

**MONTANA STATE FUND
2021 ANNUAL BUDGET
(Effective for period of January 1 to December 31, 2021)**

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. The State Auditor's Office/Commissioner of Securities and Insurance (CSI) regulates MSF. As a result, MSF's budget and financial reporting processes are reported on a calendar year basis.

The 2021 annual budget provides the funding to enable MSF to continue its role of providing a competitive, stable, and guaranteed workers' compensation market for Montana, meet its regulatory requirements, implement its Annual Business Plan initiatives, and effectively support business operations. The following defines the budget periods referenced in this report:

- **2021 Budget:** Expenditures to fund the business operations and approved projects for the January 1 through December 31, 2021 fiscal reporting period.
- **2020 Budget:** Expenditures approved for calendar year 2020 (includes Board approved budget amendment made in September 2020 to add \$10 million for increased claim settlement activity).
- **2020 Year-to-Date (YTD) Actuals:** Expenditure amounts recorded between January 1 and September 30, 2020.
- **2020 Projection:** Estimated full-year expenditures based on actual expenditures recorded through September 30, 2020.
- **2018 and 2019 Actuals:** Actual expenditures recorded for the year.

I. Total Expenditures

The total budget for 2021 expenditures is \$175,701,002. Claim benefit payments and operational expenditures are the two primary components of the budget.

The 2021 budget is compared below to the 2020 budget, 2020 projection, and the 2019 and 2018 actual expenditures. It includes the full-time equivalents (FTEs) and position counts for each of these periods. The budget for Annual Business Plan (ABP) and Enterprise Strategic Project Management (ESPM) projects are displayed separately from the operational expenditure budget in the table below.

	2021 Budget	2020 Budget	2020 Projection	2019 Actuals	2018 Actuals
FTEs	306.00	307.00	307.00	307.00	307.00
Positions	308	309	309	310	310
Claim Benefit Payments	\$108,269,065	\$112,565,431	\$111,667,451	\$101,029,048	\$107,633,047
Operational Expenditures- excludes projects	\$60,807,323	\$58,491,125	\$55,021,683	\$54,491,739	\$68,031,666
ABP/ESPM Projects	<u>\$6,624,614</u>	<u>\$11,757,188</u>	<u>\$12,277,699</u>	<u>\$8,733,097</u>	<u>\$11,924,665</u>
Total MSF Expenditures	<u>\$175,701,002</u>	<u>\$182,813,744</u>	<u>\$178,966,833</u>	<u>\$164,253,884</u>	<u>\$187,589,378</u>

The total MSF 2021 budget of \$175.7 million is a decrease of \$7.1 million or 3.9% from the approved 2020 budget of \$182.8 million and it is a \$3.3 million or a 1.8% decrease from the 2020 projected expenditures of \$179.0 million.

- The 2018 actual operational expenditures included \$13.6 million for the transfer to the State’s fire suppression account. The transfer was required by SB-4 of the 2017 Special Legislative Session. The law contained a sunset provision; no similar transfers are included in expenditure amounts for 2019 and forward.
- **Claim benefit payments** of \$108.3 million to injured workers are 61.6% of the total budget. Benefit payments include all expected funding required to pay existing and anticipated injured worker claims for indemnity and medical related benefits. The 2021 budget is a:
 - ❖ \$4.3 million or 3.8% decrease as compared to the 2020 budget.
 - ❖ \$3.4 million or 3.0% decrease as compared to the 2020 projection.

Claim benefit payments are expected to trend lower in 2021 as compared to the 2020 budget amount and the 2020 projection.

- **Operational expenditures** include all projects, staffing, overhead, and other costs needed to support MSF business operations. The total Operational Expenditure budget of \$67.4 million equates to 38.4% of the total budget, which is a:
 - ❖ \$2.8 million or 4.0% decrease as compared to the 2020 budget.
 - ❖ \$132,554 or 0.2% increase as compared to the 2020 projection.

The primary operational expenditures areas include:

- ❖ \$32.8 million in personal services to fund the salary, tax, and employee benefit costs for 306.00 FTEs.
- ❖ \$10.7 million for agent commission payments.

- ❖ \$6.6 million for total ABP and ESPM projects: Strategic initiatives are tracked in the Annual Business Plan (ABP); and Enterprise Strategy and Project Management (ESPM) projects are secondary level projects that are also monitored by the Executive Team.
- ❖ \$3.5 million for industry, technical, and training related consulting and professional services that are in addition to consulting services included in the projects.
- ❖ \$3.6 million for costs related to claim processing or allocated loss adjustment expense (ALAE).

The following provides a summary of the total budget for each project. Additional detail on project expenditures is also included in the corresponding budget categories throughout this report. The most significant change is in the PBRI project budget, which is \$3.8 million for 2021, a \$5.5 million decrease from the 2020 budget of \$9.3 million.

<u>ABP Projects</u>	<u>2021 Budget</u>
Policy and Billing Replacement Initiative (PBRI)	\$3,772,385
Growing a Safer Montana	118,201
WorkSafe Champions	<u>84,785</u>
Total ABP Projects	\$3,975,371
<u>ESPM Projects</u>	
Producer Portal Accelerator	\$1,788,831
Data Discovery	798,912
Provider Partnership	60,000
First Report of Injury / Online Claim	<u>1,500</u>
Total ESPM Projects	\$2,649,243
Total All Projects	<u>\$6,624,614</u>

II. Revenue

The premium revenue, along with investment income, provides the funding to service policyholders, pay indemnity and medical claim benefit payments, and cover operational expenditures.

For 2021, MSF is projecting net earned premium of \$149,650,406 which is \$5.1 million or 3.5% increase from the 2020 projection of \$144,591,751.

The net earned premium estimate assumes:

- Approximately 23,800 active policies.
- An assumed rate change of -3.0% for policy periods effective after July 1, 2021 (assumed for estimation purposes only).
- Wage growth of 1.0%.
- Premium retention rate of 90.7%.
- Other States Coverage (OSC) premium of \$3.1 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 its operational expenses to competitors and the industry as a whole.

The statutory operating expense ratio encompasses accounting adjustments used for financial reporting, such as depreciation and incurred loss adjustment expense reserves, which are not displayed in an expenditure-based budget.

MSF’s operational expenditures (i.e. personal services, operating expenses and transfer, capital expenditures, allocated loss adjustment expense) are \$67.4 million for the budget, and statutory operating expenses are \$59.8 million.

The statutory operating expense is divided by net earned premium of \$149.7 million to determine the 2021 estimated expense ratio of 40.0%.

The following table displays the statutory operating expenses, net earned premiums and the 2021 expense ratio with comparison to previous periods.

