

Financial Statements

Montana State Fund
(a Component Unit of the State of Montana)

December 31, 2022

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

July 2023

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the Montana State Fund audit for the calendar year ended December 31, 2022.

The audit was conducted by Eide Bailly LLP under a contract between the firm and our office. The comments contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The Montana State Fund's written response to the report is included in the back the report.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

23C-15

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Independent Auditor's Report

To the Legislative Audit Committee of the Montana State Legislature
Helena, Montana

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the Montana State Fund, a component unit of the state of Montana, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Montana State Fund's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Montana State Fund, as of December 31, 2022, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Montana State Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Montana State Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Montana State Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Montana State Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, risk management trend Information, retirement plans schedules, and other post-employment benefits schedules be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required

supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2023 on our consideration of the Montana State Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Montana State Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Montana State Fund's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Boise, Idaho
July 7, 2023

Montana State Fund
(A Component Unit of the State of Montana)
Management Discussion and Analysis
December 31, 2022

On July 1, 1915, the “Montana’s Workmen’s Compensation Act” became effective, establishing a system of medical and wage loss benefits for injured employees and protection from catastrophic lawsuits for employers. While the law has been modified over the ensuing century, the basic premise of the law is still intact.

The State of Montana Legislature created Montana State Fund (MSF), in its current form, in 1990 when it separated workers’ compensation liabilities into claims that occurred before July 1, 1990, and those that occurred after July 1, 1990. The claims before that date are referred to as the "Old Fund" and are the responsibility of the State of Montana's General Fund. The claims after that date ("New Fund") are the responsibility of MSF. MSF is defined in state statute as a "nonprofit independent public corporation."

The Montana Commissioner of Securities and Insurance (CSI) has regulatory oversight of MSF and because MSF assumes the risk of the guaranteed market and can only be dissolved by an act of the State of Montana Legislature, MSF is required to maintain a Risk-Based Capital Company Action Level and Regulatory Action Level double that of other insurers in the state.

In Montana, employers have three options for purchasing and providing workers' compensation coverage:

- Plan 1 - Develop a self-insurance program
- Plan 2 - Purchase from a private company
- Plan 3 - Purchase from MSF

This structure provides employers options that will best meet their needs, promotes competition, while also ensuring a guaranteed market is available for Montana employers. In 2022, MSF covered about 58% of the insured market (Plan 2 and 3). MSF cannot refuse to insure an employer unless there is an outstanding obligation owed to MSF. Private carriers have the advantage to “selectively” insure based on their underwriting analysis and willingness to accept various levels of risk, potentially avoiding adverse risk, while MSF does not have that latitude.

MSF is governed by a seven member Board appointed by the State of Montana Governor. MSF is designed to be neither more nor less than self-supporting from policyholder premium and investment revenue and is not funded by taxpayer dollars. Although MSF is an independent business enterprise, as an agency of the State of Montana, it is considered a “public entity.” Hence, it is subject to Montana’s public open meeting law(s) and is constitutionally required to use the Montana Board of Investments (MBOI) as its investment manager. MSF's annual report, budget, and business plan are distributed to the Governor and all Legislators.

MSF adheres to National Association of Insurance Commissioners (NAIC) statutory financial reporting and filing requirements, which include annual independent audits of the NAIC financial statements. Financial results are also completed on a Governmental Accounting Standards Board (GASB) basis and included as a component unit in the State’s Comprehensive Annual Financial Report. In addition, the Legislative Audit Division performs annual financial compliance audits which are reported to the Legislative Audit Committee.

MSF also administers and manages the claims remaining in the Old Fund for the State of Montana. The assets of the Old Fund were completely liquidated in 2011 and benefit payments and administrative costs

for claims occurring before July 1, 1990, are supported by General Fund resources as required under state law (§39-71-2352, MCA). Therefore, the Old Fund is considered to be part of the Primary Government for financial reporting purposes and is not included in the accompanying financial statements.

Overview of the Financial Statements

This overview is an introduction to Montana State Fund financial statements. MSF's financial statements consist of two components: (1) basic financial statements, and (2) notes to the basic financial statements.

The Statement of Net Position presents information regarding all of MSF's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and total net position.

The Statement of Revenues, Expenses, and Changes in Fund Net Position presents the financial results of operations for MSF for the year ending December 31, 2022. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The Statement of Cash Flows details the cash used and provided by the various activities of MSF during the fiscal period. However, this statement does not consider unpaid responsibilities which have been established by contract or other underlying events during the period.

Financial Highlights

MSF continues to deliver high-quality services to Montana businesses while instituting annual rate reductions. MSF supports a competitive insurance market in Montana, offering a competitively priced product based upon actuarially sound rates while still fulfilling its role as the carrier for the guaranteed market. The MSF Board of Directors approved an average 3% rate reduction for the policy year effective from July 1, 2022 to June 30, 2023 and recently approved a reduction of 5% effective July 1, 2023.

The Board of Directors, based on analysis of policyholder equity adequacy and financial results, approves the amount of dividends to be issued. MSF has declared and paid dividends to policyholders for 24 consecutive years. MSF paid dividends of \$30M (million) to qualifying policyholders during 2022.

Analysis of Financial Position and Results of Operations

The following analysis presents comparative condensed financial data for MSF.

Net Position (in thousands)

	December 31, 2022	December 31, 2021
Current and Other Assets	\$ 190,632	\$ 188,556
Capital Assets (Net)	44,347	50,051
Investments	1,381,537	1,552,208
Total Assets	<u>1,616,516</u>	<u>1,790,815</u>
Total Deferred Outflows of Resources	<u>5,496</u>	<u>6,799</u>
Current Liabilities	215,762	203,841
Long-term Liabilities	889,222	916,236
Total Liabilities	<u>1,104,984</u>	<u>1,120,077</u>
Total Deferred Inflows of Resources	<u>3,102</u>	<u>8,997</u>
Net Position:		
Net Investment in Capital Assets	44,347	50,051
Unrestricted	469,580	618,489
Total Net Position	<u>\$ 513,927</u>	<u>\$ 668,540</u>

MSF's overall net position decreased during the year ended December 31, 2022, largely due to unrealized losses on MSF's investment portfolio. With around \$1.6B in combined assets and deferred outflows of resources to meet \$1.1B of liabilities and deferred inflows of resources, MSF is well-positioned to meet the commitments to policyholders that it has incurred, which is the hallmark of prudent insurance planning and operations.

The largest component of MSF assets is investments, which decreased during the year ended December 31, 2022. The change in value is summarized in the following display (in millions):

	Year Ended December 31, 2022	Year Ended December 31, 2021
Prior Year Market Value	\$ 1,552	\$ 1,558
Purchases at Cost	\$ 291	\$ 311
Sales	\$ (303)	\$ (332)
Net Realized Gains (Losses)	\$ (4)	\$ 34
Unrealized Gain (Loss)	<u>\$ (155)</u>	<u>\$ (19)</u>
Current Year Market Value	<u>\$ 1,381</u>	<u>\$ 1,552</u>

The most significant MSF liability is estimated claims payable, which decreased during the year ended December 31, 2022. This liability increases from new claims added for the year and decreases from claim payments made. Additionally, changes to the estimates for prior years can increase or decrease the liability.

During 2011, the State of Montana Legislature enacted a set of cost-saving measures including an expansion of an insurer's ability to settle a claim's medical liability. MSF has begun to realize the positive effects of these measures and as a result, had favorable development on prior accident years of \$19.3M. The changes to the total estimated claims liability are summarized in the following display (in thousands):

	<u>Year Ended</u> <u>December 31,</u> <u>2022</u>	<u>Year Ended</u> <u>December 31,</u> <u>2021</u>
Estimated Claims Payable - Beginning	\$ 935,977	\$ 940,161
Incurred Claims Payable	102,530	103,260
Claim Payments	(114,114)	(107,444)
Estimated Claims Payable - Ending	<u>\$ 924,393</u>	<u>\$ 935,977</u>

WTW, an independent actuarial firm, prepares an annual actuarial study used to estimate claims liabilities for MSF and provides a range of potential costs associated with claims. MSF management recommended and the Board of Directors approved an estimate within that range as the estimated claims payable, consisting of unpaid claims, bulk reserves, and claim adjustment expenses.

