MONTANA STATE FUND
2009 BUDGET ANALYSIS

A Report Prepared for the

Legislative Finance Committee

By

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INTRODUCTION

The Montana State Fund (MSF) provides Montana employers with an option for workers' compensation and occupational disease insurance and guarantees available coverage for all employers in Montana. The management and control of the state fund is vested solely in the Board of Directors (board).

Statute requires that MSF present the board approved budget to the Legislative Finance Committee no later than October 1 for their review. While the Legislative Finance Committee reviews the MSF 2009 budget, it has no authority to require MSF to change its budget unless it amends statute, which currently exempts the MSF from the Legislative Finance Act. The only entity charged with overseeing and approving budgets, operations, and expenditures of MSF is the Board of Directors.

This report discusses the analysis of the MSF board approved 2009 budget, which is attached. In summary the reports outlines the following:

- Loss costs for state agencies generally increase, although the class code associated with the largest amount of payroll decreases
- Manual rates for employers in FY 2009 will decrease on average 3 percent
- Questions are raised on how the board will achieve actuarially recommended equity targets by 2014
- The FY 2009 budget once again appears to contain sufficient excess budget authority to fund employee incentive payments using vacancy savings
- An issue is raised with the inclusion of commissions paid to independent insurance agents in the premium rates of all employers for services provided to fewer than half of covered employers
- The Old Fund liability continues to increase, general fund payments for benefits appear to be needed by FY 2012

The budget sets forth the anticipated revenues and planned expenditures for FY 2009. The budgeted revenues are based on the premium rates established by the board in May 2008. A brief discussion of premium rates and budget decisions made by the board is presented below.

STATE AGENCY LOSS COSTS GENERALLY INCREASE

The MSF premium rating process is used to determine the final amount of premium a Montana business will pay for their workers' compensation insurance during the year. The first component of the rate is the loss costs or the cost of providing indemnity and medical benefits to the injured worker. The National Council on Compensation Insurance (NCCI) develops advisory loss costs for workers' compensation in Montana. The costs include the costs to the insurer directly related to the benefit claims and the cost for the administration or management of those claims. The costs are issued by job classification also referred to as class code. During the May 2008 meeting, the board approved using the NCCI loss costs as a basis for MSF rates for all class codes except Agricultural Productions and the class codes used by state agencies and municipal governmental entities.

Figure 1 shows the board adopted FY 2009 loss costs for state agencies.

Figure 1
Loss - Cost Modifications
Approved May 2, 2008

Class Code	Class Description	FY 2008 State Agency Payroll	MSF FY 2008 Loss - cost	MSF FY 2009 Loss-Cost	Loss-Cost Change
7424	State Aircraft Operation NOC: Flying Crew	872,126	6.40	6.24	-2.50%
7721	State Penal Institution: All Other Employees	32,267,539	5.00	5.01	0.20%
7722	State Highway Patrol Officers	12,887,050	4.35	4.18	-3.91%
8743	Municipal: Professional Or Administrative	0	1.24	1.19	-4.03%
8744	State, Hosp, Penal: Prof Or Adm	207,914,504	1.44	1.37	-4.86%
8811	State: Clerical Office Employees	83,368,208	1.82	1.88	3.30%
8834	State Hospital: All Other Employees & Drivers	30,274,722	14.01	14.86	6.07%
9411	State Highway Dept: Admin Or Non-Professional	50,351,848	2.07	2.10	1.45%
9412	State: Administrative Or Non-Professional	49,349,762	1.84	2.26	22.83%
9421	State Highway Dept: All Others & Drivers	30,648,281	11.11	11.34	2.07%
9422	State: All Other Employees Noc & Drivers	11,852,028	8.25	9.49	15.03%
9424	Municipal: Relief Workers	0	7.16	7.22	0.84%
9427	Community Service Workers	162,608	7.16	7.22	0.84%

Changes are based on the loss experience of the various state agencies for each of the class codes. The loss-costs associated with class code 8744, which has the largest amount of payroll tied to it at 40.8 percent, decreased by 4.86 percent. However, for 56.7 percent of the payroll increases in loss costs were approved by the board. The increases range between .84 percent and 22.83 percent.

MANUAL RATES DECREASE 3 PERCENT

Once the board establishes the loss costs it approves the lost cost multipliers which are used in MSF rating tiers. Rating tiers are used to determine the workers' compensation insurance premium charged Montana employers. For FY 2009 the board-approved loss cost multipliers are based on an assumed rate of return on cash flows on the premium received of 3.5 percent and an estimated 6.8 percent contribution to equity. The assumed rate of return on cash flows is unchanged from FY 2008. The rate is conservatively set at 3.5 percent to account for fluctuations in the market over the long-term. The budgeted rate of return on investments for FY 2009 is $45.8 million or 5.12 percent.

The contribution to equity percentage included in premium rates was reduced from 7.4 percent in FY 2008. The reduction of the contribution to equity percentage reduces the overall manual rate for all businesses insuring with MSF. The average 3 percent reduction is the result of changes in the:

- contribution to equity
- underwriting programs
- expected loss ratio (LAE)
- expense assumptions

BUDGETED NET EARNED PREMIUMS

The MSF board adopted a budget for net earned premium revenues of $211.4 million in FY 2009, which is a reduction as compared to FY 2008 net earned premiums, both budgeted and actual. The reduction was based on issuing 30,300 policies, rate decreases of 3 percent, wage growth of 4 percent and retention of 88 percent of current policies. FY 2008 budget revenue projections were based on 29,444 policies issued. In FY 2008, the actual net premium revenues collected were $230.9 million compared to budgeted net premium revenues for the year at $221.8 million or 4 percent more than budgeted.

CONTRIBUTION TO EQUITY

Necessity of Contribution to Equity

Net earned premium revenues are collected in the current fiscal year and are used to pay benefits for injuries incurred during the year and for benefits relating to those injuries in subsequent years, in some cases 30 to 40 years in the future. The net earned premium needed to pay future benefits is set aside as loss reserves. If the cost of providing the future benefits increases (adverse development), the amount of the loss reserves must be increased. Funding for adverse development comes from the equity of MSF and from investment income earned on loss reserves and equity.

Figure 2 shows the FY 1991 premiums collected compared to the benefits paid out and the estimated costs of all future benefits.

The additional benefit costs of over $17.2 million for FY 1991 are included in the loss reserves. The increased loss reserves for these costs have either come from investment income or transfers from equity. For a discussion on the effects of adverse development in FY 2007 and FY 2008 see Appendix A.

Figure 2
FY 1990 Premium Revenues
Compared with Benefit Costs

Premium Collected	Benefits Paid 6/30/07	Future Benefits	Total Benefit Costs	Costs Above Premiums
$102,448,520	$106,832,094	$12,888,169	$119,720,263	$17,271,743

Note: Operational costs for MSF and associated LAE must also be paid from premiums but are not included in the example above

Does MSF Actuary Consider MSF Equity Sufficient?

Included in the 2007 equity analysis conducted for MSF is the statement that the continued recommendation is to set the reserve to equity target in the range of 2.0 to 2.5 percent to 1.0 or $286 to $358 million in equity at FYE 2008. The recommendation is based on the equity range indicated by A-rated state funds and median private carriers. To achieve the lower end of the range would require MSF to set aside an additional $103 million in FY 2008. The analysis also recommends equity targets to reach this range in 5 to 7 years, or a $14.7 to $20.6 million increase to equity each year if the equity target range remains static. Increases in loss reserves increase the recommended amount of equity. For FY 2008 the new equity target would be $301 to $376 million. MSF achieved the increased equity contribution recommended by the actuary for the equity target of $14.7 to $20.6 million in FY 2008 by increasing equity $17.4 million. However, to achieve the new equity target for FY 2009, MSF will need to set aside an additional $3 to $4.5 million above the previous target of $14.7 to $20.6 million over the next 4 to 6 years.

FY 2009 Contribution to Equity Unclear From Budget

Equity increases through contributions to equity charged through premiums to Montana businesses insuring with MSF and through investment income. Equity measured at June 30, 2008 was $216.6 million, an increase of $17.4 million from the equity measured at June 30, 2007 of $199.2 million. The board approved a contribution to equity of 7.4 percent or $17.1 million included in net earned premium revenues received in FY 2008. The total increase in equity of $17.4 million was generated from net income of $32 million reduced $14.6 million, mostly due to a $13.1 million for market reductions in the value of MSF's stock portfolio. The revenue portion of the net income component includes contribution to equity and investment income. However, the amount that each contributed is difficult to determine using the information presented in either MSF's financial statements or the budget for FY 2008.

For FY 2009, the net earned premiums are budgeted at $211.4 million, included in the budgeted costs of benefits is $33 million for workers injured in FY 2009, and operational costs are budgeted at $55.7 million. The remaining $122.7 million would be used to pay future costs of benefits for FY 2009, make contributions to equity, strengthen the reserves or pay unbudgeted costs.

What the amount is for future costs of providing benefits for FY 2009 anticipated by the board is unclear from the budget since MSF budget only includes the cash payments to be made in any given year. While the cash to pay for the costs of benefits from previous years is set aside in loss reserves, MSF uses the premium revenues and investment income from the current year to pay those benefit costs. This is based on the cash flow of the operations, including any maturities on investments that occur.

While the budget does not include the anticipated future benefit costs for FY 2009, the strategic business plan includes an expected loss ratio of 80.3 percent for FY 2009. Using this loss ratio and the budgeted net earned premiums of $211.4 million, one can calculate that MSF anticipates $169.7 million in losses or costs associated with accidents occurring in FY 2009.

Based on these calculations, net earned premiums for FY 2009 will be needed for the following categories:

- $211.4 million – net earned premiums
- $33 million – benefit costs for workers injured in FY 2009
- $55.7 million – operational costs for FY 2009
- $136.7 million – future benefits for FY 2009 to be paid over next 30 to 40 years
- -$14.0 million - loss on operations for FY 2009

The operational loss of $14.0 million is offset by budgeted investment income of $45.8 million. The investment income is generated from loss reserves and equity. MSF is statutorily required to use investment income to reduce premium costs.

It could be surmised that the loss on operations is to be offset by investment income, leaving $31.8 million for equity of which $14.0 million could be attributed to contribution to equity and the remaining $17.8 million to investment income. According to MSF officials, the anticipated contribution to equity on rates charged to a policy year develops over time and not in a 12 month period.

The FY 2009 strategic business plan has $21.4 million as the net income for the year, (the budget does not contain a net income figure), leaving a difference of $10.4 million between the planned net income for FY 2009 and the $31.8 million remaining of the FY 2009 net premiums after taking into account the costs of the operations and benefits. The reasons for the difference of $10.4 million is not readily apparent from the budget or the strategic business plan.

Does MSF Board Have a Plan to Achieve Recommended Equity Targets?

The FY 2009 budget includes net premium revenues calculated using the decrease to the contribution to equity percentage to 6.8. The contribution to equity component of net earned premiums would be approximately $14.0 million on budgeted net earned premiums of $211.4 million. The contribution to equity component is not addressed in the budget and as a result it is unclear from the budget if the board intents to increase equity using revenues generated through the contribution to equity component included in the rates for Montana businesses or not.

The board listens to a discussion of equity presented by the contracted actuary annually, they have not developed a formal plan during their board meetings to achieve the actuarial recommended equity targets by FY 2014. Projections of future equity targets two years beyond the current budget year are included in the strategic business plan.

MSF also develops a strategic business plan which is part of the tools they use to establish longer term financial goals. Included in the 2009 strategic business plan are financial projections for FY 2009, FY 2010, and FY 2011. The projected loss reserve to equity included for FY 2011 included in the plan is 2.77. Figure 3 shows the projected loss reserves included in the strategic business plan since FY 2003, and the actual reserve to equity ratio achieved.

