



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # HB0512

Title: Generally revise workers' compensation laws relating to the Montana State Fund

Primary Sponsor: Noland, Mark

Status: As Introduced

- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>Cannot Determine</u>	<u>Cannot Determine</u>	<u>Cannot Determine</u>	<u>Cannot Determine</u>

Description of fiscal impact: This bill will alter the Montana State Fund's (MSF) rate structure and prohibit experience rated policyholders from participation in MSF safety groups while enabling policyholders with no experience rating to be eligible to participate in a safety group. The fiscal impact cannot be determined.

FISCAL ANALYSIS

Assumptions:

1. Montana State Fund's fiscal year is on a calendar year basis, as established in law (39-71-2375(4), MCA). Therefore, within this fiscal note template, fiscal year 2022 reflects MSF's calendar year 2021 starting January 1, 2021 and so on.
2. Montana State Fund is a nonprofit public corporation. All MSF liabilities and expenses are paid through policyholder premium revenue and investment income earned on those premiums.
3. Currently, MSF utilizes the National Council on Compensation Insurance's (NCCI) loss costs as a basis for MSF rates. Montana State Fund may deviate from NCCI loss costs based on actuarial evaluation. Montana State Fund determines and files a loss cost multiplier for each of five rate tiers.
4. Under the bill, when a cost factor influencing rates is unclear and difficult to predict, MSF may *not* use a prediction that is more than likely to cover those costs, rather than less than likely to cover those costs.

5. Montana State Fund must apply an “equalized loss cost multiplier for solvency” amount of .35% to NCCI loss costs to 560 individual classifications.
6. In future years, MSF will not be permitted to use MSF loss costs filed, even if they are lower than NCCI loss costs. From 2002 to 2017, MSF loss costs were lower than NCCI loss costs. If MSF had been unable to set its rates below NCCI from 2004 to 2015, it would have charged about \$300 million more than necessary. Montana State Fund is unable to predict the fiscal impact this could have on future years.
7. Montana State Fund may not utilize schedule rating to produce a net rate which is lower than the applicable loss cost plus the equalized loss cost multiplier for solvency. This may result in inequitable rates for customers, likely increasing rates for certain policyholders with the best safety records.
8. This bill will be effective 7/1/2021, after MSF has already filed its rates for the rate year 7/1/2021 – 6/30/2022.
9. Under the bill, only employers with no experience rating will be eligible to join a state fund pooled risk safety group.
10. Montana State Fund currently has 3,165 policyholders in its safety groups with \$31.1 million in premium. Of these policyholders, 474 (15%) are experience rated and represent \$26.9 million (85%) of the total safety group premium.
11. Montana State Fund assumes that the MSF Board of Directors will continue to determine the surplus level above risk-based capital (RBC) requirements.
12. Montana State Fund will maintain surplus (policyholder equity) in an amount above RBC requirements.

Technical Notes:

1. The changes to the MSF rate structure may require MSF to implement rates that are deemed excessive or inadequate for certain policyholders. This conflicts with 33-16-201(1)(a), MCA, which states that rates may not be excessive or inadequate, and they may not be unfairly discriminatory.
2. Montana State Fund is unable to determine how this bill impacts the current tier rating structure and pricing of business. Montana State Fund may be restricted to using loss cost multipliers that prevent equitable rating and pricing.
3. Further guidance is needed from the Commissioner of Securities and Insurance to define how this bill impacts pricing and how the “equalized loss cost multiplier for solvency” would be applied.

NOT SIGNED BY SPONSOR

Sponsor's Initials	3/1/21 Date	KA Budget Director's Initials	2/26/21 Date
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