixed Cost’ report.
- **Legal Fees and Court Costs** - \$87,100 - this is a decrease of \$24,417 or 21.9% from the FY12 projection of \$111,517. The budget will fund employers’ liability coverage opinions, bankruptcies, human resource arbitrations, and other cases.
- **Warrant Writing** - \$52,006 – this is an increase of \$2,526 or 5.1% from the FY12 projection of \$49,480. MSF’s medical bill processor issues checks for all medical related expenses but MSF relies on the state to issue all other warrants. The estimate is based on the OBPP Fixed Cost report.
- **State Human Resources Information System (Payroll) Service Fee** - \$60,948 – this is an increase of \$271 or 0.4% from the FY12 projection of \$60,677. The budget is based on OBPP Fixed Cost and will be charged to MSF for services of the State’s Central Payroll and SABHRS Human Resource module.
- **Policyholder Payroll Audits** - \$959,662 – this is an increase of \$292,331 or 43.8% from the FY12 projection of \$667,331. For FY13, MSF plans to perform an increased number of audits due to the changes in the renewal process and the split payroll periods driven by the passage of HB-334 in the 2011 legislative session. Payroll audits continue to be a significant means to verify payrolls and ensure appropriate classifications are used, as well as creating additional opportunities to educate policyholders on MSF processes for reporting payroll.
- **Financial and Legislative Audits** - \$168,200 – this is an increase of \$49,174 or 41.3% from the FY12 projection of \$119,026.
 - \$37,200 is for the Financial Compliance audit performed by the Legislative Audit Division (LAD) of the MSF governmental financial statements. This includes \$10,000 for an independent actuarial review (contracted by LAD) of MSF rates and reserves.
 - \$56,000 is for an independent accounting firm to audit our annual statutory financial statements.
 - \$75,000 is for an audit of ESI, MSF’s pharmacy provider. ESI has not been audited since becoming MSF’s pharmacy provider. The last audit of pharmacy provider services was done in March 2008.
- **Consultants – Training** - \$58,850 – this is a decrease of \$34,441 or 36.9% from the FY12 projection of \$93,291. The budget will enable MSF to bring trainers on-site and provide for a larger number of employees to participate in the training rather than sending a limited number of employees to external locations.
 - \$47,900 – continuing professional development for executive and claim staff, Professional Development Center (PDC), Mosaic and other specialized training

- \$8,950 – ABP project for WorkSafe Champions
 - \$2,000 – facilities system and equipment training for staff
- **Commissions** - \$10,757,716 – this is an increase of \$1,205,443 or 12.6% from the FY12 projection of \$9,552,273 which includes base, incentive, and Other States Coverage commissions. Commissions are directly and proportionately related to gross premiums, percentage of MSF policyholders represented by agents, and the commission rates paid on a policy. The payment of commissions supports service and distribution capabilities with our agent partners.

Base Commissions:

In aggregate, MSF estimates FY13 gross earned premiums to be \$164,223,949 with agents representing approximately 68.6% of this amount. The average base commission rate is 7.9%. The FY13 budget is \$8,917,762 for base commission.

Incentive Commissions:

Incentive commissions are determined after reviewing how an agency’s overall book of MSF represented accounts develops. The average agent incentive commission rate is expected to be 1.5% though not all agents may qualify for the incentive commission. \$1,690,855 is budgeted for the FY13 agent incentive commission.

Other States Coverage (OSC) Commissions:

\$149,099 is budgeted for commissions associated with OSC policies. The total FY13 revenue estimated for OSC is \$1,863,729. The average commission is 8%.

- **SABHRS Administrative Costs** - \$225,756 – this is an increase of \$15,583 or 7.4% from the FY12 projection of \$210,173. This is paid to the Department of Administration and is MSF’s portion of the expense for maintaining the state’s accounting system, SABHRS. This expense is based on OBPP’s Fixed Cost report.
- **Temporary Services** - \$79,000 – this is a decrease of \$91,356 or 53.6% from the FY12 projection of \$170,356. MSF uses temporary staff to fill in for vacancies as business needs require. The FY13 temporary services budget is allocated as follows:
- ✓ \$75,000 – Operations is anticipating staff retirements in FY13. The budget will enable the hiring of temporary claim adjusters to maintain service levels until permanent staff is hired.
 - ✓ \$3,000 - General Counsel expert to assist with court case
 - ✓ \$1,000 – Human Resource support for filing and records management
- **Miscellaneous Information System Services - Non-DOA** - \$68,970 – this is a decrease of \$5,956 or 7.9% from the FY12 projection of \$74,926. This is primarily for disaster recovery services provided by SunGard - \$67,860, and also supports other system user fees.

