

MONTANA STATE FUND
BOARD APPROVED 2016 ANNUAL BUDGET
(Effective for period of January 1, 2016 to December 31, 2016)

Montana State Fund (MSF) is a nonprofit, competitive workers' compensation insurance organization. Under state law, MSF provides Montana businesses with an option for workers' compensation and occupational disease insurance and also guarantees available coverage for all employers in Montana. During the 2015 Legislative Session, SB 123 passed with an effective date of January 1, 2016. As a result of this law change, MSF is subject to oversight and regulation by the State Auditor, Commissioner of Securities and Insurance (CSI) and is required to convert financial reporting processes to a fiscal period that parallels the calendar year.

This budget for Calendar Year 2016 (CY16) is the first annual budget approved on a calendar year basis and will replace the existing FY16 budget. The total budget approved provides the funding to enable MSF to continue our role of providing a stable guaranteed workers' compensation market for Montana, implement our business plan initiatives, and effectively support business operations. The following defines the budget periods referenced in this report:

- **Calendar Year 2016 or CY16 Budget:** Amounts estimated to cover the funding needed for the business period of January 1, 2016 to December 31, 2016. The Montana State Fund Board of Directors approved this budget at the December 11, 2015 Board meeting.
- **Fiscal Year 2016 or FY16 Budget:** The budget approved by the Board in June of 2015 for the annual period measured on the state's fiscal year as required under 39-71-2363 (2)(a), MCA. The use of FY16 in this report reflects the total 12 months of funding approved for the fiscal period that correlates with the State's fiscal year of July 1, 2015 to June 30, 2016.
- **Fiscal Year 2015.5 or FY15.5 (6 Mos.) Budget:** Shows the projected spend of the FY16 budget for the period July 1 through December 31, 2015. The six-month period is necessary to convert the budget cycle to a calendar year. The approved CY16 budget will become effective on January 1, 2016.
- **Fiscal Year 2015 or FY15 Actuals** – Reflects the actual expenditures of July 1, 2014 to June 30, 2015, and is included as a reference to show the actual spend in the last complete fiscal year.

I. Total Expenditures

The total budget for CY16 expenditures is \$182,008,646. Claim Benefit Payments and Operational Expenditures are the two primary components of the budget.

The CY16 Budget is displayed below with full time equivalents (FTE), position counts, and prior period expenditures.

	CY16 <u>Budget</u>	FY16 <u>Budget</u>	FY15.5 6 Mos. <u>Budget</u>	FY15 <u>Actuals</u>
FTE	306.50	306.00	306.00	304.00
Positions	309	308	308	305
Benefit Payments	\$126,297,835	\$125,271,222	\$57,186,629	\$114,428,012
Operational Expenditures	<u>\$55,710,812</u>	<u>\$53,060,603</u>	<u>\$27,527,472</u>	<u>\$50,699,600</u>
Total MSF Expenditures	<u>\$182,008,647</u>	<u>\$178,331,825</u>	<u>\$84,714,101</u>	<u>\$165,128,012</u>

Benefit payments include all expected funds required to pay existing and anticipated injured worker claim costs for indemnity and medical related benefits.

Operational Expenditures includes all staffing, overhead and other costs needed to support MSF business operations. The CY16 MSF staffing is for 306.50 FTE which equates to 309 positions.

The total approved MSF CY16 budget of \$182.0 million is an increase of \$3.7 million or 2.1% from the approved FY16 budget of \$178.3 million.

- The CY16 approved budget for claim benefit payments to injured employees of \$126.3 million equates to 69.4% of the total budget and is an increase of by \$1.0 million or 0.8% as compared to the approved FY16 budget.
- The CY16 approved budget for operational expenditures of \$55.7 million equates to 30.6% of the total budget and is an increase of \$2.65 million or 5.0% as compared to the approved FY16 budget of \$53.06 million. The CY16 operational expenditure budget's largest areas of increase from the FY16 budget are:
 - ❖ \$758,283 – consulting and professional services (including training)
 - ❖ \$929,475 – commissions
 - ❖ \$599,377 – personal services
 - ❖ \$401,517 – allocated loss adjustment expense

II. Revenue

The premium revenue MSF generates in Montana's competitive workers' compensation insurance market, along with investment income, provides the funding for indemnity and medical claims reported by MSF policyholders and operational expenditures.

For CY16, MSF is projecting net earned premium of \$162,009,912. The estimate assumes:

- Approximately 24,500 active policies
- No manual rate change for policy year 2017 (effective July 1, 2016 to June 30, 2017)

- Wage growth of 3%
- Premium retention rate at 90.3%
- Net loss of business written of \$3.9 million

III. Statutory Operating Expense Ratio

The statutory operating expense ratio is a standard financial measurement 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 accounting adjustments, such as depreciation and amortization expenses, that are not displayed in an expenditure driven budget. MSF's *operational expenditures* (personal services, operating expenses, equipment and intangible assets, and allocated loss adjustment expense) are \$55,710,812 for the fiscal year's budget, and *statutory operating expenses* are \$46,200,281.

The statutory operating expense is divided by estimated net earned premium of \$162,009,912 to determine the CY16 estimated expense ratio of 28.5%.

The following table displays the statutory operating expenses, net earned premiums and the CY16 expense ratio with comparison to previous periods.

Montana State Fund	CY16 Budget	FY16 Budget	FY15 Actuals
Statutory Operating Expense	\$46,200,281	\$44,301,807	\$38,216,800
Net Earned Premiums	\$162,009,912	\$157,106,579	\$164,556,709
Statutory Operating Expense Ratio	28.5%	28.2%	23.22%

The following table compares the MSF statutory operating expense ratio with the property and casualty insurance industry and other state funds based on 2014 data from 2015 A. M. Best's Aggregates & Averages.

A.M. Best's Total US PC Industry – (1,242 P&C Organizations)	A.M. Best's Work Comp Composite – (249 Organizations)	A.M. Best's Total US PC State Funds – (26 Organizations)	MSF FY14	MSF FY15	MSF Budget FY16	MSF Budget CY16
39.8%	36.7%	33.8%	22.0%	23.2%	28.2%	28.5%

IV. Benefit Payments

The CY16 claim benefit payments budget of \$126.3 million is an increase of \$1.0 million or 0.8% from the approved FY16 budget of \$125.3 million.

