EXHIBIT 1
DATE 4/3/13
HB SB 173

Montana State Fund
Executive Salaries
FY 2009 Compared to FY 2013

	FY 2009			FY 2013			Change Between Years			
Position	Salary	Incentives	Total Salaries	Salary	Incentives	Total Salaries	Salary	Incentives	Total Salaries	% Change
President/CEO	242,000	26,948	268,948	273,000	46,988	319,988	31,000	20,040	51,040	21.09%
Vice President - Insurance Operations	124,800	12,679	137,479	138,312	17,289	155,601	13,512	4,610	18,122	14.52%
Vice President - Corporate Support	146,540	12,679	159,219	165,501	23,113	188,614	18,961	10,434	29,395	20.06%
General Counsel	145,001	12,679	157,680	165,501	19,246	184,747	20,500	6,567	27,067	18.67%
Vice President - Insurance Operations Support	133,999	12,679	146,678	159,405	15,623	175,028	25,406	2,944	28,350	21.16%
Vice President - Human Resources	105,000	12,679	117,679	133,353	16,321	149,674	28,353	3,642	31,995	30.47%
Chief Information Officer	170,250	12,679	182,929	191,370	25733	217,103	21,120	13,054	34,174	20.07%

Montana State Fund
Statutory Statement of Admitted Assets,
Liabilities, and Equity

June 30,	2012	2011
ADMITTED ASSETS		
Investments and Cash		
Bonds	$ 1,035,226,380	$ 1,001,286,533
Equity Securities	141,839,697	137,532,240
Real Estate Investments	27,974,845	28,507,880
Cash and Short-term Investments	26,496,118	19,972,374
Securities Lending Collateral	149,464,962	89,189,742
Total Investments and Cash	1,381,002,002	1,276,488,769
Other Admitted Assets		
Receivables, Net	52,718,641	51,353,322
Equipment, Net	1,184,917	1,830,674
Accrued Investment Income	11,901,108	11,238,629
Reinsurance Receivables	44,523,008	43,523,117
Other Assets	471,440	471,440
Total Other Admitted Assets	110,799,115	108,417,183
Total Admitted Assets	$ 1,491,801,117	$ 1,384,905,951
LIABILITIES AND EQUITY		
Liabilities		
Reserve for Unpaid Losses	$ 784,233,347	$ 775,389,747
Reserve for Unpaid Loss Adjustment Expenses	105,707,227	99,413,137
Securities Lending Liability	149,464,962	89,189,742
Unearned Premium	42,468,980	37,369,134
Reinsurance Funds Withheld	68,972,283	57,887,750
Other Expenses Payable	23,286,572	29,313,901
Total Liabilities	1,174,133,370	1,088,563,411
Commitments and Contingencies		
Equity		
Policyholders' Equity	317,667,747	296,342,540
Total Equity	317,667,747	296,342,540
Total Liabilities and Equity	$ 1,491,801,117	$ 1,384,905,951

The notes to the financial statements are an integral part of this statement.

SUMMARY OF ANALYTICAL RESULTS

MSF's June 30, 2012 policyholder equity of $318 million (adjusted equity of $386 million) significantly exceeds the "regulatory solvency perspective" equity benchmarks

• Kenney rule (2-to-1 premium-to-equity)	$75 million	**Regulatory Solvency Perspective**
• Early Warning Test		
• Premium-to-equity (3-to-1)	$50 million	
• NAIC Risk Based Capital (RBC)* Company Action Level	$99 million	

- Projected June 30, 2013 equity of $355 million would exceed the 2013 regulatory equity benchmarks ~~by a substantial~~ margin

*Estimated 6/30/10 value.

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V:\Montana State Fund - 10461\012\RCS\3041124 - 2012-09 Unpaid Loss\Exec - An\Test121116 Analysis of Policyholder Equity Executive Summary v2.ppt

If estimates of the costs of FY 2013 future benefits change from the currently estimated cost of $106.1 million needed to be set aside in loss reserves, the amount of the loss reserves must be adjusted. If the costs increase, this is known as prior year development. Funding for the prior year development comes from investment income or equity. In FY 2012 development on prior accident years was estimated to be $5.3 million. The preliminary financial report for FY 2012 reports prior year development as $1.97 million. In FY 2013 it is not estimated that development on prior accident years will occur.

