

**MONTANA STATE FUND
2022 ANNUAL BUDGET
(Effective for period of January 1 to December 31, 2022)**

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.

This 2022 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 define the budget periods and components referenced in this report:

- **2022 Budget:** Expenditures approved by the Board to fund the business operations and approved projects for the January 1 through December 31, 2022 fiscal reporting period.
- **2021 Budget:** Expenditures approved by the Board for calendar year 2021.
- **2021 Year-to-Date (YTD) Actuals:** Expenditure amounts recorded between January 1 and September 30, 2021.
- **2021 Projection:** Estimated full-year expenditures based on actual expenditures recorded through September 30, 2021.
- **2019 and 2020 Actuals:** Actual expenditures recorded for the year.

I. Total Expenditures

The total budget for 2022 expenditures is \$177,273,464. Claim benefit payments and operational expenditures are the two primary components of the budget.

The 2022 budget is compared below to the 2021 budget, 2021 projection, and the 2020 and 2019 actual expenditures. The budget includes the full-time equivalents (FTEs) and position counts for each of these periods. The budget for the Annual Business Plan (ABP) and Enterprise Strategic Project Management (ESPM) projects are displayed separately from the operational expenditure budget in the table below.

	2022 Budget	2021 Budget	2021 Projection	2020 Actuals	2019 Actuals
FTEs	293.50	306.00	306.00	307.00	307.00
Positions	298	308	308	309	309
Claim Benefit Payments	\$111,749,563	\$108,269,065	\$105,311,072	\$110,775,893	\$101,029,048
Operational Expenditures- excludes projects	\$63,421,920	\$58,264,929	\$55,688,935	\$52,370,098	\$54,491,739
ABP/ESPM Projects	<u>\$2,101,981</u>	<u>\$9,181,993</u>	<u>\$9,022,851</u>	<u>\$11,009,366</u>	<u>\$8,733,097</u>
Total MSF Expenditures	<u>\$177,273,464</u>	<u>\$175,715,987</u>	<u>\$170,022,858</u>	<u>\$174,155,357</u>	<u>\$164,253,884</u>

The total MSF 2022 budget of \$177.3 million is an increase of \$1.6 million or 0.9% from the approved 2021 budget of \$175.7 million and it is a \$7.3 million or a 4.3% increase from the 2021 projected expenditures of \$170.0 million.

- **Claim benefit payments** of \$111.7 million to injured workers are 63.0% 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 2022 budget is a:
 - ❖ \$3.5 million or 3.2% increase as compared to the 2021 budget.
 - ❖ \$6.4 million or 6.1% increase as compared to the 2021 projection.

Claim benefit payments are expected to trend higher in 2022 and are explained in more detail starting on page 4.

- **Operational expenditures** include all projects, staffing, overhead, and other costs needed to support MSF business operations. The total Operational Expenditure budget of \$65.5 million equates to 37.0% of the total budget, which is a:
 - ❖ \$1.9 million or 2.9% decrease as compared to the 2021 budget of \$67.4 million.
 - ❖ \$812,115 or 1.3% increase as compared to the 2021 projection of \$64.7 million.

The primary Operational Expenditures areas include:

- ❖ \$32.8 million in personal services to fund employee compensation, taxes, and benefit costs for 293.50 FTEs.
- ❖ \$11.8 million for agent commission payments.
- ❖ \$4.2 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).
- ❖ \$2.1 million for total ABP and ESPM projects: Strategic initiatives are tracked in the ABP; and ESPM projects are secondary level projects monitored by the Executive Team.

The following provides a summary of the total budget for each project. Additional detail on project expenditures is included in the corresponding budget categories throughout this report.

<u>ABP Projects</u>	<u>2022 Budget</u>
Policy and Billing Replacement Initiative (PBRI)	\$1,119,936
Growing a Safer Montana	121,401
WorkSafe Champions	<u>79,106</u>
Total ABP Projects	\$1,320,443
<u>ESPM Project</u>	
Producer Portal Accelerator (IVANS)	<u>\$781,538</u>
Total Projects	<u>\$2,101,981</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 and projects.

For 2022, MSF is projecting net earned premium of \$159,138,543 which is \$565,130 or 0.4% increase from the 2021 projection of \$158,573,413.

The net earned premium estimate assumes:

- Approximately 23,500 active policies.
- No assumed rate change for policy periods effective after July 1, 2021 (rate changes are unknown until the March 2022 Board meeting).
- Policyholder wage growth of 3.25%.
- Premium retention rate of 91.1%.
- Other States Coverage (OSC) premium of \$2.8 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 \$65.5 million for the budget, and statutory operating expenses are \$68.0 million.

The statutory operating expense is divided by net earned premium of \$159.1 million to determine the 2022 estimated expense ratio of 42.7%.

The following table displays the statutory operating expenses, net earned premiums and the 2022 expense ratio with comparison to previous periods.

Montana State Fund	2022 Budget	2021 Budget	2021 Projection	2020 Actuals	2019 Actuals
Statutory Operating Expense	\$67,922,445	\$59,826,688	\$49,292,572	\$46,431,600	\$55,453,434
Net Earned Premiums	\$159,138,543	\$149,650,406	\$158,573,413	\$148,625,434	\$156,871,129
Statutory Operating Expense Ratio	42.7%	40.0%	31.1%	31.2%	35.3%

The 2022 expense ratio is increasing in comparison to 2021, primarily as a result of non-budgeted accounting changes:

- PBRI systems (PolicyCenter, BillingCenter and Rating) were implemented, therefore, costs capitalized during the development phase will be amortized. The estimated amortization expense in 2022 is \$6.3 million.
- MSF employee staffing costs assigned to PBRI development were capitalized from 2017 to 2021 which lowered the expense ratio in those years. In the 2022 budget those staffing costs are included in company operational expenditures.
- MSF will not renew the “Aggregate Stop Loss” reinsurance coverage for 2022. This increases projected premium and operating expense categories for financial reporting purposes and that increases the 2022 expense ratio.