- CY16 medical benefit payments are estimated to increase by 0.9% from FY16
- CY16 indemnity benefit payments are estimated to increase by 0.6% from FY16

MSF expects claim benefit payments to increase above the prior budget level due to the implementation of a standardized process to settle claims that started in December 2014.

The increase in claim benefit payments for CY16 reflects a full year of expenditures under the standardized settlement process.

Provisions in HB334 enabling undisputed medical settlement accelerated benefit payments to injured employees in FY15 through the present time. This higher level of settlement activity is planned to continue through CY16 and into future years. The acceleration of the benefit payments is expected to reduce the ultimate claim liability of future years.

The budget includes the addition of a new accident period's claim payments to the estimate of payments on existing claim liabilities. The benefit payments budget does not include contingency funds related to court decisions.

The following table reflects the budgeted CY16 MSF benefit payments, the FY16 Budget for benefit payments, and ten years of actual payments.

Fiscal Year	Net Earned Premium	Benefits as a Percent of NEP	Benefit Payments (with OSC)	Percent Change in Benefit Payments from Prior Year
CY16 Budget	\$162,009,912	78.0%	\$126,297,835	0.8% (from prior budget)
FY16 Budget	\$157,106,579	79.7%	\$125,271,222	9.5%
FY15 Actual	\$164,556,709	69.5%	\$114,428,412	8.0%
FY14 Actual	\$165,271,880	64.1%	\$105,934,616	-5.2%
FY13 Actual	\$156,062,480	71.6%	\$111,690,340	0.8%
FY12 Actual	\$150,482,457	73.6%	\$110,752,851	-0.6%
FY11 Actual	\$173,605,442	64.2%	\$111,420,055	-9.4%
FY10 Actual	\$166,265,384	74.0%	\$123,003,870	0.4%
FY09 Actual	\$203,976,354	60.0%	\$122,460,166	-1.4%
FY08 Actual	\$230,965,307	53.7%	\$124,139,778	7.2%
FY07 Actual	\$238,202,708	48.6%	\$115,849,169	5.1%
FY06 Actual	\$211,892,198	52.0%	\$110,237,048	

MSF – All Accident Years

\$125,071,135 is budgeted for MSF (no Other States Coverage-OSC) claim benefit payments to injured employees for the following benefit types:

- Indemnity - \$38.0 million or 30.4% of total benefits
- Medical - \$87.1 million or 69.6% of total benefits
 - ❖ Disputed and Undisputed Medical Settlements – \$31.4 million
 - ❖ All other medical benefit payments - \$55.7 million

The benefit estimates are based on analysis of the actual 'Accident Year' benefit payments for each fiscal year from 1991 through September 30, 2015. The more recent actual FY15.5 and actual FY15 benefit payments for all 'Accident Years' are weighted most heavily in the determination of the CY16 benefit payments. Consideration has been given to the acceleration of settlement activity beginning in the latter half of FY15 and this settlement activity is expected to continue through 2016.

Benefit Payments*	Indemnity	Medical No Settlements	Medical Settlements	Total
CY16 Budget	\$38,012,835	\$55,654,704	\$31,403,596	\$125,071,135
FY16 Budget	\$37,775,181	\$53,881,012	\$32,310,029	\$123,966,222
FY15	\$37,182,054	\$54,642,976	\$21,597,491	\$113,422,521
FY14	\$36,965,855	\$57,898,587	\$10,263,958	\$105,128,400
FY13	\$37,418,731	\$61,078,244	\$11,920,366	\$110,417,341
FY12	\$40,832,807	\$58,024,639	\$11,114,804	\$109,972,250
FY11	\$40,007,198	\$62,783,014	\$7,788,880	\$110,579,092

*No Other States Coverage program benefit payments are included in the data.

The next table displays CY16 MSF and Other States Coverage (OSC) benefit payments separately as compared to the FY16 budget and the FY15 actual expenditure levels.

Benefit Payments	CY16 Budget	FY16 Budget	FY15 Actuals	\$ Change CY16 from FY16	% Change CY16 from FY16
MSF	\$125,071,135	\$123,966,222	\$113,422,521	\$1,104,130	0.9%
OSC	1,226,700	1,305,000	1,005,891	(78,300)	-6.0%
Total	\$126,297,835	\$125,271,222	\$114,428,412	\$1,026,613	0.8%

Other States Coverage (OSC)

The OSC program enables MSF policyholders with employees working in other states the option to insure all their workers' compensation needs through MSF. MSF contracts with carriers licensed to provide workers' compensation insurance to our policyholders in other states.

OSC benefit payments are estimated to be \$1,226,700 and include:

- \$408,900 - Indemnity payments
- \$817,800 – Medical Payments

Including operational expenditures of \$891,940, the total budget for OSC expenditures is \$2,118,640. OSC written premium is estimated to be \$2.35 million in CY16 and funds the program. OSC operational expenditures are explained in latter sections of this report; however, the following table notes the expenditures and premium of the OSC program for CY16 Budget, FY16 Budget and FY15 Actuals.

OSC Program	CY16 Budget	FY16 Budget	FY15 Actuals
Program management, fronting fees, letters of credit	\$468,940	\$493,000	\$372,074
Commissions	188,000	200,000	164,310
Premium Tax	98,700	105,000	90,003
ALAE	<u>136,300</u>	<u>145,000</u>	<u>104,774</u>
Operational Expenditures	\$891,940	\$943,000	\$731,161
Claim Benefit Payments	<u>\$1,226,700</u>	<u>\$1,305,000</u>	<u>\$1,005,891</u>
OSC Total Expenditures	\$2,118,640	\$2,248,000	\$1,737,052
OSC Written Premium	\$2,350,000	\$2,500,000	\$2,633,986

V. Operational Expenditures

Operational expenditures include personal services, operating expenses, equipment and intangible assets, and Allocated Loss Adjustment Expense (ALAE). The following table provides a summary, including the number of FTE and positions.

Operational Expenditures	CY16 Budget	FY16 Budget	FY15 Actuals
FTE	306.50	306.00	304.00
Positions	309	308	306
Personal Services	\$28,001,309	\$27,401,932	\$25,369,142
Operating Expense	23,677,291	21,896,766	21,290,884
Equip & Int Assets	206,056	337,265	896,360
ALAE	3,826,156	3,424,640	3,143,214
Total MSF	\$55,710,812	\$53,060,603	\$50,699,600

a. MSF Staffing

MSF continually evaluates and re-aligns our staff to meet the changing work processes. The State Fund has approval for 306.50 FTE (full time equivalent) for CY16. This is an increase of 0.50 FTE from FY16. The new position, a Regulatory Specialist, is assigned to General Counsel and expected to be hired July 1, 2016 as a full time position.

