

**MONTANA STATE FUND
2019 ANNUAL BUDGET
(Effective for period of January 1, 2019 to December 31, 2019)**

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 guarantees available coverage for all employers in Montana. Effective January 1, 2016, MSF came under oversight and regulation by the State Auditor, Commissioner of Securities and Insurance (CSI) and MSF's budget and financial reporting processes were converted to a calendar year.

This 2019 annual budget provides the funding to enable MSF to continue our role of providing a stable and guaranteed workers' compensation market for Montana, meet our regulatory requirements, implement our business plan initiatives, and effectively support business operations.

The following defines the budget periods referenced in this report:

- **2019 Budget:** Amounts to fund the business requirements and approved projects of the January 1 through December 31, 2019 fiscal reporting period.
- **2018 Budget:** Amounts approved for calendar year 2018.
- **2018 YTD Actuals:** Expenditure amounts recorded between January 1 and October 31, 2018.
- **2018 Projection:** Estimated full year amounts based on actual expenditures recorded through September 30, 2018.
- **2017 Actuals:** Actual expenditures recorded for 2017.
- **2016 Actuals:** Actual expenditures recorded for 2016.

I. Total Expenditures

The total budget for 2019 expenditures is \$177,761,982. Claim Benefit Payments and Operational Expenditures are the two primary components of the budget.

The 2019 Budget is displayed below in comparison to the 2018 Budget, 2018 Projection, and the 2017 and 2016 Actual expenditures. It includes the full-time equivalents (FTE) and position counts for each of these periods.

	2019 Budget	2018 Budget	2018 Projection	2017 Actuals	2016 Actuals
FTE	307.00	307.00	307.00	307.00	306.50
Positions	310	310	310	310	309
Claim Benefit Payments	\$109,495,630	\$119,994,052	\$110,494,991	\$121,895,636	\$120,525,961
Operational Expenditures	<u>\$68,266,353</u>	<u>\$88,032,882</u>	<u>\$80,060,477</u>	<u>\$72,512,036</u>	<u>\$52,669,883</u>
Total MSF Expenditures	<u>\$177,761,982</u>	<u>\$208,026,933</u>	<u>\$190,555,469</u>	<u>\$194,407,672</u>	<u>\$173,195,844</u>

The total MSF 2019 budget of \$177.8 million is a decrease of \$30.3 million or 14.5% from the approved 2018 budget of \$208.0 million. The MSF 2019 Budget is a \$12.8 million or a 6.7% decrease from the 2018 projected expenditures of \$190.6 million.

- No funds are included in the 2019 Budget for a 3% management rate transfer to the State's fire suppression account, which is a \$15 million decrease compared to the last two budget years. The 2018 budget includes \$15.0 million for this transfer and the 2017 budget was amended for the transfer required by SB-4 of the 2017 Special Legislative Session. The law sunsets in 2019 and no additional transfers are expected.
- **Claim benefit payments** of \$109.5 million to injured employees are 62% of the total budget. Benefit payments include all expected funding required to pay existing and anticipated injured employee claims for indemnity and medical related benefits. The 2019 budget is a:
 - ❖ \$10.5 million or 8.7% decrease as compared to the 2018 budget
 - ❖ \$999,362 or 0.9% decrease as compared to the 2018 projection

Medical settlement categories are driving the budget decrease with a projected decline from \$31.7 million to \$19.9 million in 2019, or an \$11.8 million decrease.

- **Operational expenditures** include all staffing, overhead and other costs needed to support MSF business operations and the funds of \$68.3 million equates to 38% of the total budget, this is a:
 - ❖ \$19.8 million or 22.5% decrease as compared to the 2018 budget
 - ❖ \$11.8 million or 14.7% decrease compared to the 2018 projection

The primary operational expenditures areas include:

- ❖ \$30.9 million in personal services to fund the 2019 MSF staffing for 307.00 FTE which equates to 310 positions
- ❖ \$11.1 million for agent commission payments
- ❖ \$10.2 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
- ❖ \$3.7 million for allocated loss adjustment expense

Specific operational 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. The most significant change is in the PBRI project budget, which is \$8.3 million for 2019, a \$7.2 million decrease from the 2018 budget of \$15.5 million.

<u>Annual Business Plan Projects</u>	<u>2019 Budget</u>
Policy and Billing Replacement Initiative (PBRI)	\$8,314,674
WorkSafe Champions	123,832
Growing a Safer Montana	<u>52,667</u>
Total ABP Projects	\$8,491,173
<u>ESPM Projects</u>	
Data Discovery	\$1,537,205
Talent Management	<u>157,318</u>
Total ESPM Projects	\$1,694,523
Total All Projects	<u>\$10,185,696</u>

The 2019 ABP includes project objectives and success measures.

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 2019, MSF is projecting net earned premium of \$151,126,087 which is \$7.8 million or 4.9% decrease from the 2018 projection of \$158,920,890.

The net earned premium estimate assumes:

- Approximately 24,000 current active policies
- A minor rate decrease applicable to policy periods effective after July 1, 2019, however, rate changes are subject to board evaluation and approval
- Wage growth of 2.5%
- Premium retention rate at 90.7%
- Other States Coverage (OSC) premium of \$2.75 million

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.

MSF’s *operational expenditures* (personal services, operating expenses, equipment and intangible

assets, allocated loss adjustment expense and transfers) are \$68.3 million for the budget, and *statutory operating expenses* are \$53.3 million.

The statutory operating expense is divided by net earned premium of \$151.1 million to determine the 2019 estimated expense ratio of 35.2%.

The following table displays the statutory operating expenses, net earned premiums and the 2019 expense ratio with comparison to previous periods.

Montana State Fund	2019 Budget	2018 Budget	2018 Projection	2017 Actuals	2016 Actuals
Statutory Operating Expense	\$53,255,200	\$66,506,108	\$65,097,954	\$60,139,954	\$44,764,122
Net Earned Premiums	\$151,126,087	\$162,349,788	\$158,920,890	\$166,767,685	\$169,677,071
Statutory Operating Expense Ratio	35.2%	41.0%	41.0%	36.1%	26.4%

The following table compares the MSF statutory operating expense ratio with the property and casualty insurance industry and other state funds based on 2017 data from 2018 A. M. Best's Aggregates & Averages.