The following table compares the MSF operating expense ratio with the most recent data from [2021 Best’s Aggregates & Averages \(A.M. Best Company online benchmarking www.ambest.com\)](http://www.ambest.com) ratios for property and casualty insurance industry and other state funds.

Best’s 2020 Total US PC Industry (1,109 P&C Organizations)	Best’s 2020 Work Comp Composite (263 Organizations)	Best’s 2020 Total US PC State Funds – (24 Organizations)	MSF 2020 Actuals	MSF 2021 Projection	MSF 2022 Budget
38.7%	43.1%	43.7%	31.2%	31.1%	42.7%

IV. Benefit Payments

The 2022 budget for claim benefit payments is \$111.7 million and is based on the following assumptions.

- The addition of a new accident year’s claims to the estimate of payments on existing claims.
- The increasing wage growth experienced in 2021 is expected to continue through 2022 increasing indemnity benefits through 2022.
- Medical provider use, suppressed due to constraints of Covid-19, will increase to pre-pandemic utilization.
- Medical fee schedule revisions will be approved by the Department of Labor and Industry and become effective July 1, 2022.
- Mutually beneficial claim closure settlements will continue to be an integral part of MSF’s claim management process and settlement payments are expected to be comparable to the 2021 budget.

The table below displays the 2022 MSF and Other States Coverage (OSC) benefit payments separately as compared to the 2021 projection and 2020 actuals expenditure levels.

Benefit Payments	2022 Budget	2021 Projection	2020 Actuals	\$ Change 2022 from 2021	% Change 2022 from 2021
MSF	\$110,144,636	\$103,884,253	\$108,980,074	\$6,260,383	6.0%
OSC	1,604,927	1,426,819	1,795,819	178,108	12.5%
Total	\$111,749,563	\$105,311,072	\$110,775,893	\$6,438,491	6.1%

MSF expects 2022 claim benefit payments of \$111.7 million to increase by \$6.4 million or 6.1% as compared to the 2021 projection; however, this is but a slight increase of \$1.0 million or 0.9% in comparison to the 2020 actuals of \$110.8 million.

The MSF claim benefit payments, excluding OSC, will be summarized first. A separate comparison of OSC benefits will follow this section. The 2022 budget projects an increase in underlying cost drivers, namely, wage growth, fee schedule increases and claim settlements as compared to the 2021 budget, 2021 projection, and the 2020 and 2019 actuals.

MSF Claim Benefit Type	2022 Budget	2021 Budget	2021 Projection	2020 Actuals	2019 Actuals
Indemnity					
No Settlements	\$25,968,026	\$29,753,359	\$24,783,151	\$23,670,555	\$22,733,810
Settlements	12,557,644	7,743,486	11,653,761	13,643,279	9,686,708
Total Indemnity	\$38,525,670	\$37,496,845	\$36,436,912	\$37,313,834	\$32,420,518
Medical					
No Settlements	\$49,979,609	\$42,268,537	\$47,085,489	\$45,241,866	\$47,476,881
Settlements	21,639,357	26,831,536	20,361,852	26,424,375	19,717,613
Total Medical	\$71,618,966	\$69,100,073	\$67,447,341	\$71,666,241	\$67,194,494
Total Benefits	\$110,144,636	\$106,596,918	\$103,884,253	\$108,980,075	\$99,615,012

The table above excludes all OSC claim benefit payments and all allocated loss adjustment expense.

The 2022 benefit budget projects an increase in total with both indemnity and medical benefits increasing relative to 2021 budget and projection amounts.

- \$110,144,636 - 2022 budget for MSF claim benefit payments and is an:
 - ❖ Increase of \$3.5 million or 3.3% from the 2021 budget of \$106.6 million.
 - ❖ Increase of \$6.3 million or 6.0% from the 2021 projection of \$103.9 million.
- \$38,525,670 - 2022 budget for indemnity benefit payments is an:
 - ❖ Increase of \$1.0 million or 2.7% from the 2021 budget of \$37.5 million.
 - ❖ Increase of \$2.1 million or 5.7% from the 2021 projection of \$36.4 million.
- \$71,618,966 - 2022 budget for medical benefit payments is an:
 - ❖ Increase of \$2.5 million or 3.6% from the 2021 budget of \$69.1 million.
 - ❖ Increase of \$4.2 million or 6.2% from the 2021 projection of \$67.4 million.

The claim benefit payments associated with closure settlements are expected to increase from

the 2021 projected level and align more with the 2021 budget. The volatility in year-to-year claim settlement benefit payments is evident when looking at historical trends. In 2019 claim settlement payments were \$29.4 million and in 2020 they were \$40.1 million. The difference between 2019 and 2020 was primarily due to settlement of several few very high-cost claims.

Other States Coverage (OSC)

The OSC program provides 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 policyholders in other states.

OSC benefit payments are estimated to be \$1,604,927 and include:

- \$887,765 - Indemnity payments.
- \$717,163 - Medical payments.

The \$1.6 million 2022 budget for OSC is a:

- ❖ Decrease of \$67,220 or 4.0% from the 2021 budget of \$1,672,147.
- ❖ Increase of \$178,107 or 12.5% from the 2021 projection of \$1,426,820.

Operational expenditures budgeted for the OSC program are \$1.2 million and the total budget for OSC expenditures is \$2.8 million. OSC written premium is estimated to be \$2.8 million in 2022. 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 2022 budget, 2021 projection, 2020, and 2019 actuals.

