



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: February 10th, 2014
TO: Economic Affairs Interim Committee
FROM: Scot Conrady, Fiscal Analyst
RE: Budget Option for Old Fund Payout – Workers Compensation Loss Costs

INTRODUCTION

This document will formally present an additional option for addressing the Montana State Fund (MSF) Old Fund liability. The option that will be detailed is a supplement to the report presented to the Economic Affairs Interim Committee (EAIC) on January 28th, 2014¹.

The MSF Old Fund liability represents future costs that are related to medical and indemnity benefits for accident claims occurring prior to July 1st, 1990. The current actuarial estimate for how much cash will be required to satisfy Old Fund claims from FY 2014 forward is \$51 million. The full pay out can be referenced in Appendix A of this report. This payout schedule, provided by the Montana State Fund and calculated by the actuary services of Towers Watson (TW), will be used as a basis for this report. The data listed in Appendix A is the central estimate of Towers Watson and may not represent the final actual ultimate cost of Old Fund claims. The EAIC has been advised of the potential variance in the Towers Watson estimations during the last few committee meetings and the reasons why this may occur. This still remains an important consideration.

ADDITIONAL FUNDING OPTION

Option 5 – “Deposit from General Fund” This option effectively removes a lump sum from the General Fund and restricts the use of the money for Old Fund payments only. Assuming a bill was passed and approved to support this idea and implemented in FY 2016- and that the current Towers Watson estimates for payout schedule are correct - an estimate of the amount of cash that would be required for transfer would be \$28,931,200. The amount \$28,931,200 is a present value calculation for the sum of FY 2016 through FY 2051 and represents an ultimate cost of \$34,283,929 assuming a bond rate of 2.7 %. In evaluating this scenario, it is important to note that the general fund is assumed to have already paid for fiscal years 2014 and 2015 roughly \$9.2 and \$7.6 million respectively if current Towers Watson projections hold true.

¹ Conrady, Scot. *Budget Options for Old Fund Payout*. Economic Affairs Committee Report, Legislative Fiscal Division

In the case of pursuing Option 5, a general fund transfer could be arranged to the Montana State Fund. The Montana State Fund would essentially manage the fund and payouts on a yearly basis until all claim costs were closed.

Premium Tax and Distribution – Currently the Montana State Fund is exempt from tax levied on net premiums that other insurance companies in Montana are subject to. The premium tax is currently considered under HJ 25 and may be reinstated for a variety of reasons supporting the restructure of Montana State Fund. One benefit of levying the premium tax on MSF policies is that the revenue stream from this tax will return money to the general fund and Healthy Montana Kids (HMK) state special fund. In this case, structural balance of the general fund is improved.

The current tax rate for insurance or premium tax is 2.75%. For fiscal year 2013, the Montana State Fund premiums brought in \$152 million. Assuming premium remain consistent, 2.75 % would return a rounded figure of \$4 million dollars per year.

Statutory Reference and Applicable Distribution of Premium Tax - The distribution of the Premium Tax is currently as follows: 67 % is deposited into the state general fund and 33 % is deposited into the state special revenue account (to support the HMK program).. Unless the MSF premium tax, upon implementation is altered, the current premium tax distribution will remain as written. A full listening for Montana Code Annotations regarding tax rate, fee rate, and tax distribution can be referenced in Appendix A.

Case 1 as shown in Appendix A can be referenced for a structural look at how the premium tax would be distributed and the impact to state special revenue and general fund with current law. Assuming \$4 million dollars is received from premium tax annually, \$2.68 million of this amount will be general fund and \$1.32 million will be state special revenue. Please refer to Appendix A Case 1 to view the required general fund commitment under this scenario. One can see from Case 1 that general fund make-up dollars are required through FY 2019.

Case 2 as shown in Appendix A can be referenced for a look at changing statute for MSF premium tax and all proceeds go to GF. Assuming \$4 million dollars is received from premium tax annually, \$4 million will be general fund dollars. . Please refer to Appendix A Case 2 to view the required general fund commitment under this scenario. One can see from Case 2 that general fund make-up dollars are required through FY 2017.

Option 5 - Future Development and Cost Sharing - One of the concerns' s with pursuing Option 5 is that the projected payout and final ultimate costs associated with the Old Fund are simply estimations. There may be a real possibility of future developments with the Old Fund that could drive costs up or down depending on future events. Montana State Fund suggests that a solution in terms of cost sharing could be discussed, in which, a general fund transfer of some amount higher than \$28,931,200 in FY 2016 could be negotiated. Once a final fund amount was reached, Montana State Fund would potentially assume complete liability for payments. In the event that the old fund ultimate costs were overestimated, a contractual agreement could be made to return the balance to the general fund once all claims had reached closure. This may serve as a balance to both protect the general fund and also to ensure to the Montana State Fund that sufficient cash was on hand to handle future claim costs.