The adequacy of the equity used to offset increases to loss reserves is measured using reserve to equity ratios, as this ratio reflects the multi-year nature of MSF's obligations. The multi-year nature of obligations refers to the need for MSF to use current net premiums to pay benefits for workers injured in FY 2013 over next 60 years or so. The lower the reserve to equity ratio (2.0 to 1.0 compared to 4.0 to 1.0) the greater the financial strength of the insurer and in MSF's case, the lower the risk that the state's general fund will be needed for unfunded liabilities. Due to the significance of the long term risk associated with the need for additional loss reserves in the New Fund, the budget analysis has focused on reserve to equity ratios of MSF for the last several years.

Figure 6

Montana State Fund New Fund Reserve to Equity Targets					
	Projected	Revised FY 2011	Revised FY 2012	Revised FY 2013	Actual
FY 2010	4.24				3.30
FY 2011	3.88	3.05			2.95
FY 2012	3.55	2.77	2.70		2.80
FY 2013	2.48		2.46	2.32	
FY 2014	2.27			2.13	
FY 2015	1.99				

Figure 6 presents equity to target ratios contained in MSF board-approved strategic business plans for FY 2010 through FY 2015.

As shown, MSF has been making steady progress on achieving the board's targeted reserve to equity of 2.0 to 2.5 to 1.0 as recommended by MSF's contracted actuary. The estimated FY 2012 reserve to equity target is 2.80 to 1.0. However, this estimate includes dividend declaration and payments of $6.0 million. As dividends are paid from equity, they decrease equity and increase the loss reserve to equity ratio, from 2.75 to 1.00 to 2.80 to 1.00 in FY 2012.

If the targets are achieved as proposed through FY 2015 MSF should achieve the reserve to equity targets of 2.0 to 2.5 to 1.0 recommended by MSF's contracted actuary, reducing the long term risk to the legislature that prior year development may result in an unfunded liability for the New Fund. Another consideration is that once the target has been achieved, the contribution to equity component of the loss cost multiplier may be reduced, thus reducing premiums for all ratepayers. However, consideration must be given to the amount of the dividends that are declared by the board, as dividends reduce the amount of equity and change the actual reserve to equity ratio that is achieved as shown by the change in the ratio discussed for FY 2012.

Costs of Operating MSF

The costs of operating MSF include personal services, operating expenses, equipment and intangible assets, and allocated loss adjustment expenses. Figure 7 shows budgeted FY 2012 and FY 2013 costs and FY 2012 actuals.

Budgeted Statutory Expense Ratio Declines

Figure 8 presents the budgeted and actual statutory expense ratio from FY 2010 through FY 2013. The FY 2013 budget proposal for the statutory operational expense ratio decreases 1.86% from the FY 2012 expense ratio. This is a result of changes to both net premiums and operational costs of MSF. Budgeted net premiums increase in FY 2013 to $154.2 million from $150.5 million in FY 2012 or 2.5%. Overall operational expenditures increase 3.53% or about $1.65 million when compared to FY 2012 actual operational expenditures. Two components of the budget drive the operational costs:

- Personal services costs, which are 48.7% of the budgeted operational costs
- Commissions to insurance agents

Figure 8

Montana State Fund New Fund Statutory Operating Expense Ratio	
Fiscal Year	Operational Expense Ratio
2010	25.08%
2011	36.49%
2012	31.16%
2013	29.30%

As budgeted in FY 2013, personal services decrease 3.3% when compared to FY 2012 expenditures but increase 1.0% when compared to FY 2012 budgeted amounts. This is due to the impacts of the employee incentive program discussed previously.

As previously stated commissions to insurance agents are directly and proportionately related to gross premiums and as such increase when net premium revenues increase. The average base commission is budgeted at 7.7% of gross premiums written by the agent. In addition, MSF provides agents writing $100,000 or more in premiums with incentive payments if the loss experience of the businesses is less than anticipated. MSF budgets the average agency incentive commission rate to be an additional 1.5%, however this depends on actual loss experience. In FY 2013 commissions are budgeted at $10,757,716, an increase of $1,639,816 or 18.0% compared to the FY 2012 costs of $9,117,900. Commissions in FY 2013 represent 22.2% of total operational expenses.

Allocated loss adjustment expenses (ALAE) are budgeted to increase 4.9% when compared to FY 2012 actuals. Changes include increased costs for legal expenses and fraud related ALAE, offset by decreases for medical invoice processing, medical consultants, and contract adjusters.

$13.0 Million In General Fund Needed For Old Fund In The 2015 Biennium

The state's general fund is responsible for Old Fund claims costs in 2015 biennium. MSF contracts with an actuary to determine the costs of the claims and related administrative costs. The actuary has several estimates, low, high and central. The central estimate is recommended by the actuary for use in determining the costs of the claims. The MSF actuarial central estimate for the general fund costs of benefits in the 2015 biennium is $13.0 million.