OSC Program	2022 Budget	2021 Projection	2020 Actuals	2019 Actuals
Program management, fronting fees, letters of credit	\$379,964	\$494,172	\$277,147	\$501,524
Commissions	224,000	243,631	261,452	264,010
Premium Tax	126,000	119,443	120,583	166,620
ALAE	513,183	445,493	521,465	504,901
Operational Expenditures	\$1,243,147	\$1,302,739	\$1,180,647	\$1,437,054
Claim Benefit Payments	\$1,604,927	\$1,426,820	\$1,795,818	\$1,414,036
OSC Total Expenditures	\$2,848,074	\$2,729,559	\$2,976,466	\$2,851,091
OSC Written Premium	\$2,800,000	\$2,800,000	\$2,637,589	\$3,888,622

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	2022 Budget	2021 Budget	2021 Projection	2020 Actuals	2019 Actuals
FTEs	293.50	306.00	306.00	307.00	307.00
Positions	298	308	308	309	310
Personal Services	\$32,836,844	\$32,802,250	\$31,512,843	\$30,284,947	\$29,856,055
Operating Expenses and Transfers	27,416,959	28,807,706	25,170,816	24,274,438	26,914,148
Capital Expenditures	1,640,092	2,227,924	4,753,142	5,479,635	2,653,828
ALAE	3,630,006	3,609,042	3,274,985	3,340,444	3,800,805
Total MSF	\$65,523,901	\$67,446,922	\$64,711,786	\$63,379,464	\$63,224,836

a. MSF Staffing

MSF continually evaluates and re-aligns its staff to meet changing Montana workers' compensation market needs, stakeholder expectations, and ever-evolving work processes. Most MSF employees that were assigned to work on the PBRI project are now returning to their assigned teams. MSF management reviewed existing position vacancies, upcoming retirements, and anticipated workloads to ensure that staffing levels were appropriate. For the 2022 budget, there is a decrease of 12.50 FTEs that correlates to a reduction of 10 positions from 2021. All FTE/positions to be eliminated are from current unfilled positions and retirements.

MSF's Board approved 293.50 FTEs and 298 positions for with the 2022 budget. In 2022, MSF will have 290 positions that are 1.00 FTE each, six half-time (0.50 FTE) positions that comprise 3.00 FTEs, 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 and available for other departments use while transitioning new employees. For example, when an employee plans to retire a transition position can be used to temporarily double fill the position and train the new employee. The following table reflects MSF staffing by department at the beginning of each year.

MSF Department Staffing (FTEs)	2022 Budget	2021 Budget	2020 Budget
Corporate Support	31.50	35.00	36.00
Executive Offices	6.00	6.00	6.00
General Counsel	17.00	18.00	18.00
Human Resources	8.00	8.00	8.00
Information Technology (IT)	46.00	52.00	52.00
Operations	144.50	146.00	146.00
Operations Support	40.50	41.00	41.00
MSF Total	293.50	306.00	307.00

b. Personal Services – Salaries and Employee Taxes and Benefits

To support the 293.50 FTEs, the Board approved expenditures of \$32.8 million for the 2022 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, which is difficult to predict by department or function.

MSF continually reviews and revises compensation to enable retention of knowledgeable and skilled employees and attract qualified candidates in a competitive employment market. MSF will continue to use contracted IT consulting services through 2022 to support policy system transition and enhancements. The personal services budget noted below includes a comparison of the salaries, employee taxes and benefits, and vacancy savings categories back to 2020.

MSF Total Personal Services Budget	2022 Budget	2021 Budget	2021 Projection	2020 Actuals	\$ Change 2022 Budget from 2021 Budget	% Change 2022 Budget from 2021 Budget
Salaries	\$26,046,922	\$25,944,868	\$24,350,751	\$22,916,453	\$102,054	0.3%
Employee Taxes & Benefits	8,158,124	8,224,142	7,162,092	7,368,494	(66,016)	(0.8%)
Vacancy Savings	(1,368,202)	(1,366,760)	n/a	n/a	(1,442)	(0.1%)
Total Personal Services	\$32,836,844	\$32,802,250	\$31,512,843	\$30,284,947	\$34,594	0.1%

➤ **Salaries - \$26,046,922**

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:

- ❖ \$25,536,182 for base salaries are calculated on the hourly wage for all active employees as of September 26, 2021 with adjustments for known retirements, terminations, and promotions. Vacant position budgets were based on the compensation at mid-point for the position’s pay band, assuming 2,080 annual payroll hours for each FTE. Partial FTE salaries are prorated.
- ❖ \$790,433 for merit-based salary adjustments. Employee merit salary adjustments will be completed after the final 2021 performance reviews are finished. Based on market data, a 4.0% merit adjustment, effective March 12, 2022, was used for the 2022 budget.
- ❖ \$310,356 provides funding for leave balance payouts for eight expected retirements in 2021. This amount is for the salary portion of the leave balances.
- ❖ \$373,243 will fund the payment of excess leave and banked holiday hours as provided for in MSF’s Personal Leave Program guidelines. The excess leave payment is estimated to be \$360,711 and excess banked holiday time \$12,532. The 2022 estimate is based on review of recent excess leave and holiday hours balances which increased as a result of the demands of PBRI’s implementation and Covid-19. Employees worked from home and took less personal time during 2021. The program payout for 2022 is budgeted to be \$79,822 or 27.2% more than the \$293,421 paid in 2021.
- ❖ \$36,710 is to cover overtime costs for after hour computer system support, unplanned

facility maintenance, and additional workload during the policy renewal period.

➤ **Employee Taxes and Benefits - \$8,158,124**

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

❖ FICA/Medicare - \$1,921,232

The rate of 7.65% of applicable salary remains unchanged from 2021. An estimated FICA earnings cap of \$148,100 was budgeted to be effective January 1, 2022.

❖ Retirement (PERS) - \$2,349,358

The employer's contribution rate is 9.02% of applicable salary. The PERS contribution rate increased 0.1% from the 2021 rate per law, (19-3-16(2)b, MCA).

❖ Workers' Compensation Premium - \$103,905

This is MSF's workers' compensation policy premium payment and is expected to be an average rate of approximately 0.399% of applicable salary in 2022. The 2021 budgeted average rate was 0.435%.

❖ State Unemployment Tax (SUT) - \$65,117

MSF's employer contribution rate is 0.25% for SUT. This is an increase from the 0.15% SUT rate used in the 2021 budget. The Department of Labor and Industry reviews this rate annually and notifies of changes in May.

❖ Group Insurance - \$3,718,512

The 2022 annual employer contribution for group insurance is \$12,648 per eligible employee, which is set by the State and is the same amount as in 2020 and 2021.

