

**MONTANA STATE FUND  
2020 ANNUAL BUDGET  
(Effective for period of January 1, 2020 to December 31, 2020)**

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 2020 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 business plan initiatives, and effectively support business operations. The following defines the budget periods referenced in this report:

- **2020 Budget:** Amounts to fund the business requirements and approved projects for the January 1 through December 31, 2020 fiscal reporting period.
- **2019 Budget:** Amounts approved for calendar year 2019.
- **2019 Year-to-Date (YTD) Actuals:** Expenditure amounts recorded between January 1 and September 30, 2019.
- **2019 Projection:** Estimated full year amounts based on actual expenditures recorded through September 30, 2019.
- **2017 and 2018 Actuals:** Actual expenditures recorded for the year.

**I. Total Expenditures**

The total budget for 2020 expenditures is \$172,813,744. Claim benefit payments and operational expenditures are the two primary components of the budget.

The 2020 budget is compared below to the 2019 budget, 2019 projection, and the 2018 and 2017 actual expenditures. It includes the full-time equivalents (FTEs) and position counts for each of these periods.

|  | <b>2020<br/>Budget</b>      | <b>2019<br/>Budget</b>      | <b>2019<br/>Projection</b>  | <b>2018<br/>Actuals</b>     | <b>2017<br/>Actuals</b>     |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| FTEs   | 307.00                      | 307.00                      | 307.00                      | 307.00                      | 307.00                      |
| Positions                                      | 309                         | 310                         | 310                         | 310                         | 310                         |
| Claim Benefit Payments                         | \$102,565,431               | \$109,495,630               | \$103,367,187               | \$107,633,047               | \$121,895,636               |
| Operational Expenditures-<br>excludes projects | \$60,854,258                | \$58,120,648                | \$57,730,416                | \$69,794,997                | \$69,094,029                |
| ABP/ESPM Projects                              | <u>\$9,394,055</u>          | <u>\$10,185,696</u>         | <u>\$6,677,925</u>          | <u>\$10,161,335</u>         | <u>\$3,418,006</u>          |
| <b>Total MSF Expenditures</b>                  | <b><u>\$172,813,744</u></b> | <b><u>\$177,801,973</u></b> | <b><u>\$167,775,528</u></b> | <b><u>\$187,589,378</u></b> | <b><u>\$194,407,672</u></b> |

The total MSF 2020 budget of \$172.8 million is a decrease of \$5.0 million or 2.8% from the approved 2019 budget of \$177.8 million; however, it is a \$5.0 million or a 3.0% increase from the 2019 projected expenditures of \$167.8 million.

- The 2017 and 2018 actual operational expenditures included \$14.7 million and \$13.6 million respectively, for the transfers to the State’s fire suppression account. The transfers were required by SB-4 of the 2017 Special Legislative Session. The law contained a sunset provision; no similar transfers are included in 2019 or 2020 expenditure amounts.
- **Claim benefit payments** of \$102.6 million to injured employees are 59.3% of the total budget. Benefit payments include all expected funding required to pay existing and anticipated injured employee claims for indemnity and medical related benefits. The 2020 budget is a:
  - ❖ \$6.9 million or 6.3% decrease as compared to the 2019 budget.
  - ❖ \$801,756 or 0.8% decrease as compared to the 2019 projection.

Claim benefit payments are expected to decrease from the 2019 budget amount and trend minimally lower in 2020 as compared to the 2019 projection.

- **Operational expenditures** include all projects, staffing, overhead, and other costs needed to support MSF business operations. The total Operational Expenditure budget of \$70.3 million equates to 40.7% of the total budget; this is a:
  - ❖ \$2.0 million or 2.9% increase as compared to the 2019 budget.
  - ❖ \$5.9 million or 9.1% increase compared to the 2019 projection.

The primary operational expenditures areas include:

- ❖ \$31.5 million in personal services to fund the salary, tax and employee benefit costs for 307.00 FTEs.
- ❖ \$10.8 million for agent commission payments.

- ❖ \$9.4 million for total 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.
- ❖ \$3.8 million for allocated loss adjustment expense.

