

**MONTANA STATE FUND**  
**2018 ANNUAL BUDGET**  
**(Effective for period of January 1, 2018 to December 31, 2018)**

Montana State Fund (MSF) is a nonprofit, competitive workers' compensation insurance organization. Under state law, MSF provides Montana businesses with an option for workers' compensation and occupational disease insurance and also guarantees available coverage for all employers in Montana. During the 2015 Legislative Session, SB 123 passed with an effective date of January 1, 2016. As a result of this law change, MSF is subject to oversight and regulation by the State Auditor, Commissioner of Securities and Insurance (CSI) and converted financial reporting processes to a calendar year.

This budget for calendar year 2018 provides the funding to enable MSF to continue our role of providing a stable, guaranteed, workers' compensation market for Montana, meet our regulatory requirements, implement our business plan initiatives, and effectively support business operations.

The following define the fiscal periods referenced in this report:

- **2018 Budget:** Budget amounts to fund MSF business requirements and approved projects of the January 1 through December 31, 2018 fiscal reporting period.
- **2017 Budget:** Budget amounts to fund MSF business requirements and approved projects of the January 1 to December 31, 2017 fiscal reporting period.
- **2017 YTD Actuals:** Expenditure transaction amounts recorded between January 1 and October 31, 2017.
- **2017 Projection:** Estimated expenditure amounts for the full year 2017. The projections are based on actual expenditures recorded between January 1 and September 30, 2017 with estimated amounts for the remainder of the year.
- **2016 Actuals:** Expenditures recorded for January 1 through December 31, 2016.

**I. Total Expenditures**

The total budget for 2018 expenditures is \$208,020,450. Claim Benefit Payments and Operational Expenditures are the two primary components of the budget.

The 2018 Budget is displayed below in comparison to the 2017 Budget, 2017 Projection, and the 2016 Actual expenditures. It includes the full time equivalents (FTE) and position counts for each of these periods.

	<b><u>2018 Budget</u></b>	<b><u>2017 Budget</u></b>	<b><u>2017 Projection</u></b>	<b><u>2016 Actuals</u></b>
FTE	307.00	307.00	307.00	306.50
Positions	310	310	310	309
Benefit Payments	\$119,994,052	\$128,265,148	\$119,340,134	\$120,525,961
Operational Expenditures	<u>\$88,026,398</u>	<u>\$61,500,508</u>	<u>\$59,104,870</u>	<u>\$52,669,883</u>
<b>Total MSF Expenditures</b>	<b><u>\$208,020,450</u></b>	<b><u>\$189,765,656</u></b>	<b><u>\$178,445,004</u></b>	<b><u>\$173,195,844</u></b>

Benefit payments include all expected funding required to pay existing and anticipated injured worker claim costs for indemnity and medical related benefits.

Operational expenditures includes all staffing, overhead and other costs needed to support MSF business operations. Operational expenditures are not limited to but include:

- \$30.3 million in personal services to fund the 2018 MSF staffing for 307.00 FTE which equates to 310 positions
- \$15.0 million for the 3% management rate transfer as required in SB-4 of the November Special Session
- \$14.6 million for total projects: Primary initiatives are tracked in the Annual Business Plan (ABP); and Enterprise Strategy and Project Management (ESPM) projects are secondary level projects monitored by the executive team
- \$11.6 million for agent commission payments
- \$4.4 million for allocated loss adjustment expense

Specific expenditures for the projects are explained in the corresponding areas in this report. The following provides a summary of the total budget for each project.

<b><u>ABP Projects</u></b>	<b><u>2018 Budget</u></b>
Policy and Billing Replacement Initiative (PBRI)	\$13,694,418
WorkSafe Champions	106,811
Growing a Safer Montana	<u>63,789</u>
<b>Total ABP Projects</b>	<b>\$13,865,018</b>
<b><u>ESPM Projects</u></b>	
Data Visualization	190,900
Brand Refresh	188,051
Medical Bill System	132,200
Regulation: Documentation Gaps	90,500
Executive Development Program	<u>89,945</u>
<b>Total ESPM Projects</b>	<b>\$691,596</b>
<b>Total All Projects</b>	<b><u>\$14,556,614</u></b>

The 2018 ABP includes project objectives and success measures.

The total MSF 2018 budget of \$208.0 million is an increase of \$18.3 million or 9.6% from the approved 2017 budget of \$189.8 million. The MSF 2018 Budget is a \$29.6 million or a 16.6% increase from the 2017 projected expenditures of \$178.4 million.

The 2018 budget for claim benefit payments to injured employees of \$120.0 million equates to 57.7% of the total budget. The 2018 budget is an:

- ❖ \$8.3 million or 6.4% decrease as compared to the 2017 budget
  - ❖ \$653,918 or 0.5% increase as compared to the 2017 projection
- The 2018 budget for operational expenditures of \$88.0 million equates to 42.3% of the total budget and is an increase of \$26.5 million or 43.1% as compared to the 2017 budget of \$61.5 million. The 2018 budget is a \$28.9 million or 48.9% increase over the 2017 projection.

Additional explanation is outlined later in this report. In summary, the operational expenditure budget's largest areas of increase are:

- ❖ 3% management rate transfer of \$15.0 million is a new expenditure in 2018. This was not budgeted in 2017 however, \$15.0 million is estimated to be transferred for 2017 based on recent change to law.
- ❖ Policy and Billing Replacement Initiative (PBRI) budget of \$13,694,418 is an \$9.6 million increase from the 2017 budget of \$4,125,266
- ❖ Based on National Council on Compensation Insurance (NCCI) classification guidance, Independent Medical Examination (IME) expense of \$991,279 was moved from the claim benefits budget to the loss adjustment expense area of the budget. Even though the amount is similar, the change results in this cost increasing the expense ratio.
- ❖ Personal services budgeted expense of \$30.3 million is an increase of:
  - \$501,889 or 1.7% increase from the 2017 budget of \$29.8 million
  - \$1,291,744 or 4.5% increase from the 2017 projection of \$29.0 million

## **II. Revenue**

The premium revenue MSF generates in Montana's competitive workers' compensation insurance market, along with investment income, provides the funding for indemnity and medical claims reported by MSF policyholders and for operational expenditures.

For 2018, MSF is projecting net earned premium of \$162,349,788 which is a:

- \$4.7 million or 2.8% decrease from the 2017 ABP estimate of \$167,014,246
- \$2.5 million or 1.5% decrease from the 2017 projection of \$164,813,659

The net earned premium estimate assumes:

- Approximately 24,000 current active policies
- No manual rate change has been determined at this time and therefore is not included for policy period July 1, 2018 to June 30, 2019

- Wage growth of 2.5%
- Premium retention rate at 90.7%
- Net loss of business written of \$3.7 million
- Other States Coverage (OSC) premium of \$3,250,000

### **III. Statutory Operating Expense Ratio**

The statutory operating expense ratio is a standard financial measurement for insurance organizations to analyze the cost of operations in relation to net earned premium and allows MSF to compare operational management to competitors and the industry.

The statutory operating expense ratio encompasses accounting adjustments used for financial reporting, such as depreciation and amortization expenses, which are not displayed in an expenditure driven budget, and is offset by the allowed expense reduction for reinsurance programs.

MSF's *operational expenditures* (personal services, operating expenses, equipment and intangible assets, allocated loss adjustment expense and transfers) are \$88,026,398 for the fiscal year's budget, and *statutory operating expenses* are \$65,699,625.

The statutory operating expense is divided by net earned premium of \$162,349,788 to determine the 2018 estimated expense ratio of 40.5%.

The following table displays the statutory operating expenses, net earned premiums and the 2018 expense ratio with comparison to previous periods.

<b>Montana State Fund</b>	<b>2018 Budget</b>	<b>2017 Budget</b>	<b>2017 Projection</b>	<b>2016 Actuals</b>
Statutory Operating Expense	\$65,699,625	\$50,547,380	\$48,073,895	\$44,764,122
Net Earned Premiums	\$162,349,788	\$167,014,246	\$164,813,659	\$169,677,071
<b>Statutory Operating Expense Ratio</b>	<b>40.5%</b>	<b>30.3%</b>	<b>29.2%</b>	<b>26.4%</b>

The following table compares the MSF statutory operating expense ratio with the property and casualty insurance industry and other state funds based on 2016 data from 2017 A. M. Best's Aggregates & Averages.