This is the fourteenth consecutive year that the MSF Board has explicitly considered these questions

Fiscal Year Ending ($000s)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	Adjusted 2012
Net Premium	$139,361	$189,379	$211,892	$238,203	$230,965	$203,976	$166,265	$173,605	$150,482	
Net Operating Earnings**	(6,354)	23,837	15,122	25,916	32,095	12,624	23,231	26,372	29,803	
Net Loss & LAE Reserves	452,115	511,557	590,688	679,209	752,253	813,305	838,765	874,803	889,941	$821,777
Policyholder Equity	127,492	148,354	163,101	199,169	216,564	204,401	241,546	296,343	317,668	385,832
Reserve to PH Equity Ratio	3.55	3.45	3.62	3.41	3.47	3.98	3.47	2.95	2.80	2.13
Dividend*	2,000	5,000	5,000	7,000		4,000	2,001	4,005	6,001	

$190 million increase in equity since 2004

Note:
- Market conditions continuing to firm
- Rates are now back to 2000 levels as a result of HB334
- MSF continuing to absorb a significant share of the market
- MSF operations and strategy strengthened
- MSF loss reserves have more than doubled as the business has grown
- Equity has generally grown, with fluctuations; loss reserve leverage has improved for 2010 through 2012

* For FYs 2001-2007, dividend to policyholders in year "N" is declared in year "N+2" and paid in year "N+2". Dividend is shown in the year it was declared and paid. Beginning in FY2008, the dividend is declared in the subsequent FY based on final year end financials. For example, the dividend declared in FY2012 was based on year end financials for FY2011 and is paid to policyholders written in FY2009. Actual dividend paid may vary slightly from board declaration due to rounding in the table of dividend factors.

** Net operating earnings and policyholder equity prior to dividend.

Average of 23.75 million per year increase

1. Current state law says that Montana State Fund is to be no more or less than self-supporting. The $318 million in surpluses would indicate that State Fund is much more than self-supporting. Another issue could be that Montana State Fund needs to declare higher dividends or lower their rates.

   39-71-2311. Intent and purpose of plan -- expense constant defined. (1) It is the intent and purpose of the state fund to allow employers an option to insure their liability for workers' compensation and occupational disease coverage with the state fund. The state fund must be neither more nor less than self-supporting. Premium rates must be set at least annually at a level sufficient to ensure the adequate funding of the insurance program, including the costs of administration, benefits, and adequate reserves, during and at the end of the period for which the rates will be in effect. In determining premium rates, the state fund shall make every effort to adequately predict future costs. When the costs of a factor influencing rates are unclear and difficult to predict, the state fund shall use a prediction calculated to be more than likely to cover those costs rather than less than likely to cover those costs. The prediction must take into account the goal of pooling risk and may not place an undue burden on employers that are not eligible for the tier with the lowest-rated premium for workers' compensation purposes.

   (2) Unnecessary surpluses that are created by the imposition of premiums found to have been set higher than necessary because of a high estimate of the cost of a factor or factors may be refunded by the declaration of a dividend as provided in this part. For the purpose of keeping the state fund solvent, the board of directors may implement multiple rating tiers as provided in 39-71-2330 and may assess an expense constant, a minimum premium, or both.

   (3) As used in this section, "expense constant" means a premium charge applied to each workers' compensation policy to pay expenses related to issuing, servicing, maintaining, recording, and auditing the policy.

2. SB173 is not creating a new liability for State Fund, according to existing law when the old fund was created the liability remained the State Fund's liability and was transferred to the new State Fund.

   39-71-2319. Assets and liabilities of prior state fund. All assets and funds held by the state compensation insurance fund established in former 39-71-2301, 39-71-2302, 39-71-2304 through 39-71-2306, and 39-71-2324 and 39-71-2321 through 39-71-2323, 39-71-2325 through 39-71-2327, 39-71-2336, 39-71-2339, and 39-71-2340 must be transferred to the state fund, and the state fund shall assume liability for all outstanding claims and indebtedness of the previously existing state fund.