Specific operational expenditures for the projects are explained in the corresponding areas in this report. The following provides a summary of the total budget for each project. The most significant change is in the PBRI project budget, which is \$6.9 million for 2020, a \$1.4 million decrease from the 2019 budget of \$8.3 million. The 2020 ABP includes project objectives and success measures.

| <b><u>Annual Business Plan Projects</u></b>      | <b><u>2020 Budget</u></b> |
|--|---------------------------|
| Policy and Billing Replacement Initiative (PBRI) | \$6,947,858               |
| Growing a Safer Montana                          | 100,948                   |
| WorkSafe Champions                               | <u>79,105</u>             |
| <b>Total ABP Projects</b>                        | <b>\$7,127,911</b>        |
| <br>   |                           |
| <b><u>ESPM Projects</u></b>                      |                           |
| Producer Portal Accelerator                      | \$1,263,920               |
| Data Discovery                                   | 939,000                   |
| Provider Partnership                             | <u>63,224</u>             |
| <b>Total ESPM Projects</b>                       | <b>\$2,266,144</b>        |
| <br>   |                           |
| <b>Total All Projects</b>                        | <b><u>\$9,394,055</u></b> |

## **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 2020, MSF is projecting net earned premium of \$149,068,520 which is \$6.7 million or 4.3% decrease from the 2019 projection of \$155,746,192.

The net earned premium estimate assumes:

- Approximately 23,600 active policies.
- Premiums for current policies reflect the 8.6% rate decrease effective as of July 1, 2019. For 2020 planning purposes, no rate change has been assumed for policy periods effective after July 1, 2020.
- Wage growth of 3.0%.
- Premium retention rate at 91.7%.
- Other States Coverage (OSC) premium of \$3.63 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 and transfers) are \$70.3 million for the budget, and statutory operating expenses are \$58.1 million. The adjustments and calculations of the expense ratio are shown on Attachment D.

The statutory operating expense is divided by net earned premium of \$149.1 million to determine the 2020 estimated expense ratio of 39.0%.

The following table displays the statutory operating expenses, net earned premiums and the 2020 expense ratio with comparison to previous periods.

| Montana State Fund                       | 2020 Budget   | 2019 Budget   | 2019 Projection | 2018 Actuals  | 2017 Actuals  |
|--|---------------|---------------|-----------------|---------------|---------------|
| Statutory Operating Expense              | \$58,151,324  | \$53,295,190  | \$53,746,497    | \$63,888,181  | \$60,139,954  |
| Net Earned Premiums                      | \$149,068,520 | \$151,126,087 | \$155,746,192   | \$161,258,974 | \$166,767,685 |
| <b>Statutory Operating Expense Ratio</b> | <b>39.0%</b>  | <b>35.3%</b>  | <b>34.5%</b>    | <b>39.6%</b>  | <b>36.1%</b>  |

The following table compares the MSF operating expense ratio with the most recent data from 2019 Best’s Aggregates & Averages ratios for property and casualty insurance industry and other state funds.

| Best’s 2018 Total US PC Industry (1,131 P&C Organizations) | Best’s 2018 Work Comp Composite (268 Organizations) | Best’s 2018 Total US PC State Funds – (24 Organizations) | MSF 2018 Actuals | MSF 2019 Projection | MSF 2020 Budget |
|--|---|--|------------------|---------------------|-----------------|
| <b>38.8%</b>   | <b>39.1%</b>  | <b>38.5%</b>   | <b>39.6%</b>     | <b>34.5%</b>        | <b>39.0%</b>    |

#### **IV. Benefit Payments**

The 2020 budget for claim benefit payments is \$102.6 million with the expectation that these payments will remain stable as compared to the 2019 projection of \$103.4 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 to trend minimally lower from the 2019 projection.
- Medical claim payments, excluding medical settlements, trending flat compared to 2019 projection.
- Medical settlements increasing minimally from the 2019 projection.

