



# FISCAL YEAR 2010 ANNUAL BUDGET REQUEST

Montana's economic situation and workers' compensation environment have changed significantly in the past year. Montana State Fund's future success is dependent upon our ability to adapt to these changes and to adjust operational strategies in an appropriate manner. We must continue to be responsive to the needs of Montana businesses we serve and utilize the limited resources available to us to build upon past successes and maintain a strong, viable and stable workers' compensation market for Montana businesses.

The fiscal year 2010 (FY10) budget request provides the funding to enable Montana State Fund (MSF) to continue our role as the leader in the Montana workers' compensation industry, implement our business plan initiatives, and efficiently and effectively support business operations. The FY10 budget will provide the financial resources to support the FY10 Strategic Business Plan (SBP).

The FY10 SBP encompasses three enterprise-wide initiatives:

- 1) **Workforce:** recruitment, development and retention
- 2) **Customer Service:** constituency education and safety culture
- 3) **Infrastructure:** tools to enable our employees to provide service to our customers

The FY10 SBP provides additional detail on each initiative and the expected benefits to customers and to MSF's operations.

## 1. EXECUTIVE SUMMARY – STATUTORY OPERATING EXPENSE AND RATIO

The FY10 budget presents results in a statutory operating expense ratio attained through responsible management of the needs of MSF policyholders, injured employees and Montana stakeholders. Based on the FY10 annual budget request and estimated FY10 net earned premium, the estimated MSF statutory operating expense ratio is 25.44 percent.

The following displays net earned premiums, budget/projection/actuals, and the statutory operating expense ratios from FY07 forward to the FY10 estimates.

	FY10 Budget	FY09 Projection	FY09 Budget	FY08 Actual	FY07 Actual
Net Earned Premiums (000)	\$ 186,520	\$ 202,475	\$ 211,454	\$ 230,965	\$ 238,203
Operational Expenditures (000)	\$ 56,357	\$ 52,623	\$ 55,715	\$ 55,524	\$ 50,177
Benefit Payments (000)	\$ 133,441	\$ 131,172	\$ 142,795	\$ 135,124	\$ 126,244
Total Budget/Expenditures (000)	\$ 189,799	\$ 183,795	\$ 198,510	\$ 190,648	\$ 176,422
Statutory Operating Expense Ratio	25.44 %	24.95 %	23.26 %	19.76 %	25.06 %

The benefit payments increase of \$2.27 million, or 1.7 percent, is primarily driven by the addition of a new accident year's claim payments to estimates of fiscal year expenditures on existing claim liabilities. The benefit payments budget does not include contingency funds related to court decisions.



# FISCAL YEAR 2010 ANNUAL BUDGET REQUEST

The operational expenditures increase of \$3.7 million, or 7.1 percent, from the FY09 projection is primarily driven by the building project initiative. The FY10 budget includes \$5.85 million for the building project. These are costs associated with IT equipment, furnishings and the cost of moving into the facility. Excluding the budget for the building project, the operational expenditures budget is \$50.5 million, a decrease from the FY09 annual projection of \$2.1 million, or 4.0 percent.

The *operational expenditures* of \$56,357,284, noted on the previous page, are for the fiscal year's budgeted expenditures and are different from the MSF statutory operating expense of \$47,448,553 used in the MSF statutory operating expense ratio. The operating expense used in the statutory operating expense ratio includes budgeted and non-budgeted MSF (New Fund) operational expenditures (no benefit payments). The statutory operating expense ratio includes Generally Accepted Accounting Principles (GAAP) adjustments for full accrual accounting.

The statutory operating expense is \$47,448,553. This is based on:

- Total operational expenditures budget of \$56,357,284
- less Old Fund operating expense of \$75,000
- less Old Fund Department of Labor assessments \$187,230
- less Old Fund allocated loss adjustment expense \$339,758
- less capitalized MSF equipment and intangible assets of \$4,673,639
- plus other statutory expenses of \$2,120,817
  - Old Fund administrative expense allocation
  - Investment allocation
  - Reserve changes – loss adjustment expense (LAE)
- plus GAAP accounting (full accrual) adjustments of \$4,625,215
  - Capitalization of equipment and intangible assets
  - Depreciation and amortization expenses
  - Compensated absences expense
  - Other post employment benefits (OPEB)
- less contingent commission – reinsurance program of \$10,379,135

The statutory operating expense is divided by the FY10 estimated net earned premium.

- Net earned premium budget estimate of \$186,519,814. This is based on rates remaining unchanged for FY10 from FY09, economic factors impacting MSF policyholders, and competition in the Montana workers' compensation industry impacting retention and new business written.

The proposed FY10 Budget anticipates a 25.44 percent operating expense ratio. The FY09 projected operating expense ratio is 24.95 percent. The FY09 expense ratio approved with the budget was 23.26 percent. The FY10 statutory operating expense increase from the projected FY09 statutory operating expense ratio is primarily due to the estimated reduction in net earned premium.

The following table compares the MSF statutory operating expense ratio with the property and casualty insurance industry and other state funds based on 2007 data from [2008 A. M. Best's Aggregates & Averages](#).

<b>A.M. Best's 2007</b> Total U.S. P&C Industry (964 P&C Organizations)  <b>39.12%</b>	<b>A.M. Best's 2007</b> Work Comp Composite (89 Organizations)  <b>39.26%</b>	<b>A.M. Best's 2007</b> Total U.S. P&C State Funds (19 Organizations)  <b>37.25%</b>	<b>MSF</b> <b>FY07</b>  <b>25.06%</b>	<b>MSF</b> <b>FY08</b>  <b>19.76%</b>	<b>MSF</b> <b>Projected</b> <b>FY09</b>  <b>24.95%</b>	<b>MSF</b> <b>Budget</b> <b>FY10</b>  <b>25.44%</b>
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# FISCAL YEAR 2010 ANNUAL BUDGET REQUEST

## 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 MSF policyholders incur
- Operating expenses

For FY10 MSF is projecting net earned premium of \$186,519,814. The estimate includes:

- 28,980 policies written in FY10
- Manual rate change for FY10 of 0.0 percent
- Wage growth of 0.0 percent
- Retention rate at 88 percent

MSF estimates FY10 investment income of \$46,730,958. This is based on a weighted average net return on investments of 5.01 percent.