Appendix A

Statutory Reference Insurance Tax and Licensing Fees:

Tax Rate (MCA) – 33-2-705(2), 33-2-311, 33-28-201(1&2), 50-3-109(1)

Fee Rate (MCA) – 33-2-708(1&2), 33-14-201(2), 33-2-712, 33-38-105

Tax Distribution (MCA) – 33-2-708(3), 33-2-712, 50-3-109(1), 33-28-120

Towers Watson Old Fund Cash Flow Central Estimate

Fiscal Year	Estimated Yearly Payout - TW
2014	9,151,185
2015	7,585,617
2016	6,205,555
2017	5,194,118
2018	3,830,540
2019	3,112,828
2020	2,496,369
2021	1,231,128
2022	812,429
2023	689,824
2024	550,954
2025	509,232
2026	483,191
2027	394,821
2028	424,907
2029	498,875
2030	568,434
2031	668,657
2032	844,668
2033	925,515
2034	861,529
2035	882,327
2036	850,205
2037	780,961
2038	736,977

2039	558,923
2040	119,594
2041	31,867
2042	9,405
2043	3,151
2044	1,238
2045	1,105
2046	989
2047	885
2048	795
2049	714
2050	642
2051	578
2052	0

Case 1 – Receiving \$4million/year from Premium Tax – No tax distribution law change

FY	Est. TW Payout	Premium Tax Est.	General Fund Received	State Special Revenue Received	Required Make-up Cash from GF
2014	9,151,185	0			9,151,185
2015	7,585,617	0			7,585,617
2016	6,205,555	4,000,000	2,680,000	1,320,000	3,525,555
2017	5,194,118	4,000,000	2,680,000	1,320,000	2,514,118
2018	3,830,540	4,000,000	2,680,000	1,320,000	1,150,540
2019	3,112,828	4,000,000	2,680,000	1,320,000	432,828
2020	2,496,369	4,000,000	2,680,000	1,320,000	0
2021	1,231,128	4,000,000	2,680,000	1,320,000	0
2022	812,429	4,000,000	2,680,000	1,320,000	0
2023	689,824	4,000,000	2,680,000	1,320,000	0
2024	550,954	4,000,000	2,680,000	1,320,000	0
2025	509,232	4,000,000	2,680,000	1,320,000	0
2026	483,191	4,000,000	2,680,000	1,320,000	0
2027	394,821	4,000,000	2,680,000	1,320,000	0
2028	424,907	4,000,000	2,680,000	1,320,000	0
2029	498,875				
2030	568,434				
2031	668,657				
2032	844,668				
2033	925,515				
2034	861,529				
2035	882,327				
2036	850,205				
2037	780,961				
2038	736,977				
2039	558,923				
2040	119,594				
2041	31,867				
2042	9,405				
2043	3,151				
2044	1,238				
2045	1,105				
2046	989				
2047	885				
2048	795				
2049	714				
2050	642				
2051	578				
2052	0				
Sum	51,020,732	52,000,000	34,840,000	17,160,000	----



Sum GF +SSR = 52,000,000

Case 2 - Receiving \$4million/year from Premium Tax – Statute change for all tax to GF

FY	Est. TW Payout	Premium Tax Est.	General Fund Received	Required Make-up Cash from GF
2014	9,151,185	0		9,151,185
2015	7,585,617	0		7,585,617
2016	6,205,555	4,000,000	4,000,000	2,205,555
2017	5,194,118	4,000,000	4,000,000	1,194,118
2018	3,830,540	4,000,000	4,000,000	0
2019	3,112,828	4,000,000	4,000,000	0
2020	2,496,369	4,000,000	4,000,000	0
2021	1,231,128	4,000,000	4,000,000	0
2022	812,429	4,000,000	4,000,000	0
2023	689,824	4,000,000	4,000,000	0
2024	550,954	4,000,000	4,000,000	0
2025	509,232	4,000,000	4,000,000	0
2026	483,191	4,000,000	4,000,000	0
2027	394,821	4,000,000	4,000,000	0
2028	424,907	4,000,000	4,000,000	0
2029	498,875			
2030	568,434			
2031	668,657			
2032	844,668			
2033	925,515			
2034	861,529			
2035	882,327			
2036	850,205			
2037	780,961			
2038	736,977			
2039	558,923			
2040	119,594			
2041	31,867			
2042	9,405			
2043	3,151			
2044	1,238			
2045	1,105			
2046	989			
2047	885			
2048	795			
2049	714			
2050	642			
2051	578			
2052	0			
Sum	51,020,732	52,000,000	52,000,000	----