MSF expects claim benefit payments to minimally decline as compared to the 2019 projection. However, the 2020 budget reflects a more significant decrease when compared to the 2019 budget and the 2017 and 2018 actuals. The following displays a summary of claim benefit types

with their 2020 budget amounts along with comparisons of the 2019 budget, 2019 projection, and the 2018 and 2017 actuals.

| <b>Claim Benefit Type</b> | <b>2020 Budget</b>   | <b>2019 Budget</b>   | <b>2019 Projection</b> | <b>2018 Actuals</b>  | <b>2017 Actuals</b>  |
|---------------------------|----------------------|----------------------|------------------------|----------------------|----------------------|
| Indemnity                 | \$32,002,989         | \$34,025,232         | \$32,157,488           | \$33,730,228         | \$36,458,766         |
| Medical – No Settlements  | 47,636,217           | 53,602,507           | 48,336,396             | 51,528,707           | 51,566,245           |
| Medical Settlements       | 21,104,076           | 19,931,183           | 21,426,703             | 20,443,854           | 32,156,585           |
| All OSC Benefits          | 1,822,149            | 1,936,708            | 1,446,600              | 1,930,257            | 1,714,040            |
| <b>Total</b>              | <b>\$102,565,431</b> | <b>\$109,495,630</b> | <b>\$103,367,187</b>   | <b>\$107,633,047</b> | <b>\$121,895,636</b> |

- \$32,002,989 - 2020 budget for indemnity benefit payments is a:
  - ❖ Decrease of \$2.0 million or 5.9% from the 2019 budget of \$34.0 million
  - ❖ Decrease of \$154,499 or 0.5% from the 2019 projection of \$32.2 million
  
- \$47,636,217 - 2020 budget for medical benefit payments, excluding medical settlements, is a:
  - ❖ Decrease of \$6.0 million or 11.1% from the 2019 budget of \$53.6 million
  - ❖ Decrease of \$700,178 or 1.4% from the 2019 projection of \$48.3 million
  
- \$21,104,076 - 2020 budget for medical settlements is an:
  - ❖ Increase of \$1.2 million or 5.9% from the 2019 budget of \$19.9 million
  - ❖ Decrease of \$322,627 or 1.5% from the 2019 projection of \$21.4 million
  
- \$1,822,149 - 2020 budget for OSC is a:
  - ❖ Decrease of \$114,559 or 5.9% from the 2019 budget of \$1.9 million
  - ❖ Increase of \$375,549 or 26.0% from the 2019 projection of \$1.4 million

The next table displays 2020 MSF and Other States Coverage (OSC) benefit payments separately as compared to the 2019 projection and 2018 actuals expenditure levels.

| <b>Benefit Payments</b> | <b>2020 Budget</b>   | <b>2019 Projection</b> | <b>2018 Actuals</b>  | <b>\$ Change 2020 from 2019</b> | <b>% Change 2020 from 2019</b> |
|-------------------------|----------------------|------------------------|----------------------|---------------------------------|--------------------------------|
| MSF                     | \$100,743,282        | \$101,920,586          | \$105,702,790        | (\$1,177,304)                   | -1.2%                          |
| OSC                     | 1,822,149            | 1,446,600              | 1,930,257            | 375,549                         | 26.0%                          |
| <b>Total</b>            | <b>\$102,565,431</b> | <b>\$103,367,187</b>   | <b>\$107,633,047</b> | <b>(\$801,756)</b>              | <b>-0.8%</b>                   |

#### **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 \$1,822,149 and include:

- \$921,466 - Indemnity payments
- \$900,683 - Medical payments

Operational expenditures budgeted for the OSC program are \$1.4 million and the total budget for OSC expenditures is \$3.2 million. OSC written premium is estimated to be \$3.6 million in 2020.