The following table displays the net earned premium estimated for FY10, FY09 projection, the FY09 board-approved premium estimate, and, actual FY08 premium.

	<b>FY10 Budget Estimate</b>	<b>FY09 Projection</b>	<b>FY09 Budget Estimate</b>	<b>FY08 Actual</b>
Net Earned Premium	\$186,519,814	\$202,475,223	\$211,454,351	\$230,965,307

## III. TOTAL EXPENDITURES

The total budget request for FY10 is \$189,798,606. The FY10 budget is separated into five primary expenditure categories and displayed below with comparative expenditures from the 3rd quarter projection of FY09 and the approved FY09 budget.

<b>Categories</b>	<b>FY10 Budget</b>	<b>FY09 Projection</b>	<b>FY09 Budget</b>
MSF – Benefits and Claim Payments	\$ 122,461,770	\$ 120,042,538	\$ 131,554,589
Old Fund – Benefits and Claim Payments	10,979,552	11,129,630	11,240,631
Allocated Loss Adjustment Expenditures	4,573,637	4,558,412	4,491,251
Unallocated Loss Adjustment Expenditures	18,134,633	15,981,407	18,183,922
Underwriting Expenditures	33,649,014	32,082,974	33,039,736
<b>Total Expenditures</b>	<b>\$ 189,798,606</b>	<b>\$ 183,794,961</b>	<b>\$ 198,510,130</b>



# FISCAL YEAR 2010 ANNUAL BUDGET REQUEST

## IV. BENEFIT PAYMENTS

The FY10 total MSF budget includes funding of \$133,441,322 for benefit payments to injured employees. Benefit payments comprise 70.3 percent of the total FY10 MSF budget.

FY10 benefit payments are separated by New Fund and Old Fund and compared to the FY09 projected and FY08 actual expenditure levels below.

Benefit Payments (000s)	FY10 Budget	FY09 Projection	FY08 Actual	\$ Change FY10 from FY09 Proj.	% Change FY10 from FY09 Proj.
New Fund	\$ 122,462	\$ 120,043	\$ 124,140	\$ 2,419	2.0%
Old Fund	10,980	11,130	10,984	(150)	-1.3%
<b>Total</b>	<b>\$ 133,441</b>	<b>\$ 131,172</b>	<b>\$ 135,124</b>	<b>\$ 2,269</b>	<b>1.7%</b>

## New Fund Benefit Payments

\$122,461,770 is budgeted in the New Fund for payment of benefits to individuals, in compliance with the state law governing claim payments.

The following table reflects the budgeted FY10 New Fund benefit payments, projected FY09 benefit payments, and eight years of actual payments.

Fiscal Year	Benefit Payments	Percent Change from Prior Year
FY10 Budget	\$ 122,461,770	2.0%
FY09 Projection	120,042,538	-3.3%
FY08 Actual	124,139,778	7.2%
FY07 Actual	115,849,169	5.1%
FY06 Actual	110,237,048	11.9%
FY05 Actual	98,479,963	-1.8%
FY04 Actual	100,271,014	20.3%
FY03 Actual	83,319,729	22.7%
FY02 Actual	67,899,056	9.4%
FY01 Actual	62,068,055	

- For New Fund accident years 1991 – 2010, benefit payments to be expended in FY10 are budgeted to be \$121,536,241 (no Other States Coverage). This is based on:
  - Actual “accident year” benefit payments for each fiscal year from 1991 through April 30, 2009
  - Benefits paid for each accident year 1991 – 2009 in FY08 and FY09 are used to calculate the accident year's budgeted payments for FY10
  - Based on an FY10 estimated gross earned premium of \$204.3 million, accident year 2010 benefit payments on insured losses are expected to be 14.25 percent of FY10 gross earned premium
  - The FY10 New Fund accident years (excluding OSC) indemnity and medical benefit payment are:
    - Indemnity – \$49.1 million or 40.4 percent of total medical and indemnity
    - Medical – \$72.4 million or 59.6 percent of total medical and indemnity



# FISCAL YEAR 2010 ANNUAL BUDGET REQUEST

- Other States Coverage (OSC) program benefits are estimated to be \$925,529. This includes \$292,272 for indemnity payments and \$633,257 for medical.
- The FY10 Budget does not include funding for benefit payments associated with the 2006 Montana Supreme Court decision in Stavenjord v. State Compensation Insurance Fund. There are issues still pending in this case and the significant portion of the benefit payments will not be made until the issues are resolved. If these issues are resolved in FY10 and benefit payments associated with Stavenjord begin, MSF staff will provide a recommendation to the Board of Directors regarding a budget amendment for these payments.

## Old Fund Benefit Payments

MSF budgeted \$10,979,552 for benefits and claim payments in the Old Fund. The Old Fund is in a claim run-off situation. No new claims are impacting the Old Fund. When estimating FY10 Old Fund benefit payments, the level of payment is conservatively weighted to ensure adequate funds are available for payment of statutorily required benefits. The budget for Old Fund benefit payments budget was estimated as follows:

- Benefit payments were estimated after analyzing prior years' benefits paid by month. FY08 actual and FY09 projected benefits payments were the most heavily weighted data used for estimating the FY10 budget.
- As of April 30, 2009, year-to-date actuals, indemnity benefits are 23.7 percent of total benefits paid, and medical are 76.3 percent. For FY10, it is estimated the ratio of indemnity to medical payments will be 23.4 percent.
- No funds were included for Stavenjord benefit payments.
- Old Fund benefit payments have been relatively stable for the past eight complete fiscal years, as illustrated below.