Changes in Net Position (in thousands)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Operating Revenues:		
Net Premium Earned	\$ 168,470	\$ 159,680
Operating Expenses:		
Benefits and Claims	102,530	103,260
Personal Services	34,880	29,031
Dividend Expense	30,014	60,002
Other Operating Expense	33,694	17,954
Total Operating Expense	<u>201,118</u>	<u>210,247</u>
Net Operating Income (Loss)	(32,648)	(50,567)
Nonoperating Revenue (Expense):		
Investment Income (Loss)	(123,527)	46,391
Other Nonoperating Revenue	1,561	899
Total Nonoperating Revenue (Expense)	<u>(121,966)</u>	<u>47,290</u>
Change in Net Position	(154,613)	(3,279)
Prior Period Adjustment	—	(2)
Beginning Net Position	668,540	671,821
Total Net Position	<u>\$ 513,927</u>	<u>\$ 668,540</u>

For the year ended December 31, 2022, MSF had a decrease in net position of \$(154.6)M after returning \$30.0M in dividends to eligible policyholders. Despite continued rate decreases, net premium income was up about 6% from the prior year due to payroll and wage growth within Montana, as well as a decrease in premium ceded to reinsurers during 2022. Premium retention, or the amount of premium that was retained from the prior year, was approximately 92% for the year ended December 31, 2022, which is consistent with MSF's recent history.

The slight decrease in benefit and claims expenses from the prior year was primarily due to a larger increase in the loss adjustment expense rate applied to loss reserves in 2021 than in 2022. This decrease was offset by increased bulk reserves recorded during 2022. In both years, MSF recorded significant favorable development as external actuaries are starting to recognize that claim settlements are shortening the medical tail, or costs, on prior year claims.

Overall, other operating expense levels increased substantially in 2022 as compared to the prior year due to several reasons. First, MSF discontinued its aggregate stop loss reinsurance program during 2022, which led to a decrease in recorded contingent commission, which increases expenses. Second, MSF's new policy management system went live at the end of 2021 and was therefore amortized for a full year in 2022.

The final major contributing factor in the \$(154.6)M change in net position is MSF's investment loss. As bond coupon rates increased during 2022, bond prices decreased, leading to substantial unrealized losses on MSF's portfolio.

An operating loss of \$(32.6)M that includes \$30M of dividends, coupled with significant negative investment income resulted in a change in net position of \$(154.6)M.

Looking Forward

As a mono-line insurer only licensed to write business within the State of Montana, MSF cannot look to other lines of business and/or geographic markets in order to diversify its risk and/or create economies of scale to strengthen its position in the industry on behalf of its policyholders and other Montana businesses. As a result, MSF must and will continue to focus on providing the excellent customer service and prudent financial management that has solidified it as the insurer of choice for a significant number of Montana employers. Although MSF is statutorily required to offer guaranteed workers' compensation coverage, it has evolved into a business partner by offering stable premiums, superior customer service, robust safety training, and educational programs, which all contribute to MSF's competitiveness as a carrier and MSF's relevance and sustainability.

As examples of its intense commitment to the State of Montana, MSF offers comprehensive safety programs to its policyholders and the education system designed to improve the workplace safety culture in Montana. MSF invests about \$3 million a year to provide safety training, consulting services, and resources to MSF's policyholders and their employees. Moreover, MSF is a significant mentor and contributor to high school students pursuing trade careers and the schools which they attend. MSF has provided safety materials to numerous high schools across the state over the last several years and offered college scholarships, which is helping to prepare students for long, productive careers serving Montanans just as MSF does.

To the extent that comments presented above constitute forward-looking statements, these statements are not guarantees of future performance. Forward-looking statements are based on current expectations and projections that may change significantly over time due to changes in the industry, market fluctuations, and other factors.

	<u>December 31, 2022</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 34,055,028
Receivables, Net	85,213,005
Securities Lending Collateral	12,435,928
Other Assets	1,634,403
Total Current Assets	<u>133,338,364</u>
Noncurrent Assets	
Investments	1,381,537,457
Reinsurance Receivables	57,294,098
Capital Assets:	
Land	1,139,460
Other Capital Assets, Net of Depreciation	43,207,287
Total Capital Assets	<u>44,346,747</u>
Total Noncurrent Assets	<u>1,483,178,302</u>
Total Assets	<u>1,616,516,666</u>
 DEFERRED OUTFLOWS OF RESOURCES	 <u>5,496,012</u>
 LIABILITIES	
Current Liabilities	
Accounts Payable	10,479,165
Estimated Claims Payable	128,817,798
Unearned Premium	60,733,363
Securities Lending Liability	12,435,928
Other Current Liabilities	3,295,705
Total Current Liabilities	<u>215,761,959</u>
Noncurrent Liabilities	
Estimated Claims Payable	795,574,688
Reinsurance Funds Withheld	58,283,520
Net Pension Liability	27,393,619
Other Noncurrent Liabilities	7,970,377
Total Noncurrent Liabilities	<u>889,222,204</u>
Total Liabilities	<u>1,104,984,163</u>
 DEFERRED INFLOWS OF RESOURCES	 <u>3,101,722</u>
 NET POSITION	
Net Investment in Capital Assets	44,346,747
Unrestricted	469,580,046
Total Net Position	<u><u>\$ 513,926,793</u></u>



Statement of Revenues, Expenses, and Changes in Fund Net Position
Montana State Fund is a component unit of the State of Montana

	For the Year Ended December 31, 2022
Net Premiums Earned	\$ 168,470,070
Operating Expenses	
Benefits and Claims	102,529,521
Personal Services	34,879,635
Contractual Services	16,574,747
Supplies and Materials	962,078
Communications	1,359,793
Travel	204,551
Rent and Utilities	339,369
Repair and Maintenance	1,966,827
Depreciation and Amortization	6,745,799
Dividend Expense	30,014,316
Other Operating Expenses	5,540,469
Total Operating Expenses	<u>201,117,105</u>
Operating Income (Loss)	(32,647,035)
Nonoperating Revenue (Expenses)	
Investment Income (Loss)	(123,527,415)
Securities Lending Income	167,280
Securities Lending Expenses	(25,053)
Loss on Retirement of Assets	(5,756)
Other Income	1,424,743
Total Nonoperating Revenue (Expenses)	<u>(121,966,201)</u>
Change in Net Position	(154,613,236)
Total Net Position - Beginning	668,540,029
Total Net Position - Ending	<u><u>\$ 513,926,793</u></u>

YEAR ENDED DECEMBER 31,	<u>2022</u>
Cash Flows from Operating Activities	
Receipts for Premiums	\$ 163,397,909
Payments for Claims	(113,159,719)
Payments to Employees	(33,647,086)
Payments to Suppliers for Goods and Services	(27,267,306)
Payments for Dividends	(30,009,202)
Other Operating Receipts	<u>1,662,483</u>
Net Cash Provided by (Used for) Operating Activities	(39,022,921)
Cash Flows from Capital and Related Financing Activities	
Acquisition of Fixed Assets	<u>(837,187)</u>
Net Cash Used for Capital and Related Financing Activities	(837,187)
Cash Flows from Investing Activities	
Purchase of Investments	(290,724,334)
Proceeds from Sales or Maturities of Investments	302,652,666
Interest and Dividends on Investments	<u>35,158,865</u>
Net Cash Provided by (Used For) Investing Activities	<u>47,087,197</u>
Net Increase (Decrease) in Cash and Cash Equivalents	7,227,089
Cash and Cash Equivalents - January 1	<u>26,827,939</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 34,055,028</u></u>

YEAR ENDED DECEMBER 31,

2022

**Reconciliation of Change in Net Position to
Net Cash Provided by (Used for) Operating Activities**

Change in Net Position \$ (154,613,236)

**Adjustments to Reconcile Change in Net Position to Net
Cash Provided by (Used for) Operating Activities**

Depreciation and Amortization	6,745,799
Loss on Sale of Fixed Assets	5,756
Income on Investments	123,385,188
Decrease (Increase) in	
Accounts Receivable	(2,944,151)
Reinsurance Receivables	8,023,841
Deferred Outflows of Resources	1,302,513
Other Assets	8,392
Increase (Decrease) in	
Accounts Payable	(2,169,263)
Unearned Premium	133,963
Property Held in Trust	21,589
Reinsurance Funds Withheld	(7,034,419)
Estimated Claims Payable	(11,584,302)
Deferred Inflows of Resources	(5,895,592)
Pension Liabilities	6,539,133
OPEB Liability	(483,851)
Lease Liability	(234,627)
Compensated Absences	(229,654)

Total Adjustments 115,590,315

Net Cash Provided by (Used for) Operating Activities \$ (39,022,921)

Montana State Fund
(A Component Unit of the State of Montana)
Notes to Financial Statements
December 31, 2022

1. Summary of Significant Accounting Policies

Description of Business

The Montana State Fund (MSF) is a nonprofit, independent public corporation established under Title 39, chapter 71 of the Montana Code Annotated (MCA). MSF provides Montana employers with an option for workers' compensation and occupational disease insurance and guarantees available coverage for all employers in Montana. MSF is a discretely presented component unit of the State of Montana and results are included in the State's Annual Comprehensive Financial Report because of the significance of MSF's financial relationship with the State. MSF is governed by a seven member Board of Directors appointed by the Governor. The Board has full power, authority, and jurisdiction in the administration of MSF. MSF's Board is allocated to the State of Montana, Department of Administration for administrative purposes only.