DISTRIBUTION REQUESTED BY:
SEN KEANE
APPROVED BY SENATOR
Debby Barrett

Montana State Fund
Investment Earnings - FY 2012 by month

01 Jul.			
	06000 Proprietary Funds		124,464.20
		530021 Securities Gains	124,464.20
02 Aug.			
	06000 Proprietary Funds		4,105,597.83
		530008 Long Term Bond Income	3,486,570.12
		530010 Other Income	73,680.00
		530021 Securities Gains	470,998.37
		530023 Securities Losses	(2,259.48)
		530025 STIP Participant Earnings	3,521.19
		530029 Accretion Bond Discounts	78,890.52
		530030 Amortization Bond Premiums	(84,033.41)
		531631 AOF Security Lending Expense	2,530.59
		531649 AOF Security Lending Earnings	75,699.93
03 Sep.			
	06000 Proprietary Funds		3,952,663.39
		530008 Long Term Bond Income	3,730,884.10
		530021 Securities Gains	126,525.46
		530023 Securities Losses	(792.74)
		530025 STIP Participant Earnings	6,214.47
		530026 Administrative Expenses	(6,992.52)
		530029 Accretion Bond Discounts	88,549.23
		530030 Amortization Bond Premiums	(70,223.92)
		531631 AOF Security Lending Expense	2,566.14
		531649 AOF Security Lending Earnings	75,933.17
04 Oct.			
	06000 Proprietary Funds		4,548,807.30
		530008 Long Term Bond Income	3,544,183.42
		530021 Securities Gains	914,005.67
		530023 Securities Losses	(6,519.45)
		530025 STIP Participant Earnings	8,324.48
		530029 Accretion Bond Discounts	80,178.57
		530030 Amortization Bond Premiums	(86,430.41)
		531631 AOF Security Lending Expense	2,859.21
		531649 AOF Security Lending Earnings	78,832.46
		550400 Gain Sale Non-Gov Fix Asset-NB	13,373.35
05 Nov.			
	06000 Proprietary Funds		3,701,907.23
		530008 Long Term Bond Income	3,598,876.24
		530021 Securities Gains	2,143.30
		530023 Securities Losses	(11,280.05)
		530025 STIP Participant Earnings	4,713.94
		530029 Accretion Bond Discounts	95,005.85
		530030 Amortization Bond Premiums	(77,508.32)
		531631 AOF Security Lending Expense	2,539.58
		531649 AOF Security Lending Earnings	87,416.69
06 Dec.			
	06000 Proprietary Funds		4,048,450.48
		530008 Long Term Bond Income	3,575,135.18
		530021 Securities Gains	355,283.21
		530023 Securities Losses	(177.00)
		530025 STIP Participant Earnings	6,154.74
		530029 Accretion Bond Discounts	93,582.96
		530030 Amortization Bond Premiums	(75,465.15)
		531631 AOF Security Lending Expense	3,020.05
		531649 AOF Security Lending Earnings	90,916.49
07 Jan.			
	06000 Proprietary Funds		3,864,226.43
		530008 Long Term Bond Income	3,586,940.00
		530010 Other Income	9,665.47
		530021 Securities Gains	174,370.32
		530023 Securities Losses	(657.89)

		530025 STIP Participant Earnings	7,704.49
		530029 Accretion Bond Discounts	95,150.86
		530030 Amortization Bond Premiums	(91,431.25)
		531631 AOF Security Lending Expense	3,832.36
		531649 AOF Security Lending Earnings	78,652.07
08 Feb.			
	06000 Proprietary Funds		3,690,417.89
		530008 Long Term Bond Income	3,616,599.15
		530021 Securities Gains	2,369.03
		530023 Securities Losses	(1,117.46)
		530025 STIP Participant Earnings	6,896.83
		530029 Accretion Bond Discounts	95,523.20
		530030 Amortization Bond Premiums	(98,065.77)
		531631 AOF Security Lending Expense	3,412.70
		531649 AOF Security Lending Earnings	64,800.21
09 Mar.			
	06000 Proprietary Funds		5,489,829.19
		530008 Long Term Bond Income	3,587,473.62
		530010 Other Income	150,000.00
		530021 Securities Gains	1,672,856.35
		530023 Securities Losses	(716.22)
		530025 STIP Participant Earnings	9,856.18
		530029 Accretion Bond Discounts	90,235.37
		530030 Amortization Bond Premiums	(85,374.99)
		531631 AOF Security Lending Expense	3,725.95
		531649 AOF Security Lending Earnings	61,772.93
10 Apr.			
	06000 Proprietary Funds		4,705,950.45
		530008 Long Term Bond Income	3,593,239.21
		530021 Securities Gains	1,037,100.48
		530023 Securities Losses	(6,078.11)
		530025 STIP Participant Earnings	10,938.60
		530029 Accretion Bond Discounts	96,706.87
		530030 Amortization Bond Premiums	(94,061.07)
		531631 AOF Security Lending Expense	3,838.02
		531649 AOF Security Lending Earnings	64,266.45
11 May			
	06000 Proprietary Funds		3,654,698.07
		530008 Long Term Bond Income	3,574,250.18
		530021 Securities Gains	1,616.11
		530023 Securities Losses	(93.58)
		530025 STIP Participant Earnings	11,613.22
		530029 Accretion Bond Discounts	94,903.34
		530030 Amortization Bond Premiums	(94,335.19)
		531631 AOF Security Lending Expense	3,849.03
		531649 AOF Security Lending Earnings	62,894.96
12 Jun.			
	06000 Proprietary Funds		32,238,315.43
		530008 Long Term Bond Income	7,287,978.02
		530021 Securities Gains	36,223.68
		530023 Securities Losses	(173.38)
		530025 STIP Participant Earnings	3,232.16
		530029 Accretion Bond Discounts	192,761.01
		530030 Amortization Bond Premiums	(219,304.31)
		530032 MBOI Investment Appr/Depr	24,823,700.20
		531626 STIP Security Lending Expense	(1,705.93)
		531631 AOF Security Lending Expense	(282,361.62)
		531644 STIP Security Lending Gross Ea	8,650.37
		531649 AOF Security Lending Earnings	389,315.23
Grand Total			**74,125,327.89**