Figure 3
Loss Reserve to Equity Target

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
FY 2003 Strategic Plan	2.09	2.07	2.05						
Actual	3.40								
FY 2004 Strategic Plan		2.64	2.60	2.56					
Actual		3.55							
FY 2005 Strategic Plan			3.23	3.07	2.88				
Actual			3.45						
FY 2006 Strategic Plan				3.75	3.78	3.75			
Actual				3.62					
FY 2007 Strategic Plan					3.42	3.24	3.00		
Actual					3.41				
FY 2008 Strategic Plan						3.52	3.20	2.91	
Actual						3.47			
FY 2009 Strategic Plan							3.17	2.98	2.77

As can be seen from the information in figure 3, the majority of MSF projected loss reserve to equity targets have been increased over the original projections since FY 2003. For example, in FY 2003 MSF projected the FY 2005 loss reserve to equity target would be 2.05, in FY 2004 they increased the projection to 2.60 and in FY 2005 they increase the projection to 3.23.

What Other Factors Influence Equity?

Equity decreases if additional funding for loss reserves is needed due to adverse development or losses on investments, dividend payments are issued, or unbudgeted costs such as employee incentive payments are paid out. In FY 2008, equity was decreased by $19.9 million due to adverse development, $7.8 million for reserve strengthening, and $1.4 million for employee incentive payments. Dividend payment considerations were changed by the board in FY 2008 from a forecast to a review of final results. For FY 2008 dividends will be considered in the November 2008 board meeting based on an actuary's equity analysis and final results for the year just completed, and as a result were not a factor in the overall amount of equity at the end of FY 2008. Dividends for FY 2005 and FY 2006 were about $5 million each year, increasing in FY 2007 to $7 million. If similar payments had occurred in FY 2008, the amount of the equity set aside in FY 2008 would have been significantly less.

As stated above, the board reduced the contribution to equity percentage from 7.4 percent to 6.8 percent, which contributed to the average 3 percent rate reduction to businesses purchasing workers' compensation insurance from MSF in FY 2009. The approved rate reduction is expected to result in an equity contribution of 6.8 percent at some time in the future. Given the significance of the role of equity in workers' compensation insurance discussed above, the continued recommendations of the contracted actuary to strengthen MSF's equity position, the potentially significant workers' compensation rate reductions which can occur when the contribution to equity component is reduced, and the lack of progress since FY 2003 to achieving the actuarially recommended target ratios, the legislature may wish to consider requiring the MSF board to report to the Legislative Finance Committee on their plan to achieve the recommend equity targets by FY 2014, including the amount contribution to equity charged to ratepayers will contribute to increasing equity.

OPERATIONAL EXPENDITURES

Operational expenditures for MSF are funded through premiums. The total operating budget for FY 2009 increases 1 percent from the projected FY 2008 actual expenditures. The statutory operating expense ratio increases from the FYE 2008 projected ratio of 19.18 percent to a budgeted ratio in FY 2009 of 23.24 percent, an increase of 4.06 percent.

Increases in operational expenditures are included in three main budget categories:

- Personal services $1,087,512
- Other Expenses $ 363,804
- Communications $ 232,912

Personal services budgets do not include the cost of employee incentive payments as part of the budget calculation. The amount of the employee incentives paid in FY 2008 was $1.4 million. MSF considers these costs unbudgeted as they are considered discretionary. Payment of employee incentives is determined bassed on the achievement of goals and performance targets contained in the incentive plan for the year. The board determines the level of achievement of the CEO incentive using the weighted formula established prior to the beginning of the fiscal year. The determination is done after the end of the fiscal year when the final results of the related measurements is determined. Vacant positions within an agency generate savings as the budgeted costs for personal services are not realized during the period the position is vacant. In previous years MSF has been able to absorb employee incentives within their personal service budget due to the low amount of budgeted vacancy savings as compared to the actual amount of savings generated through vacant positions. The FY 2009 budget includes a vacancy savings rate of 2 percent. The budgeted vacancy savings rate is lower than the actual rate incurred in FY 2008 of X percent.

Commissions Costs Budgeted at $14.7 million in FY 2009

The largest component of other expenses included in FY 2009 premium rates is commissions paid to independent insurance agents assisting businesses with workers' compensation insurance provided through MSF. Commissions represent 69.3 percent of the $21.2 million budgeted for Other Services and 54.3 percent of overall budgeted operating costs for MSF in FY 2009. For a discussion of the legislative approval of MSF's use of services from licensed insurance producers see Appendix A.

MSF currently has producer agreements with 29 agencies. The 29 agencies have 121 offices around Montana and approximately 430 producers and customer service representatives. According to MSF officials, the agents represent 70 percent of MSF premiums and 45 percent of the MSF policies. The vast majority of the producers were selected through the original RFP issued over 10 years ago.

Effective July 1, 2007 the commission rates on earned annual premiums for workers' compensation insurance are 5 percent for earned premiums levels at or below $5,000 and 8 percent for earned premium levels above $5,000. FY 2008 commission expenditures recorded on the states' accounting system as of July 25, 2008 are $16.8 million. In FY 2009 commissions are budgeted to decrease to $14.7 million from FY 2008 actual expenditures. The reduction reflects the anticipated reductions to premium revenues included in the FY 2009 budget.

Commission Costs Included In Premium Rates for All Businesses

As discussed above, all businesses insuring with MSF are charged for the costs of the commissions but only 45 percent of the policies are provided services through licensed insurance producers. The services include assisting employers in submitting applications for insurance, payroll and payment of premium, reviewing MSF audits, obtaining special endorsements and loss control services, and ensuring timely reporting of claims. One advantage of using independent insurance producers is a reduced need for staff at MSF.

However, there are still 55 percent of MSF businesses charged for services they don't use. For example, state agencies paid approximately $18.0 million in premiums in FY 2008 but did not use licensed producers. Commissions represent 7.3 percent of net earned premiums in FY 2008. It would appear state agencies paid approximately $1.3 million for what could be considered commission payments. The state does participate in a loss sensitive plan and according to MSF officials part of the consideration the state receives is based on no commission costs.

According to MSF officials, the expenses for all MSF policyholders are not segregated for services rendered or not rendered. Expenses for commissions, loss control, audit, and statistical reporting are all considered part of MSF overhead even through policyholders will use the services at different levels. MSF does not believe it is practical for MSF to establish different rates based on policyholder service levels.

If the legislature wishes to consider changes to statute or recommendations to the MSF board on the use of commission and how they are funded, further work would need to be completed to analyze the workload and fiscal implications to MSF.

OLD FUND UNFUNDED LIABILITY CONTINUES TO GROW

As of June 30, 2008, the estimated unfunded liability associated with the Old Fund is $33.1 million. Using this liability it is estimated Old Fund reserves will be depleted in FY 2012, at which time the general fund will need to begin to pay remaining worker benefits.

If the Supreme Court rules in favor of Satterlee, MSF estimates the effect on the Old Fund would be between $93 million and $113 million in additional benefit costs for workers injured prior to July 1, 1990. General fund would also be needed to pay these additional benefit costs.

The most current Legislative Fiscal Division estimate of the unreserved ending fund balance for the 2009 biennium is $334.31 million, $150.52 million more than budgeted by the 2007 Legislature.

The legislature may to consider setting aside a portion of the unreserved ending general fund balance for future payments of Old Fund claims.

APPENDIX A

WHAT ARE THE EFFECTS OF ADVERSE DEVELOPMENT ON EQUITY IN FY 2007 AND FY 2008

As of June 30, 2007 the independent actuary contracted by MSF determined that the loss reserves for MSF needed to be increased by a total of $21.9 million, this did not include $9.8 million in retroactive claims due to court decisions in the Schmill and Stavenjord cases. As of June 30, 2008 the actuary determined the loss reserves for MSF needed to be increased by $19.9 million. It should be noted that the loss reserve calculations do not take into account the effects of pending court decisions such as Satterlee. The Satterlee case is once again on appeal to the Montana Supreme Court. If the Supreme Court rules in favor of Satterlee, MSF estimates the effect on the New Fund would be between $135 million and $186 million in additional benefit costs for previously injured workers.

LEGISLATIVE APPROVAL FOR COMMISSIONS

The 1997 Legislature approved amendments to 39-71-2316, MCA authorizing Montana State Fund (MSF) to enter into agreements with licensed insurance producers. After the board approved producer appointments, MSF issued a request for proposal soliciting Montana insurance producers to enter into an appointment agreement with MSF. The appointment agreement allows the independent producer to solicit, receive, and transmit to MSF any applications for workers' compensation and employers' liability insurance. The producers are required by the agreement to assist employers in submitting applications for insurance, payroll and payment of premium; review audits; obtain special endorsements and loss control services; and ensure timely reporting of claims. The agreement also allows the producers to bind coverage for workers' compensation insurance on policies with estimated annual premium of $8,000 or less. According to MSF officials, producers were selected based on agency location, market base, potential market share, expertise, and reputation.

The 1999 Legislature amended 18-4-132, MCA and 39-71-2316, MCA to exempt MSF from state procurement statutes for insurance-related services. Following these changes, MSF adopted procurement guidelines, which include those for insurance agents. The guidelines require the president to solicit proposals from more than one vendor if the contract amount exceeds more than $10,000. Additional criteria for selection include best qualified to meet MSF business needs, business necessity, and business expedience. Under business expedience the guidelines state that the selection and number of agents under contract are based on the needs of MSF and its customers with due regard to workers' compensation insurance experience and location. Quality of customer service and workers' compensation insurance production levels may be considered in selection and contract renewal.

MONTANA STATE FUND
FISCAL YEAR 2009 ANNUAL BUDGET REQUEST

The economic conditions and workers' compensation environment in Montana are continually evolving. Montana State Fund's future success is dependent upon our ability to anticipate changing market conditions and to adjust operational strategies in an appropriate manner. We must continue to be responsive to the needs of those we serve and utilize the resources available to us to build upon past successes and maintain a strong, viable, and stable workers' compensation market for Montana businesses.

The fiscal year 2009 (FY09) budget request provides the funding to enable Montana State Fund (MSF) to continue our role as the leader in the Montana workers' compensation industry, implement our business plan, and efficiently and effectively complete business operations. The FY09 Budget will provide the financial resources to support the FY09 Strategic Business Plan (SBP).

The FY09 SBP encompasses three enterprise-wide initiatives.

1) **Workforce**: Recruitment, Development, and Retention
2) **Customer Service**: Constituency Education, and Safety
3) **Infrastructure**: Insurance Intelligence – Medical data mart, and MSF building

The FY09 SBP provides additional detail on each initiative and the expected benefits to customers and MSF's operations.

I. Executive Summary – Key Success Measure

The FY09 Budget presented results in a Key Success Measure expense ratio attained through responsible management of the needs of MSF policyholders, injured employees, and Montana stakeholders. Based on the FY09 Annual Budget request and estimated FY09 Net Earned Premium, the estimated MSF Key Success Measure (KSM) expense ratio is 27.95%.

The following displays net earned premiums, budget / projection / actuals, and the KSM expense ratios from FY05 forward to the FY09 estimates.

	FY09 Budget	FY08-3Q Projection	FY08 Budget	FY07 Actual	FY06 Actual	FY05 Actual
Net Earned Premiums (000)	**$211,454**	**$230,802**	**$221,812**	**$238,203**	**$211,892**	**$189,379**
Operational Expenditures (000)	$55,663	$55,091	$56,707	$50,177	$48,504	$46,782
Benefit Payments (000)	$142,795	$134,970	$141,870	$126,244	$120,954	$108,325
Total Budget / Expenditures (000)	**$198,458**	**$190,061**	**$198,577**	**$176,422**	**$169,458**	**$155,107**
Key Success Measure Expense Ratio	**27.95%**	**23.11%**	**26.25%**	**27.28%**	**25.42%**	**25.18%**

The operational expenditures increase of $571,483 or 1% from the FY08 projection is primarily driven by initiatives to improve MSF's technological infrastructure as well as personal services. The benefit payments increase is primarily driven by the addition of a new accident year's claim payments to estimates of fiscal year expenditures on existing claim liabilities.