In 1990 legislation passed establishing separate funding and accounts for claims of injuries resulting from accidents occurring before July 1, 1990, referred to as the Old Fund, and claims occurring on or after July 1, 1990, referred to as the New Fund. Hereafter, any reference to MSF refers to the New Fund or those claims occurring on or after July 1, 1990.

MSF functions as an autonomous insurance entity supported solely from its own revenues. All assets, debts, and obligations of MSF are separate and distinct from assets, debts, and obligations of the State of Montana. MSF administers and manages the claims remaining in the Old Fund for the State of Montana. Other than the administrative fees paid for the management of the Old Fund claims, no State of Montana General Fund money is used for MSF operations.

Effective January 1, 2016, MSF became an authorized insurer regulated by the Montana State Auditor's Office and is subject to the provisions of Title 33, Montana Insurance Code. As a result, MSF reports financial results on a calendar year basis instead of using the State's fiscal year ending June 30th.

Basis of Presentation

The financial statements are presented in accordance with generally accepted accounting principles (GAAP) as prescribed by GASB. MSF insurance operations are classified as one of the State's enterprise funds, in the proprietary fund category. The financial statements in this report reflect the financial position and results of operations and cash flows of MSF for the year ending December 31, 2022.

Basis of Accounting

MSF uses the accrual basis of accounting, as defined by GAAP, for its workers' compensation insurance operations. Under the accrual basis, revenues are recorded in the accounting period earned, if measurable, and expenses are recorded in the period incurred, if measurable.

Montana State Fund
(A Component Unit of the State of Montana)
Notes to Financial Statements
December 31, 2022

Cash and Cash Equivalents

Cash balances include funds held by the State Treasury. Cash equivalents are short-term, highly-liquid investments that are both readily-convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value. MSF participates in the Montana Board of Investments' Short Term Investment Pool (STIP), an external investment pool. STIP is managed and administered under the direction of the Montana Board of Investments (BOI) as authorized by the Unified Investment Program. STIP is a commingled pool for investment purposes and requested redemptions from the pool are redeemed the next business day. The STIP portfolio is reported at net asset value. STIP balance as of December 31, 2022, was \$29.4M.

Investments

MSF holds investments in long-term debt securities, mutual funds, and real estate partnerships through the BOI. Under the provisions of the state constitution, MSF's invested assets are managed by the BOI. Securities are stated at fair value. Premiums and discounts are amortized using the scientific method over the life of the securities.

The investment risk disclosures are described in the following paragraphs.

Credit Risk

Credit risk is the risk that an issuer or other counterparties to an investment will not fulfill its obligation. Except for U.S. Government securities, MSF's fixed income instruments have credit risk as measured by Nationally Recognized Statistical Rating Organizations (NRSRO) ratings. Credit risk is managed by constraining portfolio purchases around investment-grade NRSRO ratings, as appropriate.

The U.S. Government guarantees its securities directly or indirectly. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit risk.

MSF's investment policy requires investment grade fixed income investments, at the time of purchase, to be rated investment grade by two NRSROs.

Asset-backed securities are bonds backed by cash flows from principal and interest payments emanating from a trust containing a pool of underlying assets. These securities, while sensitive to prepayments due to interest rate changes, generally have less credit risk than unsecured bonds. Their credit risk is based on the structure itself rather than balance sheet risk. This includes factors such as default rates, over collateralization, and quality of collateral.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, BOI may not be able to recover the value of the investment or collateral securities that are in possession of

Montana State Fund
(A Component Unit of the State of Montana)
Notes to Financial Statements
December 31, 2022

an outside party. Per policy, BOI's custodial bank must be rated at the 6th investment grade rating by at least two NRSROs on an annual basis.

As of December 31st, all of the cash and investment funds were registered in the nominee name for the Montana Board of Investments and held in possession of BOI's custodial bank. MSF's cash deposits are insured by the Federal Deposit Insurance Corporation up to applicable limits. Any amount over those limits is collateralized by US Bank.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of any single investment per issuer name. Excluded from the concentration of credit risk requirement are investments explicitly guaranteed by the U.S. Government. MSF's investment policy addresses this risk by limiting a maximum of 3% of the market value of the portfolio to any single parent company issuer. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirements.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. BOI uses weighted effective duration as a measure of interest rate risk for the MSF portfolio.

MSF's investment policy states the duration is to remain within 20% of the Bloomberg Barclays Intermediate US Aggregate Bond Index benchmark in duration.

According to the STIP Investment Policy, interest rate risk is minimized by:

- 1) structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations, thereby normally avoiding the need to sell securities on the open market prior to maturity;
- 2) maintaining a dollar-weighted average portfolio maturity of 120 days or less ; and
- 3) maintaining a reserve account.

The fixed coupon holdings pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. The portfolio held certain variable rate issues. Interest payments on these securities are based on an underlying reference rate.

Investments at fair value are categorized to disclose credit risk and interest rate risk on the following table for fixed income securities. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration. NRSRO provides the credit ratings presented in the following tables.

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<u>Security Investment Type</u>	<u>Fair Value (in thousands)</u>	<u>Credit Quality Rating</u>	<u>Effective Duration</u>
Treasuries	\$ 207,293	AAA	6.54
Agency/Government Related	93,960	AAA	2.45
Asset Backed Securities	67,022	AAA	2.61
Mortgage Back Securities - Noncommercial	225,630	AAA	5.42
Mortgage Back Securities - Commercial	27,583	AAA	4.72
Corporate-Financial	170,865	A-	2.61
Corporate-Industrial	285,681	BBB+	4.13
Corporate-Utility	7,113	BBB-	2.68
Total Fixed Income Investments	<u>\$ 1,085,147</u>		
Short-term Investment Pool (Unrated)	\$ 29,422	N/A	0.17

Securities Lending

MSF participates in a securities lending program through the BOI. The BOI is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, to lend securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102% of the fair value of domestic securities and 105% of the fair value of international securities while the securities are on loan. On any day, including December 31st, the markets may move in a positive or negative direction resulting in under or over collateralization. The custodial bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. BOI and the custodial bank split the securities lending earnings, 80/20% from January 1st to March 31st and 85%/15% from April 1st to December 31st, respectively. BOI retains all rights and risks of ownership during the loan period. The custodial bank indemnifies BOI's credit risk exposure to borrowers.

During the year, the custodial bank loaned MSF's public securities and received as collateral: U.S. dollar cash; U.S. Government and government-sponsored agency securities; U.S. corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the Group of Ten nations; and debt securities issued by certain supranational agencies. The custodial bank cannot sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the number of securities available to lend during the year ended December 31, 2022. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of default of the borrower. There were no losses during the year ended December 31, 2022, resulting from a borrower default. As of December 31, no securities were recalled and not yet returned.

The cash collateral received for each loan was invested, together with cash collateral of other qualified plan lenders, in an investment fund, the Navigator Securities Lending Government Money Market

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(Navigator) portfolio.

The following table presents the market values of the securities on loan and the total collateral held as of December 31, 2022:

	<u>Amount</u>
Fair Value On Loan	\$ 85,897,833
Collateral Cash	12,435,928
Collateral Securities	<u>76,790,325</u>
Collateral Total	\$ 89,226,253
% of Fair Value	104 %

BOI and the borrowers maintain the right to terminate all securities lending transactions on notice. Since the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. As of December 31, 2022, the Navigator portfolio's average duration was 4 days, and its average weighted final maturity was 14 days.

Income earned related to securities lending for the year ended December 31, 2022, was \$167K. Expenses related to securities lending for the year ended December 31, 2022, were \$25K.

Receivables

At December 31, 2022, MSF had a net receivable balance of \$85.2M. The gross receivables for billed premium and unbilled premium were \$842K and \$78.6M, respectively. Other receivables include \$6.1M in investment income due, \$248K in retrospective premium, and claim benefit overpayments of \$1.4M, all of which are short term. Receivables for unbilled premium include \$5.3M at December 31, 2022, for premium that is earned but unbilled (EBUB). Gross receivables are reduced by the estimated uncollectible receivables, or allowance for doubtful accounts, of \$2.0M.

Reinsurance Receivables

As part of the aggregate stop loss reinsurance program, MSF records a receivable for each contract year's funds withheld amount until the loss performance for that contract year is known. The receivable is increased as interest accrues and decreased with the development of a recoverable or in the event of a commutation. The reinsurance receivables were \$57.3M at December 31, 2022.