Montana State Fund	2021 Budget	2020 Budget	2020 Projection	2019 Actuals	2018 Actuals
Statutory Operating Expense	\$59,811,703	\$58,131,324	\$49,989,520	\$55,453,434	\$63,888,181
Net Earned Premiums	\$149,650,406	\$149,068,520	\$144,591,751	\$156,871,129	\$161,258,974
Statutory Operating Expense Ratio	40.0%	39.0%	34.6%	35.3%	39.6%

The 2021 expense ratio is increasing in comparison to 2020 because MSF is expected to begin amortization of the accumulated PBRI project costs that were capitalized in the software development phase.

The following table compares the MSF operating expense ratio with the most recent data from 2020 Best’s Aggregates & Averages ratios for property and casualty insurance industry and other state funds.

Best’s 2019 Total US PC Industry (1,107 P&C Organizations)	Best’s 2019 Work Comp Composite (261 Organizations)	Best’s 2019 Total US PC State Funds – (24 Organizations)	MSF 2019 Actuals	MSF 2020 Projection	MSF 2021 Budget
38.7%	40.3%	37.5%	35.3%	34.6%	40.0%

IV. Benefit Payments

The 2021 budget for claim benefit payments is \$108.3 million with the expectation that these payments will be less than the 2020 projection of \$111.7 million.

The overall claim benefit budget is predicated upon:

- The addition of a new accident year’s claims to the estimate of payments on existing claims.
- Indemnity claim payments are expected to trend minimally higher from the 2020 projection due to claim settlement activity and reduced availability of return to work opportunities for injured workers.

- Medical claim payments, excluding medical settlements, are expected to decline as compared to the 2020 projection and continue with a downward trend that began in 2015.
- Medical settlements are expected to decline from the 2020 projection though claim closure activity is expected to remain elevated above the levels of 2018 and 2019.

MSF expects 2021 claim benefit payments of \$108.3 million to decline by 3.0% as compared to the 2020 projection of \$111.7 million. However, the 2021 budget reflects a more significant increase when compared to the 2018 and 2019 actuals when there was less claim settlement activity. The following displays a summary of claim benefit types comparing 2021 budget amounts to the 2020 budget, 2020 projection, and the 2019 and 2018 actuals.

Claim Benefit Type	2021 Budget	2020 Budget	2020 Projection	2019 Actuals	2018 Actuals
Indemnity	\$37,496,845	\$35,002,989	\$37,094,174	\$32,420,518	\$33,730,228
Medical – No Settlements	42,268,537	47,636,217	44,364,702	47,476,881	51,528,707
Medical Settlements	26,831,536	28,104,076	28,542,980	19,717,613	20,443,854
All OSC Benefits	1,672,147	1,822,149	1,665,595	1,414,036	1,930,257
Total	\$108,269,065	\$112,565,431	\$111,667,451	\$101,029,048	\$107,633,047

- \$37,496,845 - 2021 budget for indemnity benefit payments is an:
 - ❖ Increase of \$2.5 million or 7.1% from the 2020 budget of \$35.0 million.
 - ❖ Increase of \$402,671 or 1.1% from the 2020 projection of \$37.1 million.
- \$42,268,537 - 2021 budget for medical benefit payments, excluding medical settlements, is a:
 - ❖ Decrease of \$5.4 million or 11.3% from the 2020 budget of \$47.6 million.
 - ❖ Decrease of \$2.1 million or 4.7% from the 2020 projection of \$44.4 million.
- \$26,831,536 - 2021 budget for medical settlements is a:
 - ❖ Decrease of \$1.3 million or 4.5% from the 2020 budget of \$28.1 million.
 - ❖ Decrease of \$1.7 million or 6.0% from the 2020 projection of \$28.5 million.
- \$1,672,147 - 2021 budget for OSC is a:
 - ❖ Decrease of \$150,002 or 8.2% from the 2020 budget of \$1,822,149.
 - ❖ Increase of \$6,552 or 0.4% from the 2020 projection of \$1,665,595.

The next table displays 2021 MSF and Other States Coverage (OSC) benefit payments separately as compared to the 2020 projection and 2019 actuals expenditure levels.

Benefit Payments	2021 Budget	2020 Projection	2019 Actuals	\$ Change 2021 from 2020	% Change 2021 from 2020
MSF	\$106,596,918	\$110,001,856	\$99,615,012	(\$3,404,938)	-3.1%
OSC	1,672,147	1,665,595	1,414,036	6,552	0.4%
Total	\$108,269,065	\$111,667,451	\$101,029,048	(\$3,398,386)	-3.0%

Other States Coverage (OSC)

The OSC program enables MSF policyholders with employees working in other states the option to insure all of 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 \$1,672,147 and include:

- \$837,545 - Indemnity payments.
- \$834,602 - Medical payments.

Operational expenditures budgeted for the OSC program are \$1.3 million and the total budget for OSC expenditures is \$3.0 million. OSC written premium is estimated to be \$3.1 million in 2021. The OSC budgeted expenses are determined by applying the contracted fees on estimated premium and claim activity. The following table notes the expenditures and premium of the OSC program for 2021 budget, 2020 projection, 2019 and 2018 actuals.

	2021 Budget	2020 Projection	2019 Actuals	2018 Actuals
OSC Program				
Program management, fronting fees, letters of credit	\$400,426	\$453,161	\$501,524	\$351,633
Commissions	248,000	279,968	264,010	209,249
Premium Tax	139,500	163,350	166,620	116,348
ALAE	519,510	524,675	504,901	534,119
Operational Expenditures	\$1,307,435	\$1,421,154	\$1,437,054	\$1,211,350
Claim Benefit Payments	\$1,672,147	\$1,665,595	\$1,414,036	\$1,930,257
OSC Total Expenditures	\$2,979,582	\$3,086,749	\$2,851,091	\$3,141,607
OSC Written Premium	\$3,100,000	\$3,243,000	\$3,888,622	\$2,787,418

V. Operational Expenditures

Operational expenditures include staffing, operating expenses, transfers, capital expenditures, and allocated loss adjustment expense (ALAE). The following table provides a summary of the operational expenditures, including the number of FTEs (full-time equivalents) and positions.

Operational Expenditures	2021 Budget	2020 Budget	2020 Projection	2019 Actuals	2018 Actuals
FTEs	306.00	307.00	307.00	307.00	307.00
Positions	308	309	309	310	310
Personal Services	\$32,787,265	\$31,437,518	\$30,418,347	\$29,856,055	\$29,110,774
Operating Expenses and Transfers	28,807,706	30,782,911	27,781,478	26,914,148	41,129,262
Capital Expenditures	2,227,924	4,190,832	5,611,048	2,653,828	6,170,806
ALAE	3,609,042	3,837,052	3,488,510	3,800,805	3,545,490
Total MSF	\$67,431,937	\$70,248,313	\$67,299,383	\$63,224,836	\$79,956,332

a. MSF Staffing

MSF continually evaluates and re-aligns its staff to meet changing market needs, expectations, and work processes. For the 2021 budget, there is a decrease of 1.00 FTE and one position from 2020. A vacant position was eliminated from the Corporate Support Department. MSF was approved for 306.00 FTEs and 308 positions for 2021. In 2021, MSF will have 305 positions that are 1.00 FTE each, one half-time position (0.50 FTE) and two positions at 0.25 FTE each.

