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Economic Affairs Interim Committee

63rd Montana Legislature

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October 22, 2014

Elizabeth Best, presiding officer, and
State Compensation Insurance Fund Board of Directors
c/o Montana State Fund
855 Front Street
Helena MT 59601

Dear Ms. Best and Board of Directors:

The Economic Affairs Interim Committee (EAIC) of the Legislature voted at its September 12, 2014 meeting to request that the State Compensation Insurance Fund Board of Directors consider authorizing a claims management study of New Fund and Old Fund claims as recommended by Financial Risk Analysts, LLC, at the September 12, 2014 EAIC meeting.

Those recommendations in the Financial Risk Analysts report to the State Auditor and presented to the EAIC, noted that claim examiners "were reserving at a level far above actuarial estimates determined by TW [Towers Watson]." The report added, "In our experience, it is highly unusual to see case reserves exceeding actuarial estimates by such material amounts so consistently over so many years."

Later in the report, Financial Risk Analysts focused on Old Fund claims and noted that in previous analyses "we recommended that MSF pursue an independent assessment of case reserves, focused on open Old Fund claims and perhaps including certain open claims in earlier accident years in the New Fund."

Both Financial Risk Analysts and the EAIC recognize that Montana State Fund received a good report from a previous claims management study by Deloitte Consulting in early 2011. Given the changes that occurred with enactment of House Bill No. 334 in 2011, changes in medical inflation, and the continued concerns voiced by Financial Risk Analysts about the claims reservation process, a new independent review would give assurance to policyholders, injured workers receiving benefits from Montana State Fund, and the State of Montana as payer for Old Fund claims that Montana State Fund takes seriously all options to improve its processes if necessary. The EAIC strongly recommends such an independent review and recognizes that the Board of Directors has an option of contracting for one or not. If the Board decides to conduct a review, the EAIC suggests paying close attention to recommendations three and four (attached) from the Financial Risk Analysts' presentation at the EAIC meeting.

Thank you for your attention to this request.

Sincerely,

Sen. Bruce Tutvedt
EAIC Presiding Officer

cc: Monica Lindeen, State Auditor
attachments: Financial Risk Analysts' Recommendations Three and Four
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