



FAIR MONTANA

***MODERNIZATION OF MONTANA'S
WORKERS' COMPENSATION
INSURANCE MARKET***

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Produced By

FAIR MONTANA

**Employer Savings Estimated at \$100 Million
Each Year**

By removing the Montana State Fund from its dominating market position and creating a fair, competitive market, Montanans and Montana's employers can reduce workers' compensation premiums by as much as 28% to 42%, with 35% being the expected average annual rate of savings.

Montana's workers' compensation total annual premium is near \$285 million. By modernizing the market, which entails removing the Montana State Fund and opening the market to private competition, this 35% reduction in cost will result in savings of nearly \$100 million each year while ridding taxpayers of unknown past and future claims liabilities. In five years, Montana employers could save **\$500 million dollars!**

This savings will have a real impact on employers and their businesses, as well as their employees. Many states are already realizing this savings benefit and significant reduction of taxpayer liabilities. Delay is costing Montana's employers about \$100 million each year.

In addition to great savings and reduction or elimination of claims liabilities, Montana's businesses and injured workers will have the benefit of updated and state-of-the-art workers' compensation services, provided by sophisticated, private workers' compensation insurers competing for employers' premiums.

WHY ARE SAVINGS AVAILABLE?

The dominant market position of a government agency--the Montana State Fund--combined with monopolistic advantages and behaviors, has always forced Montana employers to pay among the highest cost premiums in the nation.

Since 2000, Montana has averaged 42nd worst in the nation. During the 2010 and 2011 years, Montana's national ranking was "the worst" highest cost workers' compensation program and was ranked dead last in the nation. This employer cost crisis prompted Montana workers' compensation legislative reforms in 2011. After those significant legislative claims reforms and legislatively mandatory rate reductions of 22.4%, Montana is still ranked near the bottom and is still one of the highest cost programs in the nation, as reported by the Oregon national ranking and NCCI statistical data.

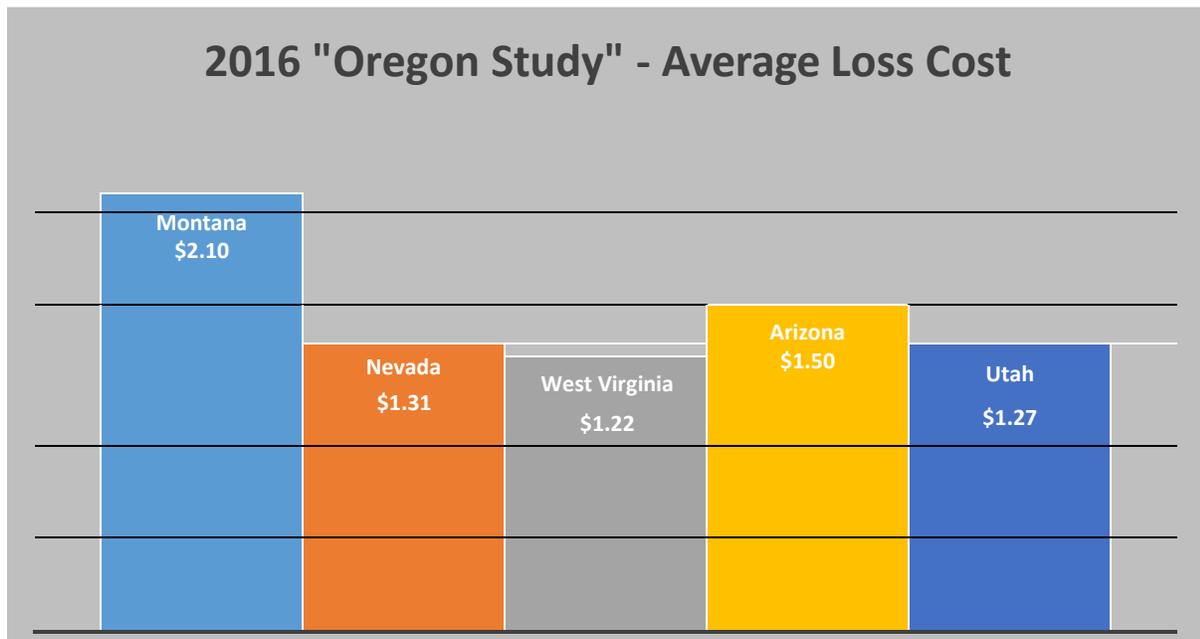
By modernizing the workers' compensation market, the Legislature can rid taxpayers of unknown past and future claims liabilities and generate employer savings of nearly \$100 million each year.