One half-time and two quarter-time positions, equating to 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.

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

MSF Department Staffing (FTEs)	2021 Budget	2020 Budget	2019 Budget
Corporate Support	35.00	36.00	35.00
Executive Offices	6.00	6.00	6.00
General Counsel	18.00	18.00	18.00
Human Resources	8.00	8.00	9.00
Information Technology (IT)	52.00	52.00	52.00
Operations	146.00	146.00	146.00
Operations Support	41.00	41.00	41.00
MSF Total	306.00	307.00	307.00

During PBRI development MSF employees were assigned to work on the project and consulting services were hired to temporarily backfill and cover MSF employees' regular duties. MSF staff will be focusing on the policy and billing system implementation and PBRI Phase II planning during 2021.

b. Personal Services – Salaries and Employee Taxes and Benefits

To support the necessary staff of 306.00 FTEs, MSF was approved expenditures of \$32.8 million for the 2021 personal services budget. A vacancy savings factor of 4.0% was applied to the personal services budget; this is an aggregate reduction recognizing that employee turnover creates position vacancies.

There has been ongoing difficulty in filling certain technical positions. MSF has reviewed and revised the compensation for these technical positions to attract qualified candidates. MSF will continue to use contracted IT consulting services to backfill for technical positions during the first half of 2021 to enable hiring and knowledge transfer. As a result, four Enterprise Software Engineer positions have only been budgeted for nine months of the year. The personal services budget noted below includes the adjustments in the salaries, employee taxes and benefits, and vacancy savings categories.

MSF Total Personal Services Budget	2021 Budget	2020 Budget	2020 Projection	2019 Actuals	\$ Change 2021 Budget from 2020 Budget	% Change 2021 Budget from 2020 Budget
Salaries	\$25,931,363	\$24,483,776	\$23,004,835	\$22,479,877	\$1,447,587	5.9%
Employee Taxes & Benefits	8,222,039	7,931,656	7,413,512	7,376,178	290,383	3.7%
Vacancy Savings	(1,366,137)	(977,914)	n/a	n/a	(388,223)	39.7%
Total Personal Services	\$32,787,265	\$31,437,518	\$30,418,347	\$29,856,055	\$1,349,747	4.3%

The 2021 personal services budget increase is \$1,349,747 or 4.3% from the 2020 budget. Salaries increased by 5.9%, employee taxes and benefits decrease by 3.7%, and the vacancy savings offset increased by 39.7%.

➤ **Salaries** - \$25,931,363

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

- ❖ \$24,719,629 for base salaries (no employee taxes or benefits) are calculated on the hourly wage for all active employees as of August 10, 2020. A subsequent adjustment is included for a new pay range. Vacant position budgets were based on the compensation at mid-point for the position's pay band, assuming 2,088 annual payroll hours for each FTE. Partial FTE salaries are prorated.
- ❖ \$626,986 for merit-based salary adjustments (no employee taxes or benefits). The merit salary adjustments for employees will be distributed after the final 2020 performance reviews are complete. For the 2021 budget a merit adjustment of 3.2% is planned to be effective March 13, 2021.
- ❖ \$219,146 provides funding for leave balance payouts for ten expected retirements in 2021. 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.
- ❖ \$323,070 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 2021 estimate is based on review of recent excess leave balances which increased significantly as a result of Covid-19. Employees worked from home and took less time off for vacation and other events during 2020. The program

payout for 2021 is budgeted to be \$154,405 more than the prior year and a 91.5% increase.

- ❖ \$35,212 is to cover overtime costs for staff to support computer systems after hours, unplanned facility maintenance, and additional workload during the policy renewal period.
- ❖ \$7,319 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; the excess is paid out annually. The 2021 estimate is based on 2020 payments made and review of recent excess banked holiday balances.

➤ **Employee Taxes and Benefits - \$8,222,039**

This category includes the payments/contributions MSF makes on behalf of its employees for taxes, benefits, and workers' compensation premiums. The following lists employee tax and benefit categories, and the dollars budgeted.

- ❖ FICA/Medicare - \$1,909,679
The rate of 7.65% of applicable salary remains unchanged from 2020. An estimated FICA earnings cap of \$142,800 was budgeted to be effective January 1, 2021.
- ❖ Retirement (PERS) - \$2,313,244
The employer's contribution rate is 8.92% of applicable salary. The PERS contribution rate increased 0.1% from the 2020 rate per law, 19-3-16(2)b, MCA.
- ❖ Workers' Compensation Premium - \$112,801
This is MSF's premium payment and is expected to be an average rate of approximately 0.435% of applicable salary in 2021. The 2020 budgeted average rate was 0.443%.
- ❖ State Unemployment Tax (SUT) - \$38,897
MSF's employer contribution rate is 0.15% for SUT. This rate is annually reviewed by the Department of Labor and Industry and could be adjusted in May, but no change has been budgeted.
- ❖ Group Insurance - \$3,847,416
The 2021 annual employer contribution for group insurance is \$12,648 per eligible employee, which is set by the State and is the same as in 2020.

➤ **Vacancy Savings – (\$1,366,137)**

The vacancy savings is an overall reduction of 4% that has been applied to the calculated salaries and employee taxes and benefits on all budgeted positions. Exactly which positions will be vacated from turnover during the year cannot be determined, but at an aggregate level, MSF can reasonably estimate vacancies and estimate an appropriate budget reduction.

c. Operating Expenses and Transfers

The Operating Expenses and Transfers budget of \$28,807,706 is another grouping of expenses underneath the overall category of 'Operational Expenditures' and includes the following categories and amounts.

Category	2021 Budget	2020 Budget	2020 Projection	2019 Actuals	\$ Change 2021 Budget from 2020 Budget	% Change 2021 Budget from 2020 Budget
Other Services	\$20,815,435	\$22,632,826	\$19,748,103	\$19,806,795	(\$1,817,391)	-8.0%
Supplies & Materials	776,508	970,008	1,065,983	789,841	(193,500)	-19.9%
Communications	1,514,617	1,477,505	1,473,781	1,059,618	37,112	2.5%
Travel	253,399	369,124	119,476	254,251	(115,725)	-31.4%
Rent	169,828	45,006	59,012	402,219	124,822	277.3%
Utilities	224,869	224,319	202,003	206,520	550	0.2%
Repair & Maintenance	2,608,874	2,371,394	2,357,369	2,378,403	237,480	10.0%
Other Expenses	2,209,292	2,468,123	2,531,145	1,815,605	(258,831)	-10.5%
Transfers	234,885	224,606	224,606	200,896	10,278	4.6%
Total Operating Expenses and Transfers	\$28,807,706	\$30,782,911	\$27,781,478	\$26,914,148	\$1,975,205	-6.4%

➤ **Other Services** - \$20.8 million is budgeted for 2021. There are three primary areas that comprise \$18.3 million of the expenditures in this category: Agent commissions, IT consulting and professional services, and other consulting services.