Fiscal Year	Benefit Payments	Percent Change from Prior Year
FY10 Budget	\$ 10,979,552	-1.35%
FY09 Projection	11,129,630	1.3%
FY08 Actual	10,984,485	5.7%
FY07 Actual	10,395,247	-3.0%
FY06 Actual	10,716,620	5.1%
FY05 Actual	10,196,607	-16.7%
FY04 Actual	12,246,978	-10.3%
FY03 Actual	13,657,862	7.9%
FY02 Actual	12,655,663	-7.4%
FY01 Actual	13,663,892	4.1%
FY00 Actual	13,130,302	



# FISCAL YEAR 2010 ANNUAL BUDGET REQUEST

## V. OPERATIONAL EXPENDITURES

Operational expenditures include personnel services, operating expenses, equipment and intangible assets, and allocated loss adjustment expense (ALAE). The building project expenditures are identified separately to display relocation, furnishing and equipment costs anticipated for the move to the new building.

Operational Expenditures	FY10 Budget	FY09 Projection	FY09 Budget	FY08	FY07
<b>MSF (NO BUILDING PROJECT)</b>					
FTE	299.50	298.00	298.00	298.00	296.50
Personnel Services	\$ 22,770,780	\$ 21,322,239	\$ 22,040,506	\$ 21,992,109	\$ 19,304,595
Operating Expense	22,194,697	24,563,138	26,713,252	26,117,675	23,994,035
Equip & Int Assets	701,800	1,883,013	2,137,757	2,764,065	2,056,149
ALAE	4,233,879	4,251,252	4,252,030	4,149,015	4,257,078
<b>Total MSF (No Building)</b>	<b>\$ 49,901,155</b>	<b>\$ 52,019,642</b>	<b>\$ 55,143,545</b>	<b>\$ 55,022,864</b>	<b>\$ 49,611,857</b>
<b>BUILDING PROJECT</b>					
Operating Expense	\$ 1,882,301	\$ 24,052	\$ 100,000	\$ 2,089	\$ 13,846
Equip & Int Assets	3,971,839	0	0	0	0
<b>Total Building</b>	<b>\$ 5,854,140</b>	<b>\$ 24,052</b>	<b>\$ 100,000</b>	<b>\$ 2,089</b>	<b>\$ 13,846</b>
<b>OLD FUND</b>					
Operating Expense	\$ 262,230	\$ 271,939	\$ 232,144	\$ 196,263	\$ 201,423
ALAE	339,758	307,160	239,221	303,171	350,207
<b>Total Old Fund</b>	<b>\$ 601,988</b>	<b>\$ 579,099</b>	<b>\$ 471,365</b>	<b>\$ 499,434</b>	<b>\$ 551,630</b>
<b>Total</b>	<b>\$ 56,357,284</b>	<b>\$ 52,622,793</b>	<b>\$ 55,714,910</b>	<b>\$ 55,524,386</b>	<b>\$ 50,177,333</b>

## MSF Staffing

Montana State Fund is requesting approval of 299.50 FTE (full time equivalent) for FY10. This is an increase of 1.50 FTE from the approved and current level of FY09's 298.00 FTE. The 1.50 FTE is for two full-time positions to be effective October 1, 2009.

- 1) Underwriting Coordinator is necessary to execute the terms of the programs enacted by SB-192 of the 2009 Montana Legislative Session (The Small Business Work Comp Relief bill was signed into law April 15, 2009). This position will enroll group members, maintain communications with program participants and monitor the group's loss experience.
- 2) Network Engineer II is necessary to support the new telecommunications system for the new building. The previous system was supported by State's Information Technology Services Division (ITSD). The new system will be supported by MSF. This position will enable MSF to support, maintain and enhance our telecommunications system.



# FISCAL YEAR 2010 ANNUAL BUDGET REQUEST

The 299.50 FTE equate to 306 positions. In FY10, MSF will have 292 positions that are 1.00 FTE each, two new positions that are 0.75 FTE each, and 12 positions that are 0.50 FTE each. The half-FTE positions are:

- Two Document Processor positions
- Seven Claim Examiner Trainee positions
- One Employee performance appeal review panel member
- One Medical Case Manager
- One Safety Intern

Though there were no changes in the total level of FTE during FY09, the following notes positions that were re-aligned:

- 1.00 FTE Claim Examiner III position was repurposed as two 0.50 FTE Claim Examiner Trainee positions.
- 0.50 Claim Examiner Trainee position was repurposed as a 0.50 FTE performance appeal review panel position.

The following table reflects MSF staffing by department for the FY10 Budget, the FY09 Projection, FY08 and FY07.

MSF Department Staffing (FTE)	FY10 Budget	FY09 Projection	FY08	FY07
Corporate Support	34.00	34.00	35.25	36.00
Executive Offices	5.00	5.00	5.00	5.00
General Counsel	16.00	16.00	16.00	16.00
Human Resources	6.50	6.50	5.75	5.00
Information Technology	52.75	52.00	52.00	51.00
Operations	145.00	145.00	145.00	145.00
Operations Support	40.25	39.50	39.00	38.50
<b>MSF Total</b>	<b>299.50</b>	<b>298.00</b>	<b>298.00</b>	<b>296.50</b>

MSF continually re-aligns our staff to meet the changing work processes developed to most effectively and efficiently provide service to our customers.