A.M. Best's 2017 Total US PC Industry (1,158 P&C Organizations)	A.M. Best's 2017 Work Comp Composite (257 Organizations)	A.M. Best's 2017 Total US PC State Funds – (22 Organizations)	MSF 2017 Actuals	MSF 2018 Projection	MSF 2019 Budget
39.7%	41.6%	49.3%	36.1%	41.0%	35.2%

IV. Benefit Payments

MSF expects claim benefit payments to remain relatively stable as compared to the 2018 projection. However, the 2019 budget is a significant decrease from the 2018 budget, and the 2016 and 2017 actual claim benefit payments. This is due to declining medical settlement payments.

The 2019 claim benefit payments budget of \$109.5 million is a decrease of \$1.0 million or 0.9% from the 2018 projection. However, it is a decrease of \$10.5 million or 8.7% from the approved 2018 budget of \$120.0 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;
- indemnity claim payments to trend minimally lower from the 2018 projection;
- medical claim payments, excluding medical settlements, trending slightly higher;
- medical settlements declining significantly as the backlog of claims eligible for settlement have been evaluated.

The following displays a summary of claim benefit types with their 2019 budget amounts along with comparisons of the 2018 budget, 2018 projection and, the 2017 and 2016 actuals.

Claim Benefit Type	2019 Budget	2018 Budget	2018 Projection	2017 Actuals	2016 Actuals
Indemnity	\$34,025,232	\$35,750,347	\$34,072,721	\$36,458,766	\$36,804,362
Medical – No Settlements	53,602,507	51,050,479	54,385,944	51,566,245	52,409,384
Medical Settlements	19,931,183	31,730,726	20,199,998	32,156,585	30,537,956
All OSC Benefits	1,936,708	1,462,500	1,836,328	1,714,040	774,259
Total	\$109,495,630	\$119,994,052	\$110,494,991	\$121,895,636	\$120,525,961

- \$34,025,232 - 2019 budget for indemnity benefit payments is a:
 - ❖ decrease of \$1.7 million or 4.8% from the 2018 budget of \$35.8 million
 - ❖ decrease of \$47,490 or 0.1% from the 2018 projection of \$34.1 million
- \$53,602,507 - 2019 budget for medical benefit payments, excluding medical settlements, is an:
 - ❖ increase of \$2.6 million or 5.0% from the 2018 budget of \$51.1 million
 - ❖ decrease of \$783,437 or 1.4% from the 2018 projection of \$54.4 million
- \$19,931,183 - 2019 budget for medical settlements is a:
 - ❖ decrease of \$11.8 million or 37.2% from the 2018 budget of \$31.7 million
 - ❖ decrease of \$268,815 or 1.3% from the 2018 projection of \$20.2 million
- \$1,936,708 - 2019 budget for OSC is an:
 - ❖ increase of \$474,208 or 32.4% from the 2018 budget of \$1.5 million
 - ❖ increase of \$100,380 or 5.5% from the 2018 projection of \$1.8 million

The next table displays 2019 MSF and Other States Coverage (OSC) benefit payments separately as compared to the 2018 projection and 2017 actuals expenditure levels.

Benefit Payments	2019 Budget	2018 Projection	2017 Actuals	\$ Change 2019 from 2018	% Change 2019 from 2018
MSF	\$107,558,922	\$108,658,663	\$120,181,596	(\$1,099,742)	-1.0%
OSC	1,936,708	1,836,328	1,714,040	100,380	5.5%
Total	\$109,495,630	\$110,494,991	\$121,895,636	(\$999,362)	-0.9%

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 \$1,936,708 and include:

- \$1,083,886 - Indemnity payments
- \$852,822 - Medical Payments

Operational expenditures for the OSC program are \$1.2 million and the total budget for OSC expenditures is \$3.1 million. OSC written premium is estimated to be \$2.75 million in 2019. All OSC budgeted expenses are derived from contracted rates based on expected premium or incurred loss expense. The following table notes the expenditures and premium of the OSC program for 2019 budget, 2018 projection, 2017 and 2016 actuals.

OSC Program	2019 Budget	2018 Projection	2017 Actuals	2016 Actuals
Program management, fronting fees, letters of credit	\$347,398	\$419,955	\$383,210	\$473,066
Commissions	220,000	211,082	249,927	241,574
Premium Tax	115,500	134,340	130,055	125,612
ALAE	<u>476,532</u>	<u>480,166</u>	<u>357,577</u>	<u>117,536</u>
Operational Expenditures	\$1,159,430	\$1,245,543	\$1,120,768	\$957,788
Claim Benefit Payments	<u>\$1,936,708</u>	<u>\$1,781,958</u>	<u>\$1,714,040</u>	<u>\$774,259</u>
OSC Total Expenditures	\$3,096,138	\$3,027,501	\$2,834,808	\$1,732,046
OSC Written Premium	\$2,750,000	\$2,750,000	\$3,074,440	\$2,879,241

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 (full-time equivalents) and positions.

Operational Expenditures	2019 Budget	2018 Budget	2018 Projection	2017 Actuals	2016 Actuals
FTE	307.00	307.00	307.00	307.00	306.50
Positions	310	310	310	310	309
Personal Services	\$30,899,748	\$30,320,065	\$29,352,672	\$28,803,613	\$26,918,954
Operating Expense	28,583,022	43,717,031	41,075,790	38,875,643	21,986,642
Equip & Int Assets	4,857,911	9,235,538	6,027,550	1,417,864	146,015
ALAE/A&O/D&CC	3,709,861	4,535,242	3,377,954	3,193,051	3,388,307
Transfers	215,811	225,005	226,511	221,864	229,966
Total MSF	\$68,266,353	\$88,032,882	\$80,060,477	\$72,512,036	\$52,669,883

a. MSF Staffing

MSF continually evaluates and re-aligns our staff to meet the changing work processes. The State Fund will have 307.00 FTE (full-time equivalent) for 2019. This is the same level of FTE and positions as in 2018 and equates to 310 positions. In 2019, 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, making 1.00 FTE in total, are assigned to the Human Resources Department for transitioning in new employees. Any department needing

temporary transition support can request to use these positions. Corporate Support has two 0.50 FTE positions, a Document Imaging Technician and a Document Processor.