The 306.50 FTE equate to 309 positions. In CY16, MSF will have 304 positions that are 1.00 FTE each, one full time position for six months noted as 0.50 FTE, and four half-time positions listed as 0.50 FTE each. The following table reflects MSF staffing by department.

MSF Department Staffing (FTE)	CY16 Budget	FY16 Budget	FY15
Corporate Support	34.00	34.00	34.00
Executive Offices	6.00	6.00	6.00
General Counsel	18.50	18.00	16.00
Human Resources	7.00	7.00	7.00
Information Technology	53.00	53.00	53.00
Operations	146.00	146.00	146.00
Operations Support	41.00	41.00	41.00
ABP Succession Project	1.00	1.00	1.00
MSF Total	306.50	306.00	304.00

The staffing changes between FY14 and FY15 in the Operations and Operations Support departments were the result of the Operations Optimization project which involved moving some staff and teams between Operations and Operations Support.

b. Personal Services

To support the necessary staff of 306.50 FTE, MSF's Board approved funds of \$28,001,309 for the CY16 personal services budget. A vacancy savings factor of 3.0% was applied to the personal services estimates of all MSF positions to reduce the budgeted amount.

MSF Total Personal Services Budget	CY16 Budget	FY16 Budget	FY15 Actuals	\$ Change CY16 from FY16	% Change CY16 from FY16
Salaries	\$21,579,861	\$21,230,115	\$19,249,774	\$349,746	1.6%
Employee Benefits	7,277,143	7,007,255	6,119,368	269,888	3.9%
Vacancy Savings	(855,695)	(835,438)	n/a	(20,257)	2.4%
Total Personal Services	\$28,001,309	\$27,401,932	\$25,369,142	\$599,377	2.2%

The CY16 personal services budget increases by \$599,377 or 2.2% from the FY16 budget. Salaries increase by 1.6% and employee taxes and benefits increase by 3.9%.

➤ **Salaries - \$21,579,861**

Salary budget items of \$21.6 million include regular salaries for 309 positions / 306.50 FTE, overtime, Personal Leave Program payouts, and planned retirement payouts. The salary budget items are outlined as follows:

- ❖ \$21,032,722 for base salaries (no employee taxes or benefits) is calculated on the hourly wage for all active employees as of October 7, 2015. Vacant position budgets were based on the compensation at mid-point for the position's salary band. CY16 will have 2,088 annual payroll hours for each 1.00 FTE. Partial FTE salaries are prorated.
- ❖ \$259,191 for merit-based salary adjustments (no employee taxes or benefits). The merit salary adjustments for employees are planned to be distributed after the final FY15.5 performance reviews are complete. For the CY16 budget a merit adjustment of 1.5% is planned to be effective March 5, 2016. No merit adjustment was budgeted for the President or vacant positions.
- ❖ \$135,641 provides funding for leave balance payouts of six expected retirements in CY16. This amount is for the salary portion of the leave balances. The associated employee taxes and benefits for these retirement payouts are budgeted to those specific accounts.
- ❖ \$131,385 will fund MSF's Personal Leave Program that provides for the annual payment of excess unused personal leave balances to eligible participants in accordance with the program guidelines. The CY16 estimate is based on FY15 payments and review of leave balances of participants.
- ❖ \$20,922 is for overtime to support additional workload coverage during the policy renewal period. The budget provides for on-call and call-out compensation to support computer systems and infrastructure.

➤ **Employee Taxes and Benefits - \$7,277,143**

Employee Taxes and Benefits are payments / contributions MSF makes on behalf of our employees for taxes, benefits or as workers' compensation premium. The following lists employee tax and benefit categories, and the dollars budgeted.

- ❖ FICA / Medicare – 7.65% of applicable salary- \$1,632,454
 - The rate remains unchanged from FY16 and the FICA salary cap on contributions will be \$118,500 effective 1/1/16.
- ❖ Retirement (PERS) – 8.42% of applicable salary - \$1,814,483 is the employer's contribution.

- The PERS contribution rate increased 0.05% from the FY16 rate per law, 19-3-16(2)b, MCA
 - ❖ Workers' Compensation Premium – average of approximately 0.856% of applicable salary - \$184,716
 - ❖ State Unemployment Tax (SUT) – 0.15% - \$32,338
 - MSF's employer contribution rate for SUT is reviewed and potentially adjusted annually in May.
 - ❖ Group Insurance - \$3,613,152
 - The CY16 annual employer contribution for group insurance is \$11,712 per eligible employee. This is an annual increase of \$534 or 4.8% per eligible employee from the FY16 contribution of \$11,178. In CY16, MSF will have a maximum of 309 employees eligible for the group insurance contribution and the increase drives \$164,739 in additional expense.
- **Vacancy Savings** - \$855,695
- Vacancy savings is a reduction of 3% that has been applied to the calculated salaries and employee taxes and benefits on all MSF positions. This is the same rate used in the FY16 and FY15 budgets.

All MFS positions, except the new Regulatory Specialist, are budgeted to be filled all year. Exactly which positions will be vacated from turnover during the year cannot be determined but at an aggregate level we can determine a reasonable estimate on vacancies to use as an appropriate budget reduction.

Actual vacancy savings will vary by department and departments that do not experience staff turnover will likely be over budget in personal services. Conversely, departments that experience higher staff turnover than expected will be under budget in personal services categories. In aggregate, MSF estimates 3% vacancy savings.

c. Operating Expenses

The MSF budget for Operating Expenses is another grouping of expenses underneath the overall category of Operational Expenditures. The Operating Expenses budget of \$23,677,291 includes the following categories.