➤ **Vacancy Savings – (\$1,368,202)**

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 \$27,416,959 is another grouping of expenses underneath the overall category of “Operational Expenditures” and includes the following categories and amounts:

Category	2022 Budget	2021 Budget	2021 Projection	2020 Actuals	\$ Change 2022 Budget from 2021 Budget	% Change 2022 Budget from 2021 Budget
Other Services	\$20,061,950	\$20,815,435	\$17,784,498	\$17,254,883	(\$753,485)	-3.6%
Supplies & Materials	692,679	776,508	954,345	1,044,818	(83,829)	-10.8%
Communications	1,330,244	1,514,617	1,462,042	1,433,105	(184,373)	-12.2%
Travel	314,401	253,399	62,188	34,472	61,002	24.1%
Rent	80,497	169,828	114,975	26,890	(89,331)	-52.6%
Utilities	208,990	224,869	191,868	198,222	(15,879)	-7.1%
Repair & Maintenance	1,841,316	2,608,874	2,567,483	2,213,356	(767,558)	-29.4%
Other Expenses	2,648,262	2,209,291	1,826,692	1,830,955	438,971	19.9%
Transfers	238,620	234,885	206,725	237,737	3,735	1.6%
Total Operating Expenses and Transfers	\$27,416,959	\$28,807,706	\$25,170,816	\$24,274,438	(\$1,390,747)	-4.8%

➤ **Other Services** - \$20.1 million is budgeted for 2022. There are three primary areas that comprise \$17.0 million of the expenditures in this category: Agent commissions, other consulting and professional services, and IT consulting services.

❖ **Commissions - \$11,808,285** – This is an increase of \$1,112,144 or 10.4% from the 2021 budget of \$10,696,141 and an increase of \$1,291,087 or 12.3% from the 2021 projection of \$10,517,198. Base commissions will be paid differently as agent represented policies renew in the new PolicyCenter system in 2022. In the legacy policy system agent commissions are paid when premium is collected. In PolicyCenter agent commissions will be paid when the policy is effective based on estimated premium. This will result in a temporary acceleration of commission payments expected to last from March 1, 2022 through February 28, 2023. The 2022 impact of this acceleration of base commission is \$1,072,370.

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 - \$9,749,535
It is estimated \$127.3 million in premium collections and renewal premiums on agent-represented business will be recorded in 2022. The average base commission rate on these policies is estimated to be 7.66%.
- Incentive Commissions - \$1,834,750
Incentive commissions are established to provide a payment to agents for meeting profitability, retention, and new business goals for the MSF business they represent.
- OSC Commissions - \$224,000
Commissions associated with OSC policies are based on the total 2022 premium estimate of \$2.8 million and an 8% commission rate.

❖ **Consulting and Professional Services - \$2,606,619** – This is a decrease of \$169,512 or 6.1% from the 2021 budget of \$2,776,131 and an increase of \$120,636 or 4.9% from the 2021 projection of \$2,485,983. The following table identifies the five largest budgeted expenditures, or 76.5% of the total, in this category.

2022 Budget	Department	Item / Description
\$644,069	Operations	NCCI membership and transaction-based charges
\$437,158	Executive	Consulting for creating and producing advertising products and campaigns
\$379,964	Operations	Other States Coverage program expenses
\$335,000	Executive	Independent external actuarial services
\$198,958	General Counsel	Department of Justice - Fraud Investigation and Prosecution Agreement

- **National Council on Compensation Insurance (NCCI)** – \$644,069 – MSF is required in statute, 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 2022 budget is \$131,666 or 17.0% less than the 2021 budget of \$775,735 due to pricing changes on membership fees and transaction-based charges. The 2022 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 2022 budget for the NCCI “Affiliation Licenses and Services” is \$311,319.
- ✓ 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 \$332,750.

- **Promotional Campaigns and Communications Development** - \$437,158 – This funding is for Partners Creative’s consulting time associated with creating advertising campaigns, producing advertising products, and photography. This expense category is separate from the cost of airtime or other media purchases.

The budget amount includes:

- ✓ \$156,729 – New statewide media campaign planning, production, talent acquisition, and shooting.
 - ✓ \$149,494 – New “Young Workers” campaign
 - ✓ \$48,450 – Creation of Work Comp 101 and Safety videos
 - ✓ \$82,485 – Other marketing services, such as Safemt.com website maintenance, sponsorships and tradeshow banners, educational materials, e-newsletter templates, and policyholder renewal packet updates.
- **Other States Coverage (OSC)** – \$379,964 – This is the portion of the OSC program expense budgeted as Consulting and Professional Services - see page 6 for total OSC program cost.
 - ✓ \$278,600 - Per the OSC contract with Zurich, MSF pays 9.95% of the estimated \$2.8 million written premium as fronting fees - the expense of writing policies.
 - ✓ \$101,364 - The fee to maintain a letter of credit as contractually required.
 - **Independent Actuary** - \$335,000 - The Board is required by statute to use the services of an independent actuary when estimating losses, surplus adequacy, and other areas of business. The actuarial services budgeted are:
 - ✓ \$293,000 for consulting on rate level, rate filing, loss development pattern, loss reserves, and policyholder equity.
 - ✓ \$42,000 for the Old Fund reserve analysis which is reimbursed to MSF through a non-budgeted General Fund transfer.
 - **Department of Justice (DOJ) Fraud Agreement** – \$198,958 – This budget funds fraud investigations and prosecution. The total DOJ estimated funding of \$397,916 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** - \$611,470 – Includes the following:
 - ✓ \$142,773 – Compensation consulting for guidance, surveys, and review.
 - ✓ \$120,000 – Contracts or other projects that arise as the year progresses and are deemed necessary and appropriate by the CEO.
 - ✓ \$111,800 – Board recruitment and selection for the MSF CEO/President position and related on-boarding costs.
 - ✓ \$110,000 – Producing, editing, and launching a mini-video series and updating the primer to educate and inform policyholders and other stakeholders about MSF.
 - ✓ \$45,072 – National fraud indexing service (ISO) to check new claims for prior fraudulent activities, Medicare “set aside” reporting, and fraud investigations.
 - ✓ \$32,000 – Architect and project management for construction and building improvements.

