



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: November 30, 2011

TO: Legislative Finance Committee Members

FROM: Kris Wilkinson, Fiscal Analyst II

RE: Effects of the Montana Asbestos Victims Settlement on the State Property/Casualty Insurance Fund

The purpose of this memorandum is to outline the estimated effects of the settlement payment of \$26.8 million for Montana asbestos victims had on the State Property/Casualty Insurance Fund (fund).

The state of Montana self insures for risks including automobile, aviation, general liability, and property. State agencies and the Montana University System pay premiums to the Risk Management and Tort Defense Division (division). Premium amounts are determined based on the predicted costs of losses the state may incur as a result of claims and the costs for operating the division. Insurance premiums are deposited into the State Property/Casualty Insurance Fund (fund). Payments for claims and the operational expenses incurred by the division are expended from the fund.

In addition, reserves for each insurance risk are maintained within the fund. Reserves are used for higher than anticipated claims costs or loss adjustment expenses and for incurred but not yet reported claims. Figure 1 shows the reserves for each line of insurance risk.

Figure 1

Department of Administration		
State Property/Casualty Insurance Reserves		
	FYE 2011	Estimated Prior to Settlement FY 2012
Reserves		
Auto	\$1,047,484	\$1,216,765
Aviation	(36,337)	(28,235)
General Liability	9,972,471	6,748,160
Property	(1,090,698)	730,939
Unallocated	<u>2,791,572</u>	<u>0</u>
Total Reserves	<u>\$12,684,492</u>	<u>\$8,667,629</u>

The division maintains financial data by insurance risk including net premiums earned, losses incurred, related operational costs, and reserves. However, one fund is used for all four insurance risks. Figure 2 below shows the projected changes in revenues, expenses, and reserves for FY 2011, 2012, and 2013. It should be noted that FY 2011 financial information is presented as recorded on the state's accounting records, FY 2012 year to date is also from the state's accounting records as of 10/31/2011. The FY 2012 estimated remaining was established by the division and FY 2013 estimated is developed from budgetary information used by the division to establish rates approved by the legislature for the various insurance risks.

Figure 2

Department of Administration State Property/Casualty Insurance Fund Projected Changes in Revenue, Expenses, and Reserves				
	FY 2011	FY 2012 Year to Date	FY 2012 Estimated Remaining	FY 2013 Estimated
Revenues	\$16,310,541	\$11,820,190	\$93,289	\$12,423,057
Expenditures	<u>11,863,133</u>	<u>34,487,929</u>	<u>7,107,404</u>	<u>11,361,136</u>
Net Income (Loss)	4,447,408	(22,667,740)	(7,014,115)	1,061,921
Assets				
Prior Year Assets	<u>27,275,099</u>	<u>32,058,540</u>	<u>9,390,800</u>	<u>2,376,685</u>
Total Assets	31,722,507	9,390,800	2,376,685	3,438,606
Total Liabilities	19,038,015	0	20,875,119	21,583,005
Reserves(Unfunded Liability)	<u>\$12,684,492</u>	<u>\$9,390,800</u>	<u>(\$18,498,434)</u>	<u>(\$18,144,399)</u>
Definitions				
Revenues - State agency premiums, investment income, and insurance recoveries				
Expenditures - Personal services, operating expenses, claims, claims administration, in FY 2011 also includes accounting adjustment for estimated claims liabilities				
Total Assets - Cash available to pay operational and claim costs in any one year made up of prior year assets (cash) and the net income or loss for the current FY				
Liabilities - Estimated payment of total claims associated with the fund				
Reserves - Available cash for unanticipated losses above estimated claims liabilities				
Unfunded liability - Funding needed if all claims come due in the same year				

A review of the projections of the fund shows the payment of the settlement has the following effects:

- Eliminates estimated reserves for all insurance risks for FY 2012 as shown in Figure 1
- Reduces assets in the account to an estimated \$2.4 million at the end of fiscal year 2012, assuming that unanticipated losses above the average do not occur. The assets at the beginning of the fiscal year were \$32.0 million

- Creates an unfunded liability within the account estimated to be (\$18.5) million at FYE 2012. The Department of Administration agrees that there is an unfunded liability. However, DOA emphasizes that actuarial estimates of claims liabilities are based upon the assumption that all claims are paid out at the same time. According to DOA, only a portion of the state's estimated liabilities mature and are paid each year

If large losses occur in the current fiscal year that are outside the capacity of the state self-insurance fund to absorb within the cash balance, the division can request a general fund loan pledging the premiums to be received in FY 2013 to pay off the loan within the first few months of the fiscal year. If the premiums in FY 2013 are not sufficient, the division may request another general fund loan at the end of the year when it is apparent that the premiums are not sufficient to pay claims losses and operating costs. By the end of FY 2013 the legislature will have met and may have made decisions concerning the fund and the premiums to be charged to the various state agencies using the fund.

The decisions that the 2013 legislature will face include:

- How does the legislature wish to address the unfunded liability within the fund? Premium increases, the length of time to reduce the unfunded liability, and the potential for other financing mechanisms will be considered as part of the discussion of the premium rates charged to state agencies that are approved within the general appropriations act
- How does the legislature wish to address reserves recommended by the actuary for DOA for the four types of insurance risks self funded within the account? Should a component of the premiums include meeting this reserve be one of the considerations the legislature examines to address the lack of reserves