❖ **Commissions** - \$10,696,141 – This is a decrease of \$143,923 or 1.3% from the 2020 budget of \$10,840,064, however, it is an increase of \$677,543 or 6.8% from the 2020 projection of \$10,018,598. Commissionable premium has declined in 2020 due to declines in reported payroll as a result of Covid-19. The 2021 budget is based on the expectation of slightly higher commissionable premiums from new business written.

The budget includes base, incentive, and Other States Coverage (OSC) commissions. Commission expense is directly related to premium, percentage of MSF policyholders represented by agents, and the assigned commission rate. The payment of commissions supports service and distribution capabilities with MSF's agent partners.

- Base Commissions - \$8,456,443:
Premium collected on an agent-represented policy initiates a base commission payment. MSF estimates \$111.0 million in premium payments on agent-represented business will be recorded in 2021. The average base commission rate on these policies is estimated to be 7.62%.
- Incentive Commissions - \$1,991,698:
Incentive commissions are established to provide a payment to agents for meeting

profitability, retention, and new business goals for the MSF business they represent. The program’s general incentive commission rate is 1.5%.

- OSC Commissions - \$248,000:
Commissions associated with OSC policies are based on the total 2021 premium estimate of \$3.1 million and an 8% commission rate.

❖ **IT Consulting and Professional Services - \$4,865,552** – This is a decrease of \$1,894,654 or 28.0% from the 2020 budget of \$6,760,206 and a decrease of \$38,436 or 0.8% from the 2020 projection of \$4,903,988.

The following table identifies the four primary drivers of this budget. The expenditures are necessary to complete Annual Business Plan initiatives and to backfill vacant IT positions.

2021 Budget	Project / Department	Item / Description
\$1,823,120	PBRI	IT services for quality assurance, project management and support, and ‘backfill’ of MSF staff
\$1,587,120	Producer Portal Accelerator	Develop online policy quote tool
\$778,912	Data Discovery	IT services to fill project roles
\$499,200	Information Technology	‘Backfill’ of IT staff vacancies

- **PBRI Project - IT Consulting Services - \$1,823,120** – IT consulting services are 48.3% of the total \$3.8 million PBRI project budget.

The planned accomplishments for 2021 include:

- ✓ Successfully transitioning the MSF book of business from the Policyholder System (PHS) to Policy Center / Billing Center (PBRI).
- ✓ Implementing Customer Connect and Partner Connect portals.
- ✓ Developing a strategy for Phase II work.

During 2021 MSF staff and consultants will continue developing the policy and billing system. IT consultants will also be used as ‘backfill’ support for MSF staff working on project development and in other areas of project support noted below.

- ✓ \$1,080,689 – IT support resources (NxT) to backfill roles of MSF staff.
- ✓ \$428,611 - Business analyst and project management support (Sabot).
- ✓ \$278,820 – Guidewire business analyst working with the project team and Guidewire Health Checks.
- ✓ \$35,000 – Document management consulting services (Cincom Eloquence).

- **Producer Portal Accelerator Project - IT Consulting Services – \$1,587,120** – The project requires a solution that will support receiving data directly from agency management systems, upload of electronic ‘ACCORD’ and other standardized forms and the integration of ‘IVANS’ software once the MSF Policy Center is stable. The budget is intended to support the requirements by providing for three resources

from a third-party integrator to upgrade the Producer Engagement Portal to work with MSF’s customized Guidewire Policy Center. This will provide support to enable automated quote and binding functionality along with other efficiencies.

- **Data Discovery Project - IT Consulting Services - \$778,912** – This is to provide the fourth year of project funding for services toward leveraging the ‘Big Data Ecosystem’ that has been developed over the past three years. The aim is to build new analytic applications for the Medical, Premium Audit, and Marketing Teams and to establish two additional environments:
 - ✓ \$634,432 – Consulting service to support the analytic applications
 - ✓ \$144,480 – Consulting services to establish additional environments.
 - **IT Department staff backfill strategy** - \$499,200 is budgeted to hire consultants to backfill four vacant Enterprise Solutions Engineer positions. Recruitment for these internal positions has been challenging over the past couple of years, but MSF does expect to fill these positions in 2021. The six months of consulting service will enable a transition period for knowledge transfer.
 - **Cloud environment analysis - \$70,000** – This work effort focuses on initiating the development and understanding of moving data from on premises to a cloud environment. A thoughtful migration to cloud services can create flexibility and scalability that positions MSF for a future with less dependence on physical facilities, more autonomy, and better support of remote work.
 - **Claim Center Health Check - \$55,000** – This will fund services to complete a pre-upgrade analysis on the Claim Center application so that a technical upgrade can be planned for 2022.
 - **All other IT Consulting Services - \$52,200** – To support miscellaneous business applications and technical services.
- ❖ **Consulting and Professional Services - \$2,776,131** – This is an increase of \$361,050 or 14.9% from the 2020 budget of \$2,415,082 and an increase of \$206,962 or 8.1% from the 2020 projection of \$2,569,169. The following table identifies the five largest budgeted expenditures, or 75.3% of the total, in this category.

2021 Budget	Department	Item / Description
\$775,735	Operations	NCCI membership and transaction-based charges
\$440,000	Executive	Independent external actuarial services
\$400,426	Operations	Other States Coverage program expenses
\$270,110	Executive	Consulting for creating and producing advertising products and campaigns
\$204,401	General Counsel	Department of Justice - Fraud Investigation and Prosecution Agreement

- **National Council on Compensation Insurance (NCCI)** – \$775,735 – 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 as the advisory organization.

The 2021 budget is \$9,863 or 1.3% less than the 2020 budget of \$785,599 due to pricing changes on membership fees and reduced reported premium. The 2020 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 2019 net direct written premium used to calculate the membership fee was \$159,146,281. Total 2021 budget for the NCCI 'Affiliation Licenses and Services' is \$413,235.
 - ✓ 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, the same as the 2020 budget.
- **Independent Actuary** - \$440,000 - The Board is required by law to use the services of an independent actuary when estimating losses, surplus adequacy, and other areas of business. The actuarial services budgeted are:
 - ✓ \$310,000 for consulting on rate level, rate filing, loss cost multipliers, loss reserves, and policyholder equity.
 - ✓ \$90,000 for the update of the Economic Capital Model.
 - ✓ \$40,000 for the Old Fund reserve analysis which is reimbursed to MSF through a non-budgeted General Fund transfer.
 - **Other States Coverage (OSC)** – \$400,426 – This is the portion of the OSC program expense budgeted as Consulting and Professional Services - see page 6 for total OSC program cost.
 - ✓ \$308,450 - Per the OSC contract with Zurich, MSF pays 9.95% of the estimated \$3.1 million written premium as fronting fees - the expense of writing policies.
 - ✓ \$91,976 - The fee to maintain a letter of credit as contractually required.
 - **Promotional Campaigns and Communications Development** - \$270,110 – This funding is for Partners Creative's consulting time associated with creating ad campaigns, producing advertising products, and photography. This expense category is separate from the cost of airtime or other media purchases.

