

# Montana State Fund

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## Topics



- The United States Workers Compensation Market
  - Trends
  - Market drivers
- Overview of the State Workers Compensation Insurance Funds
  - History and purpose
  - Market positioning and responsibility
  - Future direction and impetus
- The Montana Workers Compensation Market
  - Historical view
  - Market drivers
- Montana State Fund
  - Market role
  - Historical performance
  - Positioning in future markets
- Responding to Market Availability Issues

Best's Market Share Reports - Five-Year Trend Study  
 Company Type: AMB Financial Groups and Unaffiliated Singles  
 State/Territory: Total US Line of Business: Workers' Compensation

Company	Direct Premiums Written (\$000)					Market Share (DPW) (%)				
	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009
018674 Travelers Group	4,138,121	3,802,180	3,231,776	2,819,879	2,741,950	8.07	7.93	7.47	7.14	6.70
000048 Hartford Insurance Group	3,351,776	3,283,919	3,156,001	2,643,316	2,497,529	6.54	6.85	7.29	6.70	6.10
000060 Liberty Mutual Insurance Companies	3,048,104	3,640,856	3,607,038	3,613,196	3,965,645	5.95	7.59	8.34	9.15	9.69
018540 American International Group	2,587,851	2,740,012	3,153,124	3,129,570	3,550,501	5.05	5.71	7.29	7.93	8.67
018549 Zurich Financial Services NA Group	2,457,721	2,328,197	2,137,895	2,023,964	2,119,619	4.79	4.85	4.94	5.13	5.18
004029 State Insurance Fund WC Fund	2,283,287	1,943,838	1,495,865	1,309,759	1,309,601	4.45	4.05	3.46	3.32	3.20
000811 Berkshire Hathaway Insurance Group	1,758,052	1,256,635	884,711	702,026	560,366	3.43	2.62	2.04	1.78	1.37
018533 AmTrust Group	1,665,462	995,575	689,293	541,584	480,697	3.25	2.08	1.59	1.37	1.17
000734 Old Republic Insurance Group	1,199,907	1,112,197	944,231	852,764	912,424	2.34	2.32	2.18	2.16	2.23
018252 W. R. Berkley Insurance Group	1,161,299	989,430	790,378	680,645	642,257	2.27	2.06	1.83	1.72	1.57
004835 Great American P& C Insurance Grp	1,133,614	983,638	819,745	765,912	815,420	2.21	2.05	1.89	1.94	1.99
000012 Chubb Group of Insurance Companies	1,132,451	1,046,786	866,326	714,413	701,185	2.21	2.18	2.00	1.81	1.71
004028 State Compensation Insurance Fund of CA	1,112,518	903,787	1,011,147	1,140,203	1,287,041	2.17	1.88	2.34	2.89	3.14
011453 Texas Mutual Insurance Company	1,031,357	906,405	729,912	596,191	634,389	2.01	1.89	1.69	1.51	1.55
018498 ACE INA Group	868,052	855,976	881,963	964,979	998,506	1.69	1.78	2.04	2.44	2.44
018680 Accident Fund Group	867,610	821,634	768,429	742,608	794,454	1.69	1.71	1.78	1.88	1.94
003116 Fairfax Financial (USA) Group	811,809	837,999	743,369	636,250	651,257	1.58	1.75	1.72	1.61	1.59
018313 CNA Insurance Companies	717,645	698,383	782,713	655,387	748,405	1.40	1.46	1.81	1.66	1.83
018602 Employers Insurance Group	680,459	575,373	416,106	319,773	376,651	1.33	1.20	0.96	0.81	0.92
003985 NJM Insurance Group	545,795	443,758	398,479	379,302	407,469	1.06	0.93	0.92	0.96	1.00
<b>Selection Total</b>	<b>32,552,890</b>	<b>30,086,331</b>	<b>27,430,165</b>	<b>25,160,162</b>	<b>26,166,677</b>	<b>63.50</b>	<b>62.72</b>	<b>63.40</b>	<b>63.73</b>	<b>63.92</b>
<b>Total US PC Industry</b>	<b>51,264,932</b>	<b>47,957,388</b>	<b>43,265,086</b>	<b>39,473,427</b>	<b>40,929,750</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: A.M. Best

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## Factors Affecting Market Size and Condition

- The economy
  - New business start-ups
  - Employment levels
  - Earnings levels
- Rate level changes
- Legislative and regulatory environment
- Competition – discretionary pricing changes

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## The Economy – United States



### The economy is improving, but slowly and unevenly

**Seasonally Adjusted**

**Industry:** Total nonfarm

**Data Type:** ALL EMPLOYEES, THOUSANDS

**Years:** 2004 to 2014

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2004	130747	130791	131123	131372	131679	131753	131785	131917	132079	132425	132490	132619
2005	132753	132992	133126	133489	133664	133909	134282	134478	134545	134629	134966	135125
2006	135402	135717	135997	136179	136202	136279	136486	136670	136827	136829	137039	137210
2007	137448	137536	137724	137802	137946	138017	137984	137968	138053	138135	138253	138350
2008	138365	138279	138199	137985	137803	137631	137421	137162	136710	136236	135471	134774
2009	133976	133275	132449	131765	131411	130944	130617	130401	130174	129976	129970	129687
2010	129705	129655	129811	130062	130578	130456	130395	130353	130296	130537	130674	130745
2011	130815	130983	131195	131517	131619	131836	131942	132064	132285	132468	132632	132828
2012	133188	133414	133657	133753	133863	133951	134111	134261	134422	134647	134850	135064
2013	135261	135541	135682	135885	136084	136285	136434	136636	136800	137037	137311	137395
2014	137539	137736*	137928*									