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 2020 budget, 2019 projection, 2018 and 2017 actuals.

| <b>OSC Program</b>                                   | <b>2020<br/>Budget</b> | <b>2019<br/>Projection</b> | <b>2018<br/>Actuals</b> | <b>2017<br/>Actuals</b> |
|--|------------------------|----------------------------|-------------------------|-------------------------|
| Program management, fronting fees, letters of credit | \$453,161              | \$447,199                  | \$351,633               | \$383,210               |
| Commissions  | 290,400                | 266,116                    | 209,249                 | 249,927                 |
| Premium Tax  | 163,350                | 179,971                    | 116,348                 | 130,055                 |
| ALAE   | 445,848                | 539,081                    | 534,119                 | 357,577                 |
| <b>Operational Expenditures</b>                      | <b>\$1,352,758</b>     | <b>\$1,432,367</b>         | <b>\$1,211,350</b>      | <b>\$1,120,768</b>      |
| Claim Benefit Payments                               | \$1,822,149            | \$1,446,600                | \$1,930,257             | \$1,714,040             |
| <b>OSC Total Expenditures</b>                        | <b>\$3,174,907</b>     | <b>\$2,878,967</b>         | <b>\$3,141,607</b>      | <b>\$2,834,808</b>      |
| <b>OSC Written Premium</b>                           | <b>\$3,630,000</b>     | <b>\$3,300,000</b>         | <b>\$2,787,418</b>      | <b>\$3,074,440</b>      |

#### **V. Operational Expenditures**

Operational expenditures include staffing, operating expenses, transfers, capital expenditures, allocated loss adjustment expense (ALAE), defense and cost containment (D&CC), and adjusting and other (A&O). The following table provides a summary of the operational expenditures, including the number of FTEs (full-time equivalents) and positions.

| <b>Operational Expenditures</b>  | <b>2020<br/>Budget</b> | <b>2019<br/>Budget</b> | <b>2019<br/>Projection</b> | <b>2018<br/>Actuals</b> | <b>2017<br/>Actuals</b> |
|----------------------------------|------------------------|------------------------|----------------------------|-------------------------|-------------------------|
| FTEs                             | 307.00                 | 307.00                 | 307.00                     | 307.00                  | 307.00                  |
| Positions                        | 309                    | 310                    | 310                        | 310                     | 310                     |
| Personal Services                | \$31,437,518           | \$30,939,738           | \$30,114,173               | \$29,110,774            | \$28,803,613            |
| Operating Expenses and Transfers | 31,799,635             | 29,441,222             | 27,839,078                 | 41,129,262              | 39,097,507              |
| Capital Expenditures             | 3,174,108              | 4,215,522              | 2,491,483                  | 6,170,806               | 1,417,864               |
| ALAE/A&O/D&CC                    | 3,837,052              | 3,709,861              | 3,963,607                  | 3,545,490               | 3,193,052               |
| <b>Total MSF</b>                 | <b>\$70,248,313</b>    | <b>\$68,306,343</b>    | <b>\$64,408,341</b>        | <b>\$79,956,332</b>     | <b>\$72,512,036</b>     |

#### **a. MSF Staffing**

MSF continually evaluates and re-aligns its staff to meet the changing market needs and expectations and work processes. MSF will have 307.00 FTEs (full-time equivalents) for 2020, which has not changed since 2017. The 2020 position count is 309 and is one less than 2019 due to merging two half-time positions (0.50 FTE each) into one full time position. In 2020, MSF will have 306 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.

| <b>MSF Department Staffing (FTEs)</b> | <b>2020 Budget</b> | <b>2019 Budget</b> | <b>2018 Budget</b> |
|---------------------------------------|--------------------|--------------------|--------------------|
| Corporate Support                     | 36.00              | 35.00              | 35.00              |
| Executive Offices                     | 6.00               | 6.00               | 6.00               |
| General Counsel                       | 18.00              | 18.00              | 17.00              |
| Human Resources                       | 8.00               | 9.00               | 9.00               |
| Information Technology (IT)           | 52.00              | 52.00              | 53.00              |
| Operations                            | 146.00             | 146.00             | 146.00             |
| Operations Support                    | 41.00              | 41.00              | 41.00              |
| <b>MSF Total</b>                      | <b>307.00</b>      | <b>307.00</b>      | <b>307.00</b>      |

For the 2020 budget, there is one change to staffing from 2019. A vacant Human Resources training position was re-assigned to a new actuarial analyst position to allow for succession management and cross training in the Corporate Support Department.