<b>A.M. Best's 2016 Total US PC Industry (1,186 P&amp;C Organizations)</b>	<b>A.M. Best's 2016 Work Comp Composite (250 Organizations)</b>	<b>A.M. Best's 2016 Total US PC State Funds – (25 Organizations)</b>	<b>MSF 2016 Actuals</b>	<b>MSF 2017 Projection</b>	<b>MSF 2018 Budget</b>
<b>39.7%</b>	<b>37.6%</b>	<b>36.7%</b>	<b>26.4%</b>	<b>29.2%</b>	<b>40.5%</b>

### **IV. Benefit Payments**

MSF expects claim benefit payments to remain relatively stable as compared to the 2017 projection and the 2016 actuals. The 2018 claim benefit payments budget of \$120.0

million is an increase of \$653,918 or 0.5% from the 2017 projection. However, it is a decrease of \$8.3 million or 6.4% from the approved 2017 budget of \$128.3 million.

The overall claim benefit budget plans for:

- the addition of a new accident year’s claims to the estimate of payments on existing claim liabilities;
- the change to reclassify IME medical benefit expenditures as loss adjustment expense when the IME is requested by MSF (see p. 25 for additional information);
- stable indemnity and medical claim payments as compared to the 2016 actuals and 2017 projection; and,
- the continuation of appropriate claim settlements. MSF completes mutually agreed upon claim settlements as provisions in law have enabled.

The following displays a summary of claim benefit types with their 2018 budget amounts along with comparisons of the 2017 budget, 2017 projection and the 2016 actuals.

<b>Claim Benefit Type</b>	<b>2018 Budget</b>	<b>2017 Budget</b>	<b>2017 Projection</b>	<b>2016 Actuals</b>
Indemnity	\$35,750,347	\$38,045,165	\$34,535,458	\$36,804,362
Medical – No Settlements	51,050,479	56,855,865	53,528,614	52,409,384
Medical Settlements	31,730,726	32,014,118	29,556,621	30,537,956
All OSC benefits	1,462,500	1,350,000	1,719,441	774,259
<b>Total</b>	<b>\$119,994,052</b>	<b>\$128,265,148</b>	<b>\$119,340,134</b>	<b>\$120,525,961</b>

- \$35,750,347 - 2018 budget for indemnity benefit payments is a:
  - ❖ decrease of \$2,294,819 or 6.0% from the 2017 budget of \$38,045,165
  - ❖ increase of \$1,214,889 or 3.5% from the 2017 projection of \$34,535,458
- \$51,050,479 - 2018 budget for medical benefit payments, excluding medical settlements, is a:
  - ❖ decrease of \$5,805,386 or 10.2% from the 2017 budget of \$56,855,865
  - ❖ decrease of \$2,478,135 or 4.6% from the 2017 projection of \$53,528,614
- \$31,730,726 - 2018 budget for medical settlements is a:
  - ❖ decrease of \$283,392 or 0.9% from the 2017 budget of 32,014,118
  - ❖ increase of \$2,174,105 or 7.4% from the 2017 projection of \$29,556,621
- \$1,462,500 – 2018 budget for OSC is an:
  - ❖ increase of \$112,500 or 8.3% from the 2017 budget of \$1,350,000
  - ❖ decrease of \$256,941 or 14.9% from the 2017 projection of \$1,719,441

The next table illustrates net earned premium (NEP) amounts and the ratio of benefit payments to NEP along with the percent change in benefit payments made for all accident years in each corresponding year. This data includes OSC premium and benefit payments.

<b>Fiscal Year</b>	<b>Net Earned Premium</b>	<b>Benefits as a Percent of NEP</b>	<b>Benefit Payments</b>	<b>Percent Change in Benefit Payments from Prior Year</b>
2018 Budget	\$162,349,788	73.9%	\$119,994,052	0.5%
2017 Projection	\$164,813,659	72.4%	\$119,340,134	-1.0%
2016 Actuals	\$169,677,071	71.0%	\$120,525,961	5.3%
FY15 Actual	\$164,556,709	69.5%	\$114,428,412	8.0%
FY14 Actual	\$165,271,880	64.1%	\$105,934,616	-5.2%
FY13 Actual	\$156,062,480	71.6%	\$111,690,340	0.8%
FY12 Actual	\$150,482,457	73.6%	\$110,752,851	-0.6%
FY11 Actual	\$173,605,442	64.2%	\$111,420,055	-9.4%
FY10 Actual	\$166,265,384	74.0%	\$123,003,870	0.4%
FY09 Actual	\$203,976,354	60.0%	\$122,460,166	-1.4%
FY08 Actual	\$230,965,307	53.7%	\$124,139,778	7.2%
FY07 Actual	\$238,202,708	48.6%	\$115,849,169	

### **MSF – All Accident Years**

\$118,531,552 is budgeted for MSF (no Other States Coverage) claim benefit payments to injured employees for the following benefit types:

- Indemnity - \$35.8 million or 30.2% of total benefits
- Medical - \$82.8 million or 69.8% of total benefits
  - ❖ Disputed and Undisputed Medical Settlements – \$31.7 million
  - ❖ All other medical benefit payments - \$51.1 million

The benefit estimates are based on analysis of the actual ‘Accident Year’ benefit payments for each fiscal year from 1991 through October 31, 2017. The most recent actual benefit payments for each Accident Year are weighted more heavily in the determination of the 2018 benefit payments. Consideration has been given to the acceleration of benefit payments resulting from settlement activity and other payments.

<b>Benefit Payments*</b>	<b>Indemnity</b>	<b>Medical - No Settlements</b>	<b>Medical Settlements</b>	<b>Total</b>
2018 Budget	\$35,750,347	\$51,050,479	\$31,730,726	\$118,531,552
2017 Projection	\$34,535,458	\$53,528,614	\$29,556,621	\$117,620,692
2016 Actuals	\$36,804,362	\$52,409,384	\$30,537,956	\$119,751,703
FY15	\$37,182,054	\$54,642,976	\$21,597,491	\$113,422,521
FY14	\$36,965,855	\$57,898,587	\$10,263,958	\$105,128,400
FY13	\$37,418,731	\$61,078,244	\$11,920,366	\$110,417,341
FY12	\$40,832,807	\$58,024,639	\$11,114,804	\$109,972,250
FY11	\$40,007,198	\$62,783,014	\$7,788,880	\$110,579,092

\*No Other States Coverage program benefit payments are included in the data.

The next table displays 2018 MSF and Other States Coverage (OSC) benefit payments separately as compared to the 2017 projection and 2016 actuals expenditure levels.

<b>Benefit Payments</b>	<b>2018 Budget</b>	<b>2017 Projection</b>	<b>2016 Actuals</b>	<b>\$ Change 2018 from 2017</b>	<b>% Change 2018 from 2017</b>
MSF	\$118,531,552	\$117,620,692	\$119,751,703	\$910,859	0.8%
OSC	1,462,500	1,719,441	774,259	(256,941)	-14.9%
<b>Total</b>	<b>\$119,994,052</b>	<b>\$119,340,134</b>	<b>\$120,525,961</b>	<b>\$653,918</b>	<b>0.5%</b>

### **Other States Coverage (OSC)**

The OSC program enables MSF policyholders with employees working in other states the option to insure all their workers' compensation needs through MSF. MSF contracts with carriers licensed to provide workers' compensation insurance to our policyholders in other states.

OSC benefit payments are estimated to be \$1,462,500 and include:

- \$487,500 - Indemnity payments
- \$975,000 - Medical Payments

Including operational expenditures of \$1,153,965, the total budget for OSC expenditures is \$2,616,465. OSC written premium is estimated to be \$3.25 million in 2018 and funds the program. OSC operational expenditures are explained in latter sections of this report; however, the following table notes the expenditures and premium of the OSC program for 2018 budget, 2017 budget, 2017 projection and 2016 actuals.