ACTUARIAL SUMMARY

Introduction

I have been asked by Fair Montana to develop projected conditions of the Montana workers' compensation insurance market if the Montana State Fund were to be removed from the market. The annual workers' compensation premium volume in Montana is approximately \$285 million. I believe modernization of the market will result in savings of between \$79.8 million and \$119.7 million, as shown below." Using available information, I have developed three separate, independent methods estimating the effects of this potential condition. Based on these methods and the consistency in their results, I believe it is appropriate to conclude that the projected reduction to overall Montana rates could be approximately 35% or near \$100 million in annual savings were the State Fund to be dissolved.

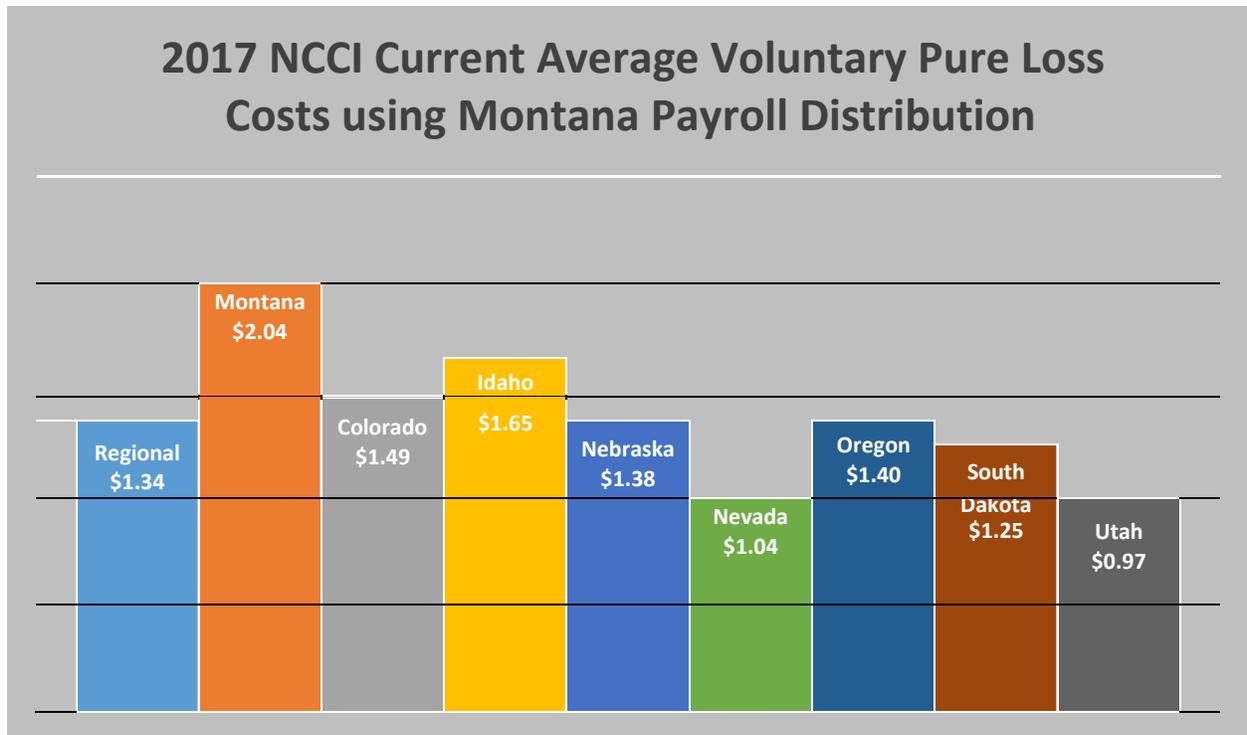
Method 1 – Peer States



Based upon the 2016 Oregon Premium Study** Montana is on average 35% (range 28%-42%) more expensive than states with reasonably comparable benefits. Each state has significantly lower frequency and severity costs driving down the overall premium. All these states, with the exception of Utah, have gone through similar changes to privatize and get away from a market dominated by a state fund (Nevada – 1/1/00; West Virginia – 1/1/06; Arizona – 1/1/13; Utah – By 2021). Based upon this data, and further observing that each state has experienced a vast improvement in its rankings since full privatization, I conclude that the Montana workers' compensation marketplace would likely undergo significant reductions in claims costs as result of elimination of the state fund which would result in rate reduction of approximately 35%, or \$100 million in annual premium savings.