- ✓ \$24,000 - Contracted medical director for research, claim oversight, and training of MSF claim examiners, medical case managers, and external providers.
 - ✓ \$25,825 – Executive staff training, Board Member per diems, and occupational therapist evaluations.
- ❖ **IT Consulting and Professional Services** - \$2,540,326 – This is a decrease of \$2,325,226 or 47.8% from the 2021 budget of \$4,865,552 and an increase of \$40,095 or 1.6% from the 2021 projection of \$2,500,231.

The following table identifies the three primary drivers of the 2022 Budget. The expenditures are necessary to support both PHS, being phased out of service, and the new PBRI Guidewire applications and to complete Annual Business Plan initiatives.

2022 Budget	Project / Department	Item / Description
\$1,468,720	Information Technology	Support for implemented claims and policy management systems
\$559,695	Producer Portal Accelerator (IVANS)	Integration of agent partner solution with MSF systems
\$461,286	PBRI	IT services for the next phase of PBRI quality assurance, project management, and portal development

- **IT Department Professional Services Support** - \$1,468,720 is budgeted for Guidewire professional services. 2022 is a transition year where both the legacy policy system and new Guidewire applications will need to be supported. This budget is for staff augmentation services to ensure the Information Technology Department can support two production environments and provide timely resolution of production related issues. These services will also support completion of requested changes and enhancements for ClaimCenter and other systems during 2022.
- **Producer Portal Accelerator Project (IVANS) - IT Consulting Services** – \$559,695 is budgeted for technical consulting resources to assist with MSF’s integration with IVANS (Insurance Value Added Network Services). The IVANS solution will support receipt and issuance of policy documents and data to provide better online quote and policy issuance services to MSF agency partners.
- **PBRI Project - IT Consulting Services** - \$461,286 – PBRI is a multi-year and multi-phase project. The planned work for 2022 includes:
 - ✓ Decommissioning the legacy PHS application.
 - ✓ Successfully launch the Customer Connect and Partner Connect external portals, including training of agency partners.
 - ✓ Complete reporting for Organizational Change Management and Business Value Metrics.
 - ✓ Guidewire product certifications and training for MSF Information Technology staff.
- All other IT Consulting Services - \$50,625 – To support:
 - ✓ \$45,000 – Audio Visual system implementation in the Board meeting room and

- other conference rooms in the MSF building.
- ✓ \$5,625 – Technical support for financial reporting and budget solution updates and enhancements.

- ❖ **Services provided by the State Information Technology Services Division (SITSD) of the Department of Administration** - \$1,094,318 - This is an increase of \$64,077 or 6.2% from the 2021 Budget of \$1,030,241. 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:

- \$554,500 - Other Services
 - ✓ \$391,800 - Enterprise services,
 - ✓ \$84,408 - E-mail and voice services, and
 - ✓ \$78,292 – Server, equipment, and application hosting.
 - \$279,636 - Supplies and Materials – asset broker.
 - \$260,182 - Communications
 - ✓ \$240,432 - Network services, and
 - ✓ \$19,750 - Video, voice, and long-distance communication services.
- ❖ **Policyholder Payroll Audits** - \$728,140 - This is a decrease of \$14,945 or 2.0% from the 2021 budget of \$743,085. MSF will continue to use external vendors to augment MSF's premium audit staff and 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.
 - ❖ **Insurance and Bonds** - \$548,091 - This is an increase of \$5,506 or 1.0% from the 2021 budget of \$542,585. 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.
 - ❖ **Market Conduct Examination by the Commissioner of Securities and Insurance (CSI)** - \$500,000 - This is a new item in 2022. In 2021 CSI notified MSF that a market conduct exam will be performed in 2022. CSI is required by statute (33-1-401, MCA) to examine each authorized insurer not less frequently than every five years. CSI passes on the costs of the independent examiner fees to MSF. This is the first market conduct examination for MSF.
 - ❖ **Legal Fees and Court Costs** - \$229,100 - This is an increase of \$70,000 or 44.0% from the 2021 budget of \$159,100. The budget funds employers' liability coverage opinions and an increase in other legal service costs.
 - ❖ **Financial and Legislative Audits** - \$169,627 - This is a decrease of \$6,373 or 3.6% from the 2021 budget of \$176,000.
 - \$88,500 is for an independent accounting firm to audit the 2021 statutory financial statements.
 - \$81,127 is for the financial compliance audit performed by the Legislative Audit

Division (LAD) of the 2021 governmental financial statements.

- ❖ **Printing** - \$101,267 - This is a decrease of \$15,185 or 13.0% from the 2021 budget of \$116,452. This includes:
 - \$39,376 – “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.
 - \$61,891 – Various specific print (bar coding) and sized envelopes to function with MSF’s inserting, sorting, and postage equipment.
- ❖ **State Human Resources Information System (Payroll) Service Fee** - \$72,732 - This is an increase of \$2,381 or 3.4% from the 2021 budget of \$70,351. This will fund charges to MSF for services of the State’s Central Payroll and Human Resource module.
- ❖ **Consulting and Professional Services – Training** - \$69,344 – This is a decrease of \$39,130 or 36.1% from the 2021 budget of \$108,474. The budget funds training services for:
 - \$25,024 – FutureSync: Mosaic employee engagement training.
 - \$19,675 – LinkedIn Learning for companywide access to on demand training.
 - \$14,352 – “Executive Intelligence” and Board Member training.
 - \$10,293 – “Thought Patterns” facilitator training and “Blueprint”.
- ❖ **Warrant Writing** - \$39,508 - This is an increase of \$1,331 or 3.5% from the 2021 budget of \$38,177. Except for medical provider payments issued by contracted vendors, all other payments are issued through the State’s warrant writing system. The estimate is based on rates proposed by the State’s Warrant Writing Division and anticipated 2022 warrant volume.
- ❖ **SABHRS Administrative Costs** - \$35,903 - This is a decrease of \$18,267 or 33.7% from the 2021 budget of \$54,169. 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.
- ❖ **Temporary Services** - \$31,648 - This is an increase of \$24,048 or 316.4% from the 2021 budget of \$7,600.
 - \$29,648 - One temporary senior level claims examiner.
 - \$2,000 - Temporary staff to assist with workload during the renewal period.
- ❖ **Records Storage** – \$18,303 - This is a decrease of \$355 or 1.9% from the 2021 budget of \$18,658. 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** - \$29,300 - This is a decrease of \$700 or 2.3% from the 2021 budget of \$30,000. The budget provides for purchase of employee/team assessment materials and manuals used in training courses.