Category	CY16 Budget	FY16 Budget	FY15 Actuals	\$ Change CY16 from FY16	% Change CY16 from FY16
Other Services	\$17,950,515	\$16,334,991	\$16,278,473	\$1,615,524	9.9%
Supplies & Materials	677,754	615,644	597,329	62,110	10.1%
Communications	1,341,815	1,269,039	1,109,787	72,776	5.7%
Travel	331,420	297,317	205,184	34,103	11.5%
Rent	371,658	362,274	438,939	9,384	2.6%
Utilities	234,000	224,000	218,771	10,000	4.5%
Repair & Maintenance	1,324,711	1,376,356	1,436,461	(51,645)	-3.8%
Other Expenses	1,445,418	1,417,145	1,005,940	28,273	2.0%
Total Operating Expenses	\$23,677,291	\$21,896,766	\$21,290,884	\$1,780,525	8.1%

- **Other Services** - \$17,950,515 is budgeted for CY16 and is comprised of the following sub-categories:

- ❖ **Consulting and Professional Services & Consulting and Professional Services-Training** \$3,995,689 – This is an increase of \$758,284 or 23.4% from the FY16 Budget of \$3,237,406. The following table comprises \$3,455,133 or 86.5% of the total Consulting and Professional Services budget. The expenditures are necessary to complete Annual Business Plan initiatives and other operational aspects of MSF business.

Consulting and Professional Services & Consulting and Professional Services-Training

CY16 Budget	Department	Item / Description
\$1,054,049	ABP / ESPM	Annual Business Plan and Enterprise Strategy & Project Management projects
\$865,815	Operations	NCCI Membership Fee Agreement and transaction based charges (membership required by law)
\$468,940	Operations	Other States Coverage program costs
\$313,500	Executive	Actuarial services
\$239,200	Information Technology	Temporary backfill for vacant Software Engineer positions
\$200,000	Executive	Business support deemed necessary by the President
\$173,767	General Counsel	State Auditor Office staffing expense
\$139,862	Executive	Promotional and Communication

- **ABP and ESPM Projects** - \$1,054,049 – Consulting and professional services portion of ABP and ESPM projects:
 - ✓ \$389,680 – Regulation – State Fund preparation and training for market conduct and financial exams
 - ✓ \$328,000 – Policy and Billing System Replacement - Independent verification and validation consulting and project assistance
 - ✓ \$152,869 – WorkSafe Champions – Professional film crew for alumni spotlights for use at safety workshops, social media, and other events
 - ✓ \$100,000 – Calendar Year Conversion – Financial reporting consolidation implementation and support and remaining SABHRS conversion expense
 - ✓ \$57,000 – Succession Planning - Executive Development Program, Caliper contracted services
 - ✓ \$26,500 – Rates and Rate Filing – External actuary filing support and NCCI training
- **National Council on Compensation Insurance (NCCI)** – \$865,815 – This is the same amount estimated for the FY16 budget and includes the following:
 - ✓ NCCI contractual fee adjustments that become effective January 1, 2016.

- ✓ The NCCI Membership Fee is primarily based on percentages that vary by core services that are applied to net direct written premiums. The FY14 net direct written premium used to calculate the membership fee was \$172,253,649. Total CY16 budget for the NCCI 'Affiliation Licenses and Services' is \$498,315.
- ✓ Other fees are associated with the services provided by NCCI, such as eMods, unit statistical reporting, proof of coverage, and additional data. MSF is charged a transaction fee when receiving or providing data to NCCI. These fees are budgeted to be \$367,500.
- **Other States Coverage (OSC)** – \$468,940 - The budget is based on total estimated OSC premium of \$2,350,000 for CY16.
 - ✓ \$233,825 - Per OSC contract with Zurich, MSF pays 9.95% of the written premium as 'fronting fees' – expense of writing policies.
 - ✓ \$143,115 - Contracts provide for 10.5% of incurred losses, estimated to be \$1,363,000, as loss adjustment expense for the cost of providing claims adjusting and supervision services.
 - ✓ \$92,000 - A letter of credit is required of MSF per contract.
- **Independent Actuary** - \$313,500 – The Board is required by law to use the services of an independent actuary when estimating losses, dividends, and other areas of business. This budget will fund actuarial services to consult on rate level, loss cost multipliers, loss reserves, and, equity and dividend analysis. The FY16 budget for actuarial services was \$346,500.
- **Temporary Backfill for Vacant Software Engineer Positions** - \$239,200 – MSF has been unsuccessful in filling the vacant Software Engineer positions in the IT Department. The temporary backfill staff will support the current environment with maintenance on existing applications so existing MSF staff can work on the policy and billing replacement project.
- **Business support deemed necessary by the President** - \$200,000 - This budget provides for contracts or other projects that arise as the year progresses and are deemed necessary and appropriate by the President.
- **State Auditor's Office (SAO) Staff Expense** - \$173,767 – SB123 requires MSF to pay the SAO for staff expenses associated with regulating MSF. The budgeted amount of \$173,767 was provided to MSF from SAO and includes a full year of expenses of an attorney and six months of expense associated with a Market Conduct Examiner. Other peripheral expenses for computers, phones, office furnishings, travel, training and rent are included in the budget.
- **Promotional Campaign and Communications Development** - \$139,862 – This is for the consulting services to create MSF advertising campaigns, production of the advertising products, customer documents, photography shoots and administration and assistance on communication projects. This is separated from the cost of air time or other means of advertising.

- **Other Consulting and Professional Services & Consult. and Prof. Services-Training Items - \$540,556**
 - ✓ \$78,200 – Cincom consulting to upgrade Eloquence forms software
 - ✓ \$75,000 – Milliman computing services for support of claim analytics
 - ✓ \$66,063 – training consultants coordinated by Human Resources for Executive Intelligence, Mosaic, SilkRoad administrator training, and Insurance Institute on-line training courses
 - ✓ \$62,425 – compensation consulting, position reviews, and merit adjustment planning
 - ✓ \$45,000 – IBM consulting training services for Message Queue Series project and training consultant on Cisco Unified Computing System which will replace MSF’s blade servers.
 - ✓ \$38,400 – Medical Director expense for training providers and MSF staff
 - ✓ \$37,433 – Department of Justice (DoJ) expense related to policy investigations and prosecutions. The total DoJ estimated funding is \$370,164 with 90% allocated to claimant and provider investigations and prosecutions and 10% directed to policy investigations and prosecutions based on cases currently assigned to DoJ and historical expense.
 - ✓ \$35,600 – consultants to assist IT with the ‘Core Provisioning’ (\$30,000), a rule-based system used to set up employees to access and work in the many applications used to conduct business at MSF. Additional consultant support for Splunk (\$3,600) and SolarWinds (\$2,000) is budgeted.
 - ✓ \$33,917 – national fraud indexing service (ISO) to check new claims for prior fraudulent activities and Medicare Set Aside reporting.
 - ✓ \$25,000 – Phase II Insurance Institute training for Operations and Operations Support staff
 - ✓ \$22,510 – Booke Seminars on-site training courses. The first day is designed to provide the Board of Directors and managers training on Risk-Based Capital (RBC), MSF's annual statement and NAIC requirements. The second day is designed to provide training on specific financial topics and standard update for Finance, Compliance and Audit staff.
 - ✓ \$21,008 - Board member stipends, private investigators, and speaker fee for customer service training

- ❖ **Insurance and Bonds - \$406,247** – this is the same amount as budgeted in the FY16 Budget. All MSF insurance is provided through the state’s division of Risk Management and Tort Claims of the Department of Administration. The state is self-insured. The budget funds MSF’s general liability, property, boiler, crime and automobile coverage.