\* preliminary

- Still 800,000 jobs below 2008 employment levels
- Health, Education, and Professional Services lead the way in job growth
- Construction and Manufacturing, while improving, continue to lag

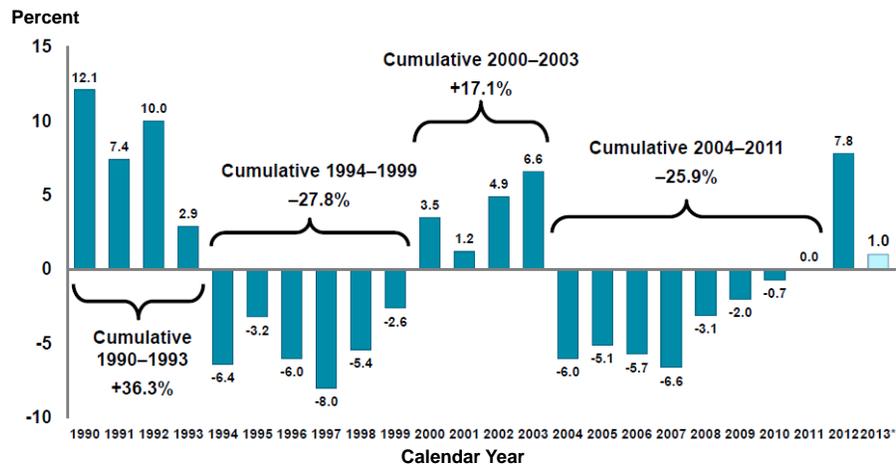
Source: U.S. Bureau of Labor Statistics

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## Average Approved Bureau Rates / Loss Costs



### History of Average Workers Compensation Bureau Rate / Loss Cost Level Changes



\* States approved through 4/15/2013

Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization, relative to the previously filed rates

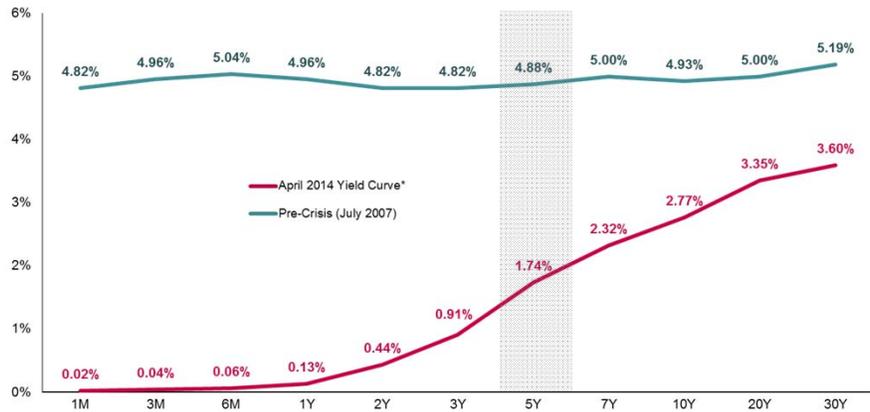
Source: NCCI Holdings, Inc. – NCCI AIS 2013: State of the Line

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Change in the Federal Reserve position on “tapering” will lead to higher interest rates, but not for some time, and not enough to take the pressure off underwriting results



U.S. Treasury Yield Curve Trends



\*As of April 1, 2014

Investments = other aspects of “pricing” + competition

\*\* The other business and why pricing will continue to rise

Sources: Board of Governors of the United States Federal Reserve Bank, Insurance Info. Institute

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## “Competitive” State Fund Analysis



*“If you see one State Fund, you have seen one State Fund.”*

- Each is subject to its own objectives, its own market, its own economy
- Some are rated by A.M. Best
- Some are more tied to state government than others
- All play a critical role in their respective state's economy

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## State Fund Comparisons



State	2008 Writings *	Share	2013 Writings *	Share	Star Rank	A.M. Best Rating
Montana	243	68%	168	61%	1	-
California	1,725	22.5%	1,113	11%	1	-
Colorado	484	57%	478	59%	1	-
Hawaii	53	22%	50	23%	1	A
Idaho <sup>(1)</sup>	187	58%	195	62%	1	-
Kentucky	144	24%	144	29%	1	A-
Louisiana	227	26%	185	23%	1	A
Maine	137	61%	127	63%	1	A
Maryland	216	25%	219	25%	1	A-
Minnesota	90	11%	108	12%	1	-
Missouri <sup>(1)</sup>	129	14%	167	20%	1	A-
New Mexico <sup>(1)</sup>	82	31%	93	34%	1	A-
New York	1,355	38%	2,283	44%	1	-
Oklahoma	263	35%	271	29%	1	-
Oregon <sup>(1)</sup>	403	56%	436	68%	1	-
Pennsylvania	270	11%	219	8%	1	-
Rhode Island	112	61%	118	62%	1	-
Texas	756	29%	1,031	39%	1	A
Utah	231	52%	192	51%	1	A