- **Printing** - \$171,941 – this is a decrease of \$24,878 or 12.6% from the FY12 projection of \$196,819. This includes in-house forms, safety workshop materials, and a variety of small printing jobs for brochures, business cards, envelopes, and other informational materials.
- **Fraud Investigation and Prosecution Agreement with the Montana Department of Justice (DoJ)** - \$342,244 – this is an increase of \$53,112 or 18.4% from the FY12 projection of \$289,132. The total budget of \$342,244 is distributed to the Fraud Services team (\$71,012 Operating Expense) and the MSF (\$271,232 Allocated Loss Adjustment Expense) based on actual investigative and prosecutorial hours recorded in prior years.

As provided in state law, MSF uses the services of DoJ to complete investigations submitted to them by MSF and prosecutes workers' compensation fraud cases. DoJ has police powers that enable them to more thoroughly complete fraud investigations and prosecutions than MSF.

- **Services provided by the State Information Technology Services Division (SITSD) of the Department of Administration** - \$460,030 – this is a decrease of \$11,600 or 2.5% from the FY12 projection of \$471,629.

SITSD, in conjunction with OBPP, has determined the expenses to be charged to MSF for services in the FY12 and FY13 Biennium. MSF reviews processes and charges regularly and continually seeks the most efficient means to provide staff network support/services and to avoid the use of unnecessary or duplicative ITSD network services to minimize expense.

The budgets by SITSD category are as follows:

- ✓ \$170,040 – network services
- ✓ \$149,700 – enterprise services
- ✓ \$117,444 – asset broker
- ✓ \$22,080 – e-mail
- ✓ \$528 – long distance
- ✓ \$238 – voice services

Supplies and Materials

- **Gasoline** - \$62,592 – this is an increase of \$9,287 or 17.4% from the FY12 projection of \$53,306. The budget estimate was based on \$3.759 per gallon (MSF is exempt from gas tax) for gasoline, an estimate of 23 miles per gallon on average, and an estimate of 16,650 gallons of gasoline being purchased. In FY13 MSF vehicles are projected to log about 382,000 miles.
- **Computer Hardware** – \$105,458 – this is an increase of \$70,646 or 202.9% from the FY12 projection of \$34,812. The FY13 budget includes:
 - ✓ \$55,181 - servers for the ESPM Workflow Management System project
 - ✓ \$17,064 – dual and replacement computer monitors
 - ✓ \$14,250 – replace two Intrusion Protection Servers with one new server

- ✓ \$4,560 – mobile devices for case study
 - ✓ \$4,000 – conference room phone replacements
 - ✓ \$10,403 – all other - a fire system printer, and other minor ergonomic computer equipment (keyboards).
- **Minor Software** - \$125,301 – this is a decrease of \$73,768 or 37.1% from the FY12 projection of \$199,069. Software to be purchased in FY13 includes:
- ✓ \$118,191 – for Information Technology software such as:
 - \$43,890 – Control–M licenses
 - \$26,933 – desktop software upgrade
 - \$18,986 – desktop software upgrade for Windows 7
 - \$7,683 – Upgrade SQL server
 - \$5,200 – Forensic software to enhance file recoveries and HR investigations
 - \$4,500 – Workflow Management System
 - \$4,000 – support mobile device case study
 - \$2,400 – Data Integrator Windows Server licenses
 - \$2,400 – upgrade of ShoreTel software to be compatible with Windows7
 - \$2,199 – ACP device node software to monitor power distribution units
 - ✓ \$3,500 – Insurance industry annual statement preparation software
 - ✓ \$3,010 – Abacus time keeping software
 - ✓ \$600 – Dragon Naturally speaking
- **Supplies: Central Stores and Other Providers** - \$176,007 – this is an increase of \$1,104 or 0.6% from the FY12 projection of \$174,903. This budget includes paper, toner, and a wide variety of minor office supplies.
- **All Other Supplies and Materials Categories** - \$87,019 - includes budget for:
- ✓ \$27,800 – promotional aids to enhance safety and other program awareness
 - ✓ \$16,035 – educational materials to support executive and leadership and staff training, and materials used at safety workshops
 - ✓ \$11,002 – safety supplies and equipment, and clothing
 - ✓ \$10,000 – Board member and executive photos, photography stocks
 - ✓ \$9,711 – books & reference materials
 - ✓ \$9,351 – minor office equipment – primarily chairs and computer screens
 - ✓ \$3,120 - diesel fuel for back-up generator