- ❖ **Legal Fees and Court Costs - \$75,100** - this is a decrease of \$24,900 or 24.9% from the FY16 Budget of \$100,000. The budget will fund employers’ liability coverage opinions, bankruptcy issues and other cases.

- ❖ **Warrant Writing - \$60,093** – this is an increase of \$16,609 or 38.2% from the FY16 Budget of \$43,484. MSF relies on the state to issue all warrants,

other than payments made by the medical and pharmacy bill processors to providers. The estimate is based on rate increases and prior year warrant volumes.

- ❖ **State Human Resources Information System (Payroll) Service Fee** - \$59,242 – this is a decrease of \$1,182 or 2.0% from the FY16 Budget of \$60,424. The budget will fund charges to MSF for services of the State’s Central Payroll and SABHRS Human Resource module.
- ❖ **Policyholder Payroll Audits** - \$888,932 – this is the same amount budgeted for the FY16 Budget. MSF plans to continue using external audit services to perform policyholder payroll audits. These audits may be conducted in the field or as a telephone audit. Payroll audits are a significant means to verify payrolls and ensure appropriate classifications are used, as well as creating additional opportunities to educate policyholders on MSF processes for reporting payroll.
- ❖ **Financial, Legislative, and Vendor Audits** - \$190,156 – this is a decrease of \$25,116 or 11.7% from the FY16 Budget of \$215,272.
 - \$75,000 is budgeted for an external audit of ESI Healthcare Business Solutions. The last audit was completed in 2013 and covered pricing accuracy, pharmacy enrollment, performance standards, first time fills, prior authorization process, PBM performance regarding denied claims, duplicate fills and early refills, and PBM reimbursement to other parties. We anticipate an audit of 100% of the transactions for the audit period.
 - \$62,000 is for an independent accounting firm to audit the December 31, 2015 statutory financial statements.
 - \$32,156 is for the Financial Compliance audit performed by the Legislative Audit Division (LAD) of the MSF governmental financial statements. There will not be a third party actuarial review in CY16.
 - \$21,000 is for an audit of the Vocational Rehabilitation contract. The contract is due to renew 7/1/16 and this audit will provide insight to evaluate vendor and MSF adherence to the current contract and quality of work being performed.
- ❖ **Commissions** - \$11,714,963 – this is an increase of \$929,475 or 8.6% from the FY16 Budget of \$10,785,488 which includes base, incentive, and Other States Coverage commissions. Commission expense is directly related to premium, percentage of MSF policyholders represented by agents, and the commission rate on each policy. The payment of commissions supports service and distribution capabilities with our agent partners.
 - **Base Commissions:**
The recording of a premium payment on an agent-represented policy initiates a base commission payment. MSF estimates \$131.3 million in premium payments on agent-represented business will be recorded in CY16. The average base commission rate on these policies is estimated to

- be 7.7%. The base commission budget is \$9,988,972.
- **Incentive Commissions:**
Incentive commissions are determined after reviewing profitability and retention of an agency's overall book of MSF-represented accounts. The CY16 gross earned premium, excluding OSC premium, is estimated to be \$171,612,430. Agent-represented business is estimated to be 71.7%. The average agent incentive commission rate is expected to be 1.25%, though not all agents may qualify for the incentive commission. \$1,537,991 is budgeted for the CY16 agent incentive commission.
 - **Other States Coverage (OSC) Commissions:**
\$188,000 is budgeted for commissions associated with OSC policies. The total CY16 revenue estimate for OSC is \$2.35 million. The commission rate is 8%.
- ❖ **SABHRS Administrative Costs** - \$74,801 – this is a decrease of \$2,734 or 3.5% from the FY16 Budget of \$77,535. This is paid to the Department of Administration and is MSF's portion of the expense for maintaining the state's accounting system, SABHRS. This expense is from OBPP's Fixed Cost report which uses a ratio of 'financial journal lines' by user as the basis for distributing the cost of SABHRS financial modules.

Expenditures of \$100,000 are also included in the Calendar Year Conversion project to cover SABHRS system changes necessary for implementation of SB123. \$75,000 of this SABHRS conversion will be an expense of FY15.5 and \$25,000 is budgeted as an expense of CY16.

- ❖ **Miscellaneous Information System Services - Non-DOA** - \$69,415 – this remains relatively unchanged from the FY16 Budget of \$69,355.
- \$67,860 - Disaster recovery services
 - \$1,080 – Montana Integrated System to Improve Customer Service (MISTICS) – Department of Labor and Industry's unemployment insurance system used in determining workers' compensation eligibility
 - \$475 – Public Access to Court Electronic Records (PACER) system for bankruptcy research and International Risk Management Institute (IRMI) on line subscription
- ❖ **Records Storage** – \$28,677 – this is a decrease of \$362 or 1.2% from the FY16 Budget of \$29,039.
- \$10,596 – Off-site storage of back-up tapes with State Records Management
 - \$9,900 – Microfiche retrieval of older MSF and Old Fund claim data for the Strategic Claims team
 - \$8,181 – All other finance, legal, and claim information retrieval from data archived with State Records Management.

- ❖ **Printing** - \$140,612 – this is an increase of \$12,493 or 9.8% from the FY16 Budget of \$128,119. This includes internal forms, envelopes, safety workshop materials, and a variety of small printing jobs for brochures, business cards, envelopes, and other informational materials.
- ❖ **Services provided by the State Information Technology Services Division (SITSD) of the Department of Administration** - \$516,658 – this is a decrease of \$16,297 or 3.1% from the FY16 Budget of \$532,954.

