EXHIBIT 3
DATE 4/3/2013
SB 173

April 3, 2013

Representative Tom Berry, Chairman
House Business and Labor Committee

Dear Members of the Committee:

As a taxpayer I appreciate Senator Keane's diligence in examining all funds that might be used to operate state government; however, as a policy holder and a director on the board for Montana State Fund (MSF) I respectfully disagree with his desire to transfer Old Fund liabilities to MSF, and to further require the refund of seven million dollars to policy holders.

During Senator Keane's opening statements to the Senate Business, Labor, and Economic Affairs Committee he stated that this bill, SB 173, was not personal, but rather it was about business. It is imperative that we keep that observation uppermost in our mind as we review this bill. We must concentrate on Senator Keane's admonition regarding the importance of discussing the business of MSF and the intricacies of providing workers compensation insurance, and not be distracted by efforts to sensationalize individual aspects of the business such as the compensation of employees at MSF.

As a matter of business, the more relevant figure to consider is expense ratio in comparison to other like insurance companies. The expense ratio includes all of the costs inherent in providing the administration of the insurance including all salary costs. MSF does extremely well in that category of business analysis as seen in attachment A.

Senator Keane states that MSF has an excess of equity and can easily spare the money to pay for Old Fund liabilities; however, as a matter of business, that statement defies the industry standards and our own actuarial advice regarding equity to reserve ratio of 2.5:1. MSF board of directors has studied this issue diligently and we are in concurrence that the achievement of such a goal is necessary to maintain the financial stability of MSF. Recent history also demonstrates the dangers in Senator Keane's recommendation. In 2003 this very logic was used by the Martz administration to remove the existing equity of 23 million dollars from the Old Fund for use in the general fund. If that had not been done, the equity would have grown to over 32 million dollars and could be used to fund the old fund costs today and into the future; and we would not be considering SB 173.

Senator Keane's bill further hamstrings MSF by placing contradictory restraints on the MSF board of directors. MSF was created after the disastrous operation of the workers compensation program now referred to as Old Fund. We at MSF understand that our job is to operate in a sound business manner with rates established by actuarial experts. SB 173 takes the dangerous step of forcing MSF to move away from its statutory directive towards policies and rates established politically, which is precisely what brought about the catastrophic situation now known as Old Fund.

After the passage of HB 334 in 2011, MSF Board aggressively reduced rates even though the actual fiscal implications of this bill will not be known for some time. Actuarial recommendations are made to MSF with a range of possibilities for rate setting and it is the MSF Board's responsibility to actually set the rate. We chose to reduce rates by approximately twenty percent, and give a dividend to rate payers largely based on the strength of our equity and our continued success at achieving our 2.5:1 ratio of reserve to equity. If our fiscal position is reduced by the Old Fund liabilities and should HB 334 not produce the projected savings in MSF expenditures for claims, MSF could quickly be in financial jeopardy, not unlike the pension plans you are dealing with this year.

I am a very fiscally conservative, skeptical board member, who has operated a dairy farm for 28 years in a very challenging environment. After two years on the board, during which time I've asked a myriad of questions, and after serving with other board members who came with similar or even greater skepticism regarding the need for large reserves, for increased equity, and even questioning compensation packages, I am convinced that MSF is operated according to best business practices and in a fiscally conservative and sound manner as befits a Montana insurance operation.

I regret I am unable to attend today's hearing but as an essentially volunteer board member for MSF and with spring in the air (on some days) I must attend to the business of getting my well used equipment ready for spring work and preparing my fields for planting. I appreciate the work that each of you do in guiding our state, and if I can be of any help please do not hesitate to call me at 406-314-0075 or email at jdbrenneman@gmail.com .

Sincerely,

Joseph Brenneman

Joe Brenneman

Attachment A

From MSF Board of Directors Meeting

June 15. 2012

I. Executive Summary – Statutory Operating Expense Ratio

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

Based on the items included in the budget we have estimated the FY13 statutory expense ratio to be 29.3%.

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

Montana State Fund

	FY13 Budget	FY12 Projection	FY12 Budget	FY11 Actuals	FY10 Actuals
Statutory Operating Expense	$45,155,437	$47,698,301	$42,977,515	$63,352,014	$41,693,378
Net Earned Premiums	$154,197,468	$144,689,308	$132,868,786	$173,605,442	$166,265,384
Statutory Operating Expense Ratio	29.3%	33.0%	32.3%	36.5%	25.1%

MSF's *operational expenditures* (personal services, operating expenses, equipment and intangible assets, and allocated loss adjustment expense) are $48,542,688 for the fiscal year's budget. The statutory operating expense ratio excludes specific 'expenditures' but includes other 'expenses' based on Generally Accepted Accounting Principles (GAAP) and statutory accounting principles. The *MSF statutory operating expenses* are $45,155,437. The adjustments and calculations of the expense ratio are shown on Attachment A, and historical expense ratio data is displayed on Attachment B.

The statutory operating expense is divided by the FY13 estimated net earned premium of $154,197,468 to determine the FY13 estimated expense ratio of 29.3%.

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

A.M. Best's Total US PC Industry – (1,036 P&C Organizations)	A.M. Best's Work Comp Composite – (205 Organizations)	A.M. Best's Total US PC State Funds – (16 Organizations)	MSF FY10	MSF FY11	MSF Projected FY12	MSF Budget FY13
40.8%	50.2%	40.1%	25.1%	36.5%	33.0%	29.3%