<b>OSC Program</b>	<b>2018 Budget</b>	<b>2017 Budget</b>	<b>2017 Projection</b>	<b>2016 Actuals</b>
Program management, fronting fees, letters of credit	\$594,965	\$556,965	\$556,965	\$473,066
Commissions	260,000	240,000	244,286	241,574
Premium Tax	136,500	126,000	140,000	125,612
ALAE	162,500	150,000	208,261	117,536
<b>Operational Expenditures</b>	<b>\$1,153,965</b>	<b>\$1,072,965</b>	<b>\$1,149,513</b>	<b>\$957,788</b>

Claim Benefit Payments	<u>\$1,462,500</u>	<u>\$1,350,000</u>	<u>\$1,719,441</u>	<u>\$774,259</u>
<b>OSC Total Expenditures</b>	<b>\$2,616,465</b>	<b>\$2,422,965</b>	<b>\$2,868,954</b>	<b>\$1,732,046</b>

<b>OSC Written Premium</b>	<b>\$3,250,000</b>	<b>\$3,000,000</b>	<b>\$3,100,000</b>	<b>\$2,879,241</b>
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### **V. Operational Expenditures**

Operational expenditures include staffing, operating expenses, equipment and intangible assets, allocated loss adjustment expense (ALAE), defense & cost containment (D&CC), adjusting and other (A&O) and transfers. The following table provides a summary, including the number of FTE and positions.

<b>Operational Expenditures</b>	<b>2018 Budget</b>	<b>2017 Budget</b>	<b>2017 Projection</b>	<b>2016 Actuals</b>
FTE	307.00	307.00	307.00	306.50
Positions	310	310	310	309
Personal Services	\$30,313,582	\$29,811,693	\$29,021,838	\$26,918,954
Operating Expense	37,307,235	25,897,239	24,790,983	21,986,642
Equip & Int Assets	815,959	1,869,830	1,906,202	146,015
ALAE/A&O/D&CC	4,364,617	3,542,351	3,146,644	3,388,307
Transfers	15,225,005	379,395	239,203	229,966
<b>Total MSF</b>	<b>\$88,026,398</b>	<b>\$61,500,508</b>	<b>\$59,104,870</b>	<b>\$52,669,883</b>

**a. MSF Staffing**

MSF continually evaluates and re-aligns our staff to meet the changing work processes. MSF will have 307.00 FTE (full time equivalent) for 2018. This is the same level of FTE as in 2017 and equates to 310 positions. In 2018, MSF will have 305 positions that are 1.00 FTE each, three half-time positions listed as 0.50 FTE each and two positions listed as 0.25 FTE each.

One half-time and two quarter-time positions (1.00 FTE in total) are assigned to the Human Resources Department for transitioning in new employees who temporarily train with an employee who has announced his or her retirement. For example, Operations used a transition position to hire a premium auditor before the incumbent retired which allowed for training and knowledge transfer. Any department needing temporary transition support can request to use these positions. Corporate Support has two 0.50 FTE positions: the ERM Officer and a Document Processor.

The following table reflects MSF staffing by department at the beginning of each year.

<b>MSF Department Staffing (FTE)</b>	<b>2018 Budget</b>	<b>2017 Budget</b>	<b>2016 Actuals</b>
Corporate Support	35.00	34.00	34.00
Executive Offices	6.00	6.00	6.00
General Counsel	17.00	19.00	18.50
Human Resources	9.00	8.00	7.00
Information Technology	53.00	53.00	53.00
Operations	146.00	145.00	146.00
Operations Support	41.00	42.00	41.00
Workforce Succession Project	0.00	0.00	1.00
<b>MSF Total</b>	<b>307.00</b>	<b>307.00</b>	<b>306.50</b>

The 2018 budget changes to staffing from 2017 are as follows:

- 1.00 FTE moved to Corporate Support from General Counsel – a vacant Legal Administrative Support position was not going to be filled and the position was used to create a temporary Accountant position necessary to backfill for Finance staff assigned to the PBRI project.
- 1.00 FTE moved to Operations from General Counsel – a vacant Regulatory Specialist position was not going to be filled and was used to create a Customer

Service Specialist position.

- 1.00 FTE moved to Human Resources from Operations Support - The Insurance Training Development Claims Specialist positions was moved to Human Resources to better coordinate staff training.

During the PBRI implementation phase, sixteen MSF employees have been assigned full-time to the project and two employees have been assigned at half time. The Information Technology department and the PBRI budgets include the consulting services funding to hire temporary staff to backfill for MSF employees and complete our employees' regular duties.

**b. Personal Services – Salaries and Employee Taxes and Benefits**

To support the necessary staff of 307.00 FTE, MSF budgets funds of \$30,313,582 for the 2018 personal services budget. A vacancy savings factor of 3.0% was applied to the personal services budgets. Vacancy savings is an aggregate personal services budget reduction recognizing employee turnover that creates position vacancies.

An additional vacancy savings adjustment was applied to the IT-Enterprise Applications team to accommodate temporary consultant backfill of software engineer positions. The vacancy savings equates to another \$200,000 in personal services budget reduction.

<b>MSF Total Personal Services Budget</b>	<b>2018 Budget</b>	<b>2017 Budget</b>	<b>2017 Projection</b>	<b>2016 Actuals</b>	<b>\$ Change 2018 Budget from 2017 Budget</b>	<b>% Change 2018 Budget from 2017 Budget</b>
Salaries	\$23,529,086	\$22,895,134	\$21,827,669	\$20,287,869	\$633,953	2.8%
Employee Taxes & Benefits	7,913,350	7,818,592	7,194,169	6,631,085	94,758	1.2%
Vacancy Savings	(1,128,854)	(902,032)	n/a	n/a	(226,822)	25.1%
<b>Total Personal Services</b>	<b>\$30,313,582</b>	<b>\$29,811,693</b>	<b>\$29,021,838</b>	<b>\$26,918,954</b>	<b>\$501,889</b>	<b>1.7%</b>

The 2018 personal services budget increased by \$501,889 or 1.7% from the 2017 budget. Salaries increased by 2.8%, employee taxes and benefits increased by 1.2% and, the vacancy savings offset increased by 25.1%.

➤ **Salaries - \$23,529,086**

The 'Salaries' budget includes the regular salary base for 310 positions / 307.00 FTE, merit salary adjustments, projects, retirements, personal leave payouts, and overtime. These salary budget items are outlined as follows:

- ❖ \$22,511,972 for base salaries (no employee taxes or benefits) of 310 positions is calculated on the hourly wage for all active employees as of September 18, 2017. Vacant position budgets were based on the compensation at mid-point for the position's salary band, and assumes 2,088 annual payroll hours for each full FTE. Partial FTE salaries are prorated.

- ❖ \$604,590 for merit-based salary adjustments (no employee taxes or benefits). The merit salary adjustments for employees are planned to be distributed after the final 2017 performance reviews are complete. For the 2018 budget a merit adjustment of 3.25% is planned to be effective March 3, 2018.
- ❖ \$220,579 provides funding for leave balance payouts of eleven expected retirements in 2018. This amount is for the salary portion of the leave balances. The associated employee taxes and benefits for these retirement payouts are budgeted to those specific accounts.
- ❖ \$175,581 will fund MSF's Personal Leave Program that provides for the annual payment of excess unused personal leave balances to eligible participants in accordance with the program guidelines. The 2018 estimate is based on 2017 payments and review of recent excess leave balances.
- ❖ \$16,364 is for overtime to support additional workload coverage during the policy renewal period. The budget provides for on-call and call-out compensation to support computer systems after business hours.

➤ **Employee Taxes and Benefits - \$7,913,350**

Employee Taxes and Benefits are payments / contributions MSF makes on behalf of our employees for taxes, benefits and workers' compensation premiums. The following lists employee tax and benefit categories, and the dollars budgeted.