The Operational Expenses of $55,662,907, noted above are for the fiscal year's expenditures and are different from the KSM expense for two reasons:

1) The KSM ratio only includes MSF (New Fund) operational expenditures. The KSM ratio excludes New Fund benefit payments and all expenditures and expenses of the Old Fund.
2) The KSM ratio includes Generally Accepted Accounting Principal (GAAP) and statutory accounting adjustments, such as:
    - ✓ Capitalization of equipment and intangible assets
    - ✓ Depreciation
    - ✓ Amortization
    - ✓ Investment allocation
    - ✓ Reserve changes on loss adjustment expense (LAE).

The KSM expense is $59,096,031. This is based on:

- ➢ New Fund operational expenditures budget of $53,053,785
- ➢ GAAP and statutory accounting adjustments of $6,042,246
- ➢ Net earned premium budget estimate of $211,454,351. This is based on consecutive rate reductions for FY09 (3.0%) and FY08 (1%) along with expectations of increased competition in the Montana workers' compensation industry impacting retention and new business written.

The FY09 KSM expense ratio increase from the FY08 ratio is primarily due to reserve changes on LAE which are attributable to over half of the increase.

II. Statutory Operating Expense Ratio

The statutory operating expense ratio is calculated similarly to the KSM expense ratio. The only difference is the KSM expense ratio excludes the contingent commission on reinsurance. The contingent commission on reinsurance is included in the statutory operating expense and statutory expense ratio.

For FY09 the contingent commission on reinsurance is estimated to be a credit of $9,962,000, a reduction from the KSM expense. The estimated total FY09 statutory operating expense is $49,134,031.

The proposed FY09 Budget anticipates a 23.24% statutory operating expense ratio. The FY08 projected statutory operating expense ratio for FY08 is 19.18%. The FY08 expense ratio approved with the budget was 22.18%.

The following table compares the MSF statutory operating expense ratio with the property and casualty insurance industry and other state funds base on 2006 data from A.M. Best's Aggregates & Averages.

A.M. Best's 2006 Total US PC Industry - (967 P&C Organizations)	**A.M. Best's 2006** Work Comp Composite - (96 Organizations)	**A.M. Best's 2005** Total US PC State Funds - (20 Organizations)	**MSF FYE 2006**	**MSF FYE 2007**	**MSF Projected FYE 2008**	**MSF Budget FY09**
38.80%	**36.76%**	**31.71%**	**21.03%**	**25.06%**	**19.18%**	**23.24%**

Additional detail on the FY09 Statutory and KSM expense ratios as well as historical data is shown in the attachments; 'FY09 Statutory Operating Expense Ratio', and, 'Key Success Measure / Statutory Expense Ratio History'.

III. 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 MSF policyholders incur; and,
- Operating expenses.

For FY09 we are projecting net earned premium of $211,454,351. The estimate includes:

- 30,300 policies written in FY09
- Rate decreases for FY09 (3%)
- Wage growth of 4%
- Retention rate at 88%

MSF estimates FY09 investment income of $45,768,606. This is based on net return for fixed rate assets of 5.12%.

The following table displays the revenue estimated for FY09; FY08 projection; the original FY08 Board approved revenue estimate; and, actual FY07 revenue.

Fiscal Year Revenue for MSF

Revenue Type	**FY09 Budget Estimate**	**FY08 – 3rd Qtr Projection**	**FY08 Budget Estimate**	**FY07 Actual**
Net Earned Premium	$211,454,351	$230,801,780	$221,812,323	$238,202,708
Investment Income	45,768,606	43,246,830	41,471,000	$37,263,852
Total Revenue	**$257,222,957**	**$274,048,610**	**$263,283,323**	**$275,466,560**

IV. Total Expenditures

The total budget request for FY09 is $198,458,127. The FY09 budget is separated into five primary expenditure categories and displayed with comparative expenditures from the 3rd quarter projection of FYE08 and the approved FY08 budget.

Categories	FY09 Budget	FYE08 – 3rd Qtr Projection	FY08 Budget
MSF - Benefits and Claim Payments	$132,504,589	$123,555,844	$129,848,304
Old Fund - Benefits and Claim Payments	10,290,631	11,413,875	12,021,800
Allocated Loss Adjustment Expenditures	4,491,251	4,279,797	4,725,502
Unallocated Loss Adjustment Expenditures	17,407,099	17,013,861	18,452,782
Underwriting Expenditures	33,764,556	33,797,766	33,528,248
Total Expenditures	**$198,458,127**	**$190,061,143**	**$198,576,635**

V. Benefit Payments and ALAE

The FY09 total MSF budget includes funding of $142,795,220 for benefit payments to injured employees. Benefit payments comprise 72% of the total FY09 MSF budget.

The FY09 Budget does not include funding for benefit payments associated with the Stavenjord Supreme Court decision. There are issues pending on this case and the significant portion of the benefit payments will not be made until the issues are resolved. If these issues are resolved in FY09 and benefit payments associated with Stavenjord begin, MSF staff will provide a recommendation to the Board of Directors regarding a budget amendment for these payments.

FY09 benefit payments are separated by New Fund and Old Fund and compared to the FY08 projected and FY07 actual expenditure levels below.

Benefit Payments (000s)	FY09 Budget	FYE08–3rd Qtr Projection	FY07 Actual	$ Change FY09 from FY08 Proj.	% Change FY09 from FY08 Proj.
New Fund	$132,505	$123,556	$115,849	$8,949	7.2%
Old Fund	10,291	11,414	10,395	(1,123)	-9.8%
Total	**$142,795**	**$134,970**	**$126,244**	**$7,825**	**5.8%**

New Fund Benefit Payments

$132,504,589 is budgeted in the New Fund for payment of benefits to individuals in compliance with the state law governing claim payments.

The following table reflects the FY09 New Fund benefit payments, projected FY08 benefit payments, and eight years of actual payments.

Fiscal Year	Benefit Payments	Percent Increase from Prior Year
FY09 Budget	$132,504,589	7.2%
FY08 Projection	123,555,844	6.7%
FY07 Actual	115,849,169	5.1%
FY06 Actual	110,237,048	8.5%
FY05 Actual	101,562,344	2.6%
FY04 Actual	98,981,665	22.0%
FY03 Actual	81,151,806	19.5%
FY02 Actual	67,899,056	9.4%
FY01 Actual	62,068,055	12.2%
FY00 Actual	55,329,633	

- New Fund accident years 1991 – 2009 benefit payments to be expended in FY09 are budgeted to be $131,493,002. This is based on:
  - ✓ Actual 'Accident Year' benefit payments for each fiscal year from 1991 through April 30, 2008.
  - ✓ Benefits paid for each Accident Year 1991 - 2008 in FY07 and FY08 are used to calculate the budgeted payments for FY09.
  - ✓ Accident year 2009 benefit payments are based on FY09 estimated Gross Earned Premium of $230.8 million. Accident year 2009 benefit payments on insured losses are expected to be 14.5% of FY09 Gross Earned Premium.

- Other States Coverage (OSC) program benefits are estimated to be $1,011,591. This includes $319,450 for indemnity payments and $692,141 for medical.

- The FY09 New Fund (including OSC) indemnity and medical benefit payment are:
  - ✓ Indemnity - $56.7 million or 42.8%
  - ✓ Medical - $75.8 million or 57.2%

- No funds were included in the budget for Stavenjord benefit payments.

Old Fund Benefit Payments

$10,290,631 is budgeted for benefits and claim payments in the Old Fund. The Old Fund is in a claim run-off situation. No new claims are impacting the Old Fund. When estimating FY09 Old Fund benefit payments, the diminishing level of payment is conservatively weighted to ensure adequate funds are available for payment of statutorily required benefits. The budget for Old Fund benefit payments was estimated as follows.

- Benefit payments were estimated after analyzing prior year's benefits paid by month. FY07 Actual and FY08 Projected benefits payments were the most heavily weighted data used for estimating the FY09 budget.

- As of April 30, 2008 year to date actuals, indemnity benefits are 22.6% of total benefits paid and medical is 77.4%. For FY09, it is estimated the ratio of indemnity to medical payments will be 21.8%.

- No funds were included for Stavenjord benefit payments.

- Old Fund benefit payments have been relatively stable for the past seven complete fiscal years as illustrated below.

Fiscal Year	Benefit Payments	Percent Change from Prior Year
FY09 Budget	$10,290,631	(9.8%)
FY08 Projection	11,413,875	9.8%
FY07 Actual	10,395,247	(3.0%)
FY06 Actual	10,716,620	0.15%
FY05 Actual	10,700,510	(12.6%)
FY04 Actual	12,246,978	(10.3%)
FY03 Actual	13,657,862	7.9%
FY02 Actual	12,655,663	(7.4%)
FY01 Actual	13,663,892	4.1%
FY00 Actual	13,130,302	

Allocated Loss Adjustment Expense (ALAE)
ALAE are costs directly associated with managing the cost of a specific claim, such as independent medical examination to analyze a prescribed treatment of an injured employee.

$4,491,251 is budgeted to the New Fund and the Old Fund for ALAE:
- New Fund - $4,252,030
- Old Fund – $239,221

ALAE is expected to increase by $211,454 or 4.9% from the FY08 projection of $4,279,797.
- $2,275,393 – All expense codes for CorVel for reviewing and processing medical invoices - this is an increase of $42,601 or 1.9% from the FY08 projection of $2,232,792.

- $1,225,135 – All legal expense categories - this is an increase of $110,120 or 9.9% from the FY08 projection of $1,115,015.
  - ✓ $548,002 - Legal Cost Allocation – cost of in-house legal staff working on claim file issues.
  - ✓ $388,073 – State Fund Legal Contract
  - ✓ $263,133 – Legal Fee Claimant Attorney
  - ✓ $25,927 – Employer's Liability Insured Defense Cost

- $836,710 - Fraud Related ALAE - this is an increase of $119,349 or 16.6% from the FY08 projection of $717,361.
  - ✓ $544,141 - Private Investigations

- ✓ $292,569 – Department of Justice Fraud Agreement – MSF uses the services of the Department of Justice to complete investigations submitted to them by MSF and prosecutes workers' compensation fraud cases. The Department of Justice has police powers that enable them to more thoroughly complete fraud investigations and prosecutions. The total budget for the Department of Justice services is $297,569. The total budget for the Department's services is an increase of $41,789 or 16.3% from the FY08 projection of $255,780. The budget is distributed to the Fraud Services team ($5,000) and the New Fund ($292,569) based on actual FY08 investigative and prosecutorial hours recorded.

- ➢ $76,676 – Medical Consultants - this is an increase of $17,453 or 29.5% from the FY08 projection of $59,223.

- ➢ $69,243 – Contract Adjusters - this is a decrease of $8,279 or 10.7% from the FY08 projection of $77,522.
  - ✓ $53,243 – Adjusters associated with Other States Coverage claims
  - ✓ $16,000 – Adjusters for MSF in-house claims

VI. Operational Expenditures

MSF Staffing

The State Fund is requesting approval of 298.00 FTE for FY09. This is the same as MSF's current level of FTE however, it is an increase of 0.50 FTE from initial FY08 budget of 297.50 FTE approved by the Board. During FY08, a half time Medical Case Manager position, 0.50 FTE, was approved by the President within the scope authority provided by the Board.

The 298.00 FTE equate to 303 positions. In FY09, MSF will have 293 positions that are 1.00 FTE each and 10 positions that are 0.50 FTE each. The half FTE positions are:

- ➢ 2 Document Processor positions
- ➢ 6 Claim Trainee positions
- ➢ 1 Medical Case Manager
- ➢ 1 Safety Intern

Though there is no change in the total level of FTE for FY09, there have been a few changes to existing positions.

- ➢ Accounting Specialist will be re-purposed as a Claim Examiner II
- ➢ Accountant will be re-purposed as an Accounting Intern
- ➢ Market Development Leader will be re-purposed as a Safety Management Consultant
- ➢ Customer Service Specialist will be re-purposed as a Safety Management Consultant
- ➢ A vacant 0.25 FTE Document Processor position was eliminated and the FTE was combined with the 0.75 FTE Education and Development Specialist to create a 1.00 FTE position for FY09.

