LFD Montana Legislative Fiscal Division

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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%

BUSINESS & LABOR
EXHIBIT NO. 1
DATE 1-31-13
BILL NO. SB173

MONTANA STATEFUND

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.

[redacted]

[redacted]

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.

[redacted]

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.