- ❖ **Gasoline** - \$33,516 - This is an increase of \$6,497 or 24.0% from the 2021 budget of \$27,019 and assumes that travel restrictions will lessen and use of MSF fleet vehicles will increase in 2022. The budget estimate was based on \$2.60 per gallon (MSF is exempt from gas tax) for gasoline with a fleet of 25 vehicles and an estimated average of 12,158 miles per vehicle.
- ❖ **Safety Supplies** - \$37,190 - This is a decrease of \$288 or 0.8% from the 2021 budget of \$37,478. 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** - \$31,550 - This is an increase of \$17,116 or 118.6% from the 2021 budget of \$14,434. The budget includes headsets, keyboards, and chairs.
- ❖ **General Office Supplies** - \$105,634 - This is a decrease of \$26,867 or 20.3% from the 2021 budget of \$132,501. This is for paper, toner, and a wide variety of minor office supplies.
- ❖ **Computer Hardware** - \$65,319 - This is an increase of \$12,708 or 24.2% from the 2021 budget of \$52,611. The budget will provide for wireless equipment (\$28,086) and softphone headsets (\$32,250). Additional items include laptops and networking components.
- ❖ **Non-Capitalized Software** - \$54,709 - This is a decrease of \$40,085 or 42.3% from the 2021 budget of \$94,794. This is for software that has a purchase price of less than \$100,000 and includes:
 - \$28,120 – “UPerform” training tool used with the PBRI project.
 - \$17,500 – Licenses to use “Control-M” for scheduling batch processes such as database backups, policy document generation, financial transactions, etc.
 - \$4,900 – Sovos software used to prepare and submit the annual statement and other filings to CSI.
 - \$4,189 - Medical auditing software, “Survey Monkey,” and software used to convert emails and attachments into a portable document format.
- ❖ **Promotional Aids** - \$40,689 – This is an increase of \$21,022 or 106.9% from the 2021 budget of \$19,667. The budget provides for a variety of small MSF branded items to be distributed at conferences, classes and stakeholder visits intended to enhance safety and brand awareness.
- **Communications**
 - ❖ **Postage** - \$362,256 - This is an increase of \$7,815 or 2.2% from the 2021 budget of \$354,441, which includes:
 - \$274,191 – State’s print and mail service fees which include a 3.2% postage rate increase and one specialty policyholder mailing associated with PBRI.
 - \$84,000 – Postage meter refills.
 - \$4,065 - All other – intra-agency mail service, package shipping, and stamps.

- ❖ **Advertising** - \$471,330 - This is a decrease of \$197,070 from the 2021 budget of \$668,400. This budget purchases media time and placement. In 2022, two different media campaigns are planned, one less than in 2021. The budget includes:
 - \$150,000 – Social media ad placement for the “Young Workers Perk” campaign in late spring 2022.
 - \$120,000 - Radio, print, banner, and social media ad placement for new statewide media campaign in fall 2022.
 - \$110,000 - Purchase TV/cable airtime for the two advertising campaigns to run in the spring and fall of 2022.
 - \$53,050 – Sponsorships with various safety and community organizations.
 - \$15,500 - Class of 2022 WorkSafe Champions Elite - professional film crew for alumni spotlight and advertising opportunity.
 - \$15,000 – Placement of ads using search engine marketing.
 - \$7,780 – Advertising with city chambers, associations, and underwriting and human resource publications.

- ❖ **All Non-SITSD Data and Telephone Categories** - \$236,476 - This is an overall decrease of \$8,239 or 3.4% from the 2021 budget of \$244,716. This expense covers cell phones, tablets, long-distance charges, language translation, and toll-free services. These expenses have stabilized from the prior year that was driven by the move into the remote work environment. The 2022 budget funds data and phone expenses expected in the hybrid and remote work environment. The budget includes cell phone and internet service reimbursements within MSF’s remote work policy guidelines. Data circuits and long-distance costs are increasing to support the remote work environment. The following table will show 2022 increases as compared to the 2021 Budget.

Category	2022 Budget	2021 Budget	\$ Change 2022 Budget from 2021 Budget	% Change 2022 Budget from 2021 Budget
Cell Phones	\$69,050	\$82,529	(\$13,479)	-16.3%
Internet Services	\$59,298	\$47,556	\$11,743	24.7%
Data Circuits	\$61,356	\$58,296	\$3,060	5.2%
Long Distance	\$46,772	\$56,335	(\$9,563)	17.0%

➤ **Travel**

- ❖ \$314,401 is the MSF travel budget - this is an increase of \$61,002 or 24.1% from the 2021 budget of \$253,399. MSF travel has been impacted by Covid-19 for the past two years. The 2022 budget assumes travel activity will return to pre-pandemic levels.

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 2022 budget supports:

- \$164,181 - In-state travel for business and training needs.
- \$80,924 - Out-of-state travel for business and training needs.

- \$14,122 - Travel for training and industry research associated with projects.
- \$55,174 - Travel for Board Members and agents classified as non-employee travel.

➤ **Rent**

- ❖ \$80,497 – This is a decrease of \$89,331 or 52.6% from the 2021 budget of \$169,828. The Rent category has undergone some significant changes since the 2020 budget cycle.
 - 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 22 of this report.
 - When employees were required to work from home in 2020 MSF initiated an employee stipend program to offset some of the home office expenses employees incurred. In 2021 a hybrid work approach was adopted and employees working remotely receive the stipend if they meet the policy criteria.