\* In Millions of Dollars

(1) No Guaranteed Market Responsibility

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## State Fund Comparisons (continued)



State	2008 Writings *	Share	2013 Writings *	Share	Star Rank	A.M. Best Rating
Washington	<i>Monopolistic</i>					
Ohio	<i>Monopolistic</i>					
Wyoming	<i>Monopolistic</i>					
North Dakota	<i>Monopolistic</i>					
Arizona	384	49%	220	29%	1	A-
Nevada	37	8.7%	17	6%	8	A-
West Virginia	424	87%	176	52%	1	A-
Michigan	198	20%	192	17%	1	A-

\* In Millions of Dollars

(1) No Guaranteed Market Responsibility

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- Michigan: July 1, 1995
  - After 80 years of operation as a quasi-state agency, an Attorney General's opinion declared the Michigan Accident Fund a "State Agency"
  - Facing significant budget deficits, Governor Engler put the Fund "up for sale" and sold the Fund to Michigan Blue Cross Blue Shield for \$265M. Now the Accident Fund of Michigan, a privately owned for profit company
  - State Run Assigned Risk Plan was created
  - Accident Fund now operating countrywide
  
- Nevada: July 1, 1999
  - A monopolistic Fund, it developed a deficit of nearly \$2B
  - Governor Kenny approved legislation to create a domestic mutual, removing 500 employees from the state payroll
  - The mutual company transitioned into a for profit, publicly traded company "Employers of Nevada"
  - NCCI Assigned Risk Plan was introduced
  - EICM now operating in 31 states

- Texas: July 1, 2001
  - Formed in 1991, Texas Workers Compensation Insurance Fund by legislation
  - In 2001, name changed to Texas Mutual Insurance Company, authorizing it to operate as a Domestic Mutual Insurance Company and guaranteed all monies belonged solely to the company, with no access by the state, and with no obligation of the state to any liabilities.
  - In 2013, legislation to further TMIC's rights to expand out of Texas and relinquish guaranteed market responsibility received no legislative action
  
- West Virginia: July 1, 2005
  - Monopolistic Fund which had over time developed unfunded liabilities approaching \$2B.
  - As part of sweeping benefit reform, a private mutual insurance company (Brickstreet Mutual) was formed with capital provided by the government
  - Market opened to competition in July 2008
  - NCCI Assigned Risk Plan was introduced
  - Currently licensed in 14 states

- Oklahoma: July 1, 2013
  - Law passed to be effective 1/1/2015 allowing CompSource Oklahoma to operate as a Domestic Mutual insurance Company instructing the Insurance Commissioner to approve CSO's Certificate of Authority
  - Independent of the state of Oklahoma
  - Cannot be dissolved – but otherwise subject to Insurance Department regulation
  - CompSource continued its Guaranteed Market responsibilities
- Maryland: July 1, 2013

Senate Bill 745 authorized the 100 year Injured Workers Insurance Fund to become Chesapeake Employers Insurance Company, a private, non-profit, non-stock corporation under Maryland law

  - Will secure a Certificate of Authority as an “Authorized Insurer”
  - Will be regulated by the Insurance Department, but not for rates
  - Will retain “insurer of last resort” responsibility
  - Board members appointed by the governor
  - Member of the Guaranty Association
  - May not be converted to a mutual or stock company, be sold, or dissolved
  - All assets and liabilities transferred to new entity with no further access by the legislature of surplus funds

- Arizona: January 1, 2014
  - Law passed allowing 95 year old SCF Arizona to become CopperPoint Mutual Insurance Company, a fully private, for profit mutual insurance company
  - Two years of legislation provided for transition
  - Never had Guaranteed Market Responsibility
  - All supervision provided by the Arizona Insurance Department
  - Secured A.M. Best rating of A-

## The “Guaranteed Market” Responsibility



- For virtually all types of employment in the United States, Workers Compensation coverage is required of all employers unless they are qualified to “self-insure” their liabilities under the law
  - To assure market availability there are two major facilities provided:
    - State Funds
    - Assigned Risk or “Residual Market” mechanisms
  - Currently 19 State Funds meet this responsibility including the three largest markets of California, New York and Pennsylvania
  - States either manage their own plans or they are administered by the NCCI

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## The “Guaranteed Market” Responsibility (continued)



### State Fund Approach

- Treat each applicant for coverage in the same manner, pricing the policy based on the risk presented
- The term “Residual” does not apply
- State Fund bears all of the financial responsibility