## Personnel Services

To support the necessary staff of 299.50 FTE, MSF requests funds of \$22,770,780 for the FY10 personnel services budget.

	FY10 Budget	FY09 Projection	Dollar Variance	Percentage Variance
Salaries	\$ 17,450,125	\$ 16,490,605	\$ 959,520	5.8%
Employee Benefits	5,320,655	4,831,634	489,021	10.1%
<b>Total Personnel Services</b>	<b>\$ 22,770,780</b>	<b>\$ 21,322,239</b>	<b>\$ 1,448,541</b>	<b>6.8%</b>

### Regular Salaries – \$17,233,032

The Regular Salaries account code includes base salaries and merit-based salary adjustments:

- \$16,935,246 for base salaries calculated on the hourly wage for all active employees as of January 26, 2009. Vacant positions were based on compensation at 95 percent of midpoint for the positions' expected pay bands. FY10 will have 2,088 annual payroll hours for each FTE. Partial FTE salaries are prorated. A vacancy savings factor of 2 percent was applied to the total estimated base salaries to lower it to the budgeted amount.



# FISCAL YEAR 2010 ANNUAL BUDGET REQUEST

- \$297,786 for merit-based salary adjustments. Positions that were vacant as of January 26, 2009, were not budgeted for merit adjustments. The merit salary adjustments for all other employees are paid after the final STAR (Skills, Talents and Results) process reviews are completed. For the FY10 budget an average merit adjustment of 2.5 percent was assumed, based on review and consultation with the Hay Group regarding average merit adjustments in the insurance industry. Merit salary adjustments have been budgeted to be effective September 12, 2009. No merit adjustments were budgeted for the president and vice presidents. A vacancy savings factor of 2 percent was applied to the total estimated merit adjustment to lower it to the budgeted amount.

**Overtime** – \$25,004 – Supports workload coverage during busier times of the year.

**Personal Leave Program Payouts** – \$113,602 – MSF’s Personal Leave Program provides for the annual payment of unused personal leave balances of eligible participants. The FY10 budget estimate is based on FY09 payments and review of leave balances of participants.

**Retirement Payouts** – \$78,487 – Includes funds for leave balance payouts for six expected retirements in FY10.

**Employee Benefits** – \$5,320,655

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

- FICA/Medicare – 7.65 percent – \$1,325,874
- Retirement (PERS) – 7.17 percent – \$1,241,804
- Workers' Compensation Premium – 2.29 percent – \$398,547
- State Unemployment Tax (SUT) – 0.35 percent – \$60,730
- Group Insurance – \$2,293,700

HB13 enacted by the 2009 Legislature increased group insurance contributions for MSF from \$7,296 per eligible employee in FY09 to \$7,830 per eligible employee in FY10 (the bill “Pay plan for state employees” was signed into law March 11). This is an increase of \$534 or 7.3 percent per eligible employee. In FY10, MSF will have a maximum of 305 employees eligible for the insurance contribution. The total budget increase resulting from the HB13 increase in group insurance contribution is \$162,870.

Employee benefits were reduced by a vacancy savings factor of 2 percent.

## Operating Expenses

The total budget for operating expenses is \$24,339,228 and includes funding for:

Category	FY10 Budget	FY09 Projection	Variance \$	Variance %
Other Services	\$ 17,765,541	\$ 19,533,276	(\$ 1,767,735)	-9.0%
Supplies & Materials	1,672,792	451,947	1,220,845	270.0%
Communications	1,477,061	1,459,886	17,175	1.2%
Travel	268,368	249,493	18,875	7.6%
Rent	352,138	325,371	26,767	8.2%
Utilities	181,101	151,755	29,346	19.3%
Repairs & Maintenance	1,192,538	1,210,592	(18,054)	-1.5%
Other Expenses	1,429,688	1,476,808	(47,120)	-3.2%
<b>Total Operating Expenses</b>	<b>\$ 24,339,228</b>	<b>\$ 24,859,129</b>	<b>(\$ 519,901)</b>	<b>-2.1%</b>



# FISCAL YEAR 2010 ANNUAL BUDGET REQUEST

## Operating Expenses – Other Services

**Consulting and Professional Services** – \$2,616,112 – This is a decrease of \$302,172 or 10.4 percent from the FY09 projection of \$2,918,284. The following are the areas of consulting and professional services expense in FY10. These expenses are needed to complete Strategic Business Plan initiatives and other operational aspects of MSF business.

These amounts do not include consulting services to develop software. Consulting expenditures for software development are classified as an "intangible asset." These items will be detailed in a separate section of this report.

Five budget areas requiring consulting and professional services expenditures comprise 91 percent of this category's budget. The following table summarizes these five areas and additional information is provided below.

## Consulting and Professional Services

FY10 Budget	Department	Item/Description
\$ 883,208	Operations	NCCI Membership Fee Agreement and transaction-based charges (membership required by law)
\$ 457,830	Building Project	Data center project management, design and relocation
\$ 440,909	Operations	Other States Coverage
\$ 346,437	Information Technology	Various projects and support services
\$ 270,000	Executive/Old Fund	Actuarial services