- ❖ FICA / Medicare - \$1,756,185  
The rate of 7.65% of applicable salary remains unchanged from 2017. Effective 1/1/2018, the FICA salary cap will be \$127,200.
- ❖ Retirement (PERS) - \$2,019,648  
The employer's contribution rate is 8.62% of applicable salary. The PERS contribution rate increased 0.1% from the 2017 rate per law, 19-3-16(2)b, MCA.
- ❖ Workers' Compensation Premium - \$157,855  
This is MSF's premium payment and is an average rate of approximately 0.673% of applicable salary. The 2017 budgeted average rate was 0.709%.
- ❖ State Unemployment Tax (SUT) - \$58,782  
MSF's employer contribution rate is 0.25% for SUT. This rate is annually reviewed at the Department of Labor and Industry and may be adjusted in May.
- ❖ Group Insurance - \$3,920,880  
The 2018 annual employer contribution for group insurance is \$12,648 per eligible employee and is the same as in 2017. In 2018, MSF will have a maximum of 310 employees eligible for the group insurance contribution.

➤ **Vacancy Savings** - \$1,128,854

Vacancy savings is a reduction of 3% that has been applied to the calculated salaries and employee taxes and benefits on all MSF positions. As previously noted, the Enterprise applications team had a higher vacancy savings factor applied for an additional personal services reduction of \$200,000.

All MSF positions are budgeted to be filled all year. Exactly which positions will be vacated from turnover during the year cannot be determined but, at an aggregate level, we can reasonably estimate vacancies and estimate an appropriate budget reduction.

Actual vacancy savings will vary by department and departments that do not experience staff turnover will likely be over budget in personal services. Conversely, departments that experience higher staff turnover than expected will be under budget in personal services categories. In aggregate, MSF estimates 3.65% vacancy savings.

**c. Operating Expenses**

The MSF budget for Operating Expenses is another grouping of expenses underneath the overall category of Operational Expenditures. The Operating Expenses budget of \$37,307,235 includes the following categories.

Category	2018 Budget	2017 Budget	2017 Projection	2016 Actuals	Dollar Change 2018 Budget from 2017 Budget	Percent Change 2018 Budget from 2017 Budget
Other Services	\$29,861,631	\$18,733,916	\$18,041,351	\$16,706,146	\$11,127,715	59.4%
Supplies & Materials	1,357,527	1,124,413	1,091,988	831,188	233,114	20.7%
Communications	1,198,308	1,141,565	1,110,280	1,244,583	56,743	5.0%
Travel	369,155	425,492	270,928	219,522	(56,337)	-13.2%
Rent	425,379	387,302	389,756	373,722	38,077	9.8%
Utilities	235,000	235,000	222,318	202,434	0	0.0%
Repair & Maintenance	2,077,721	2,081,936	2,099,527	1,195,624	(4,215)	-0.2%
Other Expenses	1,782,515	1,767,616	1,564,836	1,213,423	14,900	0.8%
<b>Total Operating Expenses</b>	<b>\$37,307,235</b>	<b>\$25,897,239</b>	<b>\$24,790,983</b>	<b>\$21,986,642</b>	<b>\$11,409,996</b>	<b>44.1%</b>

- **Other Services** - \$29,861,631 is budgeted for 2018. There are three primary areas of expenditures: IT consulting for PBRI - \$12.0 million; agent commissions - \$11.6 million; and, consulting and professional services (non-PBRI) - \$3.8 million.

- ❖ **Information Technology (IT) Consulting and Professional Services for the Policy and Billing Replacement Initiative (PBRI) - \$12,048,691** - The total PBRI project budget is \$13,694,418. Eighty-eight percent of this budget is for IT consulting services.

2018 is the second year of this initiative and is the year with the significant majority of the expenditures. This is one of two primary drivers of MSF's overall increase from 2017. The 2017 budget is \$741,403 and the projection is \$941,261.

During 2018 MSF staff and consultants will be developing the policy and billing system. IT consultants will be used as 'backfill' support for MSF staff working on project development. The following is a summary of the IT consulting services:

- \$8,819,579 – HCL consultants implementing Guidewire software (Statement of Work Phase 1)
  - \$1,741,504 - backfill of MSF staff implementing new system
  - \$1,059,000 - Sabot business analyst and project management support
  - \$428,608 – Guidewire consultants working with the project team
- ❖ **Commissions - \$11,600,175** – This is an increase of \$154,464 or 1.3% from the 2017 budget of \$11,445,711 and a decrease of \$153,320 or 1.3% from the 2017 projection.

The budget includes base, incentive, and Other States Coverage commissions. Commission expense is directly related to premium, percentage of MSF policyholders represented by agents, and the commission rate on each policy. The payment of commissions supports service and distribution capabilities with our agent partners.

- Base Commissions - \$9,473,990:  
The recording of a premium payment on an agent-represented policy initiates a base commission payment. MSF estimates \$124.4 million in premium payments on agent-represented business will be recorded in 2018. The average base commission rate on these policies is estimated to be 7.6%.
  - Incentive Commissions - \$1,866,185:  
Incentive commissions are established to provide a payment to agents for profitability and retention of MSF policyholder business they represent.
  - Other States Coverage (OSC) Commissions - \$260,000:  
Commissions associated with OSC policies are based on the total 2018 revenue estimate of \$3.25 million. The commission rate is 8%.
- ❖ **Consulting and Professional Services and IT Consulting and Professional Services: \$3,786,816** (excludes PBRI project) – This is an increase of \$139,992 or 3.8% from the 2017 budget of \$3,646,824 and an increase of \$774,443 or 25.7% from the 2017 projection of \$3,012,373.

The following identifies the non-PBRI consulting by account description and code.

- \$2,706,146 - Consulting and Professional Services
- \$1,080,670 - Information Technology (IT) Consulting and Professional Services

The following table comprises \$3,008,320, about 80%, of this budget. The expenditures are necessary to complete Annual Business Plan initiatives and other operational aspects of MSF business.

<b>2018 Budget</b>	<b>Department</b>	<b>Item / Description</b>
\$860,776	Operations	NCCI Membership Fee Agreement and transaction based charges (membership required by law)
\$826,848	Information Technology	IT staff backfill (non-PBRI)
\$594,960	Operations	Other States Coverage program expenses
\$415,000	Executive	Actuarial services
\$310,735	Executive	Creative development for advertising campaigns and Brand Refresh Project

- **National Council on Compensation Insurance (NCCI) – \$860,776 –** This is similar to the amount estimated for the 2017 budget as there are no pricing changes to membership fees or products in 2018. The budget includes the following:
  - ✓ The NCCI Membership Fee is primarily based on percentages that vary by core services that are applied to net direct written premiums. The 2016 net direct written premium used to calculate the membership fee was \$177,018,072. Total 2018 budget for the NCCI ‘Affiliation Licenses and Services’ is \$493,276.
  - ✓ Other fees are associated with the services provided by NCCI, such as eMods, unit statistical reporting, proof of coverage, and additional data. MSF is charged a transaction fee when receiving or providing data to NCCI. These fees are budgeted to be \$367,500.
- **IT Department staff backfill strategy -** \$826,848 is budgeted to hire consultants to backfill for vacant Software Engineer staff. Recruitment for these positions has been challenging over the past couple of years and is not expected to alleviate in the near future. The consultants will support the current environment with maintenance on existing applications including Cincom, integrations, Claim Center, and Insurance Intelligence.

These backfill consulting services are in addition to \$241,099 in personal services budgeted in the IT department for the four vacant software engineer positions. MSF plans to continue recruitment efforts and will use these personal service funds when a position is filled. This will allow for a transition period with the new staff and consultant enabling knowledge transfer.

- **Other States Coverage (OSC)** – \$594,960 – This is the portion of the OSC program expense budgeted as Consulting and Professional Services.

All OSC budgeted expenses are derived from contracted rates based on expected premium or incurred loss expense. The 2018 estimated OSC premium is \$3,250,000 and the estimated loss expense and ALAE is \$1,625,000.

