

PERFORMANCE AUDIT
Workers' Compensation Insurance
Premium Review
Montana State Fund

JANUARY 2014

13P-05

REPORT SUMMARY

Montana State Fund issued approximately 26,000 policies which totaled \$158.5 million in final premiums for policy year 2013; Montana State Fund could strengthen its controls and clearly document policyholders' premium calculations and premium returns to help ensure consistency, accuracy, and equity among policyholders.

Context

Montana State Fund (MSF) is a nonprofit, independent public corporation that is the guaranteed market for workers' compensation insurance. The MSF Board of Directors (board), comprised of seven members appointed by the Governor, is responsible for oversight of MSF. In addition to oversight, the board reviews and approves factors included in the premium calculations, premium discounts, and premium returns.

In policy year 2013, MSF issued over 26,000 policies totaling \$158.5 million in final premiums. Small businesses are the majority of MSF's policyholders; however, medium and large businesses make up the majority of total premium dollars.

In 2011, the Montana Legislature passed House Bill 334 (HB 334), which made several significant changes to workers' compensation premiums and claims management. This bill was expected to reduce workers' compensation premiums paid by employers and reduce the cost of claims.

Results

Audit work examined the factors included in the premium calculations, discounts, and premium returns as well as the overall effects of HB 334 on policyholder premiums and incentive programs. While this work determined MSF generally calculates policyholders premiums and premium returns correctly, there were some exceptions. Strengthening controls and clearly documenting decisions regarding the premium calculations and returns will ensure consistency, accuracy, and equity.

Manual premium is the premium amount calculated before any discounts and/or adjustments are applied to a policy. Audit work reviewed the factors included in MSF's manual premium calculation and determined MSF correctly applies many of the factors approved by the board. However, controls could be strengthened over rate tier assignments to help ensure equitable treatment of policyholders.

The manual premium can be modified to recognize circumstances unique to individual policyholders. Based on audit work, we conclude that many of the modifiers were applied accurately to policies. This includes

employers liability, medical deductible, and volume discounts. We were also able to conclude MSF accurately calculates the modified standard premium based on factors input on the policy holder system. Recommendations include establishing additional controls over applying the experience modifier to policyholders, strengthening controls over the construction industry credit application process, and strengthening controls over scheduled rating.

MSF operates several computer systems to calculate premium amounts, underwrite policies, and analyze policyholder data. Audit work identified needed improvements in this area including strengthening controls over the computer program used to underwrite policies to better ensure scheduled rating factors are properly documented.

MSF has programs that offer premium returns to qualified policyholders if losses are managed and kept low. Premiums can be returned to policyholders through dividends, retrospectively rated plans, and group plans. While audit work determined MSF issued and applied dividends accurately, MSF could strengthen policies and procedures over retrospectively rated and group business plans.

Premium amounts paid by policyholders were expected to decrease with the passage of HB 334, which was effective July 1, 2012. Audit work reviewed effects of this change on premiums paid by policyholders and incentive programs for private insurance agents and MSF employees. Audit work determined MSF implemented HB 334 changes related to premium calculations as approved by the board and made reasonable adjustments to its incentive programs following the implementation of HB 334 for factors relating to earned premium.

Recommendation Concurrence	
Concur	7
Partially Concur	1
Do Not Concur	0
Source: Agency audit response included in final report.	

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