During the PBRI implementation phase, 27 MSF employees are assigned to work on the project. The IT Department and the PBRI budgets include the consulting services funding to hire temporary staff to backfill and cover MSF employees' regular duties.

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

To support the necessary staff of 307.00 FTE, MSF has budget of \$31.4 million for the 2020 personal services category. A vacancy savings factor of 3.0% was applied to the personal services budget, which is an aggregate reduction recognizing employee turnover that creates position vacancies.

There has been ongoing difficulty in filling certain technical positions; therefore, MSF plans to use contracted IT consulting services to backfill software engineer positions for the majority of 2020. As a result, personal services categories were reduced in the IT Department budget by \$851,949. The reduction is included in the salaries, employee taxes and benefits, and vacancy savings categories below.

| <b>MSF Total Personal Services Budget</b> | <b>2020 Budget</b>  | <b>2019 Budget</b>  | <b>2019 Projection</b> | <b>2018 Actuals</b> | <b>\$ Change 2020 Budget from 2019 Budget</b> | <b>% Change 2020 Budget from 2019 Budget</b> |
|---|---------------------|---------------------|------------------------|---------------------|---|--|
| Salaries                                  | \$24,483,776        | \$23,912,993        | \$22,699,693           | \$22,248,980        | \$570,783                                     | 2.4%   |
| Employee Taxes & Benefits                 | 7,931,657           | 7,974,209           | 7,414,481              | 6,861,794           | (42,552)                                      | -0.5%  |
| Vacancy Savings                           | (977,915)           | (947,463)           | n/a                    | n/a                 | (30,452)                                      | 3.2%   |
| <b>Total Personal Services</b>            | <b>\$31,437,518</b> | <b>\$30,939,739</b> | <b>\$30,114,174</b>    | <b>\$29,110,774</b> | <b>\$497,779</b>                              | <b>1.6%</b>                                  |

The 2020 personal services budget increase is \$497,779 or 1.6% from the 2019 budget. Salaries increased by 2.4%, employee taxes and benefits decrease by 0.5%, and the vacancy savings offset increased by 3.2%.

➤ **Salaries** - \$24,483,776

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:

- ❖ \$23,261,268 for base salaries (no employee taxes or benefits) are calculated on the hourly wage for all active employees as of August 20, 2019. Vacant position budgets were based on the compensation at mid-point for the position's pay band, assuming 2,096 annual payroll hours for each full FTE. Partial FTE salaries are prorated.
- ❖ \$645,701 for merit-based salary adjustments (no employee taxes or benefits). The merit salary adjustments for employees will be distributed after the final 2019 performance reviews are complete. For the 2020 budget a merit adjustment of 3.5% is planned to be effective March 14, 2020.
- ❖ \$321,162 provides funding for leave balance payouts for 15 expected retirements in 2020. 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.
- ❖ \$201,678 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 2020 estimate is based on 2019 payments and review of recent excess leave balances.
- ❖ \$33,408 are to cover overtime costs for staff to support computer systems after hours, unplanned facility maintenance, and additional workload during the policy renewal period.
- ❖ \$20,559 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 2020 estimate is based on 2019 payments made and review of recent excess banked holiday balances.

➤ **Employee Taxes and Benefits - \$7,931,657**

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 - \$1,816,794

The rate of 7.65% of applicable salary remains unchanged from 2019. An estimated FICA earnings cap of \$136,800 was budgeted to be effective January 1, 2020.

❖ Retirement (PERS) - \$2,144,033

The employer's contribution rate is 8.82% of applicable salary. The PERS contribution rate increased 0.1% from the 2019 rate per law, 19-3-16(2)b, MCA.

❖ Workers' Compensation Premium - \$109,229

This is MSF's premium payment and is expected to be an average rate of approximately 0.443% of applicable salary in 2020. The 2019 budgeted average rate was 0.52%.

❖ State Unemployment Tax (SUT) - \$36,676

MSF's employer contribution rate is 0.15% for SUT. This rate is annually reviewed at the Department of Labor and Industry (DoLI) and could be adjusted in May.