The budget amount includes:

- ✓ \$110,000 – 'Safety Dash' policyholder dashboard.
- ✓ \$36,000 – Adding content and ongoing redesign of Safemt.com.
- ✓ \$28,000 – YouTube educational safety video productions.
- ✓ \$24,000 – Campaign planning, production and reporting for 'Young Workers' and 'Signs of Safety' campaigns.
- ✓ \$72,110 – Other marketing work, such as search engine marketing, MSF employee photoshoot, sponsorships and tradeshow banners, educational video posters, online cards and e-newsletter templates, and policyholder renewal packet updates.

- **Department of Justice (DOJ) Fraud Agreement – \$204,401** – This budget funds fraud investigations and prosecution. The total DOJ estimated funding of \$408,802 is allocated 50% to claim related investigations (allocated loss adjustment expense) and 50% for policy investigation and prosecution based on cases currently assigned to DOJ and historical experience.

- **All other Consulting and Professional Services - \$685,459** – Includes the following:
 - ✓ \$140,025 – Additional funds for unanticipated Covid-19 related expenses that may occur in 2021.
 - ✓ \$135,000 – External recruitment services.
 - ✓ \$120,000 – Contracts or other projects that arise as the year progresses and are deemed necessary and appropriate by the President.
 - ✓ \$104,625 – Compensation consulting, surveys, and succession planning.
 - ✓ \$75,000 – Producing, editing and launching a mini-video series to educate and inform policyholders, the public and other stakeholders about MSF.
 - ✓ \$43,684 – National fraud indexing service (ISO) to check new claims for prior fraudulent activities, Medicare Set Aside reporting, and fraud investigations.
 - ✓ \$25,000 – Architect and project management for construction and building improvements.
 - ✓ \$24,000 - Contracted medical director for research and training of MSF claim examiners, medical case managers, and external providers.
 - ✓ \$18,125 – Executive staff training, Board member per diems, and occupational therapist evaluations.

- ❖ **Policyholder Payroll Audits - \$743,085** - This is a decrease of \$55,921 or 7.0% from the 2020 budget of \$799,006. MSF plans to continue using external audit services to perform policyholder payroll audits. These audits may be conducted in the field or virtually. 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 payroll reporting.

- ❖ **Services provided by the State Information Technology Services Division (SITSD) of the Department of Administration - \$1,030,241** - This is an increase of \$264,930 or 34.62% from the 2020 Budget of \$765,311. SITSD, in conjunction with the Office of Budget and Program Planning (OBPP), determines the amount charged to MSF for services provided by the State.

SITSD expenditure categories include:

 - \$431,892 - Other Services
 - ✓ \$313,146 - Enterprise services
 - ✓ \$45,132 - E-mail and voice services
 - ✓ \$73,614 – Server, equipment, and application hosting.
 - \$351,289 - Supplies and Materials – asset broker.
 - \$247,060 – Primarily network services with minimal amounts for video, voice, and long-distance communication services.

- ❖ **Insurance and Bonds - \$542,520** - This is an increase of \$5,039 or 0.9% from the 2020 budget of \$537,481. The budget funds MSF’s general liability, property, boiler, crime, and

automobile coverages. This insurance is provided through the State of Montana's Risk Management and Tort Defense Division. MSF is part of the State's self-insured program.

- ❖ **Financial and Legislative Audits** - \$176,000 - This is an increase of \$13,467 or 8.3% from the 2020 budget of \$162,534.
 - \$88,000 is for an independent accounting firm to audit the 2020 statutory financial statements.
 - \$88,000 is for the financial compliance audit performed by the Legislative Audit Division (LAD) of the 2020 governmental financial statements.
- ❖ **Legal Fees and Court Costs** - \$159,100 - The budget amount is the same as 2020. It funds employers' liability coverage opinions and other legal service costs.
- ❖ **Printing** - \$116,452 - This is a decrease of \$37,170 or 24.2% from the 2020 budget of \$153,622. This includes:
 - \$58,812 - 'Perspectives' postcards, PBRI project materials, WorkSafe Champions participant guides, policyholder kits, internal forms, safety workshop materials, and a variety of small printing jobs for safety posters, brochures, and other informational materials.
 - \$53,640 – Various sized envelopes for mailing.
- ❖ **Consulting and Professional Services – Training** - \$108,474 – This is a decrease of \$79,883 or 42.4% from the 2020 budget of \$188,357. The budget funds training services for:
 - \$25,104 – FutureSync: Mosaic training providing two groups of employees.
 - \$19,675 – LinkedIn Learning license for companywide use.
 - \$10,450 – 'The Leadership Challenge' for 19 MSF leaders.
 - \$10,000 – 'Safe Schools' training on: CPR/first aid, asbestos inspections, and online safety content.
 - \$10,000 - Sales training for Underwriters, Account Managers and Marketing Staff.
 - \$33,245 – Other professional training costs, such as: 'Executive Intelligence,' 'Thought Pattern' training, speaker fees, and Board Member training.
- ❖ **State Human Resources Information System (Payroll) Service Fee** - \$70,351 - This is a decrease of \$2,381 or 3.5% from the 2020 budget of \$67,970. This will fund charges to MSF for services of the State's Central Payroll and Human Resource module.
- ❖ **SABHRS Administrative Costs** - \$54,169 - This is a decrease of \$19,451 or 26.4% from the 2020 budget of \$73,620. 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 Office of Budget and Program Planning Fixed Cost report.
- ❖ **Warrant Writing** - \$38,177 - This is a decrease of \$9,022 or 19.1% from the 2020 budget of \$47,199. 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 2020 warrant volume.
- ❖ **Records Storage** – \$18,658 - This is a decrease of \$6,816 or 26.8% from the 2020 budget

of \$25,474. The budget is for microfiche retrieval of archived data for claims management, back-up tape storage, and claim information retrieval from data archived with State Records Management.