### Assigned Risk Approach

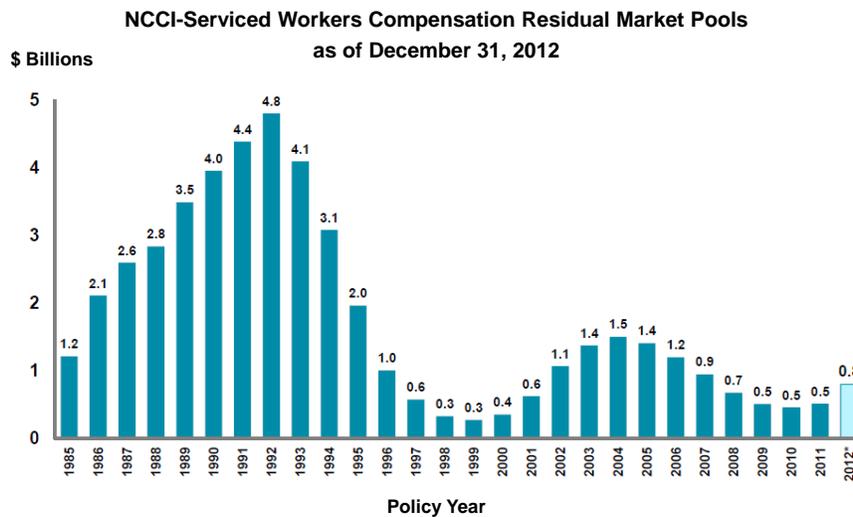
- Applicant must be rejected by the private market as a “voluntary” write
- Rate differentials apply depending on the state of operation
- The voluntary market writers participate in a reinsurance “pool” to assign proportional financial responsibility

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The public policy question:

- How are employers in any respective state best serviced in and out of market cycles?
  - Cost
  - Service consistency
  - Employee safety and relations

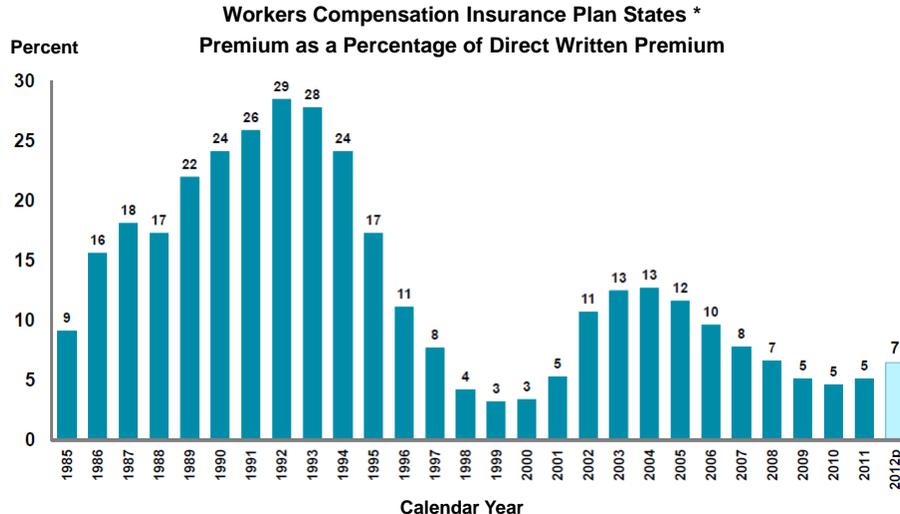
Workers Compensation Residual Market Premium History



\* Incomplete policy year projected to ultimate

Source: NCCI Holdings, Inc. – NCCI AIS 2013: State of the Line

Workers Compensation Residual Market  
Percentage of Total Market



p Preliminary  
\* NCCI Plan States plus DE, IN, MA, MI, NC, NJ  
Source: NCCI Holdings, Inc. – NCCI AIS 2013: State of the Line

Workers Compensation Residual Market  
Growth by Policy Size



**2012 vs. 2011**

Size of Risk	2011	2012	Change
\$ 0 – \$ 2,499	83.1 M	89.3 M	7%
\$ 2,500 – \$ 4,999	42.1 M	50.3 M	20%
\$ 5,000 – \$ 9,999	50.6 M	64.2 M	27%
\$ 10,000 – \$ 49,999	122.5 M	179.9 M	47%
\$ 50,000 – \$ 99,999	40.5 M	79.3 M	96%
\$ 100,000 and greater	49.7 M	116.5 M	135%
<b>Total</b>	<b>388.5 M</b>	<b>579.6 M</b>	<b>49%</b>

Total estimated annual premium  
Includes residual market policies for: AK, AL, AR, AZ, CT, DC, GA, IA, ID, IL, IN, KS, MS, NH, NM, NV, OR, SC, SD, VA, VT, WV

Workers Compensation Residual Market  
Growth Continues Through 2013



First Quarter 2013 vs. First Quarter 2012

Size of Risk	2012	2013	Change
\$ 0 – \$ 2,499	20.9 M	24.3 M	16%
\$ 2,500 – \$ 4,999	11.5 M	14.4 M	25%
\$ 5,000 – \$ 9,999	15.3 M	20.5 M	34%
\$ 10,000 – \$49,999	41.5 M	59.7 M	44%
\$ 50,000 – \$99,999	17.4 M	26.2 M	51%
\$ 100,000 and greater	28.3 M	48.0 M	70%
<b>Total</b>	<b>134.9 M</b>	<b>193.2 M</b>	<b>43%</b>

Total estimated annual premium  
Includes residual market policies for: AK, AL, AR, AZ, CT, DC, GA, IA, ID, IL, IN, KS, MS, NH, NM, NV, OR, SC, SD, VA, VT, WV

Source: NCCI Holdings, Inc. – NCCI AIS 2013: State of the Line

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Montana State Fund's Role in Montana  
Workers Compensation System



- Legislative Intent:
  1. "Allow an option for employers to ensure their liability under the Montana Workers Compensation Law"
  2. To do so voluntarily for all Montana Employers who have met their financial obligations to the Fund
    - To do so in a self-supporting manner
    - To develop classifications and premium rates consistent with the Montana marketplace based on sound financial and actuarial principles
    - To allow for business to be developed directly with the Fund or through Montana Insurance Agents
    - To belong to a licensed advisory organization sharing data and where appropriate utilizing established classifications
    - To pay dividends when fiscally sound to do so further encouraging safe workplaces