The following table reflects MSF staffing by department for the FY09 Budget, the FYE08 Projection, FYE07 and FYE06.

MSF Department Staffing (FTE)	FY09 Budget	FYE08 Projection	FYE07	FYE06
Corporate Support	34.00	35.25	36.00	35.00
Executive Offices	5.00	5.00	5.00	5.00
General Counsel	16.00	16.00	16.00	3.00
Human Resources	6.00	5.75	5.00	5.00
Information Technology	52.00	52.00	51.00	51.00
Operations	146.00	145.00	145.00	137.00
Operations Support	39.00	39.00	38.50	57.50
MSF Total	**298.00**	**298.00**	**296.50**	**293.50**

MSF continually re-aligns our staff to meet the changing work processes developed to most effectively and efficiently provide service to our customers. An attachment titled 'State Fund Staffing Changes' details the FTE additions and deletions that are expected for FY09 and the changes of prior years.

Personal Services

To support the necessary staff of 298.00 FTE, MSF requests funds of $21,988,503 for the FY09 personal services budget.

	FY09 Budget	FY08 Projection	Dollar Variance	Percentage Variance
Salaries	$16,978,035	$16,224,174	$753,861	4.6%
Employee Benefits	5,010,468	4,676,818	333,650	7.1%
Total Personal Services	$21,988,503	$20,900,991	$1,087,512	5.2%

Regular Salaries - $16,793,861

The Regular Salaries account code includes:

- $16,551,154 for base salaries calculated on the hourly wage for all active employees as of January 7, 2008. Vacant positions and re-purposed positions were based on the compensation at 100% of mid-point for the positions expected pay band.

  The hourly wage for each FTE was multiplied by a total of 2,088 annual payroll hours for each FTE in FY09. Partial FTE salaries are prorated.

- $445,270 for merit based salary adjustments. The merit salary adjustments are paid after the final STAR (Skills, Talents and Results) process reviews are completed. For the FY09 budget an average merit adjustment of 3.7% was assumed based on review and consultation with the Hay Group regarding average merit adjustments in the insurance industry. Merit salary adjustments have been budgeted to be effective September 13, 2008. Positions that were vacant as of January 7, 2008, were not budgeted for merit adjustments.

- $122,477 for equity adjustments based on market shifts. For the FY09 budget an average equity adjustment of 0.75% was used. Actual equity adjustments will not be applied to all positions but to specific positions within pay bands that shifted due to market conditions. Shifting market conditions may cause some positions to be compensated below market rates.

- ($325,040) budget reduction for vacancy savings on Regular Salaries. A total vacancy savings reduction of $425,249 was applied to all personal services accounts. $325,040 was applied to salaries and $100,209 was applied to employee benefit accounts.

  Position vacancies are a regular and normal occurrence resulting from employee turnover. To start FY09, MSF recognizes we will have existing position vacancies and the reduction to Regular Salaries more accurately reflects the funding required for compensation. Most personal services items, once estimated, were reduced by 2% for vacancy savings. Items excluded from the vacancy savings estimate were:
    - ✓ Personal services of the Executive Offices (5 positions) and Human Resources (6 positions)
    - ✓ Overtime
    - ✓ Retirement leave payouts

Overtime - $8,610
- $1,200 - Finance Team – provides for fifty hours of overtime for Accounting Specialists during the year.
- $1,500 - Human Resources – provides for fifty hours of overtime for Human Resources Representative during the year.
- $5,910 - Operations Teams – provides for overtime during the renewal process.

Termination Pay – $217,204 - Includes retirements and Personal Leave Program excess leave payouts
- $41,640 – Retirements – Upon retirement employee leave balances are paid. We expect four retirements in FY09 where the employee leave balances will be significant and have determined it appropriate to budget for this termination pay.

- $133,924 - Personal Leave Program requires payment of unused personal leave hours for eligible employees within established program guidelines. The FY09 budget was based on FY08 actual payments ($170,016) and assumptions on the number of employees who will be eligible for payment in FY09.

  During FY08 there was an influx of Montana Public Employees Association (MPEA) members who elected to participate in the Personal Leave Program. These new participants were paid for their excess leave. For FY09 we do not expect participation as high as the FY08 level.

Employee Benefits - $5,010,468
Employee Benefits are payments / contributions MSF makes on behalf of our employees, as a tax, or as worker's compensation premium. The following list each employee tax and benefit category, and the dollars budgeted.

- FICA / Medicare – 7.65% - $1,271,346
- Retirement (PERS) – 7.035% - $1,192,951
- Workers' Compensation Premium – 1.92% - $325,813
- State Unemployment Tax (SUT) – 0.35 - $59,563
- Group Insurance - $2,160,794

HB13 enacted by the 2007 Legislature increased group insurance contributions for MSF from $6,882 per employee in FY08 to $7,296 per employee in FY09. This is an increase of $414 or 6% per eligible employee. In FY09, MSF will have a maximum of 303 employees eligible for a MSF contribution. The total increased cost resulting from the increase in Group Insurance is $125,442.

All employee benefit and tax accounts budget amounts noted have been reduced by a total of $100,209 for vacancy savings

Operating Expenses (Other Services, Supplies, Communications, Travel, Rent, Utilities, Repairs and Maintenance, Other Expenses)

The total budget for Operating Expenses is $27,045,396 and includes funding for:

Category	FY09 Budget	FY08 Projection	Variance $	Variance %
Other Services	$21,192,645	$21,209,636	($16,991)	(0.1%)
Supplies & Materials	557,524	539,724	17,800	3.3%
Communications	1,528,920	1,296,008	232,912	18.0%
Travel	356,743	289,391	67,352	23.3%
Rent	334,509	317,781	16,728	5.3%
Utilities	148,855	144,955	3,901	2.7%
Repairs & Maintenance	1,282,937	1,142,695	140,242	12.3%
Other Expenses	1,643,263	1,279,459	363,804	28.4%
Total Operating Expenses	**$27,045,396**	**$26,219,649**	**$825,747**	**3.1%**

Operating Expenses - Other Services

- **Consulting and Professional Services** - $3,929,606 – This is an increase of $1,084,611 or 38.1% from the FY08 projection of $2,844,995. The following are the areas of Consulting and Professional Services expense in FY09. These expenses are needed to complete Strategic Business Plan initiatives and other operational aspects of MSF business.

  These amounts do not include consulting services to develop software. Consulting expenditures for software development are classified as an 'Intangible Asset'. These items will be detailed in a separate section of this report.

  Six budget areas requiring consulting and professional services expenditures comprise almost 80% of this category's budget.

The following table summarizes these six areas. Additional detail and additional items follow after the table.

Consulting and Professional Services

FY09 Budget	Department	Item / Description
$911,433	Operations	NCCI Membership Fee Agreement and transaction based charges (membership required by law)
$467,157	Operations	Other States Coverage
$644,000	Information Technology	Insurance Intelligence
$523,600	Information Technology	Claim Center 5.0 Upgrade
$379,650	Information Technology	Consulting services to backfill for vacancies
$225,000	Executive / Old Fund	Independent Actuary

- ✓ **National Council on Compensation Insurance** (NCCI) – $911,433 – This is an increase of $76,820 or 9.2% from the FY08 projection of $834,613. The budget reflects the:
  - Current contract with NCCI that became effective January 1, 2008.
  - MSF net direct written premium from FYE07. The NCCI Membership Fee is based on a percentage of premiums. Premiums used to calculate the membership fee were $257,218,119. Total FY09 budget for the Membership Fee is $518,222.
  - Other fees are associated with the services provided by NCCI. NCCI provides MSF with eMods, unit reporting statistics, proof of coverage, and additional data. MSF is charged a transaction fee when providing data to NCCI. These fees are budgeted to be $393,210.
  - No Credits were budgeted – NCCI has a program to provide members with credits, similar to a dividend program, based on NCCI's financial results. Incentives are also paid for accuracy in reporting. In FY08, through three quarters, MSF has received $26,724 in credits, which are included in the FY08 projection. As the credits are not guaranteed and not in the control of MSF, MSF did not budget for the credits.

- ✓ **Insurance Intelligence** - $644,000 –Any changes to our source systems, such as Claim Center, have the potential to impact the Insurance Intelligence data model. When our source systems change through projects or 'change requests', impact to Insurance Intelligence functionality needs to be determined. Based on this analysis Insurance Intelligence development and testing needs to occur to accommodate the source system changes and ensure the accuracy and reliability of Insurance Intelligence.

- ✓ **Claim Center 5.0 Upgrade** – $523,600 - project to upgrade our claim processing system to Claim Center version 5.0.

- ✓ **Other States Coverage** (OSC) – $467,157 - The budget is based on total OSC premium of $1,936,058. Per OSC contracts MSF pays 13.5% of the written premium as a fronting fee – FY09 budget $261,368. Contracts provide for 12% of incurred losses as unallocated loss adjustment expense for expenses not attributable to a specific claim and are the cost of providing claims adjusting and supervision services required to support the classes of business reinsured under our agreement – FY09 budget $151,789. A letter of credit is required of MSF per contract and budgeted costs are $54,000.

- ✓ **Contracted Back Fill Support** – $379,650 – This budget will provide funds for contracting with experienced technical support when Information Technology positions are vacant. This is necessary to ensure projects have the staffing resources necessary to be completed on schedule.

- ✓ **Independent Actuary** - $225,000 – The New Fund expense for actuarial services related to; rate levels, loss cost multipliers, loss reserves, equity and dividend analysis, and other items is $195,000. The Old Fund is budgeted $30,000 loss reserve analysis. MSF is required by law to use the services of an independent actuary when estimating losses, dividends, and other areas of business.

- ✓ **Other Consulting and Professional Services Items**
  - $168,960 – PowerComp Support during planned IT projects
  - $166,520 – Insurance Intelligence Build 1
  - $100,000 – Building project – construction design and oversight advisor.
  - $100,000 – Consulting services for business and legislative support deemed appropriate by the President.
  - $70,000 – SBP Initiative on Workforce: Cafeteria Plan and Work Time Flexibility options
  - $51,750 – PeopleSoft / OBIEE support in IT
  - $45,000 – Hay Group Compensation Consulting
  - $35,291 – National Fraud Indexing service
  - $16,000 – Fraud Auditor contracts
  - $15,000 – SBP Initiative: Continuation of WorkSafe Champions

➢ **Insurance and Bonds** - $266,293 – this is a minor decrease from the FY08 payment of $268,248. 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 Budget Office's 'Fixed Cost' report.

➢ **Legal Fees and Court Cost** - $107,500 - this is a decrease of $30,405 or 22% from the FY08 projection of $137,905. The budget will fund legal issues either pending or anticipated.

➢ **Warrant Writing** - $65,448 – this is an increase of $13,145 or 25.1% from the FY08 projection of $52,303. CorVel issues checks for all medical related expenses but MSF relies on the State to issue all other warrants. The increase in this item is driven by issuing warrants mailed by the State as postage increased and overall processing cost increased. The estimate is based on the Office of Budget and Program Planning' estimate of MSF expense.

- **Policyholder Payroll Audits -** $1,008,533 – this is an increase of $55,113 or 5.8% from the FY08 projection of $953,420. In FY09 the number of payroll audits performed will be relatively consistent with the number of audits performed in FY08. Historically, audits have had a favorable return on investment and create additional opportunities to educate policyholders on MSF processes for reporting payroll.

- **Financial and Legislative Audits -** $78,105 – this is a decrease of $1,913 or 2.4% from the FY08 projection of $80,018. $28,105 is for the Financial Compliance audit performed by the Legislative Audit Division (LAD) of the MSF governmental financial statements. $50,000 is for an independent accounting firm to audit our annual statutory financial statements.

- **Consultants – Training** - $397,465 – this is an increase of $82,338 or 26.1% from the FY08 projection of $315,127. 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 to receive training. Of this total, $240,000 is for IT technical training related to new technologies need for supporting Business Intelligence and Claim Center, $125,965 is for Human Resources related training (Imagine 21, Investment in Excellence, Mosaic, etc…), and $20,000 is for Financial Reporting system training.