Communications

- **Postage** - \$401,750 – this is an increase of \$51,238 or 14.6% from the FY12 projection of \$350,512. The budget includes:
- ✓ \$274,800 - print mail service fees
 - ✓ \$120,000 - meter postage
 - ✓ \$6,950 – all other – meter scale updates, PO Box rental, field staff postage, postage due, and stamps

- **Advertising** (excluding recruitment/employment advertising) - \$596,572 – this is a decrease of \$18,010, or 2.9% from the FY12 projection of \$614,582. This will provide funding for all advertising campaigns to occur in FY13: media placement, newspapers, billboards, brochures and inserts, web design, direct mail, and opportunity marketing. Television advertising is \$427,170 and all other media is \$169,402.
- **All Non-SITSD Telephone Categories** - \$113,036 – this is an overall increase of \$18,783 or 19.9% from the FY12 projection of \$94,253. This expense covers cell phones, long-distance, and ‘800’ line services. The increase is due to MSF changing carrier our long distance service carrier to Sprint from SITSD.

Travel

- \$263,069 – this is an increase of \$90,370 or 52.3% from the FY12 projection of \$172,699. The FY13 budget supports:
 - ✓ Travel by safety management consultants, claim examiners, and underwriters to visit customers, and safety seminars.
 - ✓ MSF staff attending training at off-site locations
 - ✓ Travel associated with WorkSafe MT
 - ✓ Agency Advisory Committee

Rent

- \$331,375 – this is an increase of \$18,981 or 6.1% from the FY12 projection of \$312,393. MSF has three areas of rent expense:
 - ✓ \$266,700 – annual parking fees for 350 spaces
 - ✓ \$52,127 – rent for five field offices: Billings, Great Falls, Missoula, Kalispell, and Butte
 - ✓ \$12,547 – photocopy equipment rental agreement

Utilities

- \$239,000 – this is a increase of \$38,029 or 18.9% from the FY12 projection of \$200,971. This is for electricity and an expected rate increase, natural gas, and water and sewage associated with the building.

Repairs and Maintenance

- \$1,527,045 – this is an increase of \$107,013 or 7.5% from the FY12 projection of \$1,420,032. The bulk of this expense, \$1,295,568, is due to IT maintenance agreements for hardware such as servers, routers and associated peripherals, and application software. Facilities has several building repair and maintenance items (window cleaning, fire system, boilers inspection, and others) budgeted to be \$123,230. Facilities also has budget for maintenance agreements of \$31,945 that include paper shredding services, heating, air conditioning and ventilation (HVAC), security, elevator, landscaping and other items. Document processing has \$35,196 budgeted for maintenance on scanning and mail room equipment. \$25,662 is for vehicle maintenance. \$12,000 is for office equipment repair parts, and \$15,444 for a microfiche reader and all other.

Other Expenses

- **Dues** - \$61,907 – this is a decrease of \$3,746 or 5.7% from the FY12 projection of \$65,653. This expense is for membership dues with professional business organizations such as the Montana Chamber of Commerce and other local chambers, Montana Society of CPA's, American Association of State Compensation Insurance Funds, and the Society for Human Resource Management.
- **Subscriptions** - \$94,623 – this is an increase of \$19,175 or 25.4% from the FY12 projection of \$75,448. This includes budget for a variety of subscriptions for desk manuals and career specific periodicals such as medical and occupational disability guides and on-line access, SNL Financial, Lexis Nexis, Conning Studies in Insurance, A.M. Best materials, NAIC Profitability Report, NCCI manuals, Business and Legal Resources, Monster, Career Builder, and Montana Interactive.
- **Taxes and Assessments** - \$81,705 – this is a decrease of \$19,621 or 19.4% from the FY12 projection of \$101,326. This budget is comprised of:
 - ✓ \$78,905 - OSC Premium Taxes – This is for premium taxes paid for insuring MSF policyholder's operations in other states where workers' compensation premium taxes are assessed. In FY13 the OSC premiums are estimated to be \$1,863,729 and the taxes and surcharges are estimated to be 4.2%. The projected FY12 expense is \$98,690.
 - ✓ \$2,800 - Property assessment on the building.
- **Education and Training** - \$122,562 – this is an increase of \$34,083 or 38.5% from the FY12 projection of \$88,479. MSF maintains a philosophy of providing training to employees in necessary aspects of the business to ensure corporate success. Training is needed to ensure MSF employees are knowledgeable in best practices associated with claim management, safety management and underwriting of risk.
- **Rewards** - \$32,980 – this is an increase of \$11,577 or 54.1% from the FY12 projection of \$21,403. This is for employee of the month/year awards, employee referral incentives, certification awards, and IDEA awards. The increase is due to the \$8,000 budgeted as part of the ABP Customer Survey project to be provided to customers participating in focus groups.
- **Tuition Reimbursement** – \$26,000 – this is an increase of \$2,000 or 8.3% from the FY12 projection of \$24,000. For FY13, the maximum amount of annual tuition reimbursement per employee is \$4,000. Nine employees are expected to participate in the tuition reimbursement program in FY13. Reimbursements are based on successful course completion and actual cost.
- **Meetings and Conference Cost** - \$97,960 – this is an increase of \$20,686 or 26.8% from the FY12 projection of \$77,274. The budget provides for meeting rooms and equipment for all MSF meetings that cannot be held in our building.