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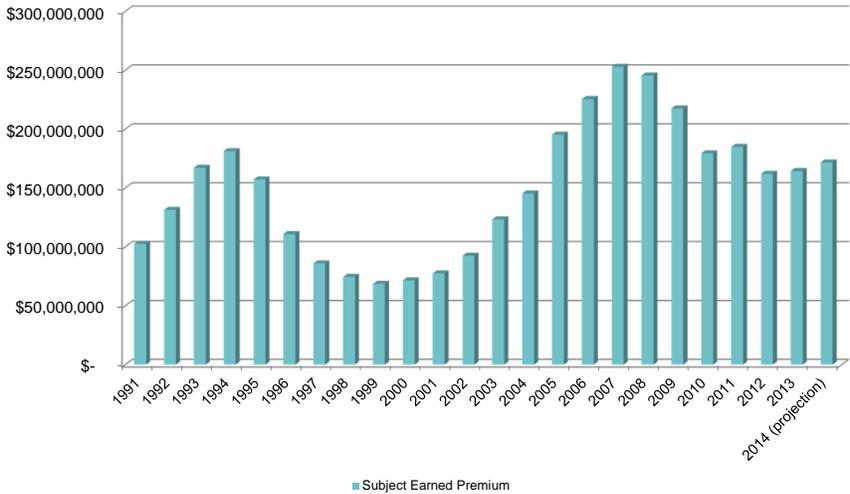
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 Company Type: AMB Financial Groups and Unaffiliated Singles  
 State/Territory: Montana Line of Business: Workers' Compensation  
 Direct Premiums Written (\$000)

Company	Direct Premiums Written (\$000)					Market Share (DPW) (%)				
	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009
003475 Montana State Fund	167,946	165,663	173,140	173,112	206,218	60.96	59.31	61.91	60.24	63.57
000060 Liberty Mutual Insurance Companies	26,394	38,432	40,645	43,090	47,181	9.58	13.76	14.53	14.99	14.54
018674 Travelers Group	10,657	9,401	7,053	7,078	6,782	3.87	3.37	2.52	2.46	2.09
013911 Victory Insurance Company Inc	10,071	7,354	4,751	5,094	4,302	3.66	2.63	1.70	1.77	1.33
018602 Employers Insurance Group	8,414	7,147	6,113	5,442	4,829	3.05	2.56	2.19	1.89	1.49
018549 Zurich Financial Services NA Group	8,344	7,951	9,019	9,628	9,454	3.03	2.85	3.22	3.35	2.91
018533 Am Trust Group	6,414	5,178	4,422	5,282	5,326	2.33	1.85	1.58	1.84	1.64
018540 American International Group	6,206	7,719	7,925	12,606	14,821	2.25	2.76	2.83	4.39	4.57
000048 Hartford Insurance Group	5,811	5,991	5,706	6,992	6,157	2.11	2.14	2.04	2.43	1.90
003943 Western National Insurance Group	2,719	1,242	0	0	0	0.99	0.44	0.00	0.00	0.00
002687 Associated Loggers Exchange	2,572	2,488	1,926	1,608	1,355	0.93	0.89	0.69	0.56	0.42
018484 Arch Insurance Group	2,159	737	1,165	361	541	0.78	0.26	0.42	0.13	0.17
018498 ACE INA Group	1,590	2,410	2,316	3,671	2,676	0.58	0.86	0.83	1.28	0.83
000032 Farmers Insurance Group	1,432	1,254	1,503	1,754	2,380	0.52	0.45	0.54	0.61	0.73
000012 Chubb Group of Insurance Companies	1,380	1,188	985	1,225	1,294	0.50	0.43	0.35	0.43	0.40
018252 W. R. Berkley Insurance Group	1,281	868	385	100	89	0.46	0.31	0.14	0.03	0.03
002648 Alaska National Insurance Company	1,161	958	451	373	425	0.42	0.34	0.16	0.13	0.13
004019 Argo Group	937	935	459	973	1,399	0.34	0.33	0.16	0.34	0.43
000734 Old Republic Insurance Group	898	308	1,200	548	986	0.33	0.11	0.43	0.19	0.30
000086 Sentry Insurance Group	849	80	699	498	862	0.31	0.03	0.25	0.17	0.27
<b>Selection Total</b>	<b>267,235</b>	<b>271,272</b>	<b>271,085</b>	<b>281,111</b>	<b>317,155</b>	<b>96.99</b>	<b>97.10</b>	<b>96.92</b>	<b>97.82</b>	<b>97.77</b>
<b>Total US PC Industry</b>	<b>275,517</b>	<b>279,314</b>	<b>279,666</b>	<b>287,378</b>	<b>324,406</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: A.M. Best

Montana State Fund Business Profile

Subject Earned Premium



## Montana Market Size Factors



- Economy
  - Total non-farm employment reached highest level in six years in December 2013
  - Construction employment at lowest level in ten years
  - Manufacturing had small bounce, but still below 2006 peak
  - Professional Services, Health, Education, Leisure and Hospitality all at ten year highs
- Montana Total Payroll
  - December 2012 → \$445.6
  - December 2013 → \$448.5