❖ Group Insurance - \$3,824,925

The 2020 annual employer contribution for group insurance is \$12,648 per eligible employee, which is set by the State and is the same as in 2019.

➤ **Vacancy Savings – (\$977,915)**

The vacancy savings is an overall reduction of 3% 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.

There are items budgeted to personal services on which no vacancy savings reduction is applied. These items include retirement payouts, personal leave program payouts, overtime, and, excess leave balance payouts.

**c. Operating Expenses and Transfers**

The Operating Expenses and Transfers budget of \$31,799,635 is another grouping of expenses underneath the overall category of 'Operational Expenditures' and includes the following categories and amounts.

| Category                                      | 2020 Budget         | 2019 Budget         | 2019 Projection     | 2018 Actuals        | Dollar Change 2020 Budget from 2019 Budget | Percent Change 2020 Budget from 2019 Budget |
|---|---------------------|---------------------|---------------------|---------------------|--|---|
| Other Services                                | \$23,649,550        | \$21,655,977        | \$20,521,523        | \$20,042,762        | \$1,993,573                                | 9.2%  |
| Supplies & Materials                          | 970,007             | 936,603             | 846,173             | 1,735,601           | 33,404                                     | 3.6%  |
| Communications                                | 1,477,505           | 1,259,752           | 1,188,816           | 1,132,388           | 217,753                                    | 17.3%                                       |
| Travel  | 369,124             | 339,690             | 248,010             | 256,949             | 29,435                                     | 8.7%  |
| Rent  | 45,006              | 446,555             | 425,234             | 404,898             | (401,549)                                  | -89.9%                                      |
| Utilities                                     | 224,319             | 223,768             | 212,455             | 211,652             | 551  | 0.2%  |
| Repair & Maintenance                          | 2,371,394           | 2,312,049           | 2,311,177           | 2,061,961           | 59,345                                     | 2.6%  |
| Other Expenses                                | 2,468,123           | 2,051,018           | 1,904,107           | 15,060,043          | 417,105                                    | 20.3%                                       |
| Transfers                                     | 224,606             | 215,811             | 181,584             | 223,008             | 8,795                                      | 4.1%  |
| <b>Total Operating Expenses and Transfers</b> | <b>\$31,799,635</b> | <b>\$29,441,222</b> | <b>\$27,839,078</b> | <b>\$41,129,262</b> | <b>\$2,358,413</b>                         | <b>8.0%</b>                                 |

➤ **Other Services** - \$23.6 million is budgeted for 2020. There are three primary areas of expenditures in this category: Agent commissions, IT consulting and professional services, and other consulting services.

❖ **Commissions** - \$10,840,064 – This is a decrease of \$234,807 or 2.1% from the 2019 budget of \$11,074,871 and a decrease of \$380,176 or 3.4% from the 2019 projection of \$11,220,240. Commissionable premium has declined due to rate decreases that occurred over those same years.

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

- Base Commissions - \$8,492,992:  
Premium collected on an agent-represented policy initiates a base commission payment. MSF estimates \$111.6 million in premium payments on agent-represented business will be recorded in 2020. The average base commission rate on these policies is estimated to be 7.61%.
- Incentive Commissions - \$2,056,672:  
Incentive commissions are established to provide a payment to agents for

profitability and retention of MSF policyholder business they represent. The program’s general incentive commission rate is 1.5%.

- Other States Coverage (OSC) Commissions - \$290,400: Commissions associated with OSC policies are based on the total 2020 revenue estimate of \$3.63 million and an 8% commission rate.

❖ **IT Consulting and Professional Services - \$7,776,930** – This is an increase of \$2,389,679 or 44.4% from the 2019 budget of \$5,387,251 and an increase of \$3,303,645 or 73.9% from the 2019 projection of \$4,473,286.