- ✓ Safety management workshops in locations throughout Montana
- ✓ Agent training workshops
- ✓ Marketing events throughout the state

➤ **Recruitment Expenses** (including Employment Advertising) - \$300,838 – this is an increase of \$104,318 or 53.1% from the FY12 projection of \$196,520. The FY12 Budget was established at \$299,462.

Employee recruitment is necessary to fill vacancies resulting from employee turnover. Through April of FY12, MSF has filled 37 positions (includes new hires, promotions, and transfers), had 24 employee resignations (includes retirements and terminations), and has thirteen vacant positions; four of which are actively being recruited. The FY13 budget also anticipates twelve retirements which will require recruitment expenditures. Each action has the potential to require different levels of expense to complete the recruitment process. The FY13 budget is based on prior year expenditures for individual recruiting actions and an expectation of higher recruiting actions being necessary in FY13 due to retirements.

Recruitment expenses are comprised of the following accounts:

- ✓ Employment Ads - Out-of-State – \$3,794
- ✓ Employment Ads - In-State – \$17,672
- ✓ Relocation – Taxable – \$4,773
- ✓ Recruiting – Non-Advertising - \$26,576
- ✓ Job Candidate Expense – recruitment services and candidate travel expenses – \$139,180
- ✓ Relocation – Non-Taxable – \$108,843

➤ **Charitable Contributions / Scholarships** - \$46,326 – this is a decrease of \$1,660 or 3.5% from the FY12 projection of \$47,986. The total funds budgeted for FY13 charitable contributions are \$46,326 and are based on 0.03% of estimated FY13 net earned premium. Charitable Contributions are budgeted as follows:

- ✓ \$26,650 – Scholarship program – Scholarships of up to \$2,000 per year are provided to dependents or spouses of MSF insured employees who died in work related accidents. MSF estimates 13 scholarships will be awarded in FY12 for a total budget of \$26,650. Each scholarship is estimated to be \$2,000 with an additional \$50 administrative fee each. The budget is based on prior year participation.
- ✓ \$13,676 - ACE (Assisting Charitable Endeavors) Grants program - The grants are awarded by a committee of MSF employees based on applications submitted by ‘not-for-profit’ organizations throughout the state.
- ✓ \$6,000 – Support of Leadership Montana and ‘Festival of Trees’

➤ **Fee Collection Expense** - \$58,565 – this is an increase of \$7,294 or 14.2% from the FY12 projection of \$51,271. MSF contracts with three collection agencies and uses the services of the MT Dept. of Revenue. The fees vary based on success with collections and whether litigation is involved.

- **State Wide Indirect Cost** - \$102,842 – this is an increase of \$9,562 or 10.30% from the FY12 projection of \$93,280. The State Wide Indirect Cost (also known as the State Wide Cost Application Plan or SWCAP) is an allocation determined by the Office of Budget and Program Planning as a means to allocate costs incurred by agencies whose functions support all state entities.

Equipment and Intangible Assets

The total FY13 budget for equipment and intangible assets is \$538,659. This is a decrease of \$147,320 or 21.5% from the FY12 projection of \$685,979.

Equipment - \$465,659

- **Autos & Trucks** - \$97,500 - Replacement of five vehicles as recommended by the Fleet Manager. Vehicles being replaced have reached the mileage specified in MSF's Fleet Management Policy as the replacement threshold. The budget will replace four cars in FY13 at \$19,000 each and one SUV at \$21,500 from our fleet of twenty-two MSF owned vehicles.
- **Multi-User Computers** - \$358,459
 - ✓ \$340,000 is budgeted for a maintenance cycle server purchase to replace 15 five-year old IBM Power 5 servers with three IBM Power 7 servers. MSF implemented a five year server purchasing freeze from fiscal years FY08 through FY12 in order to purchase new equipment for the new building. Eighteen existing IBM Power 5 AIX servers that were purchased between February 2006 and September 2007 were moved to the new location. These five-year-old servers host mission critical applications including Claim Center, Portal, FileNET, PeopleSoft, and Lawson, as well as other applications. The five year total cost of ownership of this replacement / update is \$59,569 based on all equipment, maintenance and energy expenditures from FY13 – FY17.
 - ✓ \$18,459 is budgeted for the law library to be equipped with audio / visual and computer equipment.
- **Office Equipment** - \$9,700 – is budgeted for a carpet extractor that will enable MSF staff to clean carpets and eliminate the need for external carpet cleaning service expense.