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## Total Nonfarm Employment



Series Id: SMS3000000000000001  
 Seasonally Adjusted  
 State: Montana  
 Area: Statewide  
 Supersector: Total Nonfarm  
 Industry: Total Nonfarm  
 Data Type: All Employees, In Thousands  
 Years: 2003 to 2013

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2003	399.2	399.3	397.3	400.1	399.9	399.6	399.4	400.8	401.4	402.4	401.8	403.6
2004	403.6	404.9	406.3	410.5	410.2	413.3	412.6	411.1	412.8	413.4	414.3	415.6
2005	413.1	416.5	417.4	416.1	417.3	419	422	420.9	423	424.4	425.6	425.6
2006	427.4	430.2	431	433.1	433.8	437.3	439.9	435	434.1	434.7	435.9	438
2007	440.3	441.2	444	443.5	443.6	443.7	445.3	444.9	443.5	445.9	445.8	446.5
2008	447.5	447.5	448.1	445.9	445.6	444.7	445.3	444.2	443.5	442.3	441.5	439.3
2009	434.5	432.2	428.7	429.2	428.8	429.3	427.5	428.7	426.5	426.9	427.6	426.4
2010	427.4	426.2	428.1	427.8	429.3	428.5	428.6	430.3	429.1	428.6	427.2	427.6
2011	428.2	428.4	429	429.5	430.6	429.5	429.7	432.9	434.4	433.8	434.4	435.3
2012	437.5	437	437.4	439.7	440.7	439	440.3	440.4	441.9	445.3	444.3	445.6
2013	445.2	446.1	445.3	445.1	447.7	447.6	448.8	449.5	448.7	448.2	448.7	448.5

Source: U.S. Bureau of Labor Statistics

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## Construction Employment



Series Id: SMS30000002000000001  
 Seasonally Adjusted  
 State: Montana  
 Area: Statewide  
 Supersector: Construction  
 Industry: Construction  
 Data Type: All Employees, In Thousands  
 Years: 2003 to 2013

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2003	22.7	22.8	22.4	23.4	23.4	23.4	23.2	23.2	23.4	23.5	23	23
2004	23.4	23.7	24.1	24.9	24.5	24.8	25	25	25.1	25.6	25.8	26.4
2005	25.3	26.7	27	26.9	27.1	26.9	27.8	28.2	28.5	28.8	29.1	28.4
2006	29	29.3	29.3	29.5	29.9	30.8	30.4	30.5	30.7	30.7	30.6	31.2
2007	31.6	31.7	32.3	32.9	33	33	32.2	32.5	32.1	32.1	32.1	31.9
2008	31.6	31.5	31.4	30.5	30.1	29.7	29.8	29.1	28.5	28	27.5	27.4
2009	25.9	25.4	24.5	24.2	23.7	24.1	23.6	23.4	23.2	23	23.1	22.6
2010	22.7	22.4	22.7	22.7	22.5	22.4	22.5	22.4	22.5	23	22.4	22.1
2011	22.1	21.9	21.9	22.3	22.3	22.6	22.8	22.9	23.3	23.3	23.1	23.4
2012	23.5	23.6	23.4	23.9	23.6	23	22.5	22.5	22.8	23.3	22.5	21.9
2013	21.9	22	21.5	21.5	21.5	22.2	21.4	21.4	21.5	21.5	21.2	21.4

Source: U.S. Bureau of Labor Statistics

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## Transportation Employment



Series Id: SMS30000004000000001  
 Seasonally Adjusted  
 State: Montana  
 Area: Statewide  
 Supersector: Trade, Transportation, and Utilities  
 Industry: Trade, Transportation, and Utilities  
 Data Type: All Employees, In Thousands  
 Years: 2003 to 2013

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2003	84	83.8	83.5	83.4	83.7	83.7	83.6	84	84.4	84.8	84.9	84.9
2004	85.4	85.4	85.5	85.8	85.8	85.8	85.8	85.4	85.4	85.9	86.1	86.1
2005	86.1	86.3	86.6	86.5	86.5	86.8	87.3	87.2	87.2	87.3	87.2	87.6
2006	87.6	88.2	88.2	88.7	88.6	88.8	88.5	88.8	88.8	89	89.3	89.8
2007	90.4	91	91.3	91.1	91.3	90.9	92	91.6	91.8	92.2	92.5	92.6
2008	92.6	92.3	92.6	92.2	91.5	91	91	91	90.8	90.4	89.9	89.5
2009	88.6	88	87.1	87.1	87.2	86.9	86.9	86.9	86.5	86.2	86.1	86
2010	86	85.8	86.1	85.9	86.1	86	85.7	85.6	85.7	85.5	85.3	85.5
2011	85.7	85.9	85.6	85.9	86.2	86.3	86.5	86.6	86.7	86.8	87.1	87.2
2012	87.5	87.6	87.9	88.2	88.4	88.5	88.2	88.2	88.2	88.7	88.7	89.8
2013	89.8	91	90	89.5	89.6	89.3	89	89	89.2	89.1	90.2	90.5

Source: U.S. Bureau of Labor Statistics

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## Professional Services Employment