Equipment, Accumulated Depreciation and Intangible Assets

Equipment and intangible assets are capitalized if the actual or estimated historical unit cost exceeds \$5K and \$100K, respectively. Depreciation expense is computed on a straight-line basis for equipment over a period of three to ten years and amortization of intangible assets is computed on a straight-line basis over four years. Amortization of intangible assets is recorded directly to the asset balance. All fixed assets are shown net of depreciation.

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Construction Work in Process

Costs for capitalized equipment and intangible assets are recorded as construction work in process if the asset is not placed in service by the end of the reporting year. Depreciation or amortization begins once the asset is placed in service.

Other Assets

Other assets include advances and prepaid expenses.

Land and Buildings

As of December 31, 2022, MSF financial statements include \$1.1M in land and \$21.3M in buildings, net of depreciation. Buildings are depreciated on a straight-line basis over a period of 50 years. For additional disclosure related to capital assets, see Note 3.

Accounts Payable

Accounts payable is a short-term liability account reflecting amounts owed for goods and services received by MSF.

Estimated Claims Payable

The estimated claims payable, also called loss reserves, is established to provide for the estimated ultimate settlement cost of all claims incurred. Estimated claims payable is based on reported aggregate claim cost estimates combined with estimates for future development of such claim costs and estimates of incurred but not reported (IBNR) claims. WTW, an external actuarial firm, prepares an actuarial study that provides a range of potential costs associated with reported claims, the future development of those claims, and IBNR. The MSF Board of Directors approved estimates within that range as the estimated claims payable for MSF. The claim costs estimated to be paid in the next year are displayed in Current Liabilities as Estimated Claims Payable and the remainder of the total is shown in Noncurrent Liabilities. For additional disclosure related to the estimated claims payable, refer to Note 5.

Unearned Premium

Unearned premium reflects premium that has been written but not yet earned. The unearned premium was \$60.7M at December 31, 2022.

Reinsurance Funds Withheld

Reinsurance funds withheld represents the reinsurance funds held on behalf of the reinsurer, a requirement of MSF's aggregate stop-loss reinsurance contract. Additional information regarding the funds withheld account can be found in Note 4.

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Net Position

Net Position consists of the net excess or deficit of assets plus deferred outflows of resources over liabilities plus deferred inflows of resources. Net Position as of December 31, 2022, was \$513.9M.

Premiums

The MSF Board of Directors approves premium rates annually. These rates are then filed with the Montana State Auditor's Office for approval in accordance with MCA, Title 33. Generally, policies are effective for the term of the policy period not to exceed 12 months. Premium revenue is recognized over the term of the policy year as it is earned or when MSF is liable for coverage.

Policyholders are contractually obligated to pay certain premiums to MSF in advance of the period the premiums are earned. Premium advances are refundable when the policyholder's coverage is canceled and all earned premiums have been credited by MSF.

Premium Deficiency Reserve

MSF evaluates each policy year to determine whether the sum of expected claim costs, claim adjustment expenses, and expected dividends exceeds related unearned premiums. Anticipated investment income is included in the analysis. As of December 31, 2022, no premium deficiency exists.

Acquisition Costs

Costs that are primarily related to acquisition of new and renewal policies, such as commissions, underwriting, and policy issuance are recognized as outflows of resources in the period they are incurred.

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2. Investments

The Company has the following recurring fair value measurements as of December 31, 2022 (in thousands):

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable
		(Level 1)	(Level 2)	(Level 3)
<u>Investments by fair value level</u>				
Fixed Income Investments				
Treasuries	\$ 207,293	\$ 207,293		
Agency/Government related	93,960		93,960	
Asset-backed securities	67,022		67,022	
Mortgage-backed securities-noncommercial	225,630		225,630	
Mortgage-backed securities-commercial	27,583		27,583	
Corporate-Financial	170,865		170,865	
Corporate-Industrial	285,681		285,681	
Corporate-Utility	7,113		7,113	
Domestic equity investments	134,817	134,817		
International equity investments	40,078	40,078		
Total investments by fair value level	1,260,042	382,188	877,854	—
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
<u>Investments measured at the net asset value (NAV)</u>				
Core real estate	118,944	None	Monthly, Quarterly	45-90 days
Cash equivalents held at custodial bank (STIP)	29,374	None	Daily	1-3 days
Total Investments at NAV	148,318			
Total investments at fair value	1,408,360			
<u>Investments at cost</u>				
Cash and cash equivalents	1,904			
Total investments not categorized	1,904			
Total investments	\$ 1,410,264			

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MSF categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as follows:

- Level 1- Quoted prices for identical assets or liabilities in active markets.
- Level 2- Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly. These inputs can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs.
- Level 3- Prices determined using unobservable inputs.

Fixed income investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. MSF does not classify any holdings within Level 3 of the fair value hierarchy.

MSF holds two commingled equity index funds which invest in domestic equities and funds that invest in international equities. The fair values of the investments of this type have been determined using quoted market prices of the underlying securities in each investment pool.

MSF holds five core real estate funds which make equity investments in operating and substantially-leased institutional-quality real estate in the traditional property types (apartments, office, retail, industrial and hotel) through commingled funds. The primary investment objectives of these core real estate funds are to invest in real estate that will generate income from predictable sources of revenue and not realize gains on the underlying assets. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. The fair values of the investments in this category use the NAV per share (or its equivalent) of MSF's ownership interest in the partners' capital. Redemption of these investments is restricted based on the availability of cash flow arising from investment transactions, sales, and other fund operations occurring in the ordinary course of business. Therefore, requested redemptions from a fund will be redeemed as funds become available.

In October 2019, a full redemption request for approximately \$25 million was submitted for one core real estate fund. As of December 31, 2022, \$8.7 million has been redeemed. BOI is confident that the full redemption will be received over a reasonable period. As of December 31, 2022, there are no unfunded commitments.

The Short Term Investment Program (STIP) is managed and administered under the direction of the BOI as authorized by the Unified Investment Program. It is an external investment pool for investment purposes and requested redemptions from the pool are redeemed the next business day. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the investment.

The amortized cost and estimated market value of MSF's fixed maturity securities as of December 31, 2022, are shown below at contractual maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or

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prepayment penalties.

	<u>Amortized Cost</u>	<u>Market Value</u>
Due one year or less	\$ 83,457,680	\$ 83,474,828
Due after one year through five years	381,855,902	380,323,246
Due after five years through ten years	388,403,830	379,750,075
Due after ten years	339,059,452	342,437,265
Total	<u>\$ 1,192,776,864</u>	<u>\$ 1,185,985,414</u>

During the year ended December 31, 2022, MSF realized gross gains from sales of securities of \$7.5M and gross realized losses of \$(11.6)M. During the year ended December 31, 2022, net investment loss for MSF was \$(123.5)M, which is comprised of investment income of \$31.4M and unrealized losses on investments in the amount of \$(154.9)M.

3. Capital Assets

Changes in capital asset balances for the year ended December 31, 2022 are reflected in the following table:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 1,139,460	\$ —	\$ —	\$ 1,139,460
Construction Work in Process	—	195,960	—	195,960
Total capital assets not being depreciated	<u>1,139,460</u>	<u>195,960</u>	<u>—</u>	<u>1,335,420</u>
Capital assets being depreciated:				
Buildings/improvements	27,941,323	—	—	27,941,323
Equipment, furniture, and vehicles	7,700,918	52,356	—	7,753,274
Software	36,056,681	588,871	—	36,645,552
Intangible right-to-use leased buildings	5,194,172	270,798	(48,050)	5,416,920
Intangible right-to-use leased equipment	60,846	—	(60,846)	—
Total capital assets being depreciated	<u>76,953,940</u>	<u>912,025</u>	<u>(108,896)</u>	<u>77,757,069</u>
Less accumulated depreciation for:				
Buildings/improvements	(6,149,420)	(530,886)	—	(6,680,306)
Equipment, furniture, and vehicles	(6,140,552)	(428,659)	—	(6,569,211)
Software	(15,168,279)	(5,515,408)	—	(20,683,687)
Intangible right-to-use leased buildings	(549,558)	(297,926)	34,946	(812,538)
Intangible right-to-use leased equipment	(34,794)	—	34,794	—
Total accumulated depreciation	<u>(28,042,603)</u>	<u>(6,772,879)</u>	<u>69,740</u>	<u>(34,745,742)</u>
Total capital assets being depreciated, net	<u>48,911,337</u>	<u>(5,860,854)</u>	<u>(39,156)</u>	<u>43,011,327</u>
Total capital assets, net	<u><u>50,050,797</u></u>	<u><u>(5,664,894)</u></u>	<u><u>(39,156)</u></u>	<u><u>44,346,747</u></u>

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4. Reinsurance

For the year ended December 31, 2022, MSF ceded premiums of \$2.0M to reinsurance companies to limit the exposure arising from large losses. This arrangement, an excess of loss contract, provides coverage up to \$100 million with an MSF retention of \$10 million on the first layer of coverage. The excess of loss protection applies to an individual occurrence with a maximum of \$10 million on any one life.