- **Commissions** - $14,688,697 – this is a decrease of $1,316,174 or 8.2% from the FY08 projection of $16,004,871 which includes base, incentive, and Other States Coverage commissions.

  Commissions are the largest operating expense for MSF and 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 our service and distribution capabilities with our agent partners.

  Base Commissions:
  In aggregate, MSF estimates FY09 gross earned premiums to be $230,784,083, with agents representing 67.7% of this amount. The average base commission rate is 7.8%. This correlates to $12,112,541 in base commission for FY09.

  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 1.6% though not all agents may qualify for the incentive commission. $2,421,272 is budgeted for the FY09 agent incentive commission.

Other States Coverage (OSC) Commissions:
$154,885 is budgeted for commissions associated with OSC policies. The total FY09 revenue estimated for OSC is $1,936,058. The average commission is 8%.

- **SABHRS Administrative Costs** - $372,940 – this is a decrease of $9,411 or 2.5% from the FY08 projection of $382,351. This expense is paid to the Department of Administration and is MSF's portion of the expense for maintaining the state's accounting system, SABHRS. The Office of Budget and Program Planning determines MSF's share of this expense.

- **Temporary Services** - $236,807 – this is an increase of $76,497 or 47.7% from the FY08 projection of $160,310. MSF uses temporary staff to fill in for incumbents as business needs require. Temporary staff is used to backfill for vacant positions. As of May 27, 2008, MSF has 20.75 vacant FTE. Use of temporary staff has declined significantly from FY07 ($511,034) and FY06 ($686,811).

  In FY09 temporary staff is budgeted to support:
  - ✓ $39,849 - Corporate Support – primarily for Old Fund claim file imaging
  - ✓ $35,540 - Human Resource – data input for training tracking system
  - ✓ $27,027 - Information Technology administrative support
  - ✓ $70,000 - Operations' teams to manage workload issues due to vacancies
  - ✓ $64,390 - Operations Support teams primarily for the Medicare reimbursement project

- **Computer and Network Services provided by the Department of Administration** - $355,710 – this is an increase of $13,809 or 4% from the FY08 projection of $341,901. This is $331,230 for Desktop Services of all MSF personal computers. Each personal computer is charged $90.50 per month and MSF expects to have 305 computers connected in FY09.

  There is $24,480 for a line sharing service (LSS) circuit under a service level agreement with Information Technology Services Division (ITSD). This provides firewall protection, internet access, circuit interface equipment, support and maintenance, and other items.

  All expenses in this category are paid to ITSD.

- **Miscellaneous Information System Services - Non-DOA** - $75,151 – this is an increase of $5,116 or 7.3% from the FY08 projection of $70,035. This is primarily for disaster recovery services provided by SunGard.

- **Printing** - $99,574 – this is an increase of $28,295 or 39.7% from the FY08 projection of $71,279. This includes in-house forms, safety workshop materials, a variety of small printing jobs for brochures, business cards, envelopes, and other informational materials.

Operating Expenses - Supplies and Materials

- **Minor Software** - $143,725 – this is an increase of $60,920 or 73.6% from the FY08 projection of $82,805. Software to be purchased in FY09 includes:
  - ✓ Highline Data – insurance industry database – Corporate Support
  - ✓ Booke's The Complete Package – Annual Statement preparation – Corporate Support
  - ✓ Exceed – Information Technology
  - ✓ PowerDesigner – Information Technology
  - ✓ Rational Application Developer (RAD) – Information Technology
  - ✓ FileNet MSAR – Information Technology
  - ✓ VMWare – Information Technology
  - ✓ Altiris – Information Technology
  - ✓ TextPad – Information Technology
  - ✓ Adobe Professional – Information Technology

- **Computer Hardware** – $81,536 – this is a decrease of $55,630 or 40.6% from the FY08 projection of $137,166. In FY08, MSF postponed purchasing new personal computers under the prior computer replacement cycle due to the plans for moving into the new MSF building in FY10. The budget does include six replacement computers for non repairable machines and specialized computers for Information Technology. There are two new printers and 26 printer maintenance kits budgeted.

- **Supplies: Central Stores and Other Providers** - $132,722 – this is a decrease of $44,787 or 25.2% from the FY08 projection of $177,509. This budget includes paper, toner, and a wide variety of minor office supplies.

- **Gasoline** - $68,575 – this is an increase of $16,817 or 32.5% from the FY08 projection of $51,758. The budget estimate was based on $3.759 per gallon (MSF is exempt from gas tax) for gasoline and an estimate of 18,238 gallons of gasoline being purchased. In FY08 MSF vehicles are projected to log 383,000 miles.

- **All Other Supplies and Materials Categories** - $130,965 - this is an increase of $40,480 or 44.7% from the FY08 projection of $90,485. This includes budget for educational supplies, books and reference materials, and promotional aids.

Operating Expenses - Communications

- **Postage** - $402,592 – this is an increase of $29,750 or 8% from the FY08 projection of $372,842. The budget includes $351,952 for postage that includes a 5.5% increase in rates. The budget also includes $50,640 for Print and Mail services provided by the State.

- **Advertising** (excluding recruitment advertising) - $681,550 – this is an increase of $168,339 or 32.8% from the FY08 projection of $513,211. This will provide funding for all advertising campaigns to occur in FY09; media placement, newspapers, billboards, brochures and inserts, web design, direct mail, and opportunity marketing. Television advertising is $370,000 and all other media is $311,550.

- **Employment Ads** - $71,096 – this is an increase of $15,307 or 27.4% from the FY08 projection of $55,789. This includes all instate and out of state advertisements of MSF recruitments. This will be noted later in the report with all recruiting expenses.
- **Communications** – (all telephone categories) - $372,547 – this is an increase of $19,516 or 5.5% from the FY08 projection of $353,031. This expense covers cell phones, phone equipment, long-distance, and '800' line services.

Operating Expenses - Travel

- $356,743 – this is an increase of $67,352 or 23.3% from the FY08 projection of $289,391. The budget will support MSF staff attending training at off site locations and this also includes travel by safety management, claim examiners, and underwriters to visit customers.

Operating Expenses - Rent

- $334,509 – this is an increase of $16,728 or 5.3% from the FY08 projection of $317,781. The primary expenses are leased space for the MSF building, two other locations housing MSF personnel locally, field office space in other cities, and parking. The increase from FY08 is due to an inflation clause in the Arcade Building space lease.

Operating Expenses - Repairs and Maintenance

- $1,282,937 – this is an increase of $140,242 or 12.3% from the FY08 projection of $1,142,695. The bulk of this expense is due to maintenance agreements in IT ($1,056,992) for hardware such as servers, routers and associated peripherals, and application software. Facilities budgets for maintenance agreements ($137,562) for janitorial services, heating, air conditioning and ventilation (HVAC), snow removal and other items.

Operating Expenses - Utilities

- $148,855 – this is an increase of $3,900 or 2.7% from the FY08 projection of $144,955. This includes electricity, natural gas, and water and sewage.

Operating Expenses - Other Expenses

- **Subscriptions** - $86,998 – this is an increase of $35,537 or 69.1% from the FY08 projection of $51,461. This includes budget for a variety of minor subscriptions for desk manuals and career specific periodicals. One significant new subscription is for the Ingenix audit subscription to assist with medical billing audits costing $40,000.

- **Taxes and Assessments** - $392,429 – this is an increase of $52,680 or 15.5% from the FY08 projection of $339,749. This budget is comprised of three pieces; Old Fund Assessments paid to the Department of Labor and Industry, Other States Coverage (OSC) premium taxes, and property assessments on the Peg Condon Building.
  - ✓ $202,144 - Old Fund Administrative Assessment ($185,781) and Subsequent Injury Fund Assessment ($16,363). These are regulatory assessments from the

Department of Labor and Industry as provided in law. The budget is based on the invoice provided by the Department of Labor and Industry's Employment Relations Division for FY09. There will be no expense for the Rehabilitation Assessment in FY09.

- ✓ OSC Premium Taxes - $188,205 – This is for premium taxes paid for insuring MSF policyholder's operations in other states where workers' compensation premium taxes are assessed. In FY09 the OSC premiums are estimated to be $1,936,011.
- ✓ Property Assessment on Peg Condon Building - $2,080

- **Education and Training** - $176,359 – this is a decrease of $32,868 or 15.7% from the FY08 projection of $209,227. MSF maintains a philosophy to provide training to employees in necessary aspects of the business to ensure corporate success. Training is necessary to ensure MSF employees are knowledgeable in best practices associated with claim management, safety management and underwriting of risk.

- **Rewards** - $55,595 – this is a decrease of $32,853 or 37.1% from the FY08 projection of $88,448. MSF has budgeted for rewards associated with employee recognition. The budget also includes $23,535 for rewards in our Marketing programs for trade show and agent conference promotional items. Human Resources has budgeted $15,000 for years of service awards, IDEA rewards and Employee / Team of the month awards.

- **Tuition Reimbursement** – $44,000 – this is an increase of $33,690 or 327% from the FY08 projection of $10,310. This is part of the SBP initiative on Workforce Development. Beginning in FY09 MSF has increased the amount of annual tuition reimbursement from $2,000 per employee to $4,000 per employee. We expect eleven employees to participate in the tuition reimbursement program in FY09.

- **Meetings and Conference Cost** - $159,925 – this is an increase of $44,124 or 38.1% from the FY08 projection of $115,801. The budget provides for meeting rooms and equipment for all MSF meetings that cannot be held in our building.
  - ✓ Safety management workshops in thirty-one locations throughout Montana
  - ✓ MSF employee FY09 SBP kick-off meeting
  - ✓ MSF employee FY08 SBP review and celebration meeting
  - ✓ Customer service and account manager workshops
  - ✓ Agent training workshops
  - ✓ Marketing events throughout the state

- **Recruitment Expenses** (excluding Employment Advertising) - $285,433 – this is an increase of $97,674 or 52% from the FY08 projection of $187,759. Employee recruitment is necessary to fill vacancies resulting from employee turnover. MSF has 20.75 vacant FTE as of May 27, 2008. Through May of FY08 MSF had 45 'recruitment actions'. Each action has the potential to require different levels of expense to complete the recruitment process. The FY09 budget is based on prior year expenditures for recruiting.

Recruitment expenses including advertising are $356,529 and are comprised of the following account:

Employment Ads - Out-of-State – $38,588
Employment Ads - In-State – $32,508
Relocation – Taxable – $59,787
Recruiting – Non-Advertising - $36,230
Job Candidate Expense – $124,297
Relocation – Non-Taxable – $65,119

- **Charitable Contributions / Scholarships** - $59,520 – this is a decrease of $12,480 or 17.3% from the FY08 projection of $72,000. Charitable Contributions are expended through two programs.
  - ✓ $32,870 - 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.
  - ✓ $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 FY09 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.

- **Fee Collection Expense** - $72,000 – this is an increase of $27,653 or 62.4% from the FY08 projection of $44,347. Contracts with three collection agencies are in place. Based on FY08 actuals to date the actual average fees are about $4,000 per month. This varies based on success with collections and whether litigation is involved. With process changes items should be turned over more quickly to collections. For FY09 we estimated an average of $6,000 in monthly expense for a budget of $72,000.

- **State Wide Indirect Cost** - $282,888 – this is a significant increase from the FY08 projection of $119,978, and from the FY07 actual expenditure of $10,851. The State Wide Indirect Cost (also know 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 cost incurred by agencies whose functions support all state entities. The increase in the plan is driven primarily from prior year credits being exhausted and increase in the volume of transactions the MSF has on SABHRS.

Equipment and Intangible Assets

The total FY09 budget for equipment and intangible assets is $2,137,757. This is a decrease of $1,553,230 or 42.1% from the FY08 projection of $3,690,987. The significant majority of this budget is to support the Insurance Intelligence and Financial Reporting projects.