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.

| 2020 Budget | Project / Department        | Item / Description   |
|-------------|-----------------------------|--|
| \$3,729,741 | PBRI                        | IT services for quality assurance, project management and support, scope change, and ‘backfill’ of MSF staff |
| \$1,996,800 | Information Technology      | ‘Backfill’ of IT staff vacancies   |
| \$1,015,089 | Producer Portal Accelerator | Develop online policy quote tool   |
| \$859,000   | Data Discovery              | IT services to fill four project roles   |

- **PBRI Project - IT Consulting Services - \$3,729,741** – 2020 will be the fourth year of this initiative and consulting services are 53.7% of the total \$6.9 million PBRI project budget.

During 2020 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.

- ✓ \$2,003,017 – Cognizant resources to backfill roles of MSF staff implementing new system – the 2019 budget was \$1,741,504
- ✓ \$984,000 - Sabot business analyst and project management support – the 2019 budget was \$1,059,000
- ✓ \$420,674 – Guidewire consultants working with the project team – the 2019 budget was \$171,804
- ✓ \$214,400 – Cognizant quality assurance and business analytics support – the 2019 budget was \$200,000
- ✓ \$65,000 – Cincom Eloquence consulting – same as the 2019 budget
- ✓ \$42,350 – backfill for an MSF employee assigned to the project.

- **IT Department staff backfill strategy** - \$1,996,800 is budgeted to hire consultants to backfill for eight vacant IT Department positions. Recruitment for these internal positions has been challenging over the past couple of years and MSF does not expect a near-term resolution. The consultants will support the current environment with maintenance on existing applications including Guidewire, Java, Tableau,

Cincom Eloquence, Claim Center, and Insurance Intelligence.

These backfill consulting services are in addition to \$246,438 in personal services budgeted in the IT Department to cover staffing later in the year. MSF plans to continue recruitment efforts and will use these personal service funds when a position is filled. This will allow for a transition period with the new staff and the consultant, thereby enabling knowledge transfer and a seamless transition.

- **Producer Portal Accelerator Project - IT Consulting Services – \$1,015,089** – The budget provides for two developers working for six months 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.
- **Data Discovery Project - IT Consulting Services - \$859,000** – This is to provide services toward building data pipelines, models, algorithms, and dashboards. There are five support roles required.
  - ✓ \$249,600 – Data architect and engineer
  - ✓ \$291,200 – Senior Tableau developer
  - ✓ \$79,694 – Data scientist
  - ✓ \$218,506 – Workers’ compensation subject matter expert
  - ✓ \$20,000 – Peer review physician
- **Cloud Infrastructure Pilot - \$115,000** – This is the first step in achieving the future state vision with MSF infrastructure. This pilot will initiate the development and understanding of moving core data from on premises to a cloud environment that is Federal Risk and Authorization Management Program (FedRAMP) certified. This budget will fund the implementation of hybrid on-premise/cloud infrastructure providing flexibility and availability for access to systems becoming more prevalent in the cloud each year.
- **All other IT Consulting Services - \$61,300** – To support miscellaneous business applications and technical services.
- ❖ **Consulting and Professional Services - \$2,415,082** – This is a decrease of \$271,833 or 10.1% from the 2019 budget of \$2,686,915 and a decrease of \$177,414 or 6.8% from the 2019 projection of \$2,592,496. The table identifies the five largest amounts, or 81.5% of the total, in this category:

| 2020 Budget | Department      | Item / Description   |
|-------------|-----------------|--|
| \$785,599   | Operations      | NCCI membership and transaction-based charges                            |
| \$453,161   | Operations      | Other States Coverage program expense                                    |
| \$320,000   | Executive       | Independent external actuarial services                                  |
| \$209,251   | Executive       | Consulting for creating and producing advertising products and campaigns |
| \$200,133   | General Counsel | Department of Justice - Fraud Investigation and Prosecution Agreement    |