- **National Council on Compensation Insurance (NCCI)** – \$883,208 – This is a decrease of \$72,865 or 7.62 percent from the FY09 projection of \$956,073. The budget reflects the:
  - Current contract with NCCI that became effective January 1, 2009
  - MSF net direct-written premium from FY08. The NCCI membership fee is based on a percentage of premiums. Net direct-written premium used to calculate the membership fee was \$243,664,498. Total FY10 budget for the membership fee is \$547,194.
  - 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 providing data to NCCI. These fees are budgeted to be \$336,015.
  - No credits were budgeted – NCCI has a program to provide members with credits, similar to a dividend program, based on NCCI's financial results. Incentives are also paid for accuracy in reporting. In FY09, through three quarters, MSF has received \$3,100 in credits, which are included in the FY09 projection. As the credits are not guaranteed and not in the control of MSF, MSF did not budget for the credits.
- **Building Project Relocation** – \$457,830 – These are one-time expenditures associated with moving into the new building:
  - \$325,000 – Data center relocation with detailed design expertise and project management services
  - \$60,000 – Vendor estimate for moving data center equipment enabling MSF to maintain warranties on equipment
  - \$46,080 – Telecommunications support for new telecom system
  - \$26,750 – Vendor estimate for moving of office furnishings such as chairs, filing cabinets, leadership workstations, and includes technicians to break down, move and set up Pitney Bowes mailroom equipment
- **Other States Coverage (OSC)** – \$440,909 – The budget is based on total OSC premium of \$1,771,347. Per OSC contracts, MSF pays 13.5 percent of the written premium as a fronting fee – FY10 budget \$239,132. Contracts provide for 12 percent of incurred losses as unallocated loss adjustment expense for expenses not attributable to a specific claim, and are the cost of providing claims adjusting and supervision services required to support the classes of business reinsured under our agreement – FY10 budget \$147,777. A letter of credit is required of MSF per contract and budgeted costs are \$54,000.



## FISCAL YEAR 2010 ANNUAL BUDGET REQUEST

- **IT Consulting** – \$346,437 – The budget supports the following consulting services in the Information Technology Department:
  - \$160,000 – Senior Data Analyst support for Insurance Intelligence
  - \$56,000 – Java application support
  - \$30,437 – Support for migrating Novell to Active Directory
  - \$30,000 – Implementing federal mandate for Medicare reporting
  - \$30,000 – PowerBuilder services required to implement enacted legislation, SB-192 (small policy group)
  - \$30,000 – Oracle audits including licensing compliance, user and application access, and administration risk assessment
  - \$10,000 – Oracle/PeopleSoft budget system support
- **Independent Actuary** – \$270,000 – This budget is for New Fund and Old Fund services related to rate levels, loss cost multipliers, loss reserves, equity and dividend analysis, and additional expenses associated with a legislative study committee. MSF is required by law to use the services of an independent actuary when estimating losses, dividends and other areas of business. The budget breaks down as follows:
  - \$170,000 – New Fund – rate levels, loss cost multipliers, loss reserves, equity and dividend analysis
  - \$50,000 – Old Fund – loss reserves
  - \$50,000 – Actuarial services for legislative study committee
- **Other Consulting and Professional Services Items** – \$217,728
  - \$100,000 – Consulting services for business support deemed appropriate by the president
  - \$45,000 – Hay Group compensation consulting
  - \$40,620 – National Fraud Indexing service and asset searches
  - \$10,000 – Long-term incentive planning and review
  - \$9,500 – SBP Initiative: Continuation of WorkSafe Champions – speakers
  - \$6,820 – Various Human Resources services: flu shots, STAR appeals, State day care expense
  - \$4,100 – Board member stipends
  - \$1,688 – Occupational therapist ergonomic reviews
- **Insurance and Bonds** – \$251,310 – this is a minor decrease from the FY09 payment of \$266,385. All MSF insurance is provided through the State's division of Risk Management and Tort Claims. The State is self-insured. This is a cost charged to MSF based on the Governor's Office of Budget and Program Planning's (OBPP) "Fixed Cost Report."
- **Legal Fees and Court Costs** – \$50,000 – this is a decrease of \$26,152 or 34.3 percent from the FY09 projection of \$76,152. The budget will fund legal issues either pending or anticipated.
- **Warrant Writing** – \$56,824 – this is an increase of \$1,408 or 2.5 percent from the FY09 projection of \$55,416. CorVel issues checks for all medical-related expenses but MSF relies on the State to issue all other warrants. The estimate is based on the "Fixed Cost Report."
- **Payroll Service Fee** – \$68,468 – this is an increase of \$58,273 or 571 percent from the FY09 projection of \$10,195. The budget is based on OBPP Fixed Cost and will be charged to MSF for services of State's Central Payroll and SABHRS Human Resources module.
- **Policyholder Payroll Audits** – \$889,607 – this is a decrease of \$59,283 or 6.2 percent from the FY09 projection of \$948,890. In FY10 the number of payroll audits performed will be marginally reduced from the number of audits performed in FY09. The audit fees have been reduced in correlation with the expectation of reduced premium. Historically, audits have had a favorable return on investment, \$3.51 return for each \$1 expense for the period of July 1, 2008, to April 30, 2009. Audits also create additional opportunities to educate policyholders on MSF processes for reporting payroll.



## FISCAL YEAR 2010 ANNUAL BUDGET REQUEST

- **Financial and Legislative Audits** – \$112,027 – this is an increase of \$61,622 or 123 percent from the FY09 projection of \$50,405. Of the total, \$57,027 is for the Financial Compliance audit performed by the Legislative Audit Division (LAD) of the MSF governmental financial statements and includes \$10,000 for an actuarial review. And, \$55,000 is for an independent accounting firm to audit our annual statutory financial statements. MSF has issued a Request for Proposal (RFP) for audit services for FY10.
- **Consultants – Training** – \$92,196 – this is a decrease of \$171,581 or 65 percent from the FY09 projection of \$263,777. The budget will enable MSF to bring trainers on site and provide for a larger number of employees to participate in the training, rather than sending a limited number of employees to external locations to receive training. Of this total, \$35,000 is for IT training related to the new financial reporting applications; \$30,996 is for Mosaic training for MSF staff; and, \$12,000 is for coaching, mentoring and time management training.
- **Commissions** – \$12,913,218 – this is a decrease of \$1,097,320 or 7.8 percent from the FY09 projection of \$14,010,538, and, it includes base, incentives and Other States Coverage commissions.