Equipment

- **Autos & Trucks** - $84,000 - Replacement 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 vehicles in FY09 from our fleet of twenty-four MSF owned vehicles.

- **Multi-User Computers and Terminals** - $47,000 – Additional disk space (1.2 TB).

Intangible Assets

- **Multi-User Software** - $2,006,757.
  - ✓ $1,053,000 – Insurance Intelligence – Medical Loss Management Data
  - ✓ $947,480 – Financial Reporting
  - ✓ $6,277 – Cisco LMS Software

Costs not included in the Proposed Budget

The FY09 budget includes all known and expected costs for the fiscal year. The budget does not include:

- Merit and management incentives plan adjustments for the President. This is a separate Board action to be taken in September 2008.
- Court decisions which may significantly and adversely impact the State Fund. No such decisions are currently anticipated.
- Employee Incentive Program (Goal Sharing).

Should the Board take action on these items, we will include the adjustments in the budget as appropriate.

Future Budgets

As part of MSF's plan to move into our new building in fiscal year 2010 (FY10), we have deferred purchasing many computer hardware items such as servers and personal computers in FY08 and FY09. These items have previously been updated on a four year replacement cycle. We intend to purchase new personal computers and have them set-up in the new building when we move in rather than incurring the expense of moving the servers and personal computers. The FY10 budget will include expenditures for this new equipment.

Additional Supporting Documents

The following pages present a summary of the FY09 budget.

- 'Fiscal Year 2009 Department Reference List';
- 'FY09 Statutory Operating Expense Ratio';
- 'Key Success Measure / Statutory Expense Ratio History';
- 'State Fund Staffing Changes';
- 'FY09 - Budget Request by Department': and,
- 'Montana State Fund - FY09 Budget' request roll-up and historical comparison.

FISCAL YEAR 2009 DEPARTMENT REFERENCE LIST
Montana State Fund - Business Unit 61030

Department	Team	Team Leader
Corporate Support		
Mark Barry, Vice President	Administration	Mark Barry
	Actuarial	Dan Gengler
	Business Planning and Special Projects	Ken Jeschke
	Document Processing	Dale DeHart
	Facilities	Fred Lubke
	Finance	Rene Silverthorne
	New Fund (All Accident Years and OSC)	Mark Barry
	Old Fund	Mark Barry
Executive Offices		
Joe Dwyer, MSF Board Chairman	Board of Directors	Joe Dwyer
Laurence Hubbard, President / CEO	President's Office	Laurence Hubbard
	Communications	Carl Kochman
	Building Project	Marvin Kraft
General Counsel		
Nancy Butler, General Counsel	Administration	Nancy Butler
	Fraud Services	Ben Jones
	Legal Counsel	Kevin Braun
	Legal Services	Ben Jones
Human Resources		
Tony Johnson, Vice President	Human Resources	Tony Johnson
Information Technology		
Chief Information Officer, Al Parisian	Administration	Al Parisian
	Architecture	Sandy Leyva
	Enterprise Applications	Kathleen Torella
	Insurance Applications	Sam Heigh
	Operations	Stacy Ripple
	Quality Assurance	Shannon Copps
Operations		
Dick Root, Vice President	Administration	Dick Root
	Marketing	Jim McCormick
	Team 1	Pat Haffey
	Team 2	Susan Jensen
	Team 3	Nicholas Hopkins
	Team 4	Pam Kline
	Team 5	Joan DePasquale
	Team 6	Marianne Krpan
Operations Support		
Peter Strauss, Vice President	Administration	Peter Strauss
	Claims Team	Judith Gibbons
	Medical Team	Bridgette McGregor
	Team 7	Nanette Prezeler
	Safety Management	Wayne Dillavou
	Underwriting Expert & Other States Coverage	Christy Weikart (Interim)

H:\Budget\FY09 Budget\FY09 Bud Devl\Misc\[BUSUNITS.XLS]Team

FY09 Statutory Operating Expense Ratio

		FY09 Budget Request
	EXPENDITURES	
1	Montana State Fund	
2	MSF - Personal Services	$21,988,503
3	MSF - Operating Expenses	26,813,252
4	MSF - Capital Expenditures	2,137,757
5	MSF - Benefit Payments	132,504,589
6	MSF - Allocated Loss Expense	4,252,030
7	Sub-Total Montana State Fund	$187,696,131
8	Old Fund	
9	OF - Operating Expenses	$232,144
10	OF - Benefit Payments	10,290,631
11	OF - Allocated Loss Expense	239,221
12	Sub-Total Old Fund	$10,761,996
13	**TOTAL MSF & OF EXPENDITURES**	$198,458,127
14	**STATUTORY OPERATING EXPENSE RATIO CALCULATION**	
15	Total MSF and OF Budget Request	$198,458,127
16	**Adjustments from Total MSF & OF Budget Request to MSF Operational Expenses**	
17	less MSF Benefits	($132,504,589)
18	less Old Fund Benefits	(10,290,631)
19	less Old Fund Allocated Loss Expense	(239,221)
20	less Old Fund Operating Expenses (Actuary & DoLI Assessments)	(232,144)
21	less Equipment and Intangible Assets	(2,137,757)
22	**Total MSF Operational Expenses**	**$53,053,785**
23	**Other Statutory Expenses**	
24	Old Fund Administrative Expense Allocation (Admin expense is NB)	(1,232,736)
25	Investment Allocation	($30,000)
26	Reserve Changes - LAE	4,849,616
27	Accrued Commissions	0
28	**Total Other Statutory Expenses**	$3,586,880
29	**GAAP Adjustments**	
30	Depreciation	726,190
31	Amortization	1,466,176
32	Compensated Absences	263,000
33	Miscl Adj - Prior Year NF Operating Expense	0
34	**Total GAAP Adjustments**	$2,455,366
35	**Total Other Statutory Expenses & GAAP Adjustments**	**$6,042,246**
36	**KEY SUCCESS MEASURE OPERATING EXPENSE**	**$59,096,031**
	(excludes contingent commissions on reinsurance programs)	
37	**NET EARNED PREMIUM**	**$211,454,351**
38	**KEY SUCCESS MEASURE OPERATING EXPENSE RATIO**	**27.95%**
39	Contingent Commission - Reinsurance Programs	($9,962,000)
40	**STATUTORY OPERATING EXPENSE (Incl Cont Comm-Reins)**	**$49,134,031**
	(includes contingent commissions on reinsurance programs)	
41	**NET EARNED PREMIUM**	**$211,454,351**
42	**STATUTORY OPERATING EXPENSE RATIO**	**23.24%**

STATE FUND STAFFING CHANGES

FY09 - 298.00 FTE Requested

FY09 Budget has no net change from FY08 approved FTE.

4.25 FTE Increase
Corp Supt Finance - 1.00 FTE Accounting Intern
Human Resources - 0.25 FTE - Education and Development Specialist (Increased from 0.75 FTE to 1.00 FTE)
Operations Team 3 - 1.00 FTE - Claim Examiner II
Operations Team 3 - 1.00 FTE - Safety Management Consultant
Operations Team 4 - 1.00 FTE - Safety Management Consultant

(4.25) FTE Decrease
Corp Supt Document Processing - (0.25) FTE - Document Processor
Corp Supt Finance - (1.00) FTE - Accountant
Corp Supt Finance - (1.00) FTE - Accounting Specialist
Operations Marketing - (1.00) FTE - Market Development Leader
Operations Team 4 - (1.00) FTE - Customert Service Specialist

FY08 Changes During Year - Added a half time Medical Case Manager position to Operations Support Team 7 (0.50 FTE).

FULL TIME EQUIVALENTS (FTE)	Total	Corporate Support	Executive Offices	General Counsel	Human Resources	Information Technology	Operations	Operations Support
2001 Reorganization FTE	**224.50**	**63.50**	**3.00**	**3.00**	**n/a**	**n/a**	**109.00**	**46.00**
Increase/(Decrease)	9.00	0.00	0.00	0.00	n/a	n/a	6.00	3.00
2002 FTE - 7/1/01	**233.50**	**63.50**	**3.00**	**3.00**	**n/a**	**n/a**	**115.00**	**49.00**
Increase/(Decrease)	13.00	9.00	0.00	0.00	n/a	n/a	2.00	2.00
2002 FTE - Approved as of 3/6/02	**246.50**	**72.50**	**3.00**	**3.00**	**n/a**	**n/a**	**117.00**	**51.00**
Increase/(Decrease)	4.75	(35.50)	3.50	0.00	n/a	34.75	5.00	(3.00)
2003 FTE - 7/1/02	**251.25**	**37.00**	**6.50**	**3.00**	**n/a**	**34.75**	**122.00**	**48.00**
Increase/(Decrease)	7.75	0.00	0.25	0.00	n/a	(2.00)	5.00	4.50
2003 FTE - Approved as of 4/28/03	**259.00**	**37.00**	**6.75**	**3.00**	**n/a**	**32.75**	**127.00**	**52.50**
Increase/(Decrease)	5.50	0.00	(0.25)	0.25	n/a	5.25	(2.00)	2.25
2004 FTE - 7/1/03	**264.50**	**37.00**	**6.50**	**3.25**	**n/a**	**38.00**	**125.00**	**54.75**
Increase/(Decrease)	3.00	1.00	0.00	0.00	n/a	0.00	2.00	0.00
2004 FTE - Approved as of 5/27/04	**267.50**	**38.00**	**6.50**	**3.25**	**n/a**	**38.00**	**127.00**	**54.75**
Increase/(Decrease)	12.00	(1.00)	0.50	0.00	n/a	9.50	4.00	(1.00)
2005 FTE - 7/1/04	**279.50**	**37.00**	**7.00**	**3.25**	**n/a**	**47.50**	**131.00**	**53.75**
Increase/(Decrease)	5.00	0.00	0.00	0.00	n/a	0.00	1.00	4.00
2005 FTE - Approved as of 5/17/05	**284.50**	**37.00**	**7.00**	**3.25**	**0.00**	**47.50**	**132.00**	**57.75**
Increase/(Decrease)	8.00	0.00	(4.00)	(0.25)	5.00	3.50	4.00	(0.25)
2006 FTE - 7/1/05	**292.50**	**37.00**	**3.00**	**3.00**	**5.00**	**51.00**	**136.00**	**57.50**
Increase/(Decrease)	1.00	(2.00)	2.00	0.00	0.00	0.00	1.00	0.00
2006 FTE - Approved as of 5/24/06	**293.50**	**35.00**	**5.00**	**3.00**	**5.00**	**51.00**	**137.00**	**57.50**
Increase/(Decrease)	3.00	1.00	0.00	0.00	0.00	0.00	8.00	(6.00)
2007 FTE - 7/1/06	**296.50**	**36.00**	**5.00**	**3.00**	**5.00**	**51.00**	**145.00**	**51.50**
Increase/(Decrease)	0.00	0.00	0.00	13.00	0.00	0.00	0.00	(13.00)
2007 FTE - Approved as of 5/16/07	**296.50**	**36.00**	**5.00**	**16.00**	**5.00**	**51.00**	**145.00**	**38.50**
Increase/(Decrease)	1.00	(0.75)	0.00	0.00	0.75	1.00	0.00	0.00
2008 FTE - 7/1/07	**297.50**	**35.25**	**5.00**	**16.00**	**5.75**	**52.00**	**145.00**	**38.50**
Increase/(Decrease)	0.50	0.00	0.00	0.00	0.00	0.00	0.00	0.50
2008 FTE - Approved as of 5/12/08	**298.00**	**35.25**	**5.00**	**16.00**	**5.75**	**52.00**	**145.00**	**39.00**
Increase/(Decrease)	0.00	(1.25)	0.00	0.00	0.25	0.00	1.00	0.00
2009 FTE - Budget Request	**298.00**	**34.00**	**5.00**	**16.00**	**6.00**	**52.00**	**146.00**	**39.00**

Note: The number of FTE cited reflects the number of FTE the State Fund had or will have at the end of that fiscal year.
n/a - Departments did not exist in those fiscal years.