➤ **Supplies and Materials Categories**

- ❖ **Educational Supplies** - \$30,000 - This is a decrease of \$5,326 or 15.1% from the 2020 budget of \$35,326. The budget provides for purchase of employee/team assessment materials and manuals used in training courses.
- ❖ **Gasoline** - \$27,019 - This is a decrease of \$10,654 or 28.3% from the 2020 budget of \$37,673 and assumes that some travel restrictions will continue in 2021. The budget estimate was based on \$2.18 per gallon (MSF is exempt from gas tax) for gasoline; with a fleet of 23 vehicles and an estimated average of 12,615 miles per vehicle.
- ❖ **Safety Supplies** - \$37,478 - This is a decrease of \$1,997 or 5.1% from the 2020 budget of \$39,475. The WorkSafe Champions safety grants of \$33,000 is the primary budget component. Personal protective equipment (PPE) and noise meters to be used by Safety Management Consultants along with various first aid supplies comprise the remainder of this budget.
- ❖ **Minor Office Equipment** - \$14,434 - This is a decrease of \$9,360 or 39.3% from the 2020 budget of \$23,794. The budget includes headsets, keyboards and chairs.
- ❖ **Computer Hardware** - \$52,611 - This is a decrease of \$82,434 or 66.0% from the 2020 budget of \$135,045. The budget will support viable remote and hybrid work environments with additional port hubs, laptops, networking components, RSA tokens and headsets supporting software-based phones.
- ❖ **Non-Capitalized Software** - \$94,794 - This is a decrease of \$158,714 or 62.6% from the 2020 budget of \$253,508. This is for software that has a purchase price of less than \$100,000 and includes:
 - \$53,815 - PBRI project:
 - ✓ \$25,875 – Ancile uPerform license.
 - ✓ \$13,500 - WebSphere application license.
 - ✓ \$12,000 - Database license.
 - ✓ \$2,440 - VPN and other access certificates.
 - \$23,760 - NASPO Value Point software required for operating the new document processing folder/inserters.
 - \$5,679 – Learning Management System to support WorkSafe.
 - \$5,040 – Zoom licenses for twenty-one employees.
 - \$4,900 – Sovos software used to prepare and submit the annual statement and other filings to the Insurance Department.
 - \$1,600 - Medical auditing software and an application for scheduling injured worker appointments.
- ❖ **General Office Supplies** - \$132,501 - This is a decrease of \$17,410 or 16.6% from the 2020 budget of \$149,911. This is for paper, toner, and a wide variety of minor office supplies.

- ❖ **Promotional Aids** - \$19,667 – This is a decrease of \$9,800 or 33.3% from the 2020 budget of \$29,467. The budget provides for small MSF branded items to be distributed, which are intended to enhance safety and brand awareness.

➤ **Communications**

- ❖ **Postage** - \$354,441 - This is a decrease of \$94,097 or 21.0% from the 2020 budget of \$448,538, which includes:
 - \$233,280 – The State’s print and mail service fees.
 - \$84,000 – Postage meter refills.
 - \$27,600 – Three special policyholder mailings to communicate updates.
 - \$9,561 - All other – post office box rental, intra-agency mail service, package shipping, and stamps.

- ❖ **Advertising** - \$668,400 - This is a decrease of \$1,960 from the 2020 budget of \$670,360. This is the expense to purchase media time and placement. In 2021, three different media campaigns are planned similar to 2020. The budget includes:
 - \$220,000 – Radio, print, banner, and social media ad placement for statewide ‘Signs of Safety’ winter campaign.
 - \$150,000 - Radio, print, banner, and social media ad placement for ‘Young Workers’ spring campaign.
 - \$208,000 - Purchase TV/cable airtime for the ‘Signs of Safety’ advertising campaign to run in the fall and winter of 2021.
 - \$41,500 – Sponsorships with various safety and community organizations.
 - \$15,500 - Class of 2021 WorkSafe Champions Elite - professional film crew for alumni spotlight and advertising opportunity.
 - \$12,000 – Search engine marketing.
 - \$21,400 – E-blast, opportunity ads, mag ads, sports marketing, and employment ads.

- ❖ **All Non-SITSD Data and Telephone Categories** - \$244,716 - This is an overall increase of \$132,431 or 117.9% from the 2020 budget of \$112,285. This expense covers cell phones, tablets, long-distance charges, language translation, and ‘800’ line services. The 2021 budget increase is driven by the remote work environment. MSF has extended cell phone reimbursement to more employees, has expanded internet services and data circuits and long-distance costs are increasing. The following table will show 2021 increases as compared to the 2020 Budget.

Category	2021 Budget	2020 Budget	\$ Change 2021 Budget from 2020 Budget	% Change 2021 Budget from 2020 Budget
Cell Phones	\$82,529	\$29,329	\$53,200	181.4%
Internet Services	\$47,556	\$20,569	\$26,987	131.2%
Data Circuits	\$58,296	\$30,792	\$27,504	89.3%
Long Distance	\$56,335	\$31,595	\$24,740	78.3%

➤ **Travel**

- ❖ \$253,399 is the total MSF travel budget - this is a decrease of \$115,725 or 31.3% from the

2020 budget of \$369,124. MSF travel has been impacted by Covid-19. The budget assumes travel activity will hopefully return toward prior year levels around May of 2021 though this is uncertain at this time.

The travel category includes all airfare, lodging, other travel costs for safety services, customer visits, professional training, association membership, and projects. This travel budget includes 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 2021 budget supports:

- \$116,316 - Employee out-of-state travel for business and training needs.
- \$101,359 - Employee in-state travel for business and training needs.
- \$16,022 - Travel for training and industry research associated with projects.
- \$19,702 - Travel for Board members and agents classified as non-employee travel.

➤ **Rent**

- ❖ \$169,828 – This is an increase of \$124,822 or 277.3% from the 2020 budget of \$45,006. In 2021 and 2020 budget cycles, the rent category has had two major changes.
 - Effective January 1, 2020, governmental accounting standards required different accounting for lease commitments greater than one year. These items are now considered capital leases and are explained on page 23 of this report.
 - Beginning in October 2020, MSF initiated an employee stipend program to offset some of the expense employees incur being deployed remotely.

The 2021 Rent budget is comprised of obligations of less than one year, including:

- \$120,000 – Remote office stipends of \$40 per month for 250 MSF employees being required to work from remote locations.
- \$44,146 - Photocopy machine charges.
- \$5,682 – Helena office space rented on a short-term arrangement as a back-up document processing center.

➤ **Utilities**

- ❖ \$224,869 - This is comparable to the 2020 budget amount of \$224,319. This includes electricity, natural gas, water, and sewage services for the building.