Total OSC program budgeted expenditures of \$2,616,465 are outlined on page 7, and include:

- ✓ \$594,960 Consulting and Professional Services
  - \$323,375 - Per OSC contract with Zurich, MSF pays 9.95% of the written premium as ‘fronting fees’, or the expense of writing policies.
  - \$170,625 - Contracts provide for 10.5% of incurred losses, estimated to be \$1,625,000, as loss adjustment expense for the cost of providing claims adjusting and supervision services.
  - \$100,960 – The fee to maintain a letter of credit as contractually required.
- **Brand Refresh, Promotional Campaign and Communications Development** - \$310,735 - This is for the consulting services to create MSF advertising campaigns. This expense category is separate from the cost of air time or other media purchases.

The budget amount includes:

- ✓ \$175,500 for Partners Creative Consulting expense of administration, assistance on projects including creative work, creating ad campaigns, producing advertising products and photography shoots.
- ✓ \$135,235 for the Brand Refresh project to update ‘Young Workers’ and ‘Work Hard. Be Safe.’ campaigns along with other MSF materials and publications.
- **Independent Actuary** - \$415,000 - The Board is required by law to use the services of an independent actuary when estimating losses, surplus adequacy, and other areas of business. This budget will fund actuarial services to consult on rate level, rate filing, loss cost multipliers, loss reserves, policyholder equity, and legislation. \$380,000 is for services on the Montana State Fund and \$35,000 is for the reserve analysis of the Old Fund.
- **Other Items in the Consulting and Professional Services and IT Consulting and Professional Services Categories** - \$778,496
  - ✓ \$123,200 – vendor services to implement new medical bill system as budgeted in the project
  - ✓ \$116,069 - Department of Justice (DoJ) expense related to policy investigations and prosecutions. The total DoJ estimated funding is

allocated 70% to claimant and provider investigations and prosecutions and 30% directed to policy investigations and prosecutions based on cases currently assigned to DoJ and historical expense. The 2017 budget for the total DoJ fraud investigation and prosecution agreement is \$386,898.

- ✓ \$115,800 - Compensation consulting cost for CEO succession review, CEO and general compensation reviews, and property and casualty industry data.
  - ✓ \$110,000 - This budget provides for contracts or other projects that arise as the year progresses and are deemed necessary and appropriate by the President.
  - ✓ \$90,500 – insurance business consulting in support of Documentation Gaps project
  - ✓ \$75,000 – professional services for implementing the data management platform associated with the Visual Data Discovery project.
  - ✓ \$45,000 – professional services for software implementation of MSF systems security penetration testing (\$20,000), MSF’s password vault (PowerKeeper) software replacement (\$15,000), and Firewall installation and programming (\$10,000)
  - ✓ \$42,230 - national fraud indexing service (ISO) to check new claims for prior fraudulent activities (\$36,430) and Medicare Set Aside reporting (\$5,800).
  - ✓ \$30,000 - for the contracted Medical Director who provides research for and training of MSF claim examiners, medical case managers, and MSF external providers.
  - ✓ \$8,000 - Private investigators related to policy fraud issues.
  - ✓ \$7,200 - CFO Solutions consulting services to provide budget software support services.
  - ✓ \$6,000 – Telecom migration to enable phones in the disaster recovery environment
  - ✓ \$9,497 - Hard drive shredding (\$3,500), board member per diems (\$3,000), occupational therapist (\$1,875), and installation of data center biometrics (\$1,122).
- ❖ **Insurance and Bonds** - \$539,918 - this is a minor increase of \$733 from the 2017 budget of \$539,185. The budget funds MSF’s general liability, property, boiler, crime and automobile coverage. This insurance is provided through the State of Montana’s division of Risk Management and Tort Claims of the Department of Administration. The state is self-insured.
- ❖ **Legal Fees and Court Costs** - \$75,100 - this is the same level of budget as requested for 2017. The budget will fund employers’ liability coverage opinions, bankruptcy issues and other cases.
- ❖ **Warrant Writing** - \$46,168 - this is a decrease of \$8,240 or 15.1% from the 2017 budget of \$54,408. MSF relies on the state to issue all warrants, other than payments made by the medical and pharmacy bill processors to

providers. The estimate is based on rates proposed by the State's Warrant Writing division, anticipated 2018 warrant volume and prior year volumes.

- ❖ **State Human Resources Information System (Payroll) Service Fee** - \$63,354 - this is an increase of \$3,372 or 5.6% from the 2017 budget of \$59,982 and will fund charges to MSF for services of the State's Central Payroll and SABHRS Human Resource module.
- ❖ **Policyholder Payroll Audits** - \$824,391 - this is a decrease of \$16,478 or 2.0% from the 2017 budget of \$841,139. MSF plans to continue using external audit services to perform policyholder payroll audits. These audits may be conducted in the field or as a telephone audit. Payroll audits are a significant means to verify payrolls and ensure appropriate classifications are used, as well as creating additional opportunities to educate policyholders on MSF processes for reporting payroll.
- ❖ **Financial and Legislative Audits** - \$154,000 - this is a decrease of \$6,084 or 3.8% from the 2017 budget of \$160,084.
  - \$84,000 is for an independent accounting firm to audit the December 31, 2017 statutory financial statements and for planning work later in the year for the 2018 financial statements.
  - \$70,000 is for the Financial Compliance audit performed by the Legislative Audit Division (LAD) of the MSF governmental financial statements.
- ❖ **Consulting and Professional Services – Training** - \$119,250 – This is a minor decrease of \$728 or 0.6% from the 2017 budget of \$119,978. The budget funds experts to train MSF staff on:
  - board member training related to governance and actuarial analysis of reserves and rate setting
  - executive coaching, strategic planning and change management
  - speakers for the Customer Service Representative Conference and quarterly leadership meetings
  - International Insurance Institute on-site and on-line training
- ❖ **SABHRS Administrative Costs** - \$70,500 - this is a decrease of \$1,660 or 2.3% from the 2017 budget of \$72,160. This is paid to the Department of Administration and is MSF's portion of the expense for maintaining the state's accounting system, SABHRS. This expense is from OBPP's Fixed Cost report which uses a ratio of 'financial journal lines' by user as the basis for distributing the cost of SABHRS financial modules.
- ❖ **Data Network and Miscellaneous Information System Services - Non-DOA** - \$30,020 - this is a decrease of \$33,060 or 52.4% from the 2017 budget of \$63,080.
  - \$28,380 – SunGard disaster recovery services reduced after Data center

equipment moved to Miles City (2017 budget was \$61,200) and removed from the scope of the contract.

- \$900 – Montana Integrated System to Improve Customer Service (MISTICS) – Department of Labor and Industry’s unemployment insurance system used in determining workers’ compensation eligibility
- \$740 – Public Access to Court Electronic Records (PACER) system for bankruptcy research, Adobe Acrobat Reader and Insightly CRM on line subscription
  
- ❖ **Records Storage** – \$31,436 - this is a decrease of \$3,908 or 11.1% from the 2017 budget of \$35,344.
  - \$18,300 - Microfiche retrieval of older MSF and Old Fund claim data for Operations teams
  - \$12,216 - Off-site storage of back-up tapes with State Records Management
  - \$920 - All other finance, legal, and claim information retrieval from data archived with State Records Management.
  
- ❖ **Printing** - \$188,457 - this is an increase of \$20,022 or 11.9% from the 2017 budget of \$168,435. This includes internal forms, envelopes, safety workshop materials, and a variety of small printing jobs for brochures, business cards, envelopes, and other informational materials. The increase is primarily due to adding \$22,650 for the Brand Refresh project.
  
- ❖ **Services provided by the State Information Technology Services Division (SITSD) of the Department of Administration** - \$693,343 - this is an increase of \$61,651 or 9.8% from the 2017 Budget of \$631,692.

SITSD, in conjunction with OBPP, has determined the rates and expenses to be charged to MSF for services in the state’s FY18 and FY19. MSF reviews processes and charges regularly and continually seeks the most efficient means to provide staff network support/services and to avoid the use of unnecessary or duplicative SITSD network services to minimize expense.