SITSD, in conjunction with OBPP, has determined the rates and expenses to be charged to MSF for services in their FY16 and FY17 Biennium. MSF reviews processes and charges regularly and continually seeks the most efficient means to provide staff network support/services and to avoid the use of unnecessary or duplicative ITSD network services to minimize expense.

The budgets by SITSD category are as follows:

- \$205,030 – enterprise services
- \$161,916 – network services
- \$101,735 – asset broker
- \$19,452 – long distance – MSF estimated charges to use SITSD long distance provider, per State contract
- \$17,988 – storage, server, and application hosting
- \$10,212 – e-mail
- \$325 – voice services

➤ **Supplies and Materials**

- ❖ **Educational Supplies** - \$40,010 – this is an increase of \$11,293 or 39.3% from the FY16 Budget of \$28,717. The budget provides for purchase of materials used in courses for MSF staff training and safety workshops.
- ❖ **Gasoline** - \$35,741 – this is a decrease of \$4,589 or 11.4% from the FY16 Budget of \$40,330. The budget estimate was based on \$2.49 per gallon (MSF is exempt from gas tax) for gasoline, an estimate of 26.9 miles per gallon on average, and an estimate of 14,354 gallons of gasoline being purchased.
- ❖ **Minor Office Equipment** - \$45,287 - this is an increase of \$3,857 or 9.3% from the FY16 Budget of \$41,429. The CY16 Budget includes:
 - \$19,515 – replacement of 30 office chairs
 - \$25,772 – for ergonomic sit/stand workstations, headset replacements, monitors, paper cutter, scanner, keyboards, and other items
- ❖ **Computer Hardware** – \$133,361 – this is an increase of \$3,667 or 2.8% from the FY16 Budget of \$129,694. The CY16 Budget includes:
 - \$118,390 – PC and printer replacement – replacement cycle plans for 20% of MSF desktop computers and printers to be replaced annually
 - \$14,971 – all other minor hardware which includes: computers and phone equipment for new staff; UPS capacitor replacements; and, mobile ‘Hot Spots’

- ❖ **Minor Software** - \$99,072 – this is an increase of \$38,400 or 63.3% from the FY16 Budget of \$60,672. Software to be purchased in CY16 includes:
 - \$90,256 – for Information Technology software including:
 - ✓ \$37,048 – IBM Messaging Queue (MQ) Series licensing to enhance system-to-system communication and gain job completion efficiency.
 - ✓ \$27,000 – Oracle database licensing for disaster recovery environment at State of Montana Data Center
 - ✓ \$6,000 – WildPackets Enterprise licenses to replace Cisco Network Analysis module
 - ✓ \$5,500 – ShoreTel development and quality assurance environment licenses
 - ✓ \$5,000 – SolarWinds application monitoring
 - ✓ \$5,000 – Websense system to filter and block high risk websites
 - ✓ \$4,708 – Windows Server license
 - \$4,941 – all other software primarily for new regulatory staff: Microsoft Office, FileNet, phone extension and mailbox, ShoreWare Professional Call Manager, and DragonSpeak
 - \$3,875 – NAIC instructions and The Complete Package software used to complete financial and Risk Based Capital filings as required under insurance regulation.

- ❖ **General Office Supplies** - \$176,575 – this is an increase of \$10,798 or 6.5% from the FY16 Budget of \$165,778. This budget includes paper, toner, and a wide variety of minor office supplies.

- ❖ **All Other Supplies and Materials Categories** - \$45,973 - includes budget for:
 - \$24,325 – promotional aids to enhance safety and other program awareness
 - \$16,828 – books and reference materials – primarily specialized desk manuals
 - \$2,800 – safety supplies, equipment and clothing
 - \$2,020 – diesel fuel for back-up generator

- **Communications**
 - ❖ **Postage** - \$449,654 – this is an increase of \$8,250 or 1.9% from the FY16 Budget of \$441,404. The budget includes:
 - \$288,000 - print mail service fees
 - \$156,000 - meter postage
 - \$5,654 – all other – meter scale updates, PO Box rental, field staff postage, and stamps

 - ❖ **Advertising** - \$610,877 – this is an increase of \$85,539 or 16.3% from the FY16 Budget of \$525,338. This is the expense to produce media and purchase media time and placement. The budget includes:
 - \$267,000 – Purchase TV/cable air time for three advertising campaigns
 - ✓ \$180,000 – Champions (February & November)
 - ✓ \$87,000 – No Jack (May)
 - \$266,368 – Purchase of print, radio, and website banner advertisement
 - ✓ \$150,160 - Champions

- ✓ \$80,000 – No Jack Young Workers campaign
 - ✓ \$7,000 – Back Safety Campaign
 - ✓ \$29,208 – E-Newsletter Blast, Yellow Pages, Montana Building Association Magazine, Montana Contractors Directory, and numerous other organizational events
 - \$48,799 – Change Management Project – provides for stakeholder communication regarding MSF changes resulting from SB123
 - \$27,000 – WorkSafe Champions project – Graduate recognition and newspaper publication
 - \$1,710 – MSF Career Open House advertising
- ❖ **All Non-SITSD Telephone Categories** - \$99,592 – this is an overall decrease of \$1,716 or 1.7% from the FY16 Budget of \$101,308. This expense covers cell phones, tablets, long-distance, and ‘800’ line services. The budget is based on prior usage and rates expected in CY16.
- **Travel**
- ❖ \$331,420 is the total MSF travel budget – this is an increase of \$34,103 or 11.5% from the FY16 Budget of \$297,317. The CY16 Budget supports:
 - \$119,773 – All MSF staff in-state travel for business and training needs
 - \$188,860 – All MSF staff out-of-state travel for business and training needs
 - \$22,787 – Travel for Board members and agents - non-employees travel
- **Rent**
- ❖ \$371,658 – this is an increase of \$9,384 or 2.6% from the FY16 Budget of \$362,274. MSF has three areas of rent expense:
 - \$298,200 – annual parking fees for 350 spaces – this is budgeted based on \$71 per month per space. This does not include the offset for any potential revenue generated for parking fees charged to non-MSF users.
 - \$56,898 – rent for five field offices located in Billings, Great Falls, Missoula, Kalispell, and Butte and is a 0.7% increase from the FY16 Budget of \$56,507.
 - \$16,560 – photocopy equipment rental agreement including field offices and is a 3.7% increase from the FY16 Budget of \$15,967.
- **Utilities**
- ❖ \$234,000 – this is an increase of \$10,000 or 4.5% from the FY16 Budget of \$224,000. This is for electricity, natural gas, water and sewage services for the building. The increase is to fund utility costs that may occur with additional use due to weather fluctuations.
- **Repairs and Maintenance**
- ❖ \$1,324,711 – this is a decrease of \$51,645 or 3.8% from the FY16 Budget of \$1,376,356.
 - \$1,079,887 - IT maintenance agreements for application software and hardware such as servers, routers and associated peripherals. FY16 Budget is \$1,141,379.