In addition to the current year excess of loss contract, MSF has reinsurance contracts from prior years that are still in-force. Historic excess of loss contracts provide various levels of coverage for certain accident years dating back to 1992, while historic aggregate stop loss contracts are in force for accident years 2015-2021. These aggregate stop loss contracts required MSF to maintain a funds withheld liability account which represents the basic premium portion of the total premium paid for aggregate stop loss coverage. The funds withheld liability account at December 31, 2022, is \$58.3M. Interest must be accrued on the funds withheld account which resulted in accrued interest of \$2.6M for the year ended December 31, 2022. Furthermore, MSF records a reinsurance receivable for each contract year's funds withheld amount until the loss performance for that contract year is known. The receivable is increased as interest accrues and decreased with the development of a recoverable or in the event of a commutation. The reinsurance receivables were \$57.3M at December 31, 2022.

Estimated claim reserves were reduced by \$642K as of December 31, 2022, for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contracts and \$989K due to the aggregate stop loss contracts. In the event reinsurers are unable to meet their obligations under any reinsurance contract, MSF remains liable for all losses, as the reinsurance agreement does not discharge MSF from its primary liability to the policyholders.

MSF also has assumed reinsurance relationships with Zurich American Insurance Company and Argonaut Insurance Company related to Other States' Coverage (OSC). MSF assumes risk related to Montana-domiciled businesses with operations in other states, which are then covered under MSF's ceded reinsurance contract. For the year ended December 31, 2022, assumed premium is \$3.0M and incurred losses from OSC benefits were \$407K. The assumed liability for OSC claims was \$3.5M at December 31, 2022.

5. Risk Management

MSF provides liability coverage to employers for injured employees that are insured under the Workers' Compensation and Occupational Disease Acts of Montana. Workers' compensation claims occurring on or after July 1, 1990, are reported in the MSF financial statements. At December 31, 2022, approximately 23,000 active policies were insured by MSF.

MSF is a self-supporting, competitive workers' compensation carrier and functions as the guaranteed market insurer for employers since workers' compensation coverage is mandated in Montana. Employers may obtain coverage through private carriers, through MSF, or through self-funding if they meet certain

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criteria. State of Montana agencies are required by law to insure through MSF.

Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other social and economic factors. WTW, an external actuarial firm, prepares an actuarial study used to estimate liabilities and the ultimate cost of settling claims reported but not settled and claims incurred but not reported (IBNR) for MSF as of December 31, 2022. Because actual claim costs depend on such complex factors such as inflation, duration, and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience.

WTW provides a range of potential costs associated with reported claims, the future development of those claims, and IBNR. The MSF Board of Directors approved an estimate within that range as the estimated claims payable, consisting of unpaid claims and claim adjustment expenses, for December 31, 2022. The MSF estimated unpaid claims and claims adjustment expenses payable presented at face value, net of estimated reinsurance recoverable were \$924.4M, as of December 31, 2022. The Statement of Net Position displays this total separated as current and noncurrent estimated claims payable.

State law (Section 39-71-2311, MCA) requires MSF to set premiums at least annually at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect. Anticipated investment income is considered when computing premium rate levels. State law also requires the MSF Board of Directors to maintain surplus above risk-based capital requirements to secure MSF against risks inherent in the business of insurance.

Changes in Claims Liabilities

The following table presents changes in the aggregate liabilities for MSF, net of estimated reinsurance recoverable. The information presented has not been discounted.

	<u>2022</u>
Unpaid claims and claim adjustment expenses at beginning of period	\$ 935,976,788
Incurred claims and claim adjustment expenses:	
Provision for insured events of the current year	129,509,044
Increase(Decrease) in provision for events in prior years	<u>(26,979,526)</u>
Total incurred claims and claim adjustment expenses	102,529,518
Payments:	
Claims and claim adjustment expenses attributable to insured events of the current year	(25,836,294)
Claims and claim adjustment expenses attributable to insured events of prior years	<u>(88,277,526)</u>
Total payments	(114,113,820)
Total unpaid claims and claim adjustment expenses at the end of the period	<u><u>\$ 924,392,486</u></u>

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6. Administrative Cost Allocation

State law (Section 39-71-2352, MCA) requires MSF to separately determine and account for administrative expenses and benefit payments for claims for injuries resulting from accidents occurring before July 1, 1990, (Old Fund) from those occurring on or after July 1, 1990, (MSF). MSF allocated \$498K in administration costs to the Old Fund for the year ended December 31, 2022. The administration costs are recorded in non-operating revenue as other income. The State of Montana General Fund is responsible for the cost of administering and paying the Old Fund claim benefits.

7. MSF Distributions

In September 2022 the MSF Board of Directors declared a \$30M dividend to eligible policyholders for the policy year 2020. As of December 31, 2022 \$6K remained to be paid.

8. Compensated Absences

MSF supports two leave programs, the State of Montana Leave Program (Traditional Plan) and the MSF Personal Leave Program, implemented in January 2002. The State of Montana Leave Program covers union represented employees who have elected to remain in the plan. These employees accumulate both annual leave and sick leave and MSF pays employees 100% of unused annual leave and 25% of unused sick leave upon termination. MSF also pays 100% of unused compensatory leave credits upon termination to non-exempt employees in the Traditional Plan. The MSF Personal Leave Program covers all non-union employees, union employees hired before July 26, 2006, who have elected to adopt the plan, and all employees hired after July 25, 2007. Employees in the Personal Leave Program accumulate personal leave and extended leave. MSF pays employees for 100% of unused personal leave upon termination, but extended leave has no cash value at the time of termination.

The total MSF compensated absences liability is \$4.1M as of December 31, 2022.

9. Retirement Plans

MSF and its employees contribute to the Public Employees' Retirement System (PERS), which offers two types of retirement plans administered by the Public Employees' Retirement Board (PERB), a defined benefit retirement plan (PERS-DBRP) and a defined contribution retirement plan (PERS-DCRP).

Defined Benefit Retirement Plan

Benefits provided. The PERS-DBRP is a multiple-employer, cost-sharing plan that provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established in state law and may only be amended by the State of Montana Legislature. Members are vested after five years of membership service, which entitles the member to an accrued normal retirement benefit payable at age 60 (or age 65 if hired after June 30, 2011). A member may receive a refund of accumulated contributions in lieu of a pension, thereby forfeiting the right to a monthly benefit. A description of the benefits and eligibility rules for the plan are shown in the following table:

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Eligibility for benefit

Service retirement:

- Hired prior to July 1, 2011: Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.
- Hired on or after July 1, 2011: Age 65, 5 years of membership service; Age 70, regardless of membership service.

Early retirement:

- Hired prior to July 1, 2011: Age 50, 5 years of membership service; or Any age, 25 years of membership service.
- Hired on or after July 1, 2011: Age 55, 5 years of membership service.

Second Retirement (requires returning to PERS-covered employer or PERS service):

Retire before January 1, 2016, and accumulate less than 2 years additional service credit or retire on or after January 1, 2016, and accumulate less than 5 years additional service credit:

- A refund of member's contributions plus return interest (currently 2.02% effective July 1, 2018).
- No service credit for second employment;
- Start the same benefit amount the month following termination; and
- Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.

Retire before January 1, 2016, and accumulate at least 2 years of additional service credit:

- A recalculated retirement benefit based on provisions in effect after the initial retirement; and
- GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.

Retire on or after January 1, 2016, and accumulate 5 or more years of service credit:

- The same retirement as prior to the return to service;
- A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
- GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Member's highest average compensation (HAC)

- Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;

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- Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

Compensation Cap

- Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's highest average compensation.

Monthly benefit formula

- Members hired prior to July 1, 2011
 - Less than 25 years of membership service: 1.785% of HAC per year of service credit;
 - 25 years of membership service or more: 2% of HAC per year of service credit.
- Members hired on or after July 1, 2011
 - Less than 10 years of membership service: 1.5% of HAC per year of service credit;
 - 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
 - 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007, and June 30, 2013
- Members hired on or after July 1, 2013:
 - a. 1.5% for each year PERS is funded at or above 90%;
 - b. 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and
 - c. 0% whenever the amortization period for PERS is 40 years or more.

There have been no changes to benefit terms since the prior measurement date.