The budgets by SITSD category are as follows:

- \$233,064 - asset broker
- \$213,036 - enterprise services
- \$199,980 - network services
- \$22,891 - storage, server, equipment and application hosting
- \$24,372 - e-mail and voice services

➤ **Supplies and Materials**

- ❖ **Clothing and Personal** – \$16,900 – this is an increase of \$15,030 from the 2017 budget of \$1,870. The Brand Refresh project includes \$15,750 for new logo wear for MSF staff.
  
- ❖ **Educational Supplies** - \$49,614 - this is an increase of \$1,504 or 3.1% from the

2017 budget of \$48,110. The budget provides for purchase of manuals and materials used in courses for MSF staff training and the Executive Development Program.

- ❖ **Gasoline** - \$37,746 - this is an increase of \$5,359 or 16.5% from the 2017 budget of \$32,387. The budget estimate was based on \$2.44 per gallon (MSF is exempt from gas tax) for gasoline. MSF will have 24 fleet vehicles in 2018, one more than 2017. The 2018 average miles per vehicle is estimated to be 15,955.
- ❖ **Minor Office Equipment** - \$78,698 - this is a decrease of \$14,659 or 15.7% from the 2017 budget of \$93,357. The 2018 budget includes:
  - \$46,883 – Purchase of 86 ergonomic sit / stand workstations, floor mats and footstools during the year. A project to upgrade all workstations began in 2017. Two-thirds of these workstations have been purchased and this budget is for the final purchase of workstations.
  - \$31,815 – all other - plotter printer, replacement screen in Board meeting room, modular walls, cordless vacuum, ergonomic keyboards and monitors
- ❖ **Computer Hardware** - \$333,668 - this is an increase of \$40,033 or 13.6% from the 2017 budget of \$293,635. The 2018 budget includes:
  - \$196,086 - PBRI projects off shore development environment
  - \$94,397 – Replacement of 83 computers and 59 monitors as part of MSF's replacement cycle plan. Approximately 20% of MSF desktop computers and printers are replaced annually. The computers to be replaced are approximately five years old.
  - \$19,000 – Traditional phone line to Signaling Protocol (SIP) migration – includes SIP trunking hardware and gateway appliances.
  - \$24,185 - all other minor hardware: two computers to support Premier Pro video software, fingerprint scanners, disaster recovery network monitoring appliance.
- ❖ **Non-Capitalized Software** - \$396,003 - this is an increase of \$183,279 or 86.2% from the 2017 budget of \$212,724. This is for software that will be expensed in same fiscal year as purchased and has a purchase price of less than \$100,000. The software to be purchased in 2018 includes:
  - \$157,625 - for licenses to support PBRI development
  - \$90,000 - Data Visualization product licenses and data management platform and support
  - \$70,000 - for a managed file transfer protocol (FTP) solution, maintenance and one-year of support
  - \$50,000 - PowerKeeper (password vault) replacement software necessary as version ends in 2018 and newer version does not contain functionality needed by MSF.
  - \$10,000 - Database and safety service reporting for Growing a Safer Montana project
  - \$4,500 - software to run document scanning equipment.
  - \$4,500 - software to enable email document conversion to PDF format

- \$4,250 - software used to prepare and submit the quarterly and annual statements and other filings.
- \$5,128 - other software such as, Adobe Acrobat Pro and MS Office licenses
- ❖ **General Office Supplies** - \$159,313 - this is a decrease of \$26,572 or 14.3% from the 2017 budget of \$185,885. This budget includes paper, toner, and a wide variety of minor office supplies.
- ❖ **All Other Supplies and Materials Categories** (excluding SITSD Asset Broker) - \$52,521 - includes budget for:
  - \$32,695 - promotional aids to enhance safety and other program awareness
  - \$13,207 - books and reference materials – primarily specialized desk manuals
  - \$4,755 - safety supplies and minor equipment
  - \$1,863 - diesel fuel for back-up generator
- **Communications**
  - ❖ **Postage** - \$460,553 - this is an increase of \$13,682 or 3.1% from the 2017 budget of \$446,871. The budget includes:
    - \$276,000 - print mail service fees
    - \$178,745 - meter postage
    - \$5,808 - all other - P. O. Box rental, ‘deadhead’ mail service, field staff postage, and stamps
  - ❖ **Advertising** - \$440,980 - this is an increase of \$29,674 or 7.2% from the 2017 budget of \$411,306. This is the expense to purchase media time and placement. The budget includes:
    - \$165,000 - Purchase TV/cable air time for two advertising campaigns
      - ✓ \$55,000 - ‘No Jack’ in the spring of 2018
      - ✓ \$110,000 - ‘Work Hard. Be Safe’ in November 2018
    - \$244,280 - Purchase of print, radio, and website banner advertisement
      - ✓ \$105,000 – ‘Thumbs Up Young Workers’ spring 2018 campaign
      - ✓ \$95,000 - ‘Work Hard. Be Safe’ in November 2018
      - ✓ \$35,000 - Sponsorships such as SafetyFest, Governor’s Conference, Billings Biz Expo
      - ✓ \$9,280 - E-blasts of workshops / conferences and ad placements
    - \$31,000 – Class of 2018 WorkSafe Champions Elite - professional film crew for alumni spotlight and advertising opportunity
  - ❖ **All Non-SITSD Data and Telephone Categories** - \$96,723 - this is an overall decrease of \$5,093 or 5.0% from the 2017 budget of \$101,815. This expense covers cell phones, tablets, long-distance charges, language line, and ‘800’ line services. The budget is based on prior usage and rates expected in 2018.
- **Travel**
  - ❖ \$369,155 is the total MSF travel budget - this is a decrease of \$56,337 or 13.2% from the 2017 budget of \$425,492. The 2018 budget supports:

- \$155,863 - MSF staff out-of-state travel for business and training needs
- \$141,244 - MSF staff in-state travel for business and training needs
- \$48,908 - Travel associated with projects
- \$23,140 - Travel for Board members and agents - non-employee travel

➤ **Rent**

- ❖ \$425,379 - this is an increase of \$38,077 or 9.8% from the 2017 budget of \$387,302. MSF has three areas of rent expense:
  - \$319,200 - annual parking fees for 350 spaces – this is budgeted based on \$76 per month per space, a 2.6% increase from 2017 rate of \$74. This does not include the offset for any potential revenue generated for parking fees charged to non-MSF users.
  - \$58,827 - rent for five field offices located in Billings, Great Falls, Missoula, Kalispell, and Butte and is the same amount as in 2017.
  - \$47,352 - photocopy equipment rental agreements which includes additional copiers and newly replaced copiers.

➤ **Utilities**

- ❖ \$235,000 - this budget remains unchanged from the 2017 budget amount. This is for electricity, natural gas, water and sewage services for the building.

➤ **Repairs and Maintenance**

- ❖ \$2,077,721 - this is a decrease of \$4,215 or 0.2% from the 2017 budget of \$2,081,936.
  - \$1,087,405 - IT maintenance agreements for application software and hardware such as servers, routers and associated peripherals. 2017 budget is \$1,054,337.
  - \$738,747 – PBRI projects for Guidewire software maintenance agreement. This is the same amount as 2017.
  - \$163,463 – Facilities building and grounds maintenance and repairs including: painting of exterior black columns and horizontal slats; audio / visual system preventative maintenance; carpet cleaning; heating, ventilation and air conditioning (HVAC); air handler; audio visual system; building equipment replacement parts; main wood beams over deck and lobby restoration; window cleaning; elevator maintenance; fire system, sprinklers, and extinguisher services: ballast replacements for lighting; shredding services; generator maintenance; and, other items.
  - \$30,676 - repairs and maintenance on MSF owned and operated fleet of 24 vehicles. Expenses include tires, oil changes and other regular maintenance. First aid kits will be purchased for all vehicles at \$75 each.
  - \$30,430 – Document Processing’s scanning machines, Pitney Bowes mailing equipment hardware and software maintenance contracts.
  - \$20,000 - Facilities computer hardware maintenance and the addition of Lockdown / Active Shooter system annunciators. This is a hardware enhancement that is considered maintenance of the existing system.
  - \$7,000 - replacement parts for monitors, computers, hard drives, memory,

mice, keyboards, and printer maintenance kits.