- \$168,863 - Facilities maintenance agreements including: heating, ventilation and air conditioning (HVAC); security; landscaping; window cleaning; elevator; fire system; ballast replacements for lighting; shredding services; roof access update; carpet cleaning; vehicle and boiler inspections and maintenance; and other items. FY16 Budget is \$82,020.
- \$40,797 - Document Processing budget for maintenance on scanning and mail room equipment.
- \$21,752 – repairs and maintenance on MSF owned and operated fleet of 24 vehicles. Expenses include tires, oil changes and other regular maintenance.
- \$10,000 – replacement parts for monitors, computers, hard drives, memory, mice, keyboards, and printer maintenance kits. All computers and printers purchased with the move into the new building went off warranty in FY15.
- \$3,412 – field office printer maintenance, mail prepping table and scanner workstation tabletop

➤ **Other Expenses**

- ❖ **Dues** - \$61,282 – this is a slight increase from the FY16 Budget of \$60,729. This expense is for membership dues with professional business organizations such as the Montana Chamber of Commerce (\$36,370) and other local chambers, Montana Society of CPAs, American Association of State Compensation Insurance Funds, and the Society for Human Resource Management.
- ❖ **Subscriptions** - \$409,662 – this is an increase of \$8,483 or 2.1% from the FY16 Budget of \$401,179. This includes budget of:
 - \$150,000 – Clearwater Analytics for regulatory investment reporting
 - \$82,146 – Host Analytics budget and financial applications
 - \$38,400 - On-line access to Human Resource Management System (SilkRoad) for training, performance management, recruitment and on-boarding
 - \$28,900 - Linked In recruitment tool for resume searching
 - \$18,000 - Career Builder Network Recruiting
 - \$17,000 - SNL Financial for insurance and financial industry data
 - \$10,000 – Glass Door recruitment tool and professional social media platform
 - \$7,000 – Lexis Nexis
 - \$7,000 – NAIC Automated Valuation System (AVS) that provides investment data to Clearwater Analytics for Schedule D reporting
 - \$51,216 - a variety of desk manuals, career specific periodicals, medical and occupational disability guides and on-line access for reference materials.
- ❖ **Taxes and Assessments** - \$105,130 – this is a decrease of \$8,163 or 7.2% from the FY16 Budget of \$113,293. This budget is comprised of:
 - \$98,700 - OSC premium taxes paid for insuring MSF policyholder’s operations in other states where workers’ compensation premium taxes are assessed. For FY16 the OSC premiums are estimated to be \$2,350,000 and the taxes and surcharges are estimated to be 4.2%.
 - \$3,430 – Reinsurance excise tax
 - \$3,000 - Property assessment and annual special city tax on the building

- ❖ **Education and Training and Professional Development Center** - \$238,269 – this is an increase of \$3,998 or 1.7% from the FY16 Budget of \$234,271. Training is needed to ensure MSF employees are knowledgeable in best practices associated with supervision, claim management, safety management and underwriting of risk. Besides the numerous minimal cost training events budgeted, the major items are:
 - \$38,600 - is for the continuing training credits of MSF staff as required for licensing under insurance regulation.
 - \$20,000 – Cisco Nexus Switch training for four staff as MSF datacenter will be changing over to new network switches
 - \$17,375 – Executive and Leadership development training for candidates

- ❖ **Rewards** - \$44,013 – this is a minor increase from the FY16 Budget of \$43,784. This is for employee-of-the-month/year awards, employee referral incentives, certification awards, IDEA awards, and retirement recognition.

- ❖ **Tuition Reimbursement** – \$29,538 – this is a minor increase from the FY16 Budget of \$29,338. For CY16, the maximum amount of annual tuition reimbursement per employee is \$4,000. Nine employees are expected to participate in the tuition reimbursement program in FY16. Reimbursements are based on MSF’s pre-approval, successful course completion, and actual cost.

- ❖ **Meetings and Conference Cost** - \$158,856 – this is an increase of \$13,569 or 9.3% from the FY16 Budget of \$145,287. The budget provides for meeting rooms and equipment for MSF-sponsored meetings within our building and at locations throughout the state.
 - Safety management workshops in locations throughout Montana
 - Agent training workshops
 - Customer service representative conference
 - Marketing events
 - Medical Conference

- ❖ **Recruitment Expenses** - \$200,000 – this is the same as budgeted for the FY16 Budget and is based on expected job candidate expenses and relocation expenses of thirteen eligible new employees.

Each recruiting action has the potential to require different levels of expense to complete the recruitment process. The budget is based on prior year expenditures for individual recruiting actions and expanding utilization of less costly web-based recruiting services in comparison to recruiting agencies. Recruitment expenses are comprised of the following accounts:

- Relocation – Taxable – \$19,613
- Relocation – Non-Taxable – \$74,187
- Recruiting – Non-Advertising - \$1,200
- Job Candidate Expense – recruitment services and candidate travel expenses – \$105,000

- ❖ **Licenses** - \$13,173 – this is a decrease of \$3,100 or 19.0% from the FY16 Budget of \$16,273. This budget funds professional license expenses of attorneys, certified public accountants, claim examiners, pharmacy technicians, registered nurses and others.
- ❖ **Charitable Contributions / Scholarships** - \$51,300 – this is the same as the FY16 Budget. Charitable Contributions are budgeted as follows:
 - \$27,300 – Scholarship program – Scholarships of up to \$1,000 per semester are provided to dependents or spouses of MSF-insured employees who died in work-related accidents. MSF estimates 13 scholarships (2 semesters each) will be awarded in CY16 for a total budget of \$26,000. Each scholarship is estimated to be \$2,000 with an additional \$100 administrative fee each. The budget is based on prior year participation.
 - \$13,000 - ACE (Assisting Charitable Endeavors) Grants program - The grants are awarded by a committee of MSF employees based on applications submitted by ‘not-for-profit’ organizations throughout the state.
 - \$11,000 – Support of Leadership Montana and ‘Festival of Trees’ events
- ❖ **Fee Collection Expense** - \$51,672 – this is an increase of \$4,330 or 9.1% from the FY16 Budget of \$47,342. MSF contracts with two collection agencies and uses the services of the Montana Department of Revenue. The fees vary based on success with collections, amount sent to collection, and whether litigation is involved. There has been increased use of these services recently.
- ❖ **State Wide Indirect Cost** - \$51,668 – this is the same as the FY16 Budget. The State Wide Indirect Cost (also known as the State Wide Cost Application Plan or SWCAP) is an allocation determined by the Office of Budget and Program Planning as a means to allocate costs incurred by agencies whose functions support all state entities.

d. Equipment and Intangible Assets

The total CY16 Budget for all equipment is \$206,056. This is a decrease of \$131,209 or 38.9% from the FY16 Budget of \$337,265.

