



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT

Montana State Fund

For the Two Fiscal Years Ended June 30, 2009

DECEMBER 2009

08-05B

REPORT SUMMARY

Montana State Fund (MSF) is a self-supporting, competitive state fund, and functions as the guaranteed market worker's compensation insurance for employers in Montana. MSF separately accounts for workers' compensation claims incurred on or after July 1, 1990, (commonly referred to as New Fund) and claims incurred prior to July 1, 1990 (commonly referred to as Old Fund). On June 30, 2009, MSF insured 26,398 active policies. Benefits and Claims payments in Fiscal Year 2009 were approximately \$185 million in the New Fund and \$8.3 million in the Old Fund. New Fund and Old Fund assets were approximately \$1.3 billion and \$22 million, respectively, on June 30, 2009.

Context

MSF is a nonprofit, independent public corporation that provides Montana employers with an option for workers' compensation and occupational disease insurance, and acts as the guaranteed market. MSF is governed by a seven-member board of directors appointed by the governor.

MSF contracts with Towers Perrin, an actuarial firm that prepares an actuarial study used to estimate liabilities and the ultimate cost of settling claims reported but not settled, and claims incurred but not reported. Towers Perrin provides a range of potential costs associated with claims, including future costs of the claims. MSF management selects their best estimate within the range, and final costs included in the financial data are subject to board approval.

As part of the audit, we separately reviewed New Fund and Old Fund activities.

New Fund experienced operating losses in both fiscal years 2009 and 2008, which are partially attributed to a decreasing client base and the economic decline of the state that resulted in fewer payroll premium dollars being reported by policyholders.

At the end of fiscal year 2009, Old Fund is projected to have cash and investments sufficient to pay claims through fiscal year 2010, but insufficient assets to pay claims in subsequent fiscal years. Based on the Towers Perrin actuarial study, Old Fund liabilities for claims, both current and non-current, were estimated to be \$65 million at June 30, 2009. This is substantially more than the fund's \$22 million in assets as of the same date. Under current law, the state's General Fund must pay Old Fund claim costs when assets held by the Old Fund are not sufficient to do so.

Results

There are no recommendations to MSF in the current audit report.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the website at <http://leg.mt.gov/audit>. Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.