Contributions. Contribution requirements for the plan are established in Montana Code Annotated Title 19, Chapter 3, Part 3, and can only be amended by the State of Montana Legislature. All members contribute 7.9% of their compensation. This is a temporary 1% increase for members hired prior to July 1, 2011, and remains the same for members hired on or after July 1, 2011. Interest is credited to member accounts at the rates determined by the PERB. All member contributions will be decreased to 6.9% on January 1 following the actuarial valuation results that project the amortization period to drop below 25 years and remain below following the termination of the 1% additional member contribution rate.

MSF contributes 8.97% of each member's compensation. This was increased from 6.9% to 7.035% on July 1, 2007, 7.17% on July 1, 2009, and to 8.17% on July 1, 2013. The rate will continue to increase .1% each year until 2024. These increased contributions will terminate on January 1 following the actuarial valuation results that project the amortization period to drop below 25 years and remain below following the termination of the additional employer contribution rates. The State also contributes a statutory appropriation from the general fund. The plan recognized \$1,800,548 in MSF (employer) contributions

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during the plan year ended June 30, 2022.

Actuarial assumptions. The Total Pension Liability (TPL) used to calculate the Net Pension Liability (NPL) was determined by taking the results of a June 30, 2022 actuarial valuation. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2022 valuation were based on the results of the last actuarial experience study, dated May 2022, for the five-year period ending 2021. Among those assumptions were the following:

- Investment Return (net of admin expense) 7.30%
- Admin Expense as % of Payroll 0.29%
- General Wage Growth (includes inflation at 2.75%) 3.50%
- Merit Increases 0% to 4.8%
- Postretirement Benefit Increases:
 - Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other all adjustments to the member's benefit.
 - 3.0% for members hired prior to July 1, 2007
 - 1.5% for members hired between July 1, 2007, and June 30, 2013
 - Members hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% reduced by 0.1% for each 2.0% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members were based on PUB-2010 General Amount Weighted Employer Mortality projected to 2021 and projected generationally using MP-2021.
- Mortality assumptions among disabled members were based on PUB-2010 General Amount Weighted Disabled Retiree mortality table, projected to 2021, set forward one year.

Changes in actuarial assumptions and methods. Since the last actuarial valuation, the discount rate was increased from 7.06% to 7.30% and the investment rate of return was increased from 7.06% to 7.30%. Mortality tables were updated to the PUB-2010 tables, and withdrawal, retirement, and disability rates were updated. The payroll growth assumption was lowered from 3.50% to 3.25%. The inflation rate was increased from 2.40% to 2.75%.

Discount rate. The discount rate used to measure the TPL was 7.30%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities would be made based on the Board's funding policy, which established the contractually required rates under the Montana Code Annotated. The State contributed 0.10% of the salaries paid by local governments and 0.37% paid by school districts. In addition, the State contributed a statutory appropriation from the general fund. Based on those assumptions, the Plan's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2126. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A

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municipal bond rate was not incorporated in the discount rate.

Target allocations. The long-term expected rate of return on pension plan investments is reviewed as part of regular experience studies. The long-term rate of return as of June 30, 2022 is based on analysis in the experience study report dated May 2, 2022 without consideration for the administrative expense analysis shown. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the underlying inflation assumption, or a fundamental change in the market that alters expected returns in future years. Expected real rates of return for each major asset class included in the target asset allocation as of June 30, 2022, are summarized below.

Asset Class	Target Allocation	Expected Rate of Return
Cash	3.0 %	(0.33)%
Domestic Equity	30.0 %	5.90 %
International Equity	17.0 %	7.14 %
Private Investments	15.0 %	9.13 %
Real Assets	5.0 %	4.03 %
Real Estate	9.0 %	5.41 %
Core Fixed Income	15.0 %	1.14 %
Non-Core Fixed Income	6.0 %	3.02 %
Total	100.0 %	

The following table displays MSF's proportionate share of the net pension liability using the 7.30% discount rate as well as the proportionate share using 6.30% and 8.30%, a decrease of 1% and an increase of 1%, respectively.

	1% Decrease (6.30%)	Discount Rate (7.30%)	1% Increase (8.30%)
MSF's Proportionate Share of the Net Pension Liability	\$39,489,180	\$27,393,619	\$17,245,589

Plan fiduciary net position. The financial statements of the Montana Public Employees Retirement Board (PERB) Annual Comprehensive Financial Report (ACFR) and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at PO Box 200131, Helena MT 59620-0131, (406) 444-3154 or both are available on the MPERA website at <http://mpera.mt.gov>

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Pension liabilities, expense, and deferred inflows and outflows of resources. At December 31, 2022, MSF reported a liability for its proportionate share of the plan's total net pension liability based on the ratio of MSF's contributions to the sum of all employer and non-employer contributions during the measurement period. The State of Montana's proportionate share associated with MSF represents the ratio of contributions for MSF to the total State contributions paid. The following table displays the proportionate shares:

	Net Pension Liability	Percent of Collective NPL	Change in Percent of Collective NPL Since Prior Meas.
MSF Proportionate Share	\$ 27,393,619	1.152016 %	0.001878 %
State of Montana Proportionate Share Associated with MSF	7,871,173	0.331016 %	0.005439 %
Total	\$ 35,264,792	1.483032 %	0.007317 %

The NPL was measured as of June 30, 2022, and the TPL used to calculate the NPL was determined by an actuarial valuation as of June 30, 2022. No roll-forward procedures were used. There were no significant events between the measurement date and reporting date that are expected to have an impact on MSF's proportionate share of the liability.

For the year ended December 31, 2022, MSF recognized pension expense of \$3,737,170, consisting of \$2,921,318 for its proportionate share of the Plan's pension expense and \$815,852 for the support provided by the State of Montana General Fund. At December 31, 2022, MSF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experiences	\$ 349,213	\$ —
Changes of assumptions	1,020,853	2,005,465
Actual vs. Expected Investment Earnings	805,088	—
Changes in Proportion and Differences Between Actual Contributions and Proportionate Share Contributions	244,465	—
Contributions Subsequent to the Measurement Date	933,883	—
Total	<u>\$ 3,353,502</u>	<u>\$ 2,005,465</u>

The \$933,883 reported as deferred outflows of resources related to pensions resulting from MSF contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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State of Montana's year ended June 30:

2023	\$ 529,909
2024	\$ (1,080,444)
2025	\$ (868,326)
2026	\$ 1,833,014
Thereafter	\$ —

Defined Contribution Retirement Plan

The PERS-DCRP is a multiple-employer plan that provides retirement, disability and death benefits to plan members and their beneficiaries. Benefit terms are established in state law by the State of Montana Legislature. Those terms are as follows:

Eligibility for benefit

Termination of service

Vesting

Immediate for participant's contributions and attributable income;

5 years of membership service for the employer's contributions to individual accounts and attributable income.

Benefit

Depends upon eligibility and individual account balance;

various payout options are available, including: taxable lump sums, periodic payments per participant direction and IRS permitted rollovers.

Member and employer contribution rates are established in state law by the State of Montana Legislature. The member contribution rate for the year ended December 31, 2022, was 7.9% of member compensation, while the MSF contribution rate was 8.97% of member compensation for the first half of the year and 9.07% for the second half. Both the member and employer rates have been temporarily increased by the Legislature and will decrease to 6.9% on January 1 following actuarial valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and will remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

For the year ended December 31, 2022, MSF contributed \$2.2M to the defined benefit and defined contribution plans combined. MSF cannot determine the portion of that total that relates to the defined contribution plan. Of that amount, \$87K remains outstanding at December 31, 2022.

Deferred Compensation Plan

MSF and its employees are eligible to participate in the State of Montana 457(b) Deferred Compensation Plan administered by the PERB. The Deferred Compensation plan is a voluntary, tax-deferred

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supplemental retirement plan sponsored by the Montana Public Employee Retirement Board and held in trust for the exclusive benefit of public employees and their beneficiaries. The Plan is authorized by IRC Section 457(b) and is subject to specific Internal Revenue Service's laws and requirements. It allows employees to voluntarily contribute a portion of their compensation on a pre-tax basis. The amount invested, plus interest credited on any fixed options and any gain on the variable options, is not taxable until withdrawn at a future date. MSF incurs no costs for this plan. A summary of eligibility and benefits is shown in the following table:

Contribution

Voluntary, pre-tax deferral or designated Roth contribution.

Eligibility for benefit

Not available to participant until separation from service, retirement, death, or upon an unforeseeable emergency, while still employed, provided IRS-specified criteria are met.

Vesting

Participants are fully vested in their accounts immediately.

Benefit

Lump sum or periodic benefit payment at the option of the participant. Based on individual account balances and plan provisions. IRS permitted rollovers are also possible.

