SENATE FINANCE & CLAIMS

Exhibit No. 1

Date 2-14-13

Bill No. SB 173

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.

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.

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Average of 23.75 million Per Year increas

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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%