➤ **Repairs and Maintenance**

- ❖ \$2,608,874 - This is an increase of \$237,480 or 10.0% from the 2020 budget of \$2,371,394.
 - \$1,666,627 - IT Department maintenance agreements for application software and hardware such as servers, routers, and associated peripherals. The 2021 budget is \$356,558 or 27.2% more than the 2020 budget of 1,310,069.
 - \$738,747 – Guidewire maintenance agreement required for PBRI system.
 - \$145,726 – Facilities building and grounds maintenance and repairs including: Heating, ventilation and air conditioning (HVAC), snow removal, Covid-19 / Virus protection, exterior maintenance , window cleaning, elevator maintenance, fire system services, ballast replacements for lighting, paper shredding services, generator maintenance, and other items.
 - \$27,019 - Repairs and maintenance on MSF-owned-and-operated fleet of 23 vehicles.
 - \$15,755 – Document Processing’s scanning machines and mailing equipment

- hardware and software maintenance contracts.
- \$8,000 – Maintenance agreements on the buildings monitoring software that provides energy monitoring for demand loads, HVAC issues, emissions reporting geared for LED, and security.
- \$7,000 - Replacement parts for monitors, computers, hard drives, keyboards, and printer maintenance kits.

➤ **Other Expenses**

- ❖ **Dues** - \$89,196 - This is similar to the 2020 budget of \$89,989. This expense is for membership dues with professional business organizations such as the Montana Chamber of Commerce (\$36,050) and other local chambers (\$8,450), Leadership Montana (\$10,000), American Association of State Compensation Insurance Funds (\$10,000), Montana Society of CPAs, Montana Bar Association, Society for Human Resource Management, and other safety and insurance industry associations.
- ❖ **Subscriptions** - \$921,483 - This is a decrease of \$130,132 or 12.4% from the 2020 budget of \$1,051,615. The decrease is primarily driven by non-renewal of subscriptions. The subscriptions category includes cloud-based subscriptions to software and technical solutions:
 - \$187,400 – Cloudera subscription is included in the IT Department budget. This supports the Data Analytics project.
 - \$150,852 - Clearwater Analytics for regulatory investment reporting.
 - \$75,000 – Guidewire contract for claim analytics.
 - \$72,068 - WDesk solution used for statutory and governmental financial reporting, budget planning and reporting, and enterprise risk management.
 - \$64,600 - Caliper Data Analytics – human resources competency model used for analysis of job applicants and for internal employee development.
 - \$61,965 – Human Resources recruiting subscriptions:
 - ✓ \$33,215 - LinkedIn recruitment tool for resume searching.
 - ✓ \$12,000 - Career Builder online recruitment tool.
 - ✓ \$10,750 - Glass Door recruitment tool and professional social media platform.
 - ✓ \$6,000 – Video software to interface with OpenHire (recruitment tool incorporated in HRMS).
 - \$48,493 - Online access to Human Resource Management System (HRMS) for training, recruitment, and on-boarding.
 - \$45,600 – Official Disability Guidelines (ODG) subscription for evidence-based treatment guidelines for Provider Partnership project and the Medical Team.
 - \$38,779 – Tableau visual analytics platform and licenses.
 - \$24,000 – Data extraction and OCR tools.
 - \$19,941 – Standard and Poor’s Global Market Intelligence.
 - \$15,000 – External data feeds for Data Analytics project.
 - \$10,000 - PayScale supports internal compensation work.
 - \$8,175 - NAIC Automated Valuation System (AVS) that provides securities valuation data for Annual Statement Schedule D investment reporting.
 - \$7,894 – ACORD standardized insurance forms used by the industry.
 - \$7,035 - Lexis Nexis legal research.
 - \$7,000 - Gallup for human resource evaluations associated with training.
 - \$77,681 – Other subscriptions for industry research (AM Best, Harvard Business

Review, Medicare Set Asides), legal time tracking, a variety of desk manuals, bulletins, medical and occupational disability guides, and online access to reference materials.

- ❖ **Taxes and Assessments** - \$149,300 - This is a decrease of \$29,849 or 16.7% from the 2020 budget of \$179,149. The 2021 budget is comprised of:
 - \$139,500 - OSC premium taxes paid for insuring MSF policyholder's operations in other states where workers' compensation premium taxes are assessed. For 2021, the OSC premiums are estimated to be \$3,100,000 and the taxes and surcharges are estimated to be 4.5%.
 - \$6,300 – National Association of Insurance Commissioners (NAIC) and the State of Montana annual filing fees.
 - \$3,500 - Reinsurance excise tax.

- ❖ **Education and Training and Professional Development Center (PDC)** - \$224,919 - This is a decrease of \$52,993 or 19.1% from the 2020 budget of \$277,912. Training is needed to ensure MSF employees are knowledgeable in best practices associated with supervision, claim management, safety management, and underwriting of risk. This is comprised of individual employee registration fees and group training sessions such as: \$15,000 'Cloud' fundamentals training for IT staff; \$12,000 for Gallup Q12 for all employees; \$7,000 for Associate in General Insurance for fourteen employees; and \$7,356 for Associate in Claims courses for Claim Examiner Trainees. Other courses are in communication, Microsoft applications, teamwork, and leadership.

- ❖ **Rewards** - \$80,115 - This is a \$3,505 or 4.2% decrease from the 2020 budget of \$83,620. This is for employee-of-the-month/year awards, employee referral incentives, certification awards, PBRI engagement events, individual employee rewards, IDEA awards, and retirement recognition.

- ❖ **Tuition Reimbursement** - \$26,000 - This is a \$2,000 or 7.1% decrease from the 2020 budget of \$28,000. For 2021, the maximum amount of annual tuition reimbursement per employee is \$4,000. Seven employees are expected to participate in the tuition reimbursement program in 2021.

- ❖ **Meetings and Conference Cost** - \$219,658 - This is a decrease of \$11,934 or 5.2% from the 2020 budget of \$231,592. The budget provides for meeting rooms and equipment for MSF-sponsored meetings within the building and at locations throughout the state.
 - Safety management and WorkSafe Champion workshops 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.
 - Marketing events.
 - Annual Medical Conference.
 - Executive and departmental strategic planning.
 - MSF Board meetings.

- ❖ **Recruitment Expenses** - \$113,150 - This is a decrease of \$76,721 or 40.4% from the 2020 budget of \$189,871. This budget includes candidate travel and new employee relocation costs.

Other external recruitment services of \$135,000 are in 'Other Consulting and Professional Services' on page 14 and online recruitment tools of \$65,695 are in 'Subscriptions' on page 19.

Each employee recruitment 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 utilization of less costly web-based recruiting services as in comparison to recruiting agencies. Recruitment expenses are comprised of:

- \$75,000 - Relocation expenses for newly hired employees.
- \$38,150 - Recruitment and candidate travel expenses.