➤ **Other Expenses**

- ❖ **Dues** - \$67,242 - this is a decrease of \$8,850 or 11.6% from the 2017 budget of \$76,092. This expense is for membership dues with professional business organizations such as the Montana Chamber of Commerce (\$36,050) and other local chambers (\$8,353), American Association of State Compensation Insurance Funds (\$7,500), Montana Society of CPAs, Montana Bar Association, Society for Human Resource Management, and other safety and insurance industry associations.
  
- ❖ **Subscriptions** - \$517,070 - this is an increase of \$12,811 or 2.5% from the 2017 budget of \$504,259. This includes budget of:
  - \$141,600 - Clearwater Analytics for regulatory investment reporting
  - \$79,654 – On-line recruitment and resume searching tools and social media platforms used to reach potential employees from different backgrounds, locations and work experience levels:
    - ✓ \$30,804 - Linked In
    - ✓ \$22,800 - Stack Overflow
    - ✓ \$18,000 - Career Builder
    - ✓ \$8,050 - Glass Door
  - \$75,000 - Milliman contract for support of claim analytics
  - \$53,683 - Host Analytics budget application
  - \$30,804 - Linked In recruitment tool for resume searching
  - \$25,640 - On-line access to Human Resource Management System (SilkRoad) for training, recruitment and on-boarding
  - \$22,800 - StackOverflow on-line recruitment tool
  - \$18,000 - Career Builder on-line recruitment tool
  - \$17,615 - Standard and Poor’s Global Market Intelligence (formerly SNL Financial) for insurance and financial industry data
  - \$16,600 - initial subscription for Performance Management Platform as part of Executive Development project
  - \$14,900 - Caliper Data Analytics – competency model
  - \$14,760 - WDesk financial preparation and reporting solution
  - \$10,000 - PayScale for support with internal compensation work
  - \$8,050 - Glass Door recruitment tool and professional social media platform
  - \$7,400 - NAIC Automated Valuation System (AVS) that provides securities data to Clearwater Analytics for Schedule D reporting
  - \$7,000 - Gallup Platform for human resources evaluations associated with training
  - \$6,500 - payments to NAIC for regulatory filings
  - \$5,000 - Lexis Nexis legal research
  - \$41,718 - legal research, legal time tracking, a variety of desk manuals, career specific periodicals such as medical and occupational disability guides and on-line access for reference materials.

- ❖ **Taxes and Assessments** - \$143,200 - this is an increase of \$11,057 or 8.4% from the 2017 budget of \$132,143. This budget is comprised of:
  - \$136,500 - OSC premium taxes paid for insuring MSF policyholder's operations in other states where workers' compensation premium taxes are assessed. For 2018 the OSC premiums are estimated to be \$3,250,000 and the taxes and surcharges are estimated to be 4.2%.
  - \$3,500 - Reinsurance excise tax
  - \$3,200 - Annual city assessment for services on building
  
- ❖ **Education and Training (includes IT staff) and Professional Development Center** - \$287,370 - this is a decrease of \$83,771 or 22.6% from the 2017 budget of \$371,141. Training is needed to ensure MSF employees are knowledgeable in best practices associated with supervision, claim management, safety management and underwriting of risk. The major items are:
  - \$66,265 - PBRI project – new system training
    - ✓ \$32,500 - Guidewire configuration fundamentals (core team technical training)
    - ✓ \$30,840 - HCL business / end user training
    - ✓ \$2,925 - Vendor conference registrations
  - \$23,000 - Executive Development Program project
    - ✓ \$16,000 - Programs available at universities
    - ✓ \$7,000 – Charter program curriculum identification and development and, relational networking
  - \$20,000 - Data Visualization data management platform training
  - \$14,745 - Governor's Conference registrations of MSF staff
  - \$14,200 - American Association of State Compensation Insurance Funds (AASCIF) registration fees for annual conference and committee meetings
  - \$9,000 - PBRI - vendor conference for selected partner
  - \$15,000 - Firewall training for IT staff
  - \$5,000 - File Transfer Protocol (FTP) training
  - \$19,345 - Multiple training courses planned for MSF staff
  
- ❖ **Rewards** - \$61,326 - this is a \$14,259 or 30.3% increase from the 2017 budget of \$47,067. This is for employee-of-the-month/year awards, employee referral incentives, certification awards, individual employee rewards, IDEA awards, and retirement recognition.
  
- ❖ **Tuition Reimbursement** - \$24,000 - this is a \$3,564 or 12.9% decrease from the 2017 budget of \$27,564. For 2018, the maximum amount of annual tuition reimbursement per employee is \$4,000. Six employees are expected to participate in the tuition reimbursement program in 2018. Reimbursements are based on MSF's pre-approval, successful course completion, and actual cost.
  
- ❖ **Meetings and Conference Cost** - \$205,728 - this is an increase of \$14,138 or 7.4% from the 2017 budget of \$191,590. The budget provides for meeting rooms

and equipment for MSF-sponsored meetings within our building and at locations throughout the state.

- Safety management workshops and WorkSafe Champions in locations throughout Montana
- Agent training workshops
- Customer service representative conference
- Producer training classes
- Marketing events
- Medical Conference
- MSF Board meetings
- Other meeting space rentals when MSF building conference rooms are full

- ❖ **Recruitment Expenses** - \$187,430 - this is a decrease of \$3,246 or 1.7% from the 2017 budget of \$190,676. The budget is based on expected job candidate expenses and relocation expenses of eligible new employees.

Each recruiting action has the potential to require different levels of expense to complete the recruitment process. The budget is based on prior year expenditures for individual recruiting actions and expanding utilization of less costly web-based recruiting services in comparison to recruiting agencies. Recruitment expenses are comprised of the following accounts:

- \$93,706 - Job Candidate Expense - recruitment services and candidate travel expenses
- \$74,000 - Relocation - Non-Taxable
- \$19,724 - Relocation - Taxable

- ❖ **Licenses** - \$20,108 - this is an increase of \$3,140 or 18.5% from the 2017 budget of \$16,968. This budget funds professional license expenses of attorneys, certified public accountants, claim examiners, pharmacy technicians, registered nurses and others.

- ❖ **Bank Service Charges** - \$38,620 - this is an increase of \$4,797 or 14.2% from the 2017 budget of \$33,823. This budget funds the Montana Interactive E-check fees and credit card fees for on-line customer payments. This service is continually expanding and includes collection of medical and other types of claimant overpayments.

- ❖ **Charitable Contributions / Scholarships** - \$96,300 - this is an increase of \$11,000 or 12.9% from the 2017 budget of \$85,300. Charitable Contributions are budgeted as follows:
  - \$30,000 - Growing a Safer Montana project: Trade, Industry and OSHA Scholarship awards (\$15,000), Safety and Health Scholarship awards and, high school safety equipment grants (\$15,000)
  - \$27,300 - Scholarship program - Scholarships of up to \$1,000 per semester are provided to dependents or spouses of MSF-insured employees who died in work-related accidents. MSF estimates 13 scholarships (2 semesters each) will be awarded in 2018 for a total budget of \$26,000. Each scholarship is

estimated to be \$2,000 with an additional \$100 administrative fee each. The budget is based on prior year participation.

- \$25,000 - ACE (Assisting Charitable Endeavors) Grants program - The grants are awarded by a committee of MSF employees based on applications submitted by 'not-for-profit' organizations throughout the state.
  - \$10,000 - Support of Leadership Montana
  - \$4,000 - Support of 'Festival of Trees' events
- ❖ **Fee Collection Expense** - \$28,711 - this is a decrease of \$9,688 or 25.2% from the 2017 Budget of \$38,399. MSF contracts with external collection agencies and the fees vary based on success with collections, amount sent to collection, and whether litigation is involved.
- ❖ **State Wide Indirect Cost** - \$101,830 - this is an increase of \$52,507 or 106.5% from the 2018 Budget of \$49,324. The State Wide Indirect Cost (also known as the State Wide Cost Application Plan or SWCAP) is an allocation determined by the federal government and the Office of Budget and Program Planning as a means to allocate costs incurred by agencies whose functions support all state entities.