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

MSF Department Staffing (FTE)	2019 Budget	2018 Budget	2017 Actuals
Corporate Support	35.00	35.00	34.00
Executive Offices	6.00	6.00	6.00
General Counsel	18.00	17.00	19.00
Human Resources	9.00	9.00	8.00
Information Technology (IT)	52.00	53.00	53.00
Operations	146.00	146.00	145.00
Operations Support	41.00	41.00	42.00
MSF Total	307.00	307.00	307.00

For the 2019 budget there is one change to staffing from 2018. General Counsel is temporarily using one of Information Technology’s vacant positions to handle succession planning for claim attorney positions.

During the PBRI implementation phase, twenty MSF employees have been assigned to the project. The Information Technology department and the PBRI budgets include the consulting services funding to hire temporary staff to backfill and cover MSF employees’ regular duties.

b. Personal Services – Salaries and Employee Taxes and Benefits

To support the necessary staff of 307.00 FTE, MSF included funds of \$30.9 million for the 2019 personal services budget. A vacancy savings factor of 3.0% was applied to the personal services budget, which is an aggregate reduction recognizing employee turnover that creates position vacancies.

MSF Total Personal Services Budget	2019 Budget	2018 Budget	2018 Projection	2017 Actuals	\$ Change 2019 Budget from 2018 Budget	% Change 2019 Budget from 2018 Budget
Salaries	\$23,876,502	\$23,534,617	\$22,430,625	\$21,606,715	\$341,885	1.5%
Employee Taxes & Benefits	7,970,710	7,914,302	6,992,047	7,196,898	56,407	0.7%
Vacancy Savings	(947,463)	(1,128,854)	n/a	n/a	181,391	-16.1%
Total Personal Services	\$30,899,748	\$30,320,065	\$29,352,672	\$28,803,613	\$579,683	1.9%

The 2019 personal services budget increase is \$579,683 or 1.9% from the 2018 budget. Salaries increase by 1.5%, employee taxes and benefits increase by 0.7% and, the vacancy savings offset decrease by 16.1%. An additional personal services reduction of \$179,471 was applied to the IT department to accommodate temporary consultant backfill of software engineer positions for 2019. In 2018, additional vacancy savings of \$200,000 was applied to the IT department.

➤ **Salaries - \$23,876,502**

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

- ❖ \$22,894,795 for base salaries (no employee taxes or benefits) of 310 positions is calculated on the hourly wage for all active employees as of August 6, 2018. Vacant position budgets were based on the compensation at mid-point for the position's pay band and assume 2,088 annual payroll hours for each full FTE. Partial FTE salaries are prorated.
- ❖ \$595,930 for merit-based salary adjustments (no employee taxes or benefits). The merit salary adjustments for employees are planned to be distributed after the final 2018 performance reviews are complete. For the 2019 budget a merit adjustment of 3.25% is planned to be effective March 16, 2019.
- ❖ \$175,214 provides funding for leave balance payouts of eight expected retirements in 2019. 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.
- ❖ \$154,353 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 2019 estimate is based on 2018 payments and review of recent excess leave balances.
- ❖ \$44,735 is for overtime to fund: Information Technology staff on-call and call-out expense to support MSF computer systems after business hours; new medical billing system and deposit processes that may require staff overtime intermittently; and, additional workload coverage during the policy renewal period.
- ❖ \$11,475 will fund the payout of excess banked holiday time. Holidays worked by employees may be banked for later use. Policy allows employees to carry up to 80 hours of banked holiday time. Banked holiday hours exceeding 80 hours will be paid out annually. The 2019 estimate is based on 2018 payments and review of recent excess holiday hour balances.

➤ **Employee Taxes and Benefits - \$7,970,710**

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 - \$1,773,945
The rate of 7.65% of applicable salary remains unchanged from 2018. An estimated FICA salary cap of \$129,684 was budgeted to be effective January 1, 2019.
- ❖ Retirement (PERS) - \$2,069,200
The employer's contribution rate is 8.72% of applicable salary. The PERS contribution rate increased 0.1% from the 2018 rate per law, 19-3-16(2)b, MCA.
- ❖ Workers' Compensation Premium - \$123,273

This is MSF's premium payment and is an average rate of approximately 0.520% of applicable salary. The 2018 budgeted average rate was 0.673%.

- ❖ State Unemployment Tax (SUT) - \$83,411
MSF's employer contribution rate is 0.35% for SUT. This rate is annually reviewed at the Department of Labor and Industry (DoLI) and could be adjusted in May.
- ❖ Group Insurance - \$3,920,880
The 2019 annual employer contribution for group insurance is \$12,648 per eligible employee and is the same as in 2018. In 2019, MSF will have a maximum of 310 employees eligible for the group insurance contribution.

➤ **Vacancy Savings** – (\$947,463)

Vacancy savings is a reduction of 3% that has been applied to the calculated salaries and employee taxes and benefits on all MSF positions. 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.

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 \$28,583,022 includes the following categories and amounts.

Category	2019 Budget	2018 Budget	2018 Projection	2017 Actuals	Dollar Change 2019 Budget from 2018 Budget	Percent Change 2019 Budget from 2018 Budget
Other Services	\$21,655,977	\$21,271,427	\$20,071,437	\$17,568,568	\$384,550	1.8%
Supplies & Materials	936,603	1,357,527	1,425,306	1,337,927	(420,924)	-31.0%
Communications	1,259,752	1,198,308	1,182,667	1,119,355	61,445	5.1%
Travel	339,690	369,155	249,969	212,726	(29,465)	-8.0%
Rent	446,555	425,379	418,077	377,235	21,176	5.0%
Utilities	223,768	235,000	219,296	214,830	(11,232)	-4.8%
Repair & Maintenance	1,669,660	2,077,721	2,083,153	1,968,316	(408,061)	-19.6%
Other Expenses	2,051,018	16,782,515	15,425,885	16,076,686	(14,731,497)	-87.8%
Total Operating Expenses	\$28,583,022	\$43,717,031	\$41,075,790	\$38,875,643	(\$15,134,009)	-34.6%

- **Other Services** - \$21.7 million is budgeted for 2019. There are three primary areas of expenditures in this category: agent commissions, IT consulting and professional services, and other consulting services.
- ❖ **Commissions** - \$11,074,871 – This is a decrease of \$525,304 or 4.5% from the 2018 budget of \$11,600,175 and a decrease of \$992,044 or 8.2% from the 2018 projection of \$12,066,915.