530008 Long Term Bond Income	43,306,593.44
530025 STIP Participant Earnings	79,170.30

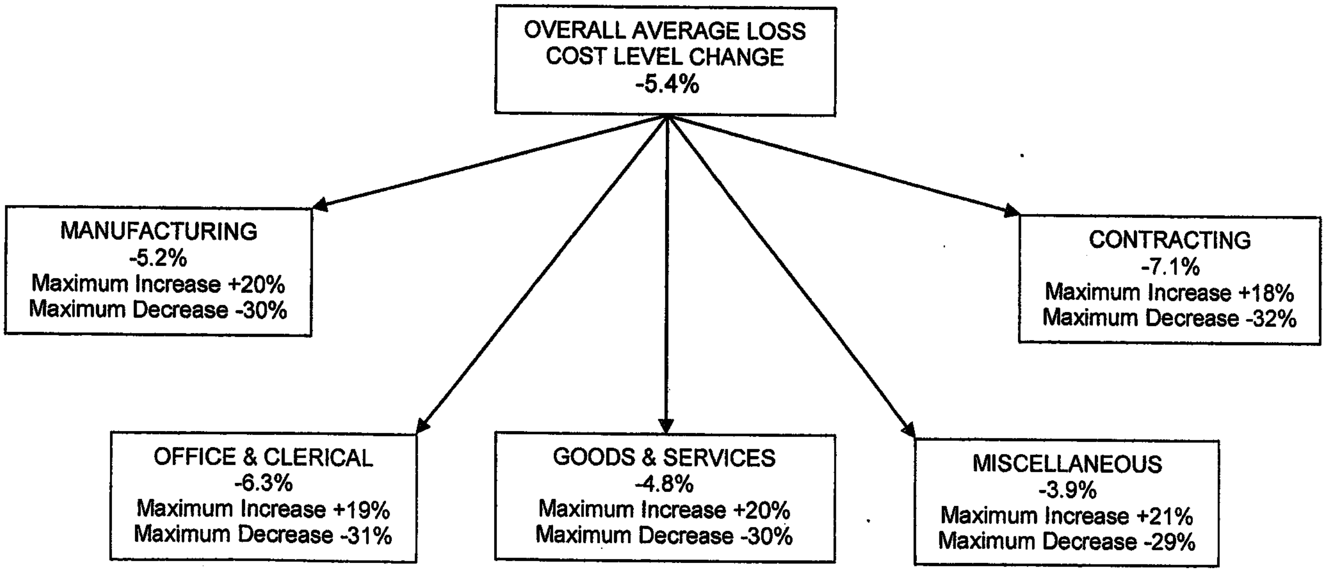
MONTANA

WORKERS COMPENSATION FILING – JULY 1, 2013

Proposed Overall Average Change in Voluntary Advisory Loss Cost Level

Key Components	Percentage Change
Experience and Trend	-6.7%
Benefits	+0.5%
Offset to Reflect the Impact of Approved Item Filing B-1425	+0.8%
Loss-based Expenses	0.0%
Overall Voluntary Loss Cost Level Change Requested	**-5.4%**

The change in loss costs varies depending on the classification. Each classification belongs to one of five industry groups. The average voluntary advisory loss cost level change proposed for each of these five groups is displayed below, as well as the largest increase and largest decrease possible for a classification in each of those groups.



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