Commissions are the largest operating expense for MSF and are directly and proportionately related to gross premiums, percentage of MSF policyholders represented by agents, and the commission rates paid on a policy. The payment of commissions supports service and distribution capabilities with our agent partners.

#### Base Commissions:

In aggregate, MSF estimates FY10 gross earned premiums to be \$204,295,713, with agents representing 68.8 percent of this amount. The average base commission rate is 7.7 percent. This correlates to \$10,675,297 in base commissions for FY10.

#### Incentive Commissions:

Incentive commissions are determined after reviewing how an agency's overall book of MSF-represented accounts develops. The average agent incentive commission rate is expected to be 1.5 percent though not all agents may qualify for the incentive commission. For the FY10 agent incentive commission, \$2,096,214 is budgeted.

#### Other States Coverage (OSC) Commissions:

For FY10, \$141,708 is budgeted for commissions associated with OSC policies. The total FY10 revenue estimated for OSC is \$1,771,347. The average commission is 8 percent.

- **SABHRS Administrative Costs** – \$299,345 – this is a decrease of \$73,595 or 19.7 percent from the FY09 projection of \$372,940. This expense 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 based on OBPP's Fixed Cost report.
- **Temporary Services** – \$216,829 – this is a decrease of \$218,240 or 50.2 percent from the FY09 projection of \$435,069. MSF uses temporary staff to fill in for vacancies as business needs require. As of May 18, 2009, MSF has 12.50 vacant FTE. Use of temporary staff is expected to decline significantly from FY09 levels.  
The FY10 Budget includes \$98,560 in temporary staff support to expedite the move to the new building. The remaining temporary services budget is allocated to departments as follows:
  - \$75,000 – Operations – to manage workload issues due to vacancies
  - \$27,300 – Information Technology administrative support
  - \$15,000 – Human Resources – to support entry of employee training data
  - \$969 – General Counsel administrative support



## FISCAL YEAR 2010 ANNUAL BUDGET REQUEST

- **Computer Services provided by the Information Technology Services Division (ITSD) of the Department of Administration** – \$581,092 – this is an increase of \$211,733 or 57.3 percent from the FY09 projection of \$369,359.

Beginning in FY10 ITSD will implement a Full-cost Maturity Model (FMM) that is a significant change in the methodology used for determining services, cost and charges to allocate to users. ITSD in conjunction with OBPP have determined the FMM to be the appropriate means to determine user expenses and the level of expense to be charged to each user entity.

The budgets by category are:

- \$210,569 – network services
  - \$179,848 – asset broker
  - \$153,090 – enterprise services
  - \$21,568 – e-mail
  - \$9,087 – operations support
  - \$6,930 – virtual private network and laser print service
- **Miscellaneous Information System Services – Non-DOA** – \$63,120 – this is a decrease of \$2,968 or 4.5 percent from the FY09 projection of \$66,088. This is primarily for disaster recovery services provided by SunGard.
  - **Printing** – \$113,150 – this is a decrease of \$79,129 or 41.2 percent from the FY09 projection of \$192,279. This includes in-house forms, safety workshop materials, business cards, envelopes, a variety of small printing jobs for brochures and other informational materials.

### Operating Expenses – Supplies and Materials

- **Computer Hardware** – \$1,168,383 – this is an increase of \$1,110,264 from the FY09 projection of \$58,119. In FY08 and FY09 MSF postponed purchasing new personal computers and other computer hardware under the prior computer replacement cycle due to the plans for moving into the new MSF building in FY10. The FY10 budget includes the purchases of personal computers for all workstations, conference rooms and training rooms. Audio/visual equipment will be installed in meeting rooms, training rooms and the board meeting room. Printers for the new building will be purchased.
- **Minor Software** – \$75,050 – this is an increase of \$2,793 or 3.9 percent from the FY09 projection of \$72,257. Software to be purchased in FY10 includes:
  - Highline Data – insurance industry database – Corporate Support
  - Booke's The Complete Package – annual statement preparation software – Corporate Support
  - Avid and graphics software – Communications
  - Abacus time-tracking software – General Counsel
  - ASE software for managing printing and distribution of application server content – Information Technology
  - Team Track workflow software – Information Technology
  - Version manager program code tracking software – Information Technology
- **Supplies: Central Stores and Other Providers** – \$221,708 – this is an increase of \$47,716 or 27.4 percent from the FY09 projection of \$173,992. There is \$85,700 budgeted for data center racks and cabling supplies associated with the new building. All other supply purchases are budgeted to decrease. This budget includes paper, toner and a wide variety of minor office supplies.
- **Gasoline** – \$58,420 – this is an increase of \$7,430 or 14.6 percent from the FY09 projection of \$50,990. The budget estimate was based on \$3.259 per gallon (MSF is exempt from gas tax) for gasoline and an estimate of 17,926 gallons of gasoline being purchased. In FY09 MSF vehicles are projected to log 394,700 miles.