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** - \$8,655,839:
The recording of a premium payment on an agent-represented policy initiates a base commission payment. MSF estimates \$113.1 million in premium payments on agent-represented business will be recorded in 2019. The average base commission rate on these policies is estimated to be 7.6%.
 - **Incentive Commissions** - \$2,199,032:
Incentive commissions are established to provide a payment to agents for profitability and retention of MSF policyholder business they represent. The program’s central incentive commission rate is 1.5%.
 - **Other States Coverage (OSC) Commissions** - \$220,000:
Commissions associated with OSC policies are based on the total 2019 revenue estimate of \$2.75 million. The commission rate is 8%.
- ❖ **IT Consulting and Professional Services** - **\$5,387,251** – This is an increase of \$677,469 or 14% from the 2018 budget of \$4,709,782 and an increase of \$1,986,134 or 58% from the 2018 projection of \$3,401,118.

The following table identifies the three primary purposes of this budget. The expenditures are necessary to complete Annual Business Plan initiatives and maintain other operational aspects of MSF business.

2019 Budget	Project / Department	Item / Description
\$3,254,808	PBRI	IT services for quality assurance, project management and support, scope change and, ‘backfill’ of MSF staff
\$1,136,000	Data Analytics	IT services to fill four project roles
\$971,943	Information Technology	‘Backfill’ of IT staff vacancies

- **PBRI Project - IT Consulting and Professional Services** - **\$3,254,808** – 2019 will be the third year of this initiative and consulting services are 39% of the total \$8.3 million PBRI project budget.

During 2019 MSF staff and consultants will continue developing the policy and billing system. IT consultants will be used as ‘backfill’ support for MSF staff working on

project development and in other areas of project support noted below.

- ✓ \$1,741,504 – Cognizant resources to backfill roles of MSF staff implementing new system – same as 2018 budget
 - ✓ \$1,059,000 - Sabot business analyst and project management support – same as 2018 budget
 - ✓ \$200,000 – Cognizant quality assurance support
 - ✓ \$171,804 – Guidewire consultants working with the project team
 - ✓ \$65,000 – Cincom Eloquence consulting for policy document updates
 - ✓ \$17,500 – ‘ContactCenter’ integration of customer data
- **Data Analytics Project - IT Consulting and Professional Services - \$1,136,000** – This is to provide services toward building data pipelines, models, algorithms and dashboards. There are four support roles required:
 - ✓ \$468,000 – Big Data Architect
 - ✓ \$364,000 – Business Analyst
 - ✓ \$208,000 - Data Administration
 - ✓ \$96,000 – Peer Review Physician
 - **IT Department staff backfill strategy** - \$971,943 is budgeted to hire consultants to backfill for six vacant IT Department positions. Recruitment for these positions has been challenging over the past couple of years and we do not expect a near term resolution. The consultants will support the current environment with maintenance on existing applications including Guidewire, Java, Tableau, Cincom Eloquence, Claim Center and Insurance Intelligence.
- These backfill consulting services are in addition to \$518,133 in personal services budgeted in the IT department for the existing 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.
- **All other IT Consulting and Professional Services** - \$24,500 – To support miscellaneous business applications and technical services.

❖ **Consulting and Professional Services - \$2,686,914** – This is an increase of \$151,394 or 6.0% from the 2018 budget of \$2,535,521 and an increase of \$395,867 or 17.3% from the 2018 projection of \$2,291,047. The table identifies the four largest amounts, or 74% of the total in this category:

2019 Budget	Department	Item / Description
\$850,944	Operations	NCCI membership and transaction-based charges
\$465,005	Executive	Promotional advertising campaigns, development and production
\$347,398	Operations	Other States Coverage program expense
\$325,000	Executive	Actuarial Services

- **National Council on Compensation Insurance (NCCI)** – \$850,944 –MSF is required in law, 33-16-1023(2), MCA, to be a member or subscriber to a designated advisory organization. The Commissioner of Securities and Insurance (CSI) has designated NCCI to be this advisory organization.

The budget amount is similar to the 2018 estimate as there are no pricing changes to membership fees or products in 2019, and 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 2017 net direct written premium used to calculate the membership fee was \$172,299,487. Total 2019 budget for the NCCI ‘Affiliation Licenses and Services’ is \$488,444.
- ✓ 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 \$362,500.

- **Promotional Campaigns and Communications Development** - \$465,005 – A majority of this funding is for Partners Creative Consulting time associated with administration and assistance on projects including creative work (creating ad campaigns, producing advertising products, photography). This expense category is separate from the cost of air time or other media purchases.

The budget amount includes:

- ✓ \$174,970 – new ‘Work Hard. Be Safe.’ Media campaign
- ✓ \$106,625 - new ‘Young Workers’ media campaign
- ✓ \$36,925 – policyholder ‘Spotlight’ videos
- ✓ \$32,400 – YouTube educational safety video productions
- ✓ \$26,125 – website redesign

- **Other States Coverage (OSC)** – \$347,398 – This is the portion of the OSC program expense budgeted as Consulting and Professional Services, see page 6 for total OSC program cost.
 - ✓ \$273,625 - Per OSC contract with Zurich, MSF pays 9.95% of the written premium as ‘fronting fees’, or the expense of writing policies.
 - ✓ \$73,773 - The fee to maintain a letter of credit as contractually required.
- **Independent Actuary** - \$325,000 - 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. \$290,000 is for MSF services and \$35,000 is for the reserve analysis of the Old Fund. The 2018 budget included \$380,00 for MSF and \$35,000 for the Old Fund.
- **All other Consulting and Professional Services** - \$698,567 – includes the following:
 - ✓ \$195,101 - Department of Justice Fraud Agreement (DoJ) - expense for fraud investigations and prosecutions. The total DoJ estimated funding of \$390,203 is allocated 50% to claimant and provider investigations and prosecutions (allocated loss adjustment expense) and 50% for policy investigation and