Series Id: SMS3000006000000001  
 Seasonally Adjusted  
 State: Montana  
 Area: Statewide  
 Supersector: Professional and Business Services  
 Industry: Professional and Business Services  
 Data Type: All Employees, In Thousands  
 Years: 2003 to 2013

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2003	32.6	32.5	32.5	32.7	32.7	32.5	32.7	32.6	32.5	32.5	32.3	32.6
2004	31.9	32.4	32.6	33.1	33.5	33.7	33.7	33.6	33.8	33.8	34	33.9
2005	33.5	34.2	34.3	34.3	34.4	34.6	35.5	35.4	35.7	36.1	36.6	36.8
2006	37	37.3	37.6	37.7	37.9	38.4	38.3	38.7	38.8	38.7	38.5	39.3
2007	39.7	39.9	40.3	40.5	40.7	40.9	40.8	41	40.8	41.2	40.9	40.9
2008	40.7	41	40.8	41	41	40.7	41	40.7	40.5	40.1	39.6	39.9
2009	39.6	39.2	39	38.7	38.5	38.5	38.4	38.2	38.5	38.6	39.1	38.6
2010	38.8	38.9	38.8	38.9	38.9	39	39.1	39.2	39.3	40.2	39.8	40.4
2011	40.2	40.3	40.4	40.4	40.4	40.2	40.4	40.5	40.4	40.2	40.3	40.1
2012	40.3	40.3	40.5	41	41.1	41.1	41.3	41.3	41.5	41.3	41.2	41.5
2013	41.5	42.2	42.4	42.1	42.8	44	44.3	44.7	42.9	42.9	42.4	42.9

Source: U.S. Bureau of Labor Statistics

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## Education Employment



Series Id: SMS3000006500000001  
 Seasonally Adjusted  
 State: Montana  
 Area: Statewide  
 Supersector: Education and Health Services  
 Industry: Education and Health Services  
 Data Type: All Employees, In Thousands  
 Years: 2003 to 2013

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2003	53.1	53.3	53	52.9	53	52.8	52.8	53.2	53	53.2	53.3	53.6
2004	53.4	53.4	53.8	54.1	54.2	54.2	54.2	54.3	54.8	55	55.1	55.4
2005	55.4	55.4	55.6	55.1	55.5	56.1	56.2	56	56.2	56.4	56.4	56.2
2006	56.4	56.7	56.8	57.3	57.4	57.5	57.7	57.8	57.9	57.9	58	58.2
2007	58.2	58.4	58.6	58.5	58.8	58.8	58.9	59	59.5	59.3	59.1	59.4
2008	60	60.2	60.5	60.5	60.5	60.6	60.8	61	61.4	61.4	61.6	61.9
2009	61.9	62.1	62	62.3	62.2	62.5	62.4	62.6	62.6	62.9	63	63.2
2010	63.2	63.1	63.3	63.7	63.7	64	64.1	64.1	64.1	64	64	63.9
2011	63.9	64.1	64.1	64	64.6	64.8	65	65.4	65.7	66.1	66.1	66.5
2012	66.8	67	67.2	67.2	67.6	67.5	67.7	67.8	67.7	68	67.8	68.1
2013	68.6	68.4	68.7	68.8	69.5	69.1	69.1	69	69.4	69.3	70	69.5

Source: U.S. Bureau of Labor Statistics

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## Hospitality Employment



Series Id: SMS3000007000000001  
 Seasonally Adjusted  
 State: Montana  
 Area: Statewide  
 Supersector: Leisure and Hospitality  
 Industry: Leisure and Hospitality  
 Data Type: All Employees, In Thousands  
 Years: 2003 to 2013

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2003	52.4	52.4	52	51.9	51.8	52	52.4	52.5	52.4	52.4	52.6	52.7
2004	52.7	52.7	52.7	54.1	53.7	53.9	54.4	54.2	54.2	54.4	54	54.4
2005	54	54.5	54.8	54.7	55.2	55.1	55.4	55.5	55.7	55.9	56.1	55.7
2006	56.3	56.7	56.9	57.1	56.9	57.1	56.3	56.2	55.8	56.8	57	57.3
2007	57.6	57.6	57.6	58	57.9	58.2	58.2	58.3	58.3	58	58.8	59.1
2008	59.5	59.4	59.5	58.9	59.3	59.2	59.2	58.9	58.9	58.7	58.6	58.3
2009	57.7	57.4	57	57	57.1	57.2	56.8	56.8	56.6	56.2	55.9	55.3
2010	55.6	55.4	55.2	55.4	55.6	55.4	55.9	56.2	56.3	55.5	55.6	55.8
2011	55.9	55.9	56.2	56.3	56.5	55.7	56.3	56.3	56.6	57	57.1	57.2
2012	57.5	57.5	57.6	57.7	57.7	58.1	57.8	58	58	59.9	60.3	60.4
2013	59.5	59.6	59.8	60.1	60.3	61.5	62	62.1	61.1	60.5	60.3	59.8

Source: U.S. Bureau of Labor Statistics

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## Government Employment



Series Id: SMS3000009000000001  
 Seasonally Adjusted  
 State: Montana  
 Area: Statewide  
 Supersector: Government  
 Industry: Government  
 Data Type: All Employees, In Thousands  
 Years: 2003 to 2013