Intangible Assets

- **Multi-User Software** - \$73,000 is budgeted for a Human Resource Management System (HRMS) that provides the functionality of a learning management system (communicate, track, test and document training) as well as providing time savings to leadership and human resource tools for performance management. The HRMS will help to align performance issues to development opportunities and evaluate the return on investment of development activities as they relate to support of the business needs of the organization. A request for proposal (RFP) will be developed.

Allocated Loss Adjustment Expense (ALAE)

ALAE are costs directly associated with managing a specific claim, such as independent medical examination to analyze a prescribed treatment of an injured employee.

\$4,065,860 is budgeted for ALAE and is an increase of \$101,594 or 2.6% from the FY12 projection of \$3,964,266.

- \$1,227,375 – Medical invoice processing is budgeted based on estimated medical bills to be processed in FY13 and contract cost per bill as negotiated with a new medical processing vendor. MSF changed the medical bill processing vendor in December of FY12. The budget is a decrease of \$310,597 or 20.2% from the FY12 projection of \$1,537,972.
- \$1,621,428 – All legal expense categories - this is an increase of \$217,681 or 15.5% from the FY12 projection of \$1,403,747.
 - ✓ \$774,870 - Legal Cost Allocation – cost of in-house legal staff working on claim file issues. FY12 projection is \$810,166
 - ✓ \$617,313 – State Fund legal contract for services of external counsel – FY12 projection is \$371,551. The increase from FY12 is driven by the need to have MSF’s Assistant General Counsel work the 2013 legislative session and claim cases will need to be worked by outside counsel. Increased settlement activity is also driving the increased budget.
 - ✓ \$83,889 – Legal Fee Claimant Attorney and for costs associated with claimant attorneys - FY12 projection is \$31,608.
 - ✓ \$145,356 – Employer’s Liability Insured Defense Cost - FY12 projection is \$190,442.
- \$958,293 - Fraud Related ALAE - this is an increase of \$321,409 or 50.5% from the FY12 projection of \$636,884.
 - ✓ \$687,061 - Private Investigations - FY12 projection is \$389,072 – the FY12 expenditures are projected at a significantly lower level than prior year actual expenditures as private investigation referrals were halted awaiting a court decision. The legal issues were resolved in FY12 and expenditures for investigations are planned to return to the higher prior year level.
 - ✓ \$271,232 – Department of Justice Fraud (DoJ) Agreement – MSF uses the services of DoJ to complete investigations submitted to them by MSF and prosecutes workers’ compensation fraud cases. DoJ has police powers that enable them to more thoroughly complete fraud investigations and prosecutions than MSF. The total budget of \$342,244 is distributed to the Fraud Services team (\$71,012) and the MSF (\$271,232) based on actual investigative and prosecutorial hours recorded in prior years.
- \$156,000 – Medical Consultants – this is a decrease of \$97,186 or 38.4% from the FY12 projection of \$253,186. Changes in the Medical Team functionality have enabled MSF to manage more complex medical issues with staff expertise verse external consultation.

- \$95,552 – Contract Adjusters - this is a decrease of \$31,334 or 24.7% from the FY12 projection of \$126,886.
 - ✓ \$51,253 – Adjusters associated with Other States Coverage claims
 - ✓ \$44,299 – Adjusters for MSF in-house claims

Costs not included in the Proposed Budget

The FY13 budget includes all known and expected costs for the fiscal year. The budget does not include:

- Merit and management incentive plan salary adjustments for the President. These are separate Board actions that may be taken if the Board deems appropriate.
- Court decisions which may significantly and adversely impact the State Fund. No such decisions are currently anticipated.
- Employee Incentive Program (Goal Sharing) - The incentive must be earned based on performance measured to goals and is not guaranteed.

The FY13 Budget is prefaced on MSF's net earned premium projection of \$154.2 million. Should premium significantly increase or decrease from the estimate, appropriate budget increases or decreases may be presented to the Board for further review.