- prosecution based on cases currently assigned to DoJ and historical expense.
- ✓ \$135,000 – underwriting review to evaluate adherence to new underwriting guidelines
- ✓ \$110,000 - contracts or other projects that arise as the year progresses and are deemed necessary and appropriate by the President
- ✓ \$65,000 – ABS Legal for legislative lobbying services
- ✓ \$48,000 - contracted medical director for research and training of MSF claim examiners, medical case managers, and MSF external providers
- ✓ \$42,666 – national fraud indexing service (ISO) to check new claims for prior fraudulent activities and Medicare Set Aside reporting
- ✓ \$40,000 – Talent Management project deliverables analysis
- ✓ \$35,800 – compensation surveys and consulting
- ✓ \$14,500 – executive staff off-site training

❖ **Policyholder Payroll Audits** - \$804,995 - this is a decrease of \$19,396 or 2.4% from the 2018 budget of \$824,391. 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.

❖ **Services provided by the State Information Technology Services Division (SITSD) of the Department of Administration** - \$730,426 - this is an increase of \$37,083 or 5.3% from the 2018 Budget of \$693,343.

SITSD, in conjunction with OBPP, has determined the rates and expenses to be charged to MSF for services in the state’s FY20 and FY21. MSF reviews processes and charges regularly and continually seeks the most efficient means to provide staff network support and services and to avoid the use of unnecessary or duplicative SITSD network services to minimize expense.

The budget is included in multiple ITSD expenditure categories:

- \$271,233 - Other Services
 - ✓ \$215,760 - enterprise services
 - ✓ \$29,052 - e-mail and voice services
 - ✓ \$26,421 - equipment and application hosting
- \$234,253 - Supplies and Materials
- \$224,940 - Communications – network, voice and long-distance services

❖ **Insurance and Bonds** - \$539,044 - this is a minor decrease of \$874 from the 2018 budget of \$539,918. 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.

❖ **Consulting and Professional Services – Training** - \$176,446 – This is an increase of \$57,196 or 48.0% from the 2018 budget of \$119,250. The budget funds training services for:

- \$114,854 – Talent Management project and leadership training
 - \$42,592 – Mosaic, iKuw Excel, Bison Financial Producer, medical terminology and Associate in Claims (AIC) training
 - \$12,000 – conferences and quarterly meetings
 - \$7,000 - board member training related to governance, financial reporting and actuarial analysis
- ❖ **Financial and Legislative Audits** - \$171,800 - this is an increase of \$17,800 or 11.6% from the 2018 budget of \$154,000.
- \$84,000 is for an independent accounting firm to audit the 2018 statutory financial statements and for planning work later in the year for the 2019 financial statements.
 - \$87,800 is for the Financial Compliance audit performed by the Legislative Audit Division (LAD) of the 2018 governmental financial statements.
- ❖ **Printing** - \$130,926 - this is a decrease of \$57,531 or 30.5% from the 2018 budget of \$188,457. This includes internal forms, envelopes, safety workshop materials, a variety of small printing jobs for brochures, business cards, envelopes, and other informational materials.
- ❖ **Legal Fees and Court Costs** - \$85,100 - The budget will fund employers' liability coverage opinions, SB4 litigation and other cases as needed.
- ❖ **SABHRS Administrative Costs** - \$71,960 - this is an increase of \$1,460 or 2.1% from the 2018 budget of \$70,500. 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.
- ❖ **State Human Resources Information System (Payroll) Service Fee** - \$65,671 - this is an increase of \$2,317 or 3.7% from the 2018 budget of \$63,354 and will fund charges to MSF for services of the State's Central Payroll and SABHRS Human Resource module.
- ❖ **Security Protection** - \$60,631 – this is a \$53,361 increase from the 2018 budget of \$7,270. The budget increase in this area is due to the planned upgrade of MSF's security access system. The upgrade is budgeted to be \$56,159.
- ❖ **Warrant Writing** - \$48,272 - this is an increase of \$2,104 or 4.6% from the 2018 budget of \$46,168. Except for medical provider payments issued by contracted vendors, all other payments are issued through the state's system. The estimate is based on rates proposed by the State's Warrant Writing Division and anticipated 2019 warrant volume.
- ❖ **Records Storage** – \$31,157 - this is a minimal decrease of \$279 from the 2018 budget of \$31,436.
- \$18,000 - 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
 - \$941 - All other finance, legal, and claim information retrieval from data archived with State Records Management.

- ❖ **Data Network and Miscellaneous Information System Services - Non-DOA** - \$29,440 - this is a decrease of \$580 or 1.9% from the 2018 budget of \$30,020.
 - \$28,380 – Disaster recovery services that allow employee access to workstations if the MSF building cannot be entered.
 - \$1,060 – Montana Integrated System to Improve Customer Service (MISTICS) – DoLI’s unemployment insurance system accessed to determine workers’ compensation eligibility, Public Access to Court Electronic Records (PACER) system for bankruptcy research, and other minor online subscriptions

- ❖ **Temporary Services** - \$13,200 – this is a \$4,400 or 50.0% increase from the 2018 budget of \$8,800. Corporate Support will use temporary staff coverage during a maternity leave and after an expected retirement.

- ❖ **Worker’s Compensation Program Fees** - \$7,064 –This funds MSF’s portion of the state’s Workers’ Compensation Program, the amount of expense was estimated by OBPP and is similar to 2018 budget.

- **Supplies and Materials Categories**
 - ❖ **Educational Supplies** - \$23,015 - this is a decrease of \$26,599 or 53.6% from the 2018 budget of \$49,614. The budget provides for purchase of employee and team assessment materials and manuals and materials used in courses for MSF staff training.

 - ❖ **Gasoline** - \$35,781 - this is a decrease of \$1,966 or 5.2% from the 2018 budget of \$37,746. The budget estimate was based on \$2.78 per gallon (MSF is exempt from gas tax) for gasoline. MSF will have 23 fleet vehicles in 2019 and estimated an average of 13,531 miles per vehicle.