10. Leases and Commitments

MSF enters into various lease contracts to obtain the right to use assets such as office facilities outside of Helena, minor office equipment, and parking spaces. In accordance with GASB Statement No. 87, MSF records a right-to-use lease asset and a lease liability for all material long-term leases. The assets are amortized over the term of the lease, while the liabilities are reduced as scheduled lease payments are made. The total amounts of lease assets and associated accumulated amortization by major asset class are disclosed in Note 3. Short-term leases are recognized as outflows of resources at the time of payment.

MSF leases parking spaces from the City of Helena in a parking garage adjacent to the MSF facility. The cost of the parking spaces is the same monthly rate as equivalent parking passes sold by the City and has the potential to change based on parking rates assigned by the Helena Parking Commission until the lease expires on June 30, 2040.

The future principal and interest requirements for all long-term leases are as follows:

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	Principal	Interest	Total
2023	\$ 238,498	\$ 76,502	\$ 315,000
2024	242,433	72,567	315,000
2025	246,434	68,566	315,000
2026	250,500	64,500	315,000
2027	254,633	60,367	315,000
2028 - 2032	1,337,590	237,410	1,575,000
2033 - 2037	1,451,643	123,357	1,575,000
2038 - 2040	614,744	15,256	630,000
	<u>\$ 4,636,475</u>	<u>\$ 718,525</u>	<u>\$ 5,355,000</u>

11. Other Post-Employment Benefits (OPEB)

MSF participates in a single-employer, defined-benefit post-employment healthcare plan administered by the State of Montana. In accordance with Section 2-18-704, MCA, the plan provides optional post-employment medical, dental, and vision benefits to eligible MSF retirees and their dependents, as well as surviving dependents of deceased employees. In accordance with GASB Statement 75, MSF is required to report in its financial statements its proportionate share of the collective total OPEB liability, OPEB expense, and deferred inflows and outflows of resources related to OPEB.

OPEB Plan Description

The plan allows retirees to participate in the State health insurance plan, as a group, at a rate that does not cover all the related costs. Retirees pay their entire administratively-determined premium. Accordingly, reported contributions are not a result of direct funding to the plan or for associated liabilities, but are a measure of the difference in retiree payments into the plan and actual medical costs associated with those individuals paid for by the plan.

The plan is not administered through a trust and therefore there are no accumulated plan assets to offset the total OPEB liability. The plan is funded on a pay-as-you-go-basis, and Section 2-18-8, MCA, gives authority for establishing and amending the funding policy of the State group health insurance plan to the Montana Department of Administration.

As of December 31, 2022, the OPEB plan's administratively established retiree medical premiums vary between \$466 and \$2,272 per month, depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$41.10 and \$70.00 and vision hardware premiums vary between \$7.64 and \$22.26, depending on the coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

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Schedule of Changes in OPEB Liability

The following schedule presents the change in MSF's proportionate share of the total OPEB liability (TOL). As of the measurement date, MSF's share of the TOL is 2.03%, based on the number of total plan participants. MSF's share of the TOL remained the same since the prior measurement date.

December 31, 2021 Balance	\$ 2,988,961
Changes for the year:	
Service cost	192,785
Interest	71,539
OPEB expense	<u>264,324</u>
Benefit payments	52,860
Changes of assumptions or other inputs	<u>(801,035)</u>
December 31, 2021 Balance	<u><u>\$ 2,505,110</u></u>

Actuarial Assumptions

The plan's TOL was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	December 31, 2020
Experience study period	January 1, 2018 through December 31, 2020
Measurement date	March 31, 2022
Cost method	Entry age normal funding method
Asset valuation method	N/A - no plan assets
Discount rate	3.31%
Projected payroll increases	2.50%
Participation:	
Future retirees	40.00%
Future eligible spouses	70.00%
Marital status at retirement	70.00%

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Health Care Cost Trend Rate: The following health care cost trend rates were used:

<u>Plan Year</u>	<u>Medical</u>	<u>Prescription Drug</u>
2020	6.0%	9.0%
2021	6.0%	8.5%
2022	5.9%	8.0%
2023	5.8%	7.5%
2024	5.7%	7.1%
2025	5.6%	6.7%
2026	5.5%	6.3%
2027	5.4%	6.0%
2028	5.3%	5.6%

Mortality - Healthy: Healthy mortality is assumed to follow the RP2000 Combined Mortality Table with improvements projected to Scale BB to 2020, set back one year for males.

Mortality - Disabled: Disabled mortality is assumed to follow the RP2000 Combined Mortality Table with no projections.

Changes in actuarial assumptions and methods since last measurement date: The interest/discount rate was based on the average of multiple March 31, 2022 municipal bond rate sources.

Changes in benefit terms since last measurement date: None.

Rate Sensitivity

The following tables present MSF's proportionate share of the TOL calculated using a healthcare cost trend and discount rate that are 1% higher and 1% lower than the assumed rates:

Healthcare Cost Trend Rate			
	1% Decrease	Assumed rate	1% Increase
	5.0%	6.0%	7.0%
Proportionate share of OPEB liability (in thousands)	\$ 1,949,344	\$ 2,505,110	\$ 3,270,320

Discount Rate			
	1% Decrease	Assumed rate	1% Increase
	2.31%	3.31%	4.31%
Proportionate share of OPEB liability (in thousands)	\$ 3,126,615	\$ 2,505,110	\$ 2,029,926

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Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2022, MSF's proportionate share of the plan's deferred outflows and inflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 72,992	\$ (93,793)
Changes of assumptions or other inputs	2,031,399	(1,002,464)
Transactions subsequent to the measurement date	38,119	—
Total	\$ 2,142,510	\$ (1,096,257)

Net deferred outflows and inflows of resources will be recognized as OPEB expense as follows:

State of Montana's year ended June 30:

2023	\$ 91,009
2024	\$ 91,009
2025	\$ 91,009
2026	\$ 91,009
2027	\$ 91,009
Thereafter	\$ 553,089

12. Contingencies

Logan Combs v. Big Sky Building Systems, Inc. et al.: On February 24, 2022, Plaintiff Logan Combs filed suit in the Montana Eighteenth Judicial District Court in Gallatin County, Montana. The suit relates to a catastrophic workplace injury Combs suffered on or about April 14, 2021. The named defendants include two MSF policyholders: Big Sky Building Systems, Inc., and JAWC, LLC. The suit alleges that these two policyholders were contractors on the worksite and pleads two causes of action: common-law negligence and failure to provide a safe workplace under § 50-71-201, MCA. All Montana State Fund policies include an Employer Liability (EL) coverage component. Montana State Fund is currently determining whether it has a duty to defend or indemnify either policyholder under this coverage. Taken together, the EL per-accident coverage limits for the two policyholders exceed \$1M. Given the nature of Mr. Combs' injuries, it is anticipated that the asserted value of his claim may exceed \$1M. The complaint in this action has been served, and the matter is in the discovery phase. MSF believes it has significant viable defenses to the claim and assesses the probability of recovery to be possible.

Bill Prendergast et al. v. U.S. Minerals, Inc. et al.: On February 17, 2022, eight plaintiffs filed suit in the Montana Second Judicial District Court in Silver Bow County, Montana. The suit alleges that the plaintiffs were formerly employed by U.S. Minerals, Inc., which operated a slag processing facility in Anaconda, Montana. The suit pleads several causes of action stemming from the employees' alleged toxic substance exposures while working at the facility. The exposures are alleged to have occurred between 2015 and 2021. Montana State Fund insured USM Acquisitions, Inc., a related entity of U.S. Minerals, Inc., from December 2, 2019, until July 15, 2021. Montana State Fund is currently determining whether it has a duty to defend or indemnify U.S. Minerals, Inc., and/or the plant managers. The disease per-

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employee and policy limit is \$1M. Given the number of plaintiffs and nature of the allegations, it is anticipated that the asserted aggregate value of the claims in this matter may exceed \$1M. The complaint in this action has been served and discovery is ongoing. MSF believes it has significant viable defenses to the claim and assesses the probability of recovery to be remote.

At times Montana State Fund is involved in litigation in the areas of workers' compensation and disputes with policyholders. These are of a generally routine nature and there are no known matters at this time that will have a material adverse financial impact.

13. Related Party Transactions

Montana State Fund's administrative attachment to the State of Montana requires that certain processes and transactions be conducted with various state agencies. The Constitution of the State of Montana, Part VIII, Article 13, requires that the Montana Board of Investments invest the assets of MSF. Under Montana statute, state agencies are required to purchase workers' compensation insurance from MSF, and the statutes define other administrative relationships that require MSF to pay specific service charges.

