



**Montana State Fund**

**A presentation to the Montana Economic Affairs Interim Committee  
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**Outline**

- Introduction and Charge
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- FRA Recommendations
- Distribution

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## Introduction and Charge of Independent Actuary

- Estimate aggregate amount of unpaid claims benefits and claim administration expense (LAE)
- Estimate overall manual rate level change
- Analyze Policyholder Equity Adequacy & Policyholder Dividend Program

For the New Fund, the analyses encompass injuries occurring between July 1, 1990, and June 30, 2013

For the Old Fund, the analysis of unpaid amounts encompasses injuries occurring prior to July 1, 1990

## Actuarial Process

- Quantify financial impact of future contingent events
  - Organize data
  - Build actuarial models
  - Analyze results from models
  - Report results of actuarial selections
- Judgmentally reflect qualitative changes
  - Environment
  - Book of business
  - Company Operations

Requires significant professional judgment

## New Fund – Commentary on FRA Report

- We agree with FRA that MSF's carried reserves are within a range of reasonable estimates
- We also agree with FRA that MSF's rates are adequate, not excessive nor unfairly discriminatory

## New Fund Indicated Unpaid Loss and LAE as of June 30, 2013

- Unpaid claims benefits & LAE – Actuarial Central Estimate
 

Medical	\$588.9 million
Indemnity	173.4
Unpaid claims administration expense	109.8
Total gross unpaid benefits & administration	\$872.1 million
Reinsurance	(39.7)
Total net unpaid benefits & administration	\$832.4 million
- Considerable uncertainty is associated with projections of unpaid claims & LAE
  - Low estimate, \$710.8 million
  - High estimate, \$968.0 million

## Old Fund – Commentary on FRA Report

- MSF's carried are below the bottom end of FRA's undiscounted range, but within their range on a discounted basis
- TW is still comfortable with our analysis and selections of Old Fund unpaid losses and LAE
  - We have a different view of the long term payment pattern
  - We have given less credibility out in the tail due to the age and volume of loss dollars

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## Old Fund Indicated Unpaid Loss and LAE as of June 30, 2013

Unpaid claims benefits & LAE –	
Actuarial Central Estimate	\$33.4 million
Medical	10.6
Indemnity	\$44.0 million
Total	5.7
Unpaid claims administration expense	1.3
Future DLI assessment	
Total unpaid benefits and administration, (undiscounted)	\$51.0 million

- Considerable uncertainty is associated with projections of unpaid claims & LAE
  - Low Estimate, \$46.4 million
  - High Estimate, \$100.1 million

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**Because the aggregate amount of unpaid claims benefits is an estimate, there are several contingencies that can impact future analyses**

- Medical costs may increase more than expected due to
  - Medical technology
  - Utilization
  - Higher frequency of severe diagnosis
  - Injured workers' health and recovery
- Trends – frequency and severity
- Benefit changes
- Litigation/Attorney involvement
- Court cases that retroactively change benefits
- Economic cycles and social trends
- Duration of injury

**Commentary on FRA Recommendations**

Case Reserve Study to quantify adequacy

- *TW recommends that MSF be cautious in evaluating whether to conduct another case reserve study*
- Revisit whether selecting toward lower end of estimates is appropriate or should be adjusted 
  - *TW doesn't agree with this recommendation*
- MSF management should consider its carried reserves in light of the actuarial projections and case reserves 
  - *TW agrees with this recommendation*
- Reintroduce the incurred loss development projection method for medical loss 
  - *TW generally agrees with this recommendation (to be implemented in the near future)*

## Conclusion

- Our analysis adheres to the Casualty Actuarial Society's *Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves and Actuarial Standard of Practice No. 43 – Property /Casualty Unpaid Claim Estimates*
- Differences in conclusions are the result of the exercise of independent professional judgment

## This presentation is intended for a specific audience and for a specific purpose

- Our analysis and discussion is intended to assist the Montana Economic Affairs Interim Committee in understanding the uncertainty inherent in actuarial analyses for the Old Fund and New Fund
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