 - ❖ **Safety Supplies** - \$23,721 - this is an increase of \$18,966 from the 2018 budget of \$4,755. The increase is driven by \$20,000 in support of more grants for safety supplies through the Work Safe Champions project.

 - ❖ **Minor Office Equipment** - \$105,012 - this is an increase of \$26,313 or 33.4% from the 2018 budget of \$78,698. The 2019 budget includes:
 - \$79,240 – Purchase of 125 regular and leader ergonomic sit / stand workstations, floor mats and footstools during the year. A project to upgrade all workstations began in 2017 and this budget is for the final purchase of workstations.
 - \$12,910 – eighteen older office chairs to be replaced with ergonomic chairs
 - \$12,862 – all other – such as, phone headsets projectors, ergonomic accessories

 - ❖ **Computer Hardware** - \$26,063 - this is a decrease of \$307,605 or 92.2% from the 2018 budget of \$333,668. The variance is a result of IT budget savings in 2018 being used to purchase hardware now that would have been budgeted in 2019. The 2019 budget includes:
 - \$16,500 – for Kemp Load Balancers used in IT to manage server resources and enhance web application filtering
 - \$9,563 - all other minor hardware

- ❖ **Non-Capitalized Software** - \$273,629 - this is a decrease of \$122,374 or 30.9% from the 2018 budget of \$396,003. 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 2019 includes:
 - \$97,000 – Data Analytics project – Informatica enterprise data catalogue and streaming service with permanent license and first year of maintenance
 - \$91,180 – PBRI project – software licenses to support virtual private network resources such as, Control M, FileNet ISRA, email, and WebChat
 - \$53,122 - for Vmware licenses – cloud computing platform
 - \$32,327 – all other software – building information modeling; The Complete Package (TCP) financial reporting software; Adobe Pro; Bulk OCR Utility to manage data on scanned documents; Network Access Control; Skype; Phone from Home; FileNet and, appointment scheduling software

- ❖ **General Office Supplies** - \$164,236 - this is an increase of \$4,923 or 3.1% from the 2018 budget of \$159,313. This is for paper, toner, and a wide variety of minor office supplies.

- ❖ **Promotional Aids** - \$29,800 – this is a decrease of \$2,895 or 8.9% from the 2018 budget of \$32,695- the budget provides for small MSF branded items to be distributed enhancing safety and other program awareness.

- ❖ **All Other Supplies and Material Categories** - \$21,094 - includes budget for:
 - \$14,919 - books and reference materials – primarily specialized desk manuals
 - \$2,380 – logo clothing for field staff and protective clothing for facilities staff
 - \$1,932 – video equipment for internal productions
 - \$1,863 - diesel fuel for back-up generator

- **Communications**
 - ❖ **Postage** - \$468,187 - this is an increase of \$7,634 or 1.7% from the 2018 budget of \$460,553. The budget includes:
 - \$271,887 - print mail service fees
 - \$175,000 - meter postage
 - \$15,000 - contingency for mailing needed in relation to the legislative session
 - \$6,300 - all other – Post office box rental, ‘deadhead’ mail service, field staff postage, and stamps

 - ❖ **Advertising** - \$466,460 - this is an increase of \$25,480 or 5.8% from the 2018 budget of \$440,980. This is the expense to purchase media time and placement. The budget includes:
 - \$110,000 - Purchase TV/cable air time for two advertising campaigns: ‘Thumbs Up Young Workers’ spring 2019 and ‘Work Hard. Be Safe.’ in fall 2019
 - \$325,460 - Purchase of print, radio, event and website banner advertisement
 - ✓ \$150,000 – ‘Thumbs Up Young Workers’ spring campaign
 - ✓ \$124,000 - ‘Work Hard. Be Safe.’ in fall campaign
 - ✓ \$47,960 - Sponsorships such as SafetyFest, Governor’s Conference, Billings business expo, recruiting conference, Innovate MT, sports marketing, MT Contractors Association and MT Chamber
 - ✓ \$3,500 - E-blasts of workshops/conferences and ad placements

- \$31,000 – Class of 2019 WorkSafe Champions Elite - professional film crew for alumni spotlight and advertising opportunity
- ❖ **All Non-SITSD Data and Telephone Categories** - \$100,165 - this is an overall increase of \$3,442 or 3.6% from the 2018 budget of \$96,723. This expense covers cell phones, tablets, long-distance charges, language translation, and '800' line services. The budget is based on prior usage and rates expected in 2019.
- **Travel**
 - ❖ \$339,690 is the total MSF travel budget - this is a decrease of \$29,465 or 8.0% from the 2018 budget of \$369,155. This travel budget includes increased lodging costs that have been reviewed and approved by management in consideration that government lodging rates are not always available where conferences are held. The 2019 budget supports:
 - \$156,918 - MSF staff out-of-state travel for business and training needs
 - \$121,372 - MSF staff in-state travel for business and training needs
 - \$33,190 - Travel associated with projects
 - \$28,210 - Travel for Board members and agents classified as non-employee travel
- **Rent**
 - ❖ \$446,555 - this is an increase of \$21,176 or 5.0% from the 2018 budget of \$425,379. MSF has three areas of rent expense:
 - \$319,200 - annual parking fees for 350 spaces – the budget is based on \$76 per month per space and is the same amount as budgeted in 2018. This does not include any potential offset for parking fees charged to non-MSF users.
 - \$64,631 - rent for five field offices located in Billings, Great Falls, Missoula, Kalispell, and Butte. The budget is an increase of \$5,804 or 9.9% from the 2018 budget of \$58,827.
 - \$62,724 – photocopier and printer monthly rental fees, including a new photocopier for the PBRI project, and three printer replacements. The budget is an increase of \$15,372 or 32.5% from the 2018 budget of \$47,352.
- **Utilities**
 - ❖ \$223,768 - this is a decrease of \$11,232 or 4.8% from the 2018 budget amount. This is for electricity, natural gas, water and sewage services for the building.
- **Repairs and Maintenance**
 - ❖ \$1,669,660 - this is a decrease of \$408,062 or 19.6% from the 2018 budget of \$2,077,721.
 - \$1,153,734 - IT department maintenance agreements for application software and hardware such as servers, routers and associated peripherals. The 2018 budget is \$1,087,405.
 - \$287,559 – Facilities building and grounds maintenance and repairs including: heating, ventilation and air conditioning (HVAC); building equipment replacement parts; exterior maintenance; building monitoring system upgrade; audio/visual system preventative maintenance; carpet cleaning; window cleaning; elevator maintenance; fire system, sprinklers, and extinguisher services; ballast replacements for lighting; shredding services; indoor plant maintenance; generator maintenance; and, other items.
 - \$188,395 – PBRI projects software maintenance agreements. Guidewire maintenance

agreement is the most significant expense at \$96,358. Other items are software maintenance agreements used to manage software development, network traffic, server load balancing, enterprise architecture modeling, document controls, batch processing, data management and data storage related to the project.