#### **d. Equipment and Intangible Assets**

The total 2018 Budget for all equipment and intangible assets is \$815,959. This is a decrease of \$1,053,871 or 56.4% from the 2017 budget of \$1,869,830.

- **Multi-User Software** - \$168,000 - This is the budget amount for the PBRI related software, Cincom. This software supports the seven tier infrastructure.
- **Multi-User Computers** - \$518,539
  - \$270,000 - purchase of application server, database server, storage, and load balance. This is the budget amount for the PBRI computer equipment to be capitalized. This computer hardware supports the seven tier infrastructure.
  - \$100,000 – replacement of Firewall and intrusion prevention system (IPS)
  - \$49,524 – replace DVD Publishers that are at end of life
  - \$45,000 – three new scanning machines for Document Processing compatible with the new DataCap system
  - \$35,300 – two Firewalls and a tape drive to support disaster recovery
  - \$18,715 – high capacity scanner used by IT staff in development and testing
- **Autos & Trucks** - \$90,420 - One SUV and three sedans will be purchased to replace three high-mileage vehicles and add one additional vehicle to the MSF fleet for staff who travel as recommended by the Fleet Manager. Vehicles being replaced have reached the mileage specified in MSF's Fleet Management Policy as the replacement threshold. MSF will replace the sedans at a cost of \$21,890 each. The SUV cost is \$24,750.
- **Office Equipment** - \$39,000 to replace six workstations in the Billings, Butte, and

Great Falls field offices. The workstations cost of \$6,500 each.

**e. Transfers to State of Montana**

The total 2018 Budget for transfers from MSF to other State entities is \$15,225,005. There are two items requiring transfers to be included in the 2018 Budget.

➤ **3% Management Rate Transfer** - \$15,000,000

During the November 2017 Special Session Senate Bill 4 provided that the Montana Board of Investments (BOI) complete two transfers of MSF funds to the Fire Suppression Account. The first transfer will be an expense of 2017. This budget item is for the second transfer and is based on the following assumptions and parameters established in law.

- MSF's 2018 average asset balance is estimated to be \$1.5 billion
- The balance amount in excess of \$1.0 billion will be \$500.0 million
- 3% of \$500.0 million is \$15.0 million

Note: Subsequent to the budget being approved by the MSF Board of Directors, MSF staff received guidance from the State Financial Services Division which resulted in this item being classified and recorded as an Operating Expense instead of a Transfer in the state's accounting system. This change does not change the amount of the overall budget approved.

➤ **CSI Staff Expense and Certificate of Authority** - \$225,005 - this is a decrease of \$154,390 or 40.7% from the 2017 budget of \$379,395.

MSF is required in law, 33-1-408(4), MCA to pay CSI for staff and examination expenses associated with regulating MSF. There are no examinations planned for 2018 and a financial examination was completed in 2017.

The budgeted transfer to CSI is comprised of the following:

- \$223,105 – Personal services and operating expenses of an attorney and a market conduct examiner employed by CSI.
- \$1,900 - MSF's 'Certificate of Authority' to conduct the business of insurance in Montana as required under Title 33.

**f. Allocated Loss Adjustment Expense (ALAE) -- Defenses and Cost Containment (D&CC) -- Adjusting and Other (A&O)**

ALAE / D&CC / A&O are costs directly associated with managing a specific claim, such as an independent medical examination to analyze a prescribed treatment of an injured employee or medical bill review fees.

\$4,364,617 is budgeted for ALAE / D&CC / A&O and is an increase of \$822,266 or 23.2% from the 2017 budget of \$3,542,351.

➤ **\$1,203,174 - Medical Invoice Processing** - The budget is a decrease of \$97,229 or 7.5% from the 2017 Budget of \$1,300,402. Medical invoice processing is budgeted

based on estimated medical benefits to be paid, invoices to be processed, and the applicable contracted cost per bill. Charges are for bill review, nurse review, check issuance and preferred provider organization (PPO) savings fees.

- \$991,279 – Independent Medical Examination (IME) – This is a new component of MSF’s Defense and Cost Containment (D & CC) budget. This expenditure was previously completely reported as a medical benefit. Depending on the specifics surrounding an IME, it may be for the benefit of the injured employee and reported as a medical benefit. Or, the IME may be to analyze a prescribed treatment and reported as Defense and Cost Containment.

The 2018 budget includes \$1.4 million for IME in both medical benefits and D & CC. There is \$424,834 or 30% of the IME expenditures budgeted as medical benefits and 70% budgeted as D & CC.

- \$875,752 - Investigations - This is an increase of \$47,612 or 5.7% from the 2017 budget of \$828,139 based on utilization of services.
  - ❖ \$512,040 - Private investigations on claims related issues.
  - ❖ \$276,711 - Department of Justice (DoJ) Fraud investigation and prosecution agreement budget for claim and provider investigations..
  - ❖ \$87,000 - Investigative Job Analysis - This will provide for certified rehabilitation counselors to complete thorough and objective investigations of occupational disease claims to determine MSF liability.
- \$789,653 - All legal expense categories - this is a decrease of \$93,414 or 10.6% from the 2017 budget of \$883,067.
  - ❖ \$671,380 - State Fund legal contract for services of external counsel and expense of Medicare Set Asides
  - ❖ \$67,015 - Legal Fee Claimant Attorney and associated claimant attorney’s costs
  - ❖ \$30,172 - Employer’s Liability Insured Defense Cost
  - ❖ \$21,085 - Photocopy and electronic copy expense
- \$309,602 - Medical Consultants - this is a decrease of \$27,969 or 8.3% from the 2017 budget of \$337,571. MSF relies on medical consultants to enhance staff expertise and knowledge related to diagnosis and treatment plans for injured employees. The budget enables staff to consult with medical professionals to provide expertise when managing complex medical issues.
- \$195,158 - Contract Examiners - this is an increase of \$1,987 or 1.0% from the 2017 budget of \$193,170.
  - ❖ \$162,500 - Examiners associated with Other States Coverage claims
  - ❖ \$32,658 - Contract external claims examiners to manage MSF in-house claims and to complete life expectancy reviews

## **VI. Miscellaneous**

### **a. Old Fund Administration**

The 2018 budget includes the expenditures necessary to administer and manage Old Fund claims. These are claims for injuries that occurred prior to July 1, 1990. By law, MSF is reimbursed by the state General Fund up to \$625,000 each state fiscal year for Old Fund administration costs. Old Fund claim management changes were implemented to ensure only \$625,000 will be necessary for 2018.

**b. Cost Not Included in the Proposed Budget**

The 2018 budget includes all known and expected costs for the fiscal period January 1 through December 31, 2018.

- The budget does not include court decisions that may significantly and adversely impact the State Fund.
- The budget does not include a potential expenditure for the continuation of our reinsurance on accident years 2009 through 2012. A decision on commutation must be made by June 2018.
- The President’s position personal services budget assumes the same factors applied to all MSF positions. Any additional compensation adjustments for the President shall be determined by the Board as warranted.
- The Medical Billing System will require additional Document Processing staff once the system is fully implemented. We are anticipating the need for these positions in the latter portion of the year. We plan to use existing positions that are vacant at that time to support the document scanning process. Funding for the new positions will occur in the 2019 Budget.

**c. Premium Estimate and Budget Amendments**

The 2018 budget is prefaced on MSF’s net earned premium projection of \$162.3 million. Should premium significantly increase or decrease from the estimate, appropriate budget increases or decreases may be presented to the Board for further review.

Throughout the year, management will provide quarterly budget variance reports to keep the Board informed of the status of the approved budget as compared to the fiscal year’s projected expenditures. Management could request the Board’s approval of an amendment to the annual budget if there are significant unanticipated increases in benefit payments or operational costs.