- ❖ **Licenses** - \$18,754 - This is a decrease of \$6,029 or 24.3% from the 2020 budget of \$24,783. This budget funds professional license expenses of attorneys, certified public accountants, claim examiners, pharmacy technicians, registered nurses, and others.
- ❖ **Bank Service Charges** - \$45,818 - This is a decrease of \$5,806 or 11.2% from the 2020 budget of \$51,624. This budget funds the Montana Interactive electronic payment and credit card fees for online customer payments.
- ❖ **Charitable Contributions / Scholarships** - \$201,400 - This is an increase of \$48,537 or 31.8% from the 2020 budget of \$152,863 due to increasing levels of safety related award and grant distributions. Charitable contributions include:
 - \$99,100 - Growing a Safer Montana project: Trade, industry, and OSHA scholarship awards (\$60,000), safety and health scholarship awards, and high school safety equipment grants (\$39,100).
 - \$72,000 - 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.
 - \$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 2021 for a total budget of \$26,000. Each scholarship is estimated to be \$2,000 with an additional \$100 administrative fee each and is based on prior year participation.
 - \$3,000 - Support of 'Festival of Trees' events.
- ❖ **Fee Collection Expense** - \$35,280 - This is an increase of \$3,541 or 11.2% from the 2020 budget of \$31,739. MSF contracts with external collection agencies and the fees vary based on success with collections, amounts sent to collection, and whether litigation is involved.
- ❖ **Statewide Indirect Costs** - \$79,811 - This is an increase of \$8,253 or 11.5% from the 2020 budget of \$71,557. The Statewide Indirect Costs (also known as the Statewide Cost Allocation 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.

- ❖ **Transfer to the Commissioner of Securities and Insurance (CSI)** – \$234,885 – This is an increase of \$10,279 or 4.6% from the 2020 budget of \$224,606. The transfer amount is estimated by CSI and 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 these CSI positions.

d. Capital Expenditures

The total 2021 Budget for capital expenditures is \$2,227,924. This is a decrease of \$1,962,908 or 46.8% from the 2020 budget of \$4,190,832. Capital expenditures are assets or leases that are expected to last more than one year and include major purchases like computers, vehicles, and building improvements, as well as intangible assets like software.

- **Multi-User Software** – \$1,239,397 – This budget is for:
 - ❖ \$1,038,086 – This budget is for PBRI software development.
 - ❖ \$201,311 - This funding is for the software licensing and download fees for the Producer Portal Accelerator project.
- **Multi-User Computers** - \$338,755 – This budget amount is for:
 - ❖ \$135,255 – Replacement of data center printers that have been in service since April 2012 and are experiencing increasing issues and downtime.
 - ❖ \$125,000 – Upgrade of audio-visual equipment in meeting rooms.
 - ❖ \$78,500 – Purchase of IBM servers needed to support PBRI.
- **Office Equipment** - \$149,422 – This budget amount is for:
 - ❖ \$89,422 - This will fund the purchase and installation of new document processing folder and inserter equipment. The current equipment was purchased in 2014 and has become unreliable and difficult to repair which has caused workflow issues and additional expense.
 - ❖ \$60,000 – Upgrading the MSF building’s fire panel and fire system.
- **Capital Outlay** - \$70,000 is budgeted for the building’s LED lighting retrofit improvements.
- **Capital Leases** – \$430,350 is budgeted for the leases, principal and interest, of the parking garage, field office space, and photocopiers. In 2019 and prior, these items were budgeted in the operating expenses - rent category. Due to a change in accounting practices, beginning in 2020 these items are considered capital leases.

The 2021 budget is distributed as follows:

- ❖ \$327,600 - Parking garage: Principal \$239,064 and interest \$88,536.
- ❖ \$70,942 - Field office space: Principal \$51,769 and interest \$19,173.
- ❖ \$31,808 – Photocopiers: Principal \$24,741 and interest \$7,067.

e. Allocated Loss Adjustment Expense (ALAE)

ALAE are costs directly associated with managing a specific claim, such as an independent medical examination to analyze a prescribed treatment for an injured employee or medical bill review fees.

\$3,609,042 is budgeted for these claim management costs and is a decrease of \$228,010 or 5.9% from the 2020 budget of \$3,837,052.

- \$1,289,160 – ‘Medical Invoice Processing’ - The budget is a decrease of \$282,835 or 18.0% from the 2020 Budget of \$1,571,995. The 2021 budget is 3.0% of the 2021 medical payments, excluding medical settlements. This ratio considers the volume of medical invoices to be processed and the applicable contracted cost per bill fees and services.

- \$612,015 - Investigations - This is a decrease of \$36,713 or 5.7% from the 2020 budget of \$648,728 based on utilization of services.
 - ❖ \$243,825 - Private investigations on claims related issues.
 - ❖ \$204,401 - Department of Justice (DOJ) service agreement budget for claim and provider investigations.
 - ❖ \$163,789 - Investigative Job Analysis - This provides for certified rehabilitation counselors to complete thorough and objective investigations of claims to determine MSF liability.

- \$621,682 - All legal expense categories - This is an increase of \$16,775 or 2.8% from the 2020 budget of \$604,907.
 - ❖ \$528,533 - MSF legal contract for services of external counsel and expense of Medicare Set Asides.
 - ❖ \$58,464 – Other associated claimant attorney and legal costs.
 - ❖ \$30,174 - Employer’s liability insured defense costs.
 - ❖ \$4,511 - Photocopy and electronic copy expense.

- \$545,946 - Contract Examiners - This is an increase of \$93,769 or 20.7% from the 2020 budget of \$452,177.
 - ❖ \$520,584 - Examiners and claim management services associated with OSC claims.
 - ❖ \$25,362 – Interpretation and delivery services.

- \$363,932 - Medical Consultants - This is an increase of \$60,464 or 19.9% from the 2020 budget of \$303,468 and more closely aligns with the 2020 projection of \$348,614. MSF uses medical consultants to enhance staff expertise and knowledge related to diagnosis and treatment plans for injured workers. The budget enables consulting time with medical professionals to provide expertise when managing complex medical issues.

- \$176,307 – ‘Independent Medical Examination’ (IME) – The budget is a decrease of \$79,469 or 31.1% from the 2020 budget of \$255,776. This expenditure is for IMEs that are done to analyze a prescribed treatment plan and reported as ‘Defense and Cost Containment’.

There are also IMEs reported as medical benefit payments. On a combined basis, the 2021 budget for all IMEs is \$622,506 and there has been a continual decrease from prior years:

- ❖ 2020 projection - \$817,684
- ❖ 2019 - \$950,513
- ❖ 2018 - \$1,267,442

VI. Miscellaneous

a. Old Fund Administration

The 2021 budget includes \$567,000 for 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 for Old Fund administration costs.

b. Cost Not Included in the Budget

The 2021 budget includes all known and expected costs for the fiscal period January 1 through December 31, 2021. The budget does not include:

- Court decisions that may significantly and adversely impact MSF.
- President/CEO compensation adjustments that are determined and approved separately by the Board.
- Funding for a market conduct examination. If CSI determines a market conduct examination of MSF will be initiated in 2021, estimates of the expense will be presented to the Board for possible budget action.

c. Premium Estimate and Budget Amendments

The 2021 budget is prefaced on MSF's net earned premium projection of \$149.7 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 original 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.