The 2022 Rent budget is comprised of obligations of less than one year, including:

- \$64,440 – Remote office stipends of \$40 per month for 134 employees who work remotely.
- \$8,793 - Photocopy machine charges.
- \$7,263 – Helena office space rented on a short-term arrangement as a back-up document processing center and a Kalispell storage rental for supplies and equipment.

➤ **Utilities**

- ❖ \$208,990 - This is a decrease of \$15,879 or 7.1% from the 2021 budget of \$224,869. This includes electricity, natural gas, water, and sewage services for the building.

➤ **Repairs and Maintenance**

- ❖ \$1,841,315 - This is a decrease of \$767,559 or 29.4% from the 2021 budget of \$2,608,874. The primary reason for the change is a re-classification of \$642,389 for Guidewire policy and billing software from “Maintenance” to a “Subscription” designation.
 - \$1,673,345 - IT Department maintenance agreements for application software and hardware such as servers, routers, and associated peripherals.
 - ✓ \$1,423,399 is software maintenance expense for applications such as IBM WebSphere, Oracle, Microsoft, Cincom, FileNet, SAP Data Integrator, Serena Team Track, and Dimensions.
 - ✓ \$249,946 is hardware and replacement parts from Cisco, IBM, and Xerox.
 - \$125,030 – Facilities building and grounds maintenance and repairs including: Heating, ventilation and air conditioning (HVAC), snow removal, exterior maintenance, window cleaning, elevator maintenance, fire system services, ballast lighting replacements, paper shredding services, generator maintenance, landscaping, and other items.
 - \$28,368 - Repairs and maintenance on the MSF fleet of 25 vehicles.
 - \$14,572 – Document Processing’s scanning machines and mailing equipment hardware and software maintenance contracts.

➤ **Other Expenses**

- ❖ **Dues** - \$89,108 - This is similar to the 2021 budget of \$89,196 and 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 (\$8,500), Leadership Montana (\$10,000), American Association of State Compensation Insurance Funds - AASCIF (\$10,000), Montana Society of CPAs, Montana Bar Association, Society for Human Resource Management, and other safety and insurance industry associations.

❖ **Subscriptions** - \$1,322,076 - This is an increase of \$400,593 or 43.5% from the 2021 budget of \$921,483. The primary change to the 2022 budget from the 2021 budget is the re-classification of \$642,389 for Guidewire software to “Subscription” from “Maintenance.” All other items combine for a net decrease from the 2021 budget. The subscriptions category includes cloud-based subscriptions to software and technical solutions:

- \$642,389 - Guidewire policy and billing system.
- \$160,080 - Clearwater Analytics for regulatory investment reporting.
- \$75,000 - Guidewire contract for claim analytics.
- \$74,456 - 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.
- \$64,015 - Human Resources recruiting subscriptions:
 - ✓ \$33,215 - LinkedIn recruitment tool for resume searching.
 - ✓ \$12,000 - Glass Door recruitment tool and professional social media platform.
 - ✓ \$9,600 - Career Builder online recruitment tool.
 - ✓ \$9,200 – Other on-line recruitment tools.
- \$52,007 – Tableau visual analytics platform and licenses.
- \$48,493 - Online access to Human Resource Management System (HRMS) for training, recruitment, and on-boarding.
- \$20,340 – Standard and Poor’s Global Market Intelligence.
- \$10,000 - PayScale compensation review work.
- \$8,550 - Gallup for human resource evaluations associated with training.
- \$8,050 - NAIC Automated Valuation System (AVS) that provides securities valuation data for Annual Statement Schedule D investment reporting.
- \$8,000 – ACORD standardized insurance forms used by the industry.
- \$7,386 - Lexis Nexis legal research.
- \$78,710 – Other subscriptions for industry research, legal time tracking, medical and occupational disability guides, DocuSign, and online access to reference materials.

❖ **Taxes and Assessments** - \$140,356 - This is a decrease of \$8,944 or 6.0% from the 2021 budget of \$149,300. The 2022 budget is comprised of:

- \$126,000 - OSC premium taxes paid for insuring MSF policyholder’s operations in other states where workers’ compensation premium taxes are assessed. For 2022, the OSC premiums are estimated to be \$2,800,000 and the taxes and surcharges are estimated to be 4.5%.
- \$8,200 – National Association of Insurance Commissioners (NAIC) and the State of Montana annual filing fees.
- \$6,056 – Property tax on 855 Front Street.
- \$100 – Annual General Fund transfer required per MCA 2-15-1019(11).

- ❖ **Education and Training and Professional Development Center (PDC)** - \$236,889 - This is an increase of \$53,434 or 29.1% from the 2021 budget of \$183,455. Training is necessary to ensure MSF employees are knowledgeable in best practices associated with leadership, supervision, claim management, safety management, and underwriting of risk. This is comprised of individual employee registration fees and group training sessions such as:
 - \$19,800 - Guidewire PolicyCenter and BillingCenter certifications.
 - \$18,750 – AASCIF registrations for volunteers to support the international conference to be held in Montana.
 - \$16,000 - MSF Foundations training.
 - \$12,000 - Gallup Q12 for all employees.
 - \$9,220 - Outward Leadership.
 - \$7,155 - Outward Mindset.
 - \$7,356 – Associate in Claims courses.
 - \$7,000 - Associate in General Insurance for fourteen employees.
 - \$139,608 for numerous other courses in industry specific areas, communication, software applications, teamwork, and leadership.

- ❖ **Rewards** - \$79,370 - This is a \$745 or 0.9% decrease from the 2021 budget of \$80,115. 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** - \$47,250 - This is a \$21,250 or 81.7% increase from the 2021 budget of \$26,000. For 2022, the maximum amount of annual tuition reimbursement per employee is \$5,250. Nine employees are expected to participate in the tuition reimbursement program in 2022.