**http://www.cbs.state.or.us/external/dir/wc_cost/files/report_summary.pdf

Method 2 – NCCI Loss Costs



The 2017 NCCI Montana State Advisory Forum** (Slide #30) compares Montana payroll distribution of pure loss costs (indemnity and medical benefits paid to workers) of the seven other NCCI states in the Region. If all states had identical payroll distribution to Montana, loss costs would range from \$0.97 - \$1.65. However, Montana's average pure loss costs of \$2.04 could be 34.3% lower than they are today if brought into line with the regional average, for an expected premium savings of \$100 million annual savings. I observe that the benefit systems of these neighboring states are similar to Montana. I also note that the regional average includes Montana's current experience, so the loss cost reduction expected would actually be much greater than 34.3%. This calculated reduction would therefore be conservative by this analysis.

Moreover, NCCI employs the use of rating methodology which is designed to mitigate the dramatic swings that can occur providing greater stability to the marketplace. In this regard, NCCI tends to employ conservative approaches to their rating methodology.

**https://www.ncci.com/Articles/Documents/II_StateAdvisoryForumState_MT_2017.pdf

Method 3 – NCCI Statistical Bulletins

Utilizing the NCCI Annual Statistical Bulletin (ASB), it is possible to calculate the cost impact of removal of Montana State Fund from the workers compensation market. The ASB provides state-by-state average costs and claim frequency for the most recent five policy periods.

Claim Frequency Projections

	<i>With MSF</i>	<i>Without MSF</i>
Fatalities	4	4
Permanent Total Disability	5	3
Permanent Partial Disability	333	333
Temporary Total Disability	956	751
Total Indemnity	1,299	1,091
Total Medical Only	3,721	3,929
Total Claims Volume	5,020	5,020

Total Loss Projections

	<i>With MSF</i>	<i>Without MSF</i>
Fatalities	\$1,089,596	\$1,679,047
Permanent Total Disability	\$6,093,033	\$5,259,874
Permanent Partial Disability	\$31,070,152	\$22,233,494
Temporary Total Disability	\$21,580,567	\$12,333,404
Total Indemnity	\$59,833,348	\$41,505,819
Total Medical Only	\$2,790,945	\$2,946,750
Total Claims Costs	\$62,624,293	\$44,452,569
Total Cost/Claim	\$12,474	\$8,855
Reduction to MT market: [1.0 - \$8,855/\$12,474]		29.0%

The Montana State Fund’s regulatory filings show a much longer claim settlement pattern than is observed with private carriers. This observation is supported by the significantly greater emergence of lost-time (“indemnity”) claims as compared to neighboring states. Specifically, the relatively high frequency of “temporary-total” claims in Montana, due to the State Fund’s dominant effect on that market, imposes a vastly higher overall cost on the state.

Industry data has long shown that medical-only claims, left open for longer than necessary, typically deteriorate into temporary-total disability claims at a much higher frequency for Montana State Fund as compared to the private market. With the elimination of the State Fund, my calculation assumes that a large number of medical-only claims would avoid deterioration into lost-time claims. As a result, the reduction to overall Montana claims costs can be calculated to be 29%, for an annual premium savings of \$82.6 million.

Statement by Actuary

I, Charles C. Emma, am a Managing Principal of EVP Advisors, Inc. I am a Fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries, and I meet the Qualification Standards of the American Academy of Actuaries to provide the actuarial conclusions above.

The information contained in this summary report has been prepared under my direction in accordance with applicable Actuarial Standards of Practice as promulgated by the Actuarial Standards Board. The Actuarial Standards Board is vested by the U.S.-based actuarial organizations with the responsibility for promulgating Actuarial Standards of Practice for actuaries providing professional services in the United States. Each of these organizations requires its members, through its Code of Professional Conduct, to observe the Actuarial Standards of Practice when practicing in the United States.

I have prepared this summary at the request of Fair Montana. Additional documentation and technical support are available upon request.

Charles C. Emma, FCAS, MAAA

MODERNIZATION OF THE MONTANA WORKERS' COMPENSATION MARKET

Modernization of Montana's workers' compensation market starts with the dissolution of the Montana State Fund, as provided by the legislature. The modernization of the market is not impossible to accomplish. Remember, after the first Montana State Fund insolvency, the legislature in 1991 created the current Montana State Fund and terminated the Old Fund in one session.

Montana's dissolutions options can be designed by referencing the best ideas and methods learned from other successfully transitioned states.

Already 29 other states have accomplished this task of repealing their state funds and have benefited by saving hundreds of millions of dollars. Only 17 State Fund-encumbered states resembling our Montana State Fund's system exist and those states are predictably in the highest cost rankings in the nation.

After dissolution and transition of their state funds, NOT ONE STATE has returned to a State Fund concept.