- \$26,063 - repairs and maintenance on MSF owned and operated fleet of 23 vehicles.
- \$7,000 - replacement parts for monitors, computers, hard drives, keyboards and printer maintenance kits.
- \$6,908 – Document Processing’s scanning machines, mailing equipment hardware and software maintenance contracts.

➤ **Other Expenses**

❖ **Dues** - \$83,152 - this is an increase of \$5,910 or 7.7% from the 2018 budget of \$77,242. This expense is for membership dues with professional business organizations such as the Montana Chamber of Commerce (\$36,050) and other local chambers (\$8,440), Leadership Montana (\$11,300), 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** - \$690,255 - this is an increase of \$173,185 or 33.5% from the 2018 budget of \$517,070. This includes:

- \$142,500 – Data Analytics project subscriptions
 - ✓ Cloudera data management solution - \$67,500
 - ✓ Web Scraping and external data import fees – \$43,000
 - ✓ Gartner research license - \$27,000
 - ✓ Tableau - \$5,000
- \$138,200 - Clearwater Analytics for regulatory investment reporting
- \$75,000 - Milliman contract for support of claim analytics
- \$53,683 - Host Analytics budget application
- \$52,505 – Human Resources recruiting subscriptions
 - ✓ \$30,805 - LinkedIn recruitment tool for resume searching
 - ✓ \$12,000 - Career Builder online recruitment tool
 - ✓ \$9,700 - Glass Door recruitment tool and professional social media platform
- \$49,350 – Cloudera subscriptions outside of the project
- \$40,741 - Online access to Human Resource Management System (HRMS) for training, recruitment and on-boarding
- \$24,576 - WDesk financial reporting and enterprise risk management
- \$19,550 – Standard and Poor’s Global Market Intelligence
- \$14,900 - Caliper Data Analytics – human resources competency model
- \$10,000 - PayScale supports internal compensation work
- \$7,400 - NAIC Automated Valuation System (AVS) that provides securities valuation data for Annual Statement Schedule D reporting
- \$7,000 - Gallup Platform for human resources evaluations associated with training
- \$6,600 - Lexis Nexis legal research
- \$5,100 – CLEAR public records service to search business and contact information
- \$43,150 – Other subscriptions for industry research (Conning, AM Best, Harvard Business Review), legal time tracking, a variety of desk manuals, bulletins, medical and occupational disability guides and online access to reference materials.

- ❖ **Taxes and Assessments** - \$129,500 - this is a decrease of \$15,013,700 or 99.1% from the 2018 budget of \$15,143,200. In 2019 there will be no transfer of to the State's fire suppression account that was budgeted at \$15.0 million for 2018 under SB-4.

The 2019 budget is comprised of:

- \$115,500 - 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 \$2,750,000 and the taxes and surcharges are estimated to be 4.2%.
 - \$6,500 – National Association of Insurance Commissioners (NAIC) and the State of Montana annual filing fees, \$4,600 and \$1,900 respectively.
 - \$4,000 - Annual city assessment for services on building
 - \$3,500 - Reinsurance excise tax
- ❖ **Education and Training and Professional Development Center (PDC)** - \$290,169 - this is an increase of \$2,799 or 1.0% from the 2018 budget of \$287,370. 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:
 - \$74,255 - PBRI project
 - ✓ \$55,000 - Guidewire Library / On-site Support for online training
 - ✓ \$15,730 – Guidewire Library / Off-site Support to develop the library to meet MSF needs
 - ✓ \$3,525 – project staff to attend Guidewire Connections conference
 - \$41,995 – Information Technology
 - ✓ \$14,500– on-site Linux Fundamental Administrator training for eight employees
 - ✓ \$5,000 – Tableau eLearning
 - ✓ \$22,495 - staff registrations for attendance at IT related training events
 - \$40,034 – Operations – staff registrations for attendance at training events
 - \$25,124 – Human Resources
 - ✓ \$19,624 – Human Resources staff registrations for attendance at training events and other MSF staff for Leadership Montana and PDC courses
 - ✓ \$3,500 – State Auditor's Office continuing education credit course certification fees
 - ✓ \$2,000 – DoLI continuing education course certification fees
 - \$24,000 – WorkSafe Champions project – MSF staff providing safety training to policyholders that includes OSHA requirements and guidelines, First Aid and CPR certifications
 - \$21,915 – General Counsel - staff registrations for attendance at training
 - \$19,206 – Operations Support - staff registrations for attendance at training events
 - \$18,340 – Corporate Support – staff registrations for attendance at training events
 - \$13,300 – Executive Offices - staff registrations for attendance at training events
 - \$12,000 - Data Analytics project – staff to attend Tableau Conference, Informatica World, and STRATA Cloudera Big Data Conference
- ❖ **Rewards** - \$86,055 - this is a \$24,729 or 40.3% increase from the 2018 budget of \$61,326. This is for employee-of-the-month/year awards, employee referral incentives, certification awards, PBRI go-live promotional events and materials, PBRI engagement events, individual employee rewards, IDEA awards, and retirement recognition.