Key Success Measure / Statutory Expense Ratio History

#	EXPENDITURES	FY02 Budget	Amended FY02 Budget	FYE02 Actual	FY03 Budget	Amended FY03 Budget	FYE03 Actual	Original FY04 Budget	Amended FY04 Budget	FYE04 Actual
1	Montana State Fund									
2	MSF - Personal Services	$12,132,448	$12,184,743	$12,644,037	$14,271,949	$14,417,658	$13,680,843	$15,711,130	$15,711,130	$15,168,730
3	MSF - Operating Expenses	11,382,681	11,779,127	11,281,348	14,021,957	15,107,182	14,351,890	15,937,170	17,367,197	17,261,603
4	MSF - Capital Expenditures	812,522	623,599	713,235	704,867	546,964	476,642	1,262,148	1,262,148	1,026,014
5	MSF - Benefit Payments	69,428,887	69,528,887	67,899,056	75,713,510	82,397,725	83,319,729	97,684,681	107,817,130	100,271,014
6	MSF - Allocated Loss Expense	1,287,554	1,187,554	1,243,330	1,255,858	1,255,858	1,643,148	1,649,485	2,008,894	2,063,394
7	MSF - Debt Service - Interest	0	0	0	0	0	122,964	169,804	169,804	39,146
8	Sub-Total Montana State Fund	$95,044,092	$95,303,910	$93,781,006	$105,968,141	$113,725,387	$113,595,218	$132,414,419	$144,336,304	$135,829,902
9	Old Fund									
10	OF - Operating Expenses	$405,729	$405,729	$349,527	$314,452	$314,452	$301,104	$319,076	$319,076	$381,610
11	OF - Benefit Payments	12,525,889	12,525,889	12,636,229	14,654,598	14,654,598	14,165,534	13,618,255	15,118,255	12,243,850
12	OF - Allocated Loss Expense	288,047	288,047	163,861	175,106	175,106	110,189	133,835	133,835	137,226
13	Sub-Total Old Fund	$13,219,665	$13,219,665	$13,149,617	$15,144,156	$15,144,156	$14,576,827	$14,071,166	$15,571,166	$12,762,685
14	**TOTAL MSF & OF EXPENDITURES**	$108,263,757	$108,523,575	$106,930,623	$121,112,297	$128,869,543	$128,172,045	$146,485,585	$159,907,470	$148,592,587
15	**STATUTORY OPERATING EXPENSE RATIO CALCULATION**									
16	Total MSF and OF Expenditures	$108,263,757	$108,523,575	$106,930,623	$121,112,297	$128,869,543	$128,172,045	$146,485,585	$159,907,470	$148,592,587
17	**Adjustments from Total MSF & OF Expenditures to MSF Operational Expenses**									
18	less MSF Benefits	($69,428,887)	($69,528,887)	($67,899,056)	($75,713,510)	($82,397,725)	($83,319,729)	($97,684,681)	($107,817,130)	($100,271,014)
19	less Old Fund Benefits	(12,525,889)	(12,525,889)	(12,636,229)	(14,654,598)	(14,654,598)	(14,165,534)	(13,618,255)	(15,118,255)	(12,243,850)
20	less Old Fund Allocated Loss Expense	(288,047)	(288,047)	(163,861)	(175,106)	(175,106)	(110,189)	(133,835)	(133,835)	(137,226)
21	less Old Fund Operating Expenses (Actuary & DoLI Assessments)	(405,729)	(405,729)	(349,527)	(314,452)	(314,452)	(301,104)	(319,076)	(319,076)	(381,610)
22	less Equipment and Intangible Assets	(812,522)	(623,599)	(713,235)	(704,867)	(704,867)	(476,642)	(1,262,148)	(1,262,148)	(1,026,014)
23	less Debt Service (Capital Leases)	0	0	0	0	0	(122,964)	(169,804)	(169,804)	(39,146)
24	**Total MSF Operational Expenses**	$24,802,683	$25,151,424	$25,168,715	$29,549,764	$30,622,795	$29,675,882	$33,297,786	$35,087,222	$34,493,728
25	**Other Statutory Expenses**									
26	Old Fund Administrative Expense Allocation (Non-Budgeted)	($1,250,000)	($1,176,353)	($1,005,110)	($1,194,132)	($1,194,132)	($1,078,828)	($1,199,000)	($1,199,000)	($962,074)
27	Investment Allocation	$0	($30,000)	($30,000)	($30,000)	($30,000)	($131,250)	($165,000)	($165,000)	($160,000)
28	Reserve Changes - LAE	833,941	1,878,000	1,788,342	1,340,000	1,340,000	3,400,000	1,398,000	1,398,000	925,537
29	Accrued Commissions	0	0	0	0	0	0	0	0	0
30	**Total Other Statutory Expenses**	($416,059)	$671,647	$753,232	$115,868	$115,868	$2,189,922	$34,000	$34,000	($196,537)
31	**GAAP and Other Adjustments**									
32	Change in 'A' Accruals	102,037	13,120	13,120	25,000	25,000	0	0	0	0
33	Depreciation	350,000	423,000	322,040	480,000	480,000	533,367	765,000	765,000	520,500
34	Amortization	1,050,000	1,250,000	1,094,283	1,180,000	1,180,000	1,072,431	1,410,000	1,410,000	1,144,444
35	Compensated Absences	90,000	275,000	96,535	200,000	200,000	148,138	195,000	195,000	210,358
36	Principal - Lease Adjustment	0	0	0	0	0	0	0	0	0
37	Dividend Received	0	0	0	0	0	0	0	0	0
38	Interest - Leases	0	0	0	0	0	18,758	60,000	60,000	0
39	Statewide Indirect Costs	0	0	0	0	0	0	0	0	9,744
40	Deferred Acquisition Cost	123,500	0	389,051	80,000	80,000	0	0	0	0
41	Miscl Reconciling Item - Direct ALAE - Prior Year	0	0	0	0	0	(3,851)	0	0	(13,628)
42	Miscl Reconciling Item - Direct ALAE - Miscoding to MCO Incentive	0	0	0	0	0	0	0	0	(1,700)
43	Misc Reconciling Items - Prior Year	0	0	0	0	0	0	0	0	(456,554)
44	Misc Reconciling Items	0	0	71,237	0	0	0	0	0	0
45	**Total GAAP and Other Adjustments**	1,715,537	1,961,120	1,986,266	1,965,000	1,965,000	1,768,843	2,430,000	2,430,000	1,413,164
46	**Total Other Statutory, GAAP, and Other Expenses**	1,299,478	2,632,767	2,739,498	2,080,868	2,080,868	3,958,765	2,464,000	2,464,000	1,216,627
47	**KEY SUCCESS MEASURE OPERATING EXPENSE** (excludes contingent commissions on reinsurance programs)	$26,102,161	$27,784,191	$27,908,213	$31,630,632	$32,703,663	$33,634,647	$35,761,786	$37,551,222	$35,710,355
48	**NET EARNED PREMIUM**	$78,133,380	$88,000,000	$92,971,868	$94,702,492	$94,702,492	$117,776,580	$126,004,444	$126,004,444	$139,360,612
49	**KEY SUCCESS MEASURE EXPENSE RATIO**	**33.41%**	**31.57%**	**30.02%**	**33.40%**	**34.53%**	**28.56%**	**28.38%**	**29.80%**	**25.62%**
50	Contingent Commission - Reinsurance Programs	$0	$0	$0	$0	$0	$0	$0	$0	$0
51	**STATUTORY OPERATING EXPENSE** (includes contingent commissions on reinsurance programs)	$26,102,161	$27,784,191	$27,908,213	$31,630,632	$32,703,663	$33,634,647	$35,761,786	$37,551,222	$35,710,355
52	**NET EARNED PREMIUM**	$78,133,380	$88,000,000	$92,971,868	$94,702,492	$94,702,492	$117,776,580	$126,004,444	$126,004,444	$139,360,612
53	**STATUTORY OPERATING EXPENSE RATIO**	**33.41%**	**31.57%**	**30.02%**	**33.40%**	**34.53%**	**28.56%**	**28.38%**	**29.80%**	**25.62%**