- ❖ **Meetings and Conference Cost** - \$209,566 - This is a decrease of \$10,092 or 4.6% from the 2021 budget of \$219,658. 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** - \$79,450 - This is a decrease of \$33,700 or 29.8% from the 2021 budget of \$113,150. This budget includes candidate travel and new employee relocation costs. Online recruitment tools of \$64,015 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:

- \$60,000 - Relocation expenses for newly hired employees.
 - \$19,450 - Recruitment and candidate travel expenses.
- ❖ **Licenses** - \$19,719 - This is an increase of \$965 or 5.1% from the 2021 budget of \$18,754. This budget funds professional license expenses of attorneys, certified public accountants, claim examiners, pharmacy technicians, registered nurses, and others.
- ❖ **Bank Service Charges** - \$78,485 - This is an increase of \$32,667 or 71.3% from the 2021 budget of \$45,818. This budget funds the “Montana Interactive” electronic payment and credit card fees for online customer payments. There are transactional expenses and a \$1,250 per month fee. Use of online payments services by MSF customers continues to grow. Approximately \$38 million of MSF’s premiums were paid online in the last year.
- ❖ **Charitable Contributions / Scholarships** - \$205,900 - This is an increase of \$4,500 or 2.2% from the 2021 budget of \$201,400 and supports safety related award and grant distributions. Charitable contributions include:
- \$102,300 - Growing a Safer Montana project: Trade, industry, and OSHA scholarship awards (\$61,500), safety and health scholarship awards, and high school safety equipment grants (\$40,800).
 - \$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.
 - \$14,600 - 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 6 scholarships (2 semesters each) will be awarded in 2022 for a total budget of \$12,000. Each scholarship is estimated to be \$2,000 plus additional administrative fees and is based on prior year participation.
 - \$14,000 – Kids’ Chance Montana donations.
 - \$3,000 - Support of Intermountain Children’s Home Festival of Trees events.
- ❖ **Fee Collection Expense** - \$42,350 - This is an increase of \$7,070 or 20.0% from the 2021 budget of \$35,280. 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** - \$88,064 - This is an increase of \$8,254 or 10.3% from the 2021 budget of \$79,811. 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)** – \$238,620 – This is an increase of \$3,735 or 1.6% from the 2021 budget of \$234,885. 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 statute to pay the expense of these CSI positions.

The budget for the independent market conduct examination completed by CSI is noted on page 14.

d. Capital Expenditures

The total 2022 Budget for capital expenditures is \$1,640,092. This is a decrease of \$587,833 or 26.4% from the 2021 budget of \$2,227,924. 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** – \$807,301 – This budget is for:
 - ❖ \$585,858 – This budget is for PBRI producer and agent portal software development.
 - ❖ \$221,443 - This funding is for the Insurance Value Added Network Services (IVANS) software licensing and download fees for the Producer Portal Accelerator project.

- **Office Equipment** - \$425,076 – This budget amount includes:
 - ❖ \$378,885 - This will fund:
 - \$150,000 – Fire alarm system upgrade.
 - \$121,885 – Security system upgrade.
 - \$50,000 – Elevator drive upgrade.
 - \$50,000 – Multi-tenant planning of the building.
 - \$7,000 – Door entry system for lobby main entrance.
 - ❖ \$46,191 – Audio Visual system implementation in the Board room and other conference rooms in the MSF building.

- **Capital Leases** – \$407,715 is budgeted for the principal and interest of leases of the parking garage, field office space, and photocopiers. In 2019 and prior years, 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 2022 budget is distributed as follows:

- ❖ \$327,600 - Parking garage.
- ❖ \$40,712 - Field office space in Butte, Missoula, and Billings.
- ❖ \$39,402 - Multifunctional devices (printer/photocopy/fax machines).

e. Allocated Loss Adjustment Expense (ALAE)

ALAE, also known as Defense and Cost Containment Expense, is the specific cost of managing and adjusting a claim therefore it is allocated to a specific insurance claim. An example is an independent medical examination to analyze a prescribed treatment for an injured employee's claim.

\$3,630,007 is budgeted for these claim management and adjustment costs and is an increase of \$20,965 or 0.6% from the 2021 budget of \$3,609,042.

- \$1,301,652 – Medical Invoice Processing - The budget is an increase of \$12,492 or 1.0% from the 2021 Budget of \$1,289,160. The 2022 budget is 2.6% of the 2022 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.

- \$663,482 - Investigations - This is an increase of \$51,468 or 8.4% from the 2021 budget of \$612,015 and is based on utilization of services.
 - ❖ \$236,122 - Investigative Job Analysis - This provides for certified rehabilitation counselors to complete thorough and objective investigations of claims to determine MSF liability.
 - ❖ \$228,402 - Private investigations on claims related issues.
 - ❖ \$198,958 - Department of Justice (DOJ) service agreement budget for claim and provider investigations.

- \$534,536 - All legal expense categories - This is a decrease of \$87,146 or 14.0% from the 2021 budget of \$621,682.
 - ❖ \$414,628 - MSF legal contract for services of external counsel and expense of Medicare Set Asides.
 - ❖ \$61,986 – Other associated claimant attorney and legal costs.
 - ❖ \$51,556 - Employer’s liability insured defense costs.
 - ❖ \$6,366 - Photocopy and electronic copy expense.

- \$537,424 - Contract Examiners - This is a decrease of \$8,521 or 1.6% from the 2021 budget of \$545,946.
 - ❖ \$513,183 - Examiners and claim management services associated with OSC claims.
 - ❖ \$24,241 – Interpretation and delivery services.

- \$340,111 - Medical Consultants - This is a decrease of \$23,821 or 6.5% from the 2021 budget of \$363,932. 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.

- \$252,800 – Independent Medical Examination (IME) – The budget is an increase of \$76,493 or 43.3% from the 2021 budget of \$176,307. IMEs are done to analyze a prescribed treatment plan.

VI. Miscellaneous

a. Old Fund Administration

The 2022 budget includes \$540,000 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 2022 budget includes all known and expected costs for the fiscal period January 1 through December 31, 2022. 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.

c. Premium Estimate and Budget Amendments

The 2022 budget is prefaced on MSF's net earned premium projection of \$159.1 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 expenditures as compared to the approved budget. Management may request the Board's approval of an amendment to the annual budget if there were significant unanticipated increases in benefit payments or operational costs.