# FISCAL YEAR 2010 ANNUAL BUDGET REQUEST

- **All Other Supplies and Materials Categories** – \$148,831 – includes budget for:
  - \$44,140 – Educational supplies and materials
  - \$34,147 – Books and reference materials
  - \$32,000 – Building materials
  - \$23,189 – Minor office equipment

## Operating Expenses – Communications

- **Postage** – \$437,849 – this is an increase of \$66,960 or 18.1 percent from the FY09 projection of \$370,889. The budget includes \$357,405 for postage that includes a 4.8 percent increase in rates. The budget includes \$58,000 for print and mail services provided by the State, which reflects a 17 percent fee increase. And, \$8,800 is included for mailings associated with SB-192 legislation requiring notification to policyholders regarding the new small-policyholder group.
- **Advertising** (excluding recruitment advertising) – \$629,677 – this is a decrease of \$54,932 or 8 percent from the FY09 projection of \$684,609. This will provide funding for all advertising campaigns to occur in FY10: media placement, newspapers, billboards, brochures and inserts, Web design, direct mail and opportunity marketing. Television advertising is \$395,000 and all other media is \$234,677.
- **Employment Ads** – \$43,240 – this is a decrease of \$3,551 or 7.6 percent from the FY09 projection of \$46,791. This includes all in-state and out-of-state advertisements regarding MSF recruitments. This will be referenced later in the report encompassing all recruiting expenses.
- **Communications** – (all telephone categories) – \$362,919 – this is a decrease of \$9,801 or 2.8 percent from the FY09 projection of \$353,118. This expense covers cell phones, phone equipment and long-distance and toll-free line services. This budget includes changes in the methodology used by ITSD as part of the Full-cost Maturity Model to assess users for voice/connectivity expenses.

## Operating Expenses – Travel

- \$268,368 – this is an increase of \$18,875 or 7.6 percent from the FY09 projection of \$249,493. The budget supports MSF staff attending training at off-site locations and also includes travel by safety management, claim examiners and underwriters to visit customers. This covers travel associated with the strategic initiatives WorkSafe MT and constituency education.

## Operating Expenses – Rent

- \$352,138 – this is an increase of \$26,767 or 8.2 percent from the FY09 projection of \$325,371. The primary expenses are leased space for the MSF building, two other locations housing MSF personnel locally, field office space and parking.

## Operating Expenses – Utilities

- \$181,101 – this is an increase of \$29,346 or 19.3 percent from the FY09 projection of \$151,755. This is for electricity, natural gas, and water and sewage. Included is \$4,500 for two months of utilities for the new building.

## Operating Expenses – Repairs and Maintenance

- \$1,192,583 – this is a decrease of \$18,054 or 1.5 percent from the FY09 projection of \$1,210,592. The bulk of this expense is due to maintenance agreements in IT (\$975,495) for hardware such as servers, routers and associated peripherals, and for application software. Facilities budgets for maintenance agreements (\$125,807) cover janitorial services, heating, air conditioning and ventilation (HVAC), snow removal and other items.



# FISCAL YEAR 2010 ANNUAL BUDGET REQUEST

## Operating Expenses – Other Expenses

- **Subscriptions** – \$59,348 – this is a decrease of \$10,607 or 15.2 percent from the FY09 projection of \$69,955. This includes budget for a variety of subscriptions for desk manuals and career specific periodicals such as medical and occupational disability guides and online access, A.M. Bests materials, National Safety Resource Center and NCCI manuals.
- **Taxes and Assessments** – \$351,796 – this is a decrease of \$53,336 or 13.2 percent from the FY09 projection of \$405,132. This budget is composed of three pieces: Old Fund Assessments paid to the Department of Labor and Industry, Other States Coverage (OSC) premium taxes and property taxes on the Peg Condon Building.
  - \$187,230 – Old Fund Administrative Assessment (\$169,389) and Subsequent Injury Fund Assessment (\$17,841). These are regulatory assessments from the Department of Labor and Industry as provided in law. The budget is based on the invoice provided by the Department of Labor and Industry's Employment Relations Division for FY10. There will be no expense for the Rehabilitation Assessment in FY10.
  - OSC Premium Taxes – \$161,708 – This is for premium taxes paid for insuring MSF policyholders' operations in other states where workers' compensation premium taxes are assessed. In FY10 the OSC premiums are estimated to be \$1,771,347, and the taxes and surcharges are estimated to be 10.7 percent.
  - Property tax assessment on the Peg Condon Building – \$2,858
- **Education and Training** – \$139,598 – this is a decrease of \$10,737 or 7.1 percent from the FY09 projection of \$150,335. MSF maintains a philosophy to provide training to employees in necessary aspects of the business to secure corporate success. Training is needed to ensure MSF employees are knowledgeable in best practices associated with claim management, safety management and underwriting of risk.
- **Tuition Reimbursement** – \$51,000 – this is an increase of \$20,120 or 65.2 percent from the FY09 projection of \$30,880. For FY10, the maximum amount of annual tuition reimbursement per employee is \$4,000. Fifteen employees are expected to participate in the tuition reimbursement program in FY10. Reimbursements are based on successful course completion and actual cost.
- **Meetings and Conference Costs** – \$111,495 – this is a decrease of \$19,423 or 14.8 percent from the FY09 projection of \$130,918. The budget provides for meeting rooms and equipment for all MSF meetings that cannot be held in our building.
  - Safety management workshops in locations throughout Montana
  - MSF employee FY10 SBP kick-off meeting
  - MSF employee FY09 SBP review and celebration meeting
  - Agent training workshops
  - Marketing events throughout the state
- **Recruitment Expenses** (excluding Employment Advertising) – \$189,855 – this is a decrease of \$207,613 or 52.2 percent from the FY09 projection of \$397,468. Employee recruitment is necessary to fill vacancies resulting from employee turnover. MSF has 12.50 vacant FTE as of May 18, 2009. Through February of FY09, MSF had 31 recruitment actions. Each action has the potential to require different levels of expense to complete the recruitment process. The FY10 budget is based on prior years' expenditures for recruiting and an expectation of lower recruiting actions being necessary in FY10.

Over the past three and a half years, MSF has had 121 recruitments at an average recruitment cost of \$8,250 per recruitment. The FY10 budget will fund an estimated 23 average-cost recruitments.