Key Success Measure / Statutory Expense Ratio History

	EXPENDITURES	Original FY06 Budget	Amended FY06 Budget	FYE06 Actual	Original FY07 Budget	Amended FY07 Budget	FYE07 Actual	Original FY08 Budget	Amended FY08 Budget	3rd FY08 Projec
1	Montana State Fund									
2	MSF - Personal Services	$19,115,756	$19,120,773	$18,856,396	$19,410,337	$19,441,571	$19,304,595	$20,676,449	$20,739,371	$20,900,9
3	MSF - Operating Expenses	24,999,924	24,999,924	22,781,431	25,092,820	25,092,820	24,007,881	26,568,807	26,568,807	26,022,9
4	MSF - Capital Expenditures	1,198,600	1,198,600	3,134,691	2,862,494	2,862,494	2,056,149	4,461,371	4,461,371	3,690,9
5	MSF - Benefit Payments	113,412,453	113,412,453	110,064,177	135,773,935	135,773,935	115,849,169	129,764,304	129,848,304	123,555,8
6	MSF - Allocated Loss Expense	3,088,932	3,088,932	3,503,934	3,731,526	3,731,526	4,257,078	4,459,546	4,375,546	4,001,7
7	MSF - Debt Service - Interest	0	0	0	0	0	0	0	0	
8	Sub-Total Montana State Fund	$161,815,664	$161,820,682	$158,340,630	$186,871,112	$186,902,346	$165,474,872	$185,930,477	$185,993,399	$178,172,5
9	Old Fund									
10	OF - Operating Expenses	$197,976	$197,976	$223,351	$211,170	$211,170	$201,423	$211,480	$211,480	$196,6
11	OF - Benefit Payments	12,130,610	12,130,610	10,727,273	11,936,942	11,936,942	10,395,247	12,021,800	12,021,800	11,413,8
12	OF - Allocated Loss Expense	309,187	309,187	166,544	318,631	318,631	350,207	349,956	349,956	278,0
13	Sub-Total Old Fund	$12,637,773	$12,637,773	$11,117,169	$12,466,743	$12,466,743	$10,946,877	$12,583,236	$12,583,236	$11,888,6
14	**TOTAL MSF & OF EXPENDITURES**	$174,453,438	$174,458,455	$169,457,799	$199,337,855	$199,369,089	$176,421,749	$198,513,713	$198,576,635	$190,061,1
15	**STATUTORY OPERATING EXPENSE RATIO CALCULATION**									
16	Total MSF and OF Expenditures	$174,453,438	$174,458,455	$169,457,799	$199,337,855	$199,369,089	$176,421,749	$198,513,713	$198,576,635	$190,061,1
17	**Adjustments from Total MSF & OF Expenditures to MSF Operational Expenses**									
18	less MSF Benefits	($113,412,453)	($113,412,453)	($110,064,177	($135,773,935)	($135,773,935)	($115,849,169	($129,764,304)	($129,848,304)	($123,555,8
19	less Old Fund Benefits	(12,130,610)	(12,130,610)	(10,727,273	(11,936,942)	(11,936,942)	(10,395,247	(12,021,800)	(12,021,800)	(11,413,8
20	less Old Fund Allocated Loss Expense	(309,187)	(309,187)	(166,544	(318,631)	(318,631)	(350,207	(349,956)	(349,956)	(278,0
21	less Old Fund Operating Expenses (Actuary & DoLI Assessments)	(197,976)	(197,976)	(223,351	(211,170)	(211,170)	(201,423	(211,480)	(211,480)	(196,6
22	less Equipment and Intangible Assets	(1,198,600)	(1,198,600)	(3,134,691	(2,862,494)	(2,862,494)	(2,056,149	(4,461,371)	(4,461,371)	(3,690,9
23	less Debt Service (Capital Leases)	0	0	0	0	0	0	0	0	
24	**Total MSF Operational Expenses**	$47,204,611	$47,209,629	$45,141,761	$48,234,683	$48,265,917	$47,569,554	$51,704,802	$51,683,724	$50,925,6
25	**Other Statutory Expenses**									
26	Old Fund Administrative Expense Allocation (Non-Budgeted)	($1,186,087)	($1,186,087)	($789,216	($1,195,734)	($1,195,734)	($844,309	($1,215,971)	($1,215,971)	($1,223,9
27	Investment Allocation	($25,000)	($25,000)	($30,000	(30,000)	(30,000)	(30,000	(30,000)	(30,000)	(30,0
28	Reserve Changes - LAE	3,030,000	3,030,000	8,581,048	5,940,817	5,940,817	16,549,013	5,889,000	5,889,000	1,467,8
29	Accrued Commissions	0	0	0	0	0	0	0	0	
30	**Total Other Statutory Expenses**	$1,818,913	$1,818,913	$7,761,832	$4,715,083	$4,715,083	$15,674,704	$4,643,029	$4,643,029	$213,8
31	**GAAP and Other Adjustments**									
32	Change in 'A' Accruals	0	0	0	0	0	0	0	0	
33	Depreciation	537,951	537,951	434,183	545,750	545,750	453,815	475,866	475,866	711,7
34	Amortization	782,394	782,394	416,485	1,500,642	1,500,642	905,704	1,116,198	1,116,198	1,223,8
35	Compensated Absences	263,000	263,000	117,257	276,150	276,150	203,079	275,000	275,000	263,0
36	Principal - Lease Adjustment	0	0	0	0	0	181,491	0	0	
37	Dividend Received	0	0	0	0	0	(881	0	0	
38	Interest - Leases	0	0	0	0	0	0	0	0	
39	Statewide Indirect Costs	0	0	0	0	0	0	0	0	
40	Deferred Acquisition Cost	0	0	0	0	0	0	0	0	
41	Miscl Reconciling Item - Direct ALAE - Prior Year	0	0	0	0	0	0	0	0	
42	Miscl Reconciling Item - Direct ALAE - Miscoding to MCO Incentive	0	0	0	0	0	0	0	0	
43	Misc Reconciling Items - Prior Year		0	0	0	0	0	0	0	
44	Misc Reconciling Items	0	0	0	0	0	0	0	0	
45	**Total GAAP and Other Adjustments**	1,583,345	1,583,345	967,925	2,322,542	2,322,542	1,743,208	1,867,064	1,867,064	2,198,5
46	**Total Other Statutory, GAAP, and Other Expenses**	3,402,258	3,402,258	8,729,757	7,037,625	7,037,625	17,417,912	6,510,093	6,510,093	2,412,4
47	**KEY SUCCESS MEASURE OPERATING EXPENSE** (excludes contingent commissions on reinsurance programs)	$50,606,869	$50,611,887	$53,871,518	$55,272,308	$55,303,542	$64,987,466	$58,214,895	$58,193,817	$53,338,1
48	**NET EARNED PREMIUM**	$191,832,000	$191,832,000	$211,892,198	$214,367,873	$214,367,873	$238,202,708	$221,812,323	$221,812,323	$230,801,7
49	**KEY SUCCESS MEASURE EXPENSE RATIO**	**26.38%**	**26.38%**	**25.42%**	**25.78%**	**25.80%**	**27.28%**	**26.25%**	**26.24%**	**23.1**
50	Contingent Commission - Reinsurance Programs	$0	$0	($9,301,606	($8,424,472)	($8,424,472)	(5,282,128	(9,000,000)	(9,000,000)	(9,068,7
51	**STATUTORY OPERATING EXPENSE** (includes contingent commissions on reinsurance programs)	$50,606,869	$50,611,887	$44,569,912	$46,847,836	$46,879,070	$59,705,338	$49,214,895	$49,193,817	$44,269,3
52	**NET EARNED PREMIUM**	$191,832,000	$191,832,000	$211,892,198	$214,367,873	$214,367,873	$238,202,708	$221,812,323	$221,812,323	$230,801,7
53	**STATUTORY OPERATING EXPENSE RATIO**	**26.38%**	**26.38%**	**21.03%**	**21.85%**	**21.87%**	**25.06%**	**22.19%**	**22.18%**	**19.1**

FY09 BUDGET
MONTANA STATE FUND DETAIL ROLL-UP
BUSINESS UNIT - 61030

FY09 BUDGET REQUEST BY DEPARTMENT

	2nd Level Exp. Code	FY09 BUDGET CORPORATE SUPPORT	EXECUTIVE OFFICES	GENERAL COUNSEL	HUMAN RESOURCES	INFORMATION TECHNOLOGY	OPERATIONS	OPERATIONS SUPPORT	
TOTAL EXPENDITURES		**$4,657,313**	**$1,996,910**	**$1,137,959**	**$860,049**	**$10,978,650**	**$28,034,438**	**$3,274,192**	**$136,7**
Operational Expenditures (Persnl Services, Operating Expenses, Eq. & Int Assets, ALAE / A&O / D&CC		$4,657,313	$1,996,910	$1,137,959	$860,049	$10,978,650	$28,034,438	$3,274,192	$4,2
Benefits & Claim Payments		$0	$0	$0	$0	$0	$0	$0	$132,5
PERSONAL SERVICES									
FTE		34.00	5.00	16.00	6.00	52.00	146.00	39.00	
SALARIES	61100	$1,669,142	$495,291	$1,091,625	$380,742	$3,729,730	$7,407,571	$2,203,934	
EMPLOYEE BENEFITS	61400	529,907	112,176	294,997	105,449	997,914	2,291,004	679,021	
TOTAL PERSONAL SERVICES	**61000**	**$2,199,049**	**$607,467**	**$1,386,622**	**$486,191**	**$4,727,644**	**$9,698,575**	**$2,882,955**	
OPERATING EXPENSES									
OTHER SERVICES	62100	$828,162	$524,295	($378,549)	$281,575	$2,656,742	$17,163,327	$87,093	
SUPPLIES & MATERIALS	62200	100,441	23,477	26,584	15,827	184,685	169,954	36,556	
COMMUNICATIONS	62300	423,911	684,315	35,795	4,031	74,250	254,361	52,257	
TRAVEL	62400	20,022	41,038	35,039	10,425	47,676	177,541	25,002	
RENT	62500	325,000	0	0	0	0	9,509	0	
UTILITIES	62600	148,855	0	0	0	0	0	0	
REPAIRS & MAINTENANCE	62700	194,509	395	2,015	0	1,068,992	14,156	2,870	
OTHER EXPENSES	62800	417,364	115,923	30,454	62,000	164,904	463,015	187,459	
TOTAL OPERATING EXPENSES	**62000**	**$2,458,264**	**$1,389,443**	**($248,662)**	**$373,858**	**$4,197,249**	**$18,251,863**	**$391,237**	
EQUIPMENT & INTANG. ASSETS									
EQUIPMENT	63100	$0	$0	$0	$0	$47,000	$84,000	$0	
INTANGIBLE ASSETS	63400	0	0	0	0	2,006,757	0	0	
TOTAL EQUIP. & INTANG. ASSETS	**63000**	**$0**	**$0**	**$0**	**$0**	**$2,053,757**	**$84,000**	**$0**	
ALAE / A&O / D&CC									
ALLOCATED LOSS ADJUSTMENT EXPENSE (ALAE)	67100	$0	$0	$0	$0	$0	$0	$0	$8
ADJUSTING & OTHER (A&O)	67100	0	0	0	0	0	0	0	
DEFENSE & COST CONTAINMENT (D&CC)	67100	0	0	0	0	0	0	0	3,3
TOTAL ALAE / A&O / D&CC	**67100**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$4,2**
BENEFITS & CLAIM PAYMENTS									
INDEMNITY	67100	$0	$0	$0	$0	$0	$0	$0	$56,6
MEDICAL	67100	0	0	0	0	0	0	0	75,8
TOTAL BENEFITS	**67100**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$132,5**

FY09 BUDGET
MONTANA STATE FUND DETAIL ROLL-UP
BUSINESS UNIT - 61030

	Exp. Code	FY09 BUDGET	FY08 3Q PROJ	FY08 YTD Act (4/30)	FY08 BUDGET	FY07 ACTUALS	FY06 ACTUALS
TOTAL EXPENDITURES		**$199,459,127**	**$190,061,143**	**$152,065,913**	**$198,576,635**	**$176,421,749**	**$169,457,799**
Operational Expenditures (Prsnl Serv, Op Exp, Eq. & Int Assets, ALAE / A&O / D&CC)		**$56,663,907**	**$55,091,424**	**$39,258,401**	**$56,706,531**	**$50,177,333**	**$48,504,130**
Benefits & Claim Payments		**$142,795,220**	**$134,969,719**	**$112,807,512**	**$141,870,104**	**$126,244,416**	**$120,953,668.27**
PERSONAL SERVICES							
FTE		298.00	298.00		298.00	293.50	284.00
SALARIES	61100	$16,978,035	$16,224,174	$12,784,110	$15,967,144	$15,095,542	$14,980,304
EMPLOYEE BENEFITS	61400	5,010,468	4,676,818	3,621,014	4,772,227	4,209,053	3,876,092
TOTAL PERSONAL SERVICES	**61000**	**$21,988,503**	**$20,900,991**	**$16,405,124** 78.54% of Payroll Elapsed	**$20,739,371**	**$19,304,595**	**$18,856,396**
OPERATING EXPENSES							
OTHER SERVICES	62100	$21,192,645	$21,209,636	$14,202,632	$21,362,806	$19,626,992	$17,567,297
SUPPLIES & MATERIALS	62200	557,524	539,724	451,159	583,297	728,932	1,112,183
COMMUNICATIONS	62300	1,528,920	1,296,008	1,051,159	1,270,266	1,158,400	1,164,512
TRAVEL	62400	356,743	289,391	230,773	309,039	231,570	209,519
RENT	62500	334,509	317,781	266,682	318,214	352,094	350,777
UTILITIES	62600	148,855	144,955	109,836	121,035	132,363	117,440
REPAIRS & MAINTENANCE	62700	1,282,937	1,142,695	709,021	1,413,101	875,434	1,194,908
OTHER EXPENSES	62800	1,643,263	1,279,459	945,865	1,402,529	1,103,519	1,288,147
TOTAL OPERATING EXPENSES	**62000**	**$27,045,396**	**$26,219,649**	**$17,967,128**	**$26,780,287**	**$24,209,304**	**$23,004,782**
EQUIPMENT & INTANG. ASSETS							
EQUIPMENT	63100	$131,000	$611,158	$136,064	$520,491	$608,817	$1,133,212
INTANGIBLE ASSETS	63400	2,006,757	3,079,829	1,278,290	3,940,880	1,447,331	2,001,479
TOTAL EQUIP. & INTANG. ASSETS	**63000**	**$2,137,757**	**$3,690,987**	**$1,414,354**	**$4,461,371**	**$2,056,149**	**$3,134,691**
ALAE / A&O / D&CC							
ALLOCATED LOSS ADJUSTMENT EXPENSE (ALA	67100	$909,814	$930,558	$618,398	$986,042	$1,021,464	$1,920,070
ADJUSTING & OTHER (A&O)	67100	8,094	12,615	11,400	7,500	7,835	666
DEFENSE & COST CONTAINMENT (D&CC)	67100	3,573,343	3,336,623	2,841,999	3,731,960	3,577,986	1,587,525
TOTAL ALAE / A&O / D&CC	**67100**	**$4,491,251**	**$4,279,797** $211,454	**$3,471,796**	**$4,725,502**	**$4,607,285**	**$3,508,260**
BENEFITS & CLAIM PAYMENTS							
INDEMNITY	67100	$58,935,348	$55,062,790	$46,586,176	$58,380,671	$51,263,670	$49,784,195
MEDICAL	67100	83,859,872	79,906,929	66,221,336	83,489,433	74,980,746	71,169,473
TOTAL BENEFITS	**67100**	**$142,795,220**	**$134,969,719**	**$112,807,512**	**$141,870,104**	**$126,244,416**	**$120,953,668**

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