- ❖ **Tuition Reimbursement** - \$30,000 - this is a \$6,000 or 25.0% increase from the 2018 budget of \$24,000. For 2019, the maximum amount of annual tuition reimbursement per employee is \$4,000. Eight employees are expected to participate in the tuition reimbursement program in 2019. Reimbursements are based on MSF's pre-approval, successful course completion and actual cost.
- ❖ **Meetings and Conference Cost** - \$264,232 - this is an increase of \$58,504 or 28.4% from the 2018 budget of \$205,728. 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
 - Growing a Safer Montana scholarship awards presentations
 - Agent training workshops
 - Customer service representative conference
 - Producer training classes
 - PBRI Agent Partner training
 - PBRI Customer Service Representative training
 - Marketing events
 - Medical Conference
 - MSF Board meetings
 - Other meeting space rentals when MSF building conference rooms are full

- ❖ **Recruitment Expenses** - \$206,577 - this is an increase of \$19,147 or 10.2% from the 2018 budget of \$187,430.

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:

- \$112,853 - Job Candidate Expense - recruitment services and candidate travel expenses
- \$93,724 – Relocation expenses for newly hired employees

- ❖ **Licenses** - \$16,174 - this is a decrease of \$3,934 or 19.6% from the 2018 budget of \$20,108. This budget funds professional license expenses of attorneys, certified public accountants, claim examiners, pharmacy technicians, registered nurses and others.
- ❖ **Bank Service Charges** - \$45,183 - this is an increase of \$6,563 or 17.0% from the 2018 budget of \$38,620. This budget funds the Montana Interactive E-check fees and credit card fees for online customer payments. This service is continually expanding and includes collection of medical and other types of claimant overpayments.
- ❖ **Charitable Contributions / Scholarships** - \$98,800 - this is an increase of \$12,500 or 14.5% from the 2018 budget of \$86,300. Charitable Contributions are budgeted as follows:
 - \$42,500 - Growing a Safer Montana project: Trade, Industry and OSHA Scholarship awards (\$19,500), Safety and Health Scholarship awards and, high school safety

- equipment grants (\$23,000)
 - \$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 2019 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.
 - \$4,000 - Support of 'Festival of Trees' events
- ❖ **Fee Collection Expense** - \$35,049 - this is an increase of \$6,337 or 22.1% from the 2018 Budget of \$28,711 and aligns with 2018 projected collection costs. MSF contracts with external collection agencies and the fees vary based on success with collections, amounts sent to collection, and whether litigation is involved.
- ❖ **State Wide Indirect Cost** - \$71,372 - this is a decrease of \$30,458 or 29.9% from the 2018 Budget of \$101,830. 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 2019 Budget for all equipment and intangible assets is \$4,857,911. This is a decrease of \$4,377,627 or 47.4% from the 2018 budget of \$9,235,538.

- **Multi-User Software** - \$4,617,511 - This is the budget amount for the PBRI related software and software development expenditures.
 - **Multi-User Computers** - \$140,000 – This is for the Data Analytics project software and on-premise infrastructure to support data hosted on cloud services
- Autos & Trucks** - \$100,400 – Four vehicles will be purchased to replace those that have reached the mileage replacement threshold specified in MSF's Fleet Management Policy.

e. Transfers to State of Montana

The total 2019 Budget for transfers from MSF to the Commissioner of Securities and Insurance (CSI) is \$215,811 and is comprised of personal services and operating expenses for an attorney and a market conduct examiner employed by CSI. MSF is required in law to pay the expense of this CSI staff.

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.

\$3,709,861 is budgeted for these claim management costs and is a decrease of \$825,382 or 18.2% from the 2018 budget of \$4,535,242.

- \$1,224,121 - Medical Invoice Processing - The budget is an increase of \$20,947 or 1.7% from the 2018 Budget of \$1,203,174. Medical invoice processing is budgeted based on estimated medical benefits to be paid, invoices to be processed, and the applicable contracted cost per bill. In 2019 MSF will use the services of a new medical invoice processing provider.
- \$176,915 – Independent Medical Examination (IME) – This expenditure is for IME’s that are to analyze a prescribed treatment plan and reported as Defense and Cost Containment.
- \$746,483 - Investigations - This is a decrease of \$129,268 or 14.8% from the 2018 budget of \$875,752 based on utilization of services.
 - ❖ \$372,961 - Private investigations on claims related issues.
 - ❖ \$220,958 - Department of Justice (DoJ) Fraud investigation and prosecution agreement budget for claim and provider investigations.
 - ❖ \$152,565 - Investigative Job Analysis - This provides for certified rehabilitation counselors to complete thorough and objective investigations of occupational disease claims to determine MSF liability.
- \$643,445 - All legal expense categories - this is a decrease of \$146,207 or 18.5% from the 2018 budget of \$789,652.
 - ❖ \$525,324 - State Fund legal contract for services of external counsel and expense of Medicare Set Asides
 - ❖ \$98,515 - Legal Fee Claimant Attorney and associated claimant attorney’s costs
 - ❖ \$13,461 - Photocopy and electronic copy expense
 - ❖ \$6,145 - Employer’s Liability Insured Defense Cost
- \$400,048 - Medical Consultants - this is an increase of \$90,446 or 29.2% from the 2018 budget of \$309,602 and more closely aligns with the projected 2018 cost in this area. MSF relies on medical consultants to enhance staff expertise and knowledge related to diagnosis and treatment plans for injured employees. The budget enables increased consulting time with medical professionals to provide expertise when managing complex medical issues.
- \$518,848 - Contract Examiners - this is an increase of \$153,065 or 41.8% from the 2018 budget of \$365,783.
 - ❖ \$476,532 - Examiners and claim management services associated with Other States Coverage claims
 - ❖ \$42,316 - Contract external claims examiners to manage MSF in-house claims and to complete life expectancy reviews

VI. Miscellaneous

a. Old Fund Administration

The 2019 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’s General Fund up to \$625,000 in the state’s FY 2019 for Old Fund administration costs.

b. Cost Not Included in the Approved Budget

The 2019 budget includes all known and expected costs for the fiscal period January 1 through December 31, 2019.

- The budget does not include court decisions that may significantly and adversely impact the State Fund.
- The President’s salary and benefits budget assumes the same factors applied to all MSF positions. Any compensation adjustments for the President are determined and approved by the Board.

c. Premium Estimate and Budget Amendments

The 2019 budget is prefaced on MSF’s net earned premium projection of \$151.1 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 projected budget as compared to the approved budget. Management could request the Board’s approval of an amendment to the annual budget if there were significant unanticipated increases in benefit payments or operational costs.