Recruitment expenses including advertising are \$233,095, and comprise:

- Employment Ads – out-of-state – \$19,892
- Employment Ads – in-state – \$23,348
- Relocation – taxable – \$22,373
- Recruiting – non-advertising – \$16,095
- Job Candidate Expense – \$108,220
- Relocation – non-taxable – \$43,167



# FISCAL YEAR 2010 ANNUAL BUDGET REQUEST

- **Charitable Contributions/Scholarships** – \$56,888 – this is a decrease of \$2,632 or 4.4 percent from the FY09 projection of \$59,520. Charitable contributions are expended through two programs.
  - \$30,238 – 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.
  - \$26,650 – Scholarship program – Scholarships of up to \$2,000 per year are provided to dependents or spouses of MSF-insured employees who died in work-related accidents. MSF estimates 13 scholarships will be awarded in FY10 for a total budget of \$26,650. Each scholarship is estimated to be \$2,000 with an additional \$50 administrative fee each. The budget is based on prior-year participation.
- **Fee Collection Expense** – \$65,620 – this is an increase of \$16,370 or 33.2 percent from the FY09 projection of \$49,249. Contracts with three collection agencies are in place. The fee varies based on success with collections and whether litigation is involved. With process changes implemented in FY09, items are being turned over more quickly to collections. For FY10 we estimated an average of \$5,500 in monthly expense.
- **Statewide Indirect Cost** – \$311,177 – this is an increase of \$191,199 or 159 percent from the FY09 projection of \$119,978. The Statewide Indirect Cost (also known as the Statewide 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. The increase in the plan is driven primarily from prior-year credits being exhausted and from an increase in the volume of transactions MSF has on SABHRS, which drive MSF's allocation.

## Equipment and Intangible Assets

The total FY10 budget for equipment and intangible assets is \$4,673,639. This is an increase of \$2,790,626 or 148.2 percent from the FY09 projection of \$1,883,013. The significant majority of this budget, \$3,971,839 or 85 percent, is for computer and office equipment for the new building.

## Equipment

- **Autos & Trucks** – \$92,000 – Replacement 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. The budget will replace five vehicles in FY10 from our fleet of 23 MSF-owned vehicles.
- **Multi-User Computers and Terminals** – \$2,318,974 – Computer equipment for the new building as noted below:
  - \$1,376,668 – Vendor and MSF estimate for database servers, Intel servers, storage, storage network and tape library
  - \$513,133 – Vendor and MSF estimate for network equipment and installation
  - \$429,183 – Vendor and MSF estimate for telecommunications equipment and installation
- **Office Equipment** – \$1,652,865 – for the new building as noted below:
  - \$1,086,627 – Workstations at \$2,900 each, offices, chairs and installation
  - \$566,238 – Additional furniture for meeting rooms and public spaces

## Intangible Assets

- **Multi-User Software** – \$609,300
  - \$558,800 – Strategic Business Plan – Insurance Intelligence – Project II Medical Loss Management Initiative
  - \$50,000 – MSF University employee training tracking software
  - \$500 – Fleet management software



# FISCAL YEAR 2010 ANNUAL BUDGET REQUEST

## 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. For ALAE, \$4,573,637 is budgeted to the New Fund and the Old Fund:

- New Fund – \$4,233,879
- Old Fund – \$339,758

ALAE is expected to increase by \$15,225 or 0.33 percent from the FY09 projection of \$4,558,412.

- \$2,356,816 – All codes of CorVel for reviewing and processing medical invoices – an increase of \$27,362 or 1.2 percent from the FY09 projection of \$2,329,454.
- \$1,291,735 – All legal expense categories – this is an increase of \$150,370 or 13.2 percent from the FY09 projection of \$1,141,365.
  - \$625,612 – Legal cost allocation – cost of in-house legal staff working on claim file issues
  - \$442,337 – Montana State Fund legal contract
  - \$193,955 – Legal fee claimant attorney
  - \$29,831 – Employer's liability insured defense cost
- \$768,268 – Fraud-Related ALAE – this is a decrease of \$166,452 or 17.8 percent from the FY09 projection of \$934,720.
  - \$510,700 – Private Investigations
  - \$257,568 – Department of Justice Fraud Agreement – MSF uses the services of DOJ to complete investigations (submitted to them by MSF) and to prosecute workers' compensation fraud cases. The Justice Department, unlike MSF, has police powers that enable it to thoroughly complete fraud investigations and prosecutions. The total budget of \$282,568 is a decrease of \$15,001 or 5 percent from the FY09 projection of \$297,569. The budget is distributed to the Fraud Services team (\$25,000) and the New Fund (\$257,568) based on actual investigative and prosecutorial hours recorded.
- \$59,704 – Medical Consultants – Constant with the FY09 projection of \$59,474.
- \$90,999 – Contract Adjusters – this is an increase of \$7,329 or 8.8 percent from the FY09 projection of \$83,670.
  - \$84,712 – Adjusters associated with Other States Coverage claims
  - \$6,287 – Adjusters for MSF in-house claims

## Costs not included in this Proposed Budget

The FY10 budget includes all known and expected costs for the fiscal year. The budget does not include:

- Merit and management incentive plan adjustments for the president. This is a separate board action to be taken in September 2009.
- Merit adjustments for the vice presidents.
- Court decisions, which may significantly and adversely impact Montana State Fund. No such decisions currently are anticipated.
- Employee Incentive Program (Goal Sharing).

Should the board take action on these items, we will include the adjustments in the budget as appropriate.

The FY10 budget is prefaced on MSF's net earned premium projection of \$186.5 million. Should premium significantly increase or decrease from the estimate, appropriate budget increases or decreases may be presented to the board for further review.