



P.O. Box 4759 • Helena, MT 59604-4759
Customer Service 1-800-332-6102
Fraud Hotline 1-888-682-7463 (888-MT-CRIME)

Rep. Tom Berry, Chairman
Economic Affairs Interim Committee
P.O. Box 157
Roundup, MT 59072-0157

Subject: State Agency Workers Compensation Program ,

Dear Rep. Berry:

In the HB 334 panel discussion at the Economic Affairs Committee meeting January 19th, the presentation by Lance Zanto of the Workers Compensation Bureau provided graphs of the premium and loss experience of the Montana State Fund workers compensation program for state agencies. The graphs presented a picture of the workers compensation “written premium” and “incurred losses” for the state agencies for the years 2006 through 2011 based on evaluation as of May 31, 2011. Several times during his testimony Mr. Zanto characterized the difference between written premium and incurred losses as “profit,” thereby suggesting state agencies are being overcharged for workers compensation insurance. Montana State Fund strongly disagrees with the characterization made by Mr. Zanto. MSF is providing additional information to the Committee to more fairly and accurately characterize state agency profitability.

Specifically, the information we provide includes the following key data lacking in the information provided by Mr. Zanto.

- Claim loss development, also known as IBNR (Incurred But Not Reported)
- Operational expenses

We have also included the experience of state agencies for the period FY2000 to FY2011 as a more historical review provides for a more meaningful evaluation of the results.

As I and my staff have testified previously, workers compensation is a “long-tail” insurance with claim payout patterns sometimes lasting up to 30 years. For this reason, actuarial reserves must be established for losses to project “ultimate” claims costs for each year. “Incurred” losses (also called “reported” losses) presented in Mr. Zanto’s Attachments 1 and 3 only include the claim adjuster’s present estimate of claim costs – making no provision for future changes in those costs. The enclosed graph includes the well recognized and generally accepted actuarial loss development of claims. The “red” bars represent “incurred losses” identified by Mr. Zanto’s Attachment 1 and 3. The “green” bars are the actuarially determined “ultimate” losses (Incurred but not reported or IBNR) for each year.

Rep. Tom Berry
February 8, 2012
Page Two

While medical and wage loss benefits are the primary cost component there are also expenses to administer workers compensation claims. These costs include claims management and general overhead expenses. Montana State Fund's graph includes these operational expenses as the "purple" and "blue" bar, respectively.

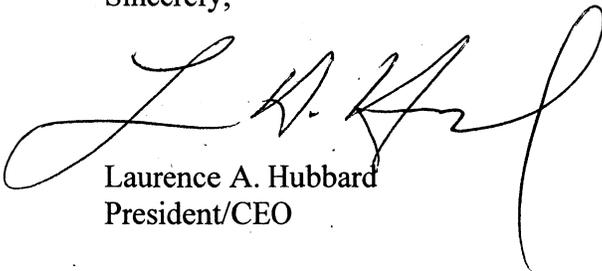
To the extent there is "profit," or contribution to equity, it would be the difference between the "green" net premium line and the columns represented on the graph. Since FY2000 cumulative results for state agencies are a loss of -\$7.9M based on current projections.

Parenthetically, the graph does show improving results for state agencies workers compensation in the last three years and the Workers' Compensation Bureau deserves much credit for improving results. State agency commitment to workplace safety and effective stay at work/return to work programs will no doubt assist this positive trend. The graph shows a decrease in premium in FY 2011 and the FY2012 overall rate for state agencies has decreased 19% and we expect that losses will also be commensurate with the premium reduction.

Montana State Fund appreciates its partnership with the state agencies in meeting their workers compensation needs. However, I believe it critical to provide the Committee a more complete understanding of state agency workers' compensation experience as it evaluates potential legislation.

Please do not hesitate to contact me if you or the EAIC members have any questions.

Sincerely,



Laurence A. Hubbard
President/CEO

LAH/vmb

Enclosure

cc: Russ Hill, WCMB
Dan Villa, OBPP
Pat Murdo, Research Analyst