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2003	84.4	84.9	84.7	86.7	86.2	86.1	85.7	86.3	86.5	86.2	85.7	86.5
2004	85.7	86.2	86.4	87	86.7	89	87.1	85.9	87	86.5	86.9	86.8
2005	86.4	86.4	86.4	86	85.7	86.5	86.5	85	86.3	86.1	86.4	86.6
2006	86.5	87	87.3	87.6	87.7	89.1	93.3	87.9	87	86.5	87.5	86.9
2007	87.5	87.4	87.9	87.1	86.7	86.8	88.2	87.4	85.8	87.8	87.1	87.2
2008	87.3	87.5	87.5	87	87.6	87.8	88.1	88	88.4	88.8	89.7	88.6
2009	88.5	88.7	88.7	89.3	89.5	89.8	89.4	91.1	89.4	90.5	90.8	90.9
2010	91.8	91.2	92.5	91.9	93.4	92.4	92.4	93.8	92.3	91.2	91.2	91.1
2011	91.3	90.9	91	90.7	90.8	90.1	88.3	90.8	91.3	89.3	89.3	89.3
2012	90.6	89.4	89.4	89.7	90	88.4	90	89.6	90.7	90.2	89.7	90.1
2013	89.8	89.3	89.2	89.1	89.8	87.5	88.9	89	90.1	89.7	89	89.3

Source: U.S. Bureau of Labor Statistics

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## Montana Market Size Factors



### Rate Level Changes (NCCI filed loss costs)

Year	Effective Date	% Change
2008	2/1	-2.9%
2008	7/1	-1.8
2009	7/1	-2.2
2010	7/1	-6.4
2011	7/1	-5.6
2011	7/1	-22.4 (Law Change)
2012	-	-
2013	7/1	-6.2%
2014 (filed)	7/1	-5.4%

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## Montana State Fund Business Profile



### Policy Distribution by Premium Size (Excludes Other States Coverage)

Premium shown is PY Gross Written Premium + Expense Constants as of 04/30/2013

Premium Size	Policies	% of Total	PY 2013 Est. Premium	% of Total
Minimum	4,657	18.38%	1,902,177	1.20%
Min - \$1.5K	7,695	30.37%	6,391,558	4.02%
\$1.5K - \$5K	7,110	28.06%	19,684,903	12.39%
\$5K - \$8K	2,234	8.82%	13,574,063	8.54%
\$8K - \$12K	1,257	4.96%	11,732,014	7.38%
\$12K - \$25K	1,335	5.27%	21,554,518	13.56%
\$25K - \$50K	608	2.40%	20,229,641	12.73%
\$50K - \$100K	257	1.01%	17,472,442	10.99%
\$100K - \$250K	141	0.56%	20,596,566	12.96%
\$250k+	43	0.17%	25,786,133	16.23%
<b>Total</b>	<b>25,337</b>	<b>100%</b>	<b>158,924,015</b>	<b>100%</b>

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## Montana State Fund – Impact on Safety



### Claim Frequency by Accident Year

Claim counts are projected ultimate claim counts, based on JLT Towers Re Rate Level Analysis, provided to MSF in April 2013

MSF Book Total	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Indemnity Claims	2,577	2,761	2,785	3,048	3,000	2,861	2,367	2,075	2,101	1,808	1,565
Medical Only Claims	8,561	8,375	8,327	8,921	8,853	8,345	6,653	5,777	5,677	5,830	5,420
<b>Total Claims</b>	<b>11,138</b>	<b>11,136</b>	<b>11,112</b>	<b>11,969</b>	<b>11,853</b>	<b>11,206</b>	<b>9,020</b>	<b>7,852</b>	<b>7,778</b>	<b>7,638</b>	<b>6,985</b>

**Covered Payroll (\$M)** 5,370 5,302 5,546 5,753 5,863 5,713 5,241 4,890 4,679 4,656 4,527

**Developed Indemnity Claims per \$1M Payroll** 0.480 0.521 0.502 0.530 0.512 0.501 0.452 0.424 0.449 0.388 0.346

### Claim Counts as of 03/29/2013

State Agencies	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Indemnity Claims	206	230	171	214	223	210	181	179	165	123	57
Medical Only Claims	738	752	715	676	694	684	654	703	687	702	509
<b>Total Reported Claims</b>	<b>944</b>	<b>982</b>	<b>886</b>	<b>890</b>	<b>917</b>	<b>894</b>	<b>835</b>	<b>882</b>	<b>852</b>	<b>825</b>	<b>566</b>

Accident years run from July 1 through June 30.

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## The “Old Fund Liability” Issue



- The potential transfer of legacy liabilities from one entity to another is often a complicated transaction
  - Certainty:
    - Agreement on the actual amount of risk to be transferred is required. There is currently a \$90 M + discrepancy in valuations
    - Agreement on the consideration to be paid is dependent upon actuarial assumptions on payment patters and interest rates. The greater the uncertainty, the greater the cost
    - The uncertainty does not always prove to be negative, but protection against a bad result is normally prudent

**Option:** Continue with Montana General Fund responsibility on a “Pay As You Go” basis. Payments are made as the risk is realized, with no cost related to accrual.

**Option:** Transfer liabilities to a third party (MSF). Would require a dedication of capital, with the potential of fund transfers not meeting top side risk.

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- Risk Mitigation
  - Limit financial risk to MSF to agreed upon level by securing reinsurance protection in the form of an Adverse Development Cover