- **Multi-User Computers** - \$162,276
 - ❖ \$61,576 – purchase of hardware to begin changing data center network switches to Cisco’s Nexus platform replacing Cisco 3750 network switches that will no longer be supported by Cisco
 - ❖ \$57,700 – purchase of Cisco Unified Computing System as partial replacement of the IBM Blade Center system which has been in use since 2010 and will reach end of production in the 2nd quarter of 2016
 - ❖ \$14,000 – WildPackets Enterprise servers to replace the Cisco Network Analysis module
 - ❖ \$9,000 – purchase IBM Input / Output (I/O) drawer with Small Computer Systems Interface (SCSI) to migrate our FileNet Optical Storage and Retrieval (OSAR) to Advanced Interactive eXecution (AIX) System

- **Autos & Trucks** - \$43,780 – two sedans to replace two high mileage vehicles as recommended by the Fleet Manager. Vehicles being replaced have reached the mileage specified in MSF’s Fleet Management Policy as the replacement threshold. MSF will replace the sedans at a cost of \$21,890 each.

e. Allocated Loss Adjustment Expense (ALAE)

ALAE are costs directly associated with managing a specific claim, such as independent medical examination to analyze a prescribed treatment of an injured employee or medical bill review fees. \$3,826,156 is budgeted for ALAE and is an increase of \$401,517 or 11.7% from the FY16 Budget of \$3,424,640.

- \$1,411,064 – Medical Invoice Processing - The budget is an increase of \$181,446 or 14.8% from the FY16 Budget of \$1,229,618. Medical invoice processing is budgeted based on estimated medical benefits to be paid, invoices to be processed, and the applicable contracted cost per bill. Charges are for bill review, nurse review, check issuance and preferred provider organization (PPO) savings fees.
- \$953,375 - Investigations – This is an increase of \$160,470 or 20.2% from the FY16 Budget of \$792,905 based on utilization of services. The private investigation activity is budgeted at \$620,654. The Department of Justice (DoJ) Fraud investigation and prosecution agreement budget for claim and provider investigations is \$332,721. The total DoJ agreement budget is \$370,164 and \$37,433 is budgeted for policyholder fraud as an Operating Expense.
- \$861,121 – All legal expense categories - this is a decrease of \$50,284 or 5.5% from the FY16 Budget \$911,405.
 - ❖ \$684,471 – State Fund legal contract for services of external counsel and expense of the Medicare Set Asides which have significantly increased during the last twelve month as settlement activity increased
 - ❖ \$83,858 – Employer’s Liability Insured Defense Cost
 - ❖ \$71,559 – Legal Fee Claimant Attorney and associated claimant attorneys costs
 - ❖ \$21,233 – document duplication (photocopy and electronic copy) expense
- \$413,450 – Medical Consultants – this is an increase of \$96,555 or 30.5% from the FY16 Budget of \$316,895. The budget increase is due to expectations of greater reliance on medical consultants to offset the staff expertise and knowledge lost to retirements. The budget enables staff to consult with medical professionals to provide expertise when managing complex medical issues.
- \$187,147 – Contract Examiners - this is an increase of \$13,330 or 7.7% from the FY16 Budget of \$173,816.
 - ❖ \$136,300 – Examiners associated with Other States Coverage claims
 - ❖ \$50,847 – Contract external claims examiners to manage MSF in-house claims and to complete life expectancy reviews

VI. Annual Projects Included in the CY16 Budget

The CY16 Budget includes \$1,339,819 for Annual Business Plan (ABP) and Enterprise

Strategy and Project Management (ESPM) projects. Specific expenditures for the projects have been previously explained in different areas in this report. The following provides a summary of the total budget for each project.

<u>Project Type</u>	<u>Project Description</u>	<u>CY16 Project Expenditures</u>
ABP	Regulation (SB123)	\$389,680
ABP	Policy & Billing System Replacement	333,000
ABP	Calendar Year Conversion (SB123)	105,000
ABP	Change Management & Communication (SB123)	82,399
ABP	Rates and Rate Filing (SB123)	<u>26,500</u>
	Subtotal	\$936,579
ESPM	Work Safe Champions	\$204,379
ESPM	Succession Planning	<u>198,861</u>
	Subtotal	\$403,240
	<u>Total ABP and ESPM Projects</u>	<u>\$1,339,819</u>

VII. Miscellaneous

a. Old Fund Administration

The CY16 budget includes the expenditures necessary to administer and manage Old Fund claims. These are claims for injuries that occurred prior to July 1, 1990. By law, MSF is reimbursed by the state General Fund up to \$1.25 million a year for Old Fund administration cost. We are estimating that only \$743,112 will be needed for CY16.

b. Cost Not Included in the Approved Budget

The CY16 budget includes all known and expected costs for the fiscal period January 1 through December 31, 2016. The budget does not include:

- Merit salary adjustment for the President - this is separate Board actions that may be taken if the Board deems appropriate;
- Court decisions which may significantly and adversely impact the State Fund. Currently, Oracle and the State of Montana are negotiating a licensing compliance issue. Resolution of this issue may fiscally impact MSF by as much as \$150,000.

c. Premium Estimate and Budget Amendments

The CY16 budget is prefaced on MSF's net earned premium projection of \$162.0 million. Should premium significantly increase or decrease from the estimate, appropriate budget increases or decreases may be presented to the Board for further review.

Throughout the year, management will provide quarterly budget variance reports to keep the Board informed of the status of the projected expenditures as compared to the approved budget. Management could request the Board's approval of an amendment to the annual budget if there were significant unanticipated increases in benefit payments or operational costs.