The following significant transactions occurred with state agencies during the year ended December 31, 2022:

Income:	
Premium	\$ 9,755,602
Retrospective premium	—
Dividends	(1,931,749)
Old Fund administrative cost allocation	498,083
Net income from State of Montana agencies	<u>\$ 8,321,936</u>
Expenses:	
Department of Administration	
Support services costs	\$ 2,603,010
Benefits Bureau: group insurance	3,546,879
PERS retirement contributions	2,224,608
Department of Labor & Industry - unemployment insurance	64,017
Board of Investments - transaction fees	507,025
Department of Justice - workers' comp fraud investigation services	409,239
Commissioner of Securities and Insurance - regulation/exam fees	481,740
Legislative Audit Division - audit fees	41,855
Expenses paid to State of Montana agencies	<u>\$ 9,878,373</u>

MSF, under a group plan agreement with state agencies, writes policies for which the premiums vary based on loss experience. Future premium adjustments for these retrospective policies are estimated and

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accrued through a review comparing actual losses with projected future losses, to arrive at the estimate of return premium.

14. Subsequent Events

Subsequent events were evaluated through July 7, 2023, which is the date of financial statement issuance.

REQUIRED SUPPLEMENTARY INFORMATION

Risk Management (Financial Statement Note 5)

The following table illustrates how MSF's earned revenues plus investment income compare to related costs of loss and other expenses incurred for fiscal years 2014 through 2015, the six-month period ended December 31, 2015 (shown as 2015.5), and calendar years 2016 through 2022. In addition, cumulative amounts related to estimated and actual paid claims are presented. The information allows for comparison of actual and estimated claims and is a basis for developing revenue and claims trends. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is used to evaluate the accuracy of incurred claims currently recognized for less mature policy years.

Risk Management Trend Information

(In Thousands)	<u>2014</u>	<u>2015</u>	<u>2015.5*</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
1. Premiums and Investment Revenue										
Earned	205,855	199,436	106,061	205,044	197,082	188,282	188,228	169,047	166,517	158,386
Ceded	9,460	11,310	5,545	10,447	9,841	10,007	9,552	8,905	9,549	2,003
Net Earned	<u>196,395</u>	<u>188,126</u>	<u>100,516</u>	<u>194,597</u>	<u>187,241</u>	<u>178,275</u>	<u>178,676</u>	<u>160,142</u>	<u>156,968</u>	<u>156,383</u>
2. Unallocated expenses including overhead	46,206	52,570	27,822	55,392	74,235	77,032	60,848	61,657	57,622	79,519
3. Estimated losses and expenses, end of accident year										
Incurred	139,145	124,831	66,142	128,147	126,403	126,243	119,507	115,909	122,272	118,427
Ceded	—	—	—	—	—	—	—	—	—	—
Net Incurred	<u>139,145</u>	<u>124,831</u>	<u>66,142</u>	<u>128,147</u>	<u>126,403</u>	<u>126,243</u>	<u>119,507</u>	<u>115,909</u>	<u>122,272</u>	<u>118,427</u>
4. Net paid (cumulative) as of:										
End of policy year	26,808	24,150	16,181	23,086	24,597	22,903	24,965	23,890	27,152	25,836
One year later	55,957	59,787	27,202	50,862	56,481	49,584	51,945	53,603	58,855	
Two years later	74,159	60,844	35,629	64,022	71,008	64,901	68,008	69,282		
Three years later	75,811	70,093	39,857	70,453	83,149	72,215	77,782			
Four years later	81,706	75,235	41,957	75,205	91,990	81,435				
Five years later	85,888	80,235	43,334	77,925	95,965					
Six years later	87,736	82,318	44,172	79,759						
Seven years later	89,014	83,367	44,798							
Eight years later	89,485	84,207								
Nine years later	90,334									
5. Re-estimated ceded losses and expenses	—	—	—	—	989	—	—	—	—	—
6. Re-Estimated net incurred losses and expense:										
End of policy year	139,145	124,831	66,142	128,147	126,403	126,243	119,507	115,909	122,272	118,427
One year later	134,698	140,598	69,180	124,616	139,589	137,713	118,725	113,956	119,558	
Two years later	136,257	120,835	66,085	130,650	135,801	121,459	119,147	111,629		
Three years later	126,431	118,624	69,645	125,487	124,105	119,403	117,777			
Four years later	125,011	122,442	67,061	117,695	129,091	119,283				
Five years later	126,465	119,045	63,438	114,545	131,911					
Six years later	124,773	116,299	62,194	113,029						
Seven years later	121,594	115,217	61,098							
Eight years later	118,778	112,836								
Nine years later	116,344									
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	(22,801)	(11,995)	(5,044)	(15,118)	5,508	(6,960)	(1,730)	(4,280)	(2,714)	—

* Column represents the six-month period ended December 31, 2015.

Retirement Plans (Financial Statement Note 9)

Schedule of MSF's Proportionate Share of the Net Pension Liability*									
June 30:	2022	2021	2020	2019	2018	2017	2016	2015	2014
Proportion of the Net Pension Liability	1.15 %	1.15 %	1.12 %	1.14 %	1.14 %	1.44 %	1.39 %	1.39 %	1.35 %
Proportionate Share of the Net Pension Liability	\$27,393,619	\$20,854,555	\$29,586,757	\$23,912,918	\$31,263,987	\$28,106,689	\$23,678,261	\$19,369,771	\$16,863,200
Defined Benefit Pensionable Payroll	\$19,991,749	\$20,087,504	\$18,635,965	\$18,657,942	\$18,494,222	\$17,690,906	\$16,452,061	\$15,976,817	\$15,340,151
Proportionate Share as % of Pensionable Payroll	137.02 %	103.82 %	158.76 %	128.16 %	128.23 %	158.88 %	143.92 %	121.24 %	111.22 %
Plan Fiduciary Net Position as a % of Total Pension Liability	73.66 %	79.91 %	68.90 %	73.85 %	73.47 %	73.75 %	74.71 %	78.40 %	79.87 %
June 30:	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually Required Contributions	\$1,800,548	\$1,800,371	\$1,648,568	\$1,623,434	\$1,582,700	\$1,498,428	\$1,391,782	\$1,332,551	\$1,351,735
Plan Choice Rate Required Contributions	—	—	—	—	—	—	69,744	110,334	—
Contributions in Relation to the Contractually Req. Contributions	\$1,800,548	\$1,800,371	\$1,648,568	\$1,623,434	\$1,582,700	\$1,498,428	\$1,461,526	\$1,442,885	\$1,351,735
Contribution Deficiency (Excess)	—	—	—	—	—	—	—	—	—
Defined Benefit Pensionable Payroll	\$19,991,749	\$20,087,504	\$18,635,965	\$18,657,942	\$18,494,222	\$17,690,906	\$16,452,061	\$15,976,817	\$15,132,665
Proportionate Share as % of Pensionable Payroll	9.01 %	8.96 %	8.85 %	8.70 %	8.56 %	8.47 %	8.88 %	9.03 %	8.93 %

*This schedule is intended to show ten years of data. Additional years will be presented as they become available.

Other Post-Employment Benefits (Financial Statement Note 11)

In accordance with GASB 75, the following information is presented to reflect the funding progress of the OPEB plan. There are no assets accumulated in a trust that meets the criteria of GASB 75 paragraph 4 with which to pay benefits.

	Schedule of Funding Progress*				
	2022	2021	2020	2019	2018
Proportion of TOL	2.03 %	2.03 %	1.94 %	1.84 %	1.41 %
Proportionate share of TOL	\$ 2,505,110	\$ 2,988,961	\$ 919,674	\$ 811,797	\$ 713,776
Covered-employee payroll	\$22,021,307	\$21,484,202	\$21,643,005	\$22,479,877	\$22,248,980
Proportionate share of TOL as % of covered-employee payroll	11.38 %	13.91 %	4.25 %	3.61 %	3.21 %

*This schedule is intended to show ten years of data. Additional years will be presented as they become available.

Other Information

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Legislative Audit Committee of the Montana State Legislature
Helena, Montana

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Montana State Fund, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Montana State Fund's basic financial statements and have issued our report thereon dated July 7, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Montana State Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montana State Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Montana State Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montana State Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
July 7, 2023

Fund Response

Montana State Fund
(A Component Unit of the State of Montana)

December 31, 2022

July 2023

Mr. Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol Building
Helena, MT 59620-1705

Dear Mr. Maciver:

Montana State Fund (MSF) appreciates the professionalism and work of the auditors from Eide Bailly LLP and the Legislative Audit Division staff in completing the financial-compliance audit of our calendar year 2022 governmental financial statements. We are pleased an unmodified opinion with no recommendations was issued.

The management and staff of MSF continually strive to improve our operation and prioritize high-level service to Montana employers and employees. We thank Eide Bailly and the Legislative Audit Division for its assurance and assistance in achieving our vision to be an indispensable partner in achieving a safer, healthier and more prosperous Montana.

Sincerely,



Holly O'Dell
President/CEO