- **National Council on Compensation Insurance (NCCI)** – \$785,599 – 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 2020 budget is \$65,345 or 7.7% less than the 2019 budget of \$850,944 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 2018 net direct written premium used to calculate the membership fee was \$165,446,828. Total 2020 budget for the NCCI 'Affiliation Licenses and Services' is \$423,099.
  - ✓ 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 2019 budget.
- **Other States Coverage (OSC)** – \$453,161 – This is the portion of the OSC program expense budgeted as Consulting and Professional Services - see page 6 for total OSC program cost.
    - ✓ \$361,185 - Per the OSC contract with Zurich, MSF pays 9.95% of the written premium as fronting fees; the expense of writing policies.
    - ✓ \$91,976 - The fee to maintain a letter of credit as contractually required.
  - **Independent Actuary** - \$320,000 - The Board is required by law to use the services of an independent actuary when estimating losses, surplus adequacy, and other areas of business. This budget will fund actuarial services to consult on rate level, rate filing, loss cost multipliers, loss reserves, and policyholder equity. \$280,000 is for MSF services and \$40,000 is for the reserve analysis of the Old Fund. The 2019 budget included \$290,00 for MSF and \$35,000 for the Old Fund.
  - **Promotional Campaigns and Communications Development** - \$209,251 – Most of 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:

- ✓ \$65,760 – Redesign, maintenance, and domain hosting of Safemt.com.
  - ✓ \$42,500 – Creative concepting of web landing pages and social media for 'Young Workers' and 'Signs of Safety' campaigns.
  - ✓ \$28,000 – YouTube educational safety video productions.
  - ✓ \$72,991 – 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 – \$200,133** – This budget funds fraud investigations and prosecution. The total DoJ estimated funding of \$400,267 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** - \$446,938 – Includes the following:
  - ✓ \$120,000 – Contracts or other projects that arise as the year progresses and are deemed necessary and appropriate by the President
  - ✓ \$102,625 – Compensation consulting, surveys, and succession planning
  - ✓ \$80,000 – External recruitment services
  - ✓ \$50,988 – National fraud indexing service (ISO) to check new claims for prior fraudulent activities, Medicare Set Aside reporting, and fraud investigations
  - ✓ \$48,000 - Contracted medical director for research and training of MSF claim examiners, medical case managers, and MSF external providers
  - ✓ \$25,000 – Architect and project management for construction and building improvements
  - ✓ \$20,325 – Executive staff training, redesign of the legislative primer document, NCCI inspections, Board member per diems, and occupational therapist evaluations.

❖ **Policyholder Payroll Audits** - \$799,006 - This is a decrease of \$5,989 from the 2019 budget of \$804,995. MSF plans to continue using external audit services to perform policyholder payroll audits. These audits may be conducted in the field or as a telephone audit. Payroll audits are a significant means to verify payrolls and ensure appropriate classifications are used, as well as creating additional opportunities to educate policyholders on payroll reporting.

❖ **Services provided by the State Information Technology Services Division (SITSD) of the Department of Administration** - \$765,311 - This is an increase of \$34,885 or 4.8% from the 2019 Budget of \$730,426.

SITSD, in conjunction with the Office of Budget and Program Planning (OBPP), has determined the rates and expenses to be charged to MSF for services provided by the State. MSF reviews processes and charges regularly and continually seeks the most efficient means to provide network support and to avoid the use of unnecessary or duplicative SITSD network services to minimize expense.

SITSD expenditure categories include:

- \$284,736 - Other Services
  - ✓ \$218,484 - Enterprise services
  - ✓ \$33,804 - E-mail and voice services
  - ✓ \$32,448 - Equipment and application hosting
- \$234,253 - Supplies and Materials – asset broker
- \$246,322 - Network, voice and long-distance communication services

❖ **Insurance and Bonds** - \$537,546 - This is a minor decrease of \$1,498 from the 2019 budget of \$539,044. 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. The State is self-insured.

- ❖ **Consulting and Professional Services – Training** - \$188,357 – This is an increase of \$11,911 or 6.8% from the 2019 budget of \$176,446. The budget funds training services for:
  - \$94,132 – ‘Stand and Deliver’ leadership development training.
  - \$33,565 – Mosaic training, Executive Intelligence, Thought Pattern Facilitator training, and Microsoft Office training.
  - \$24,625 – ‘Safe Schools’ training on: CPR/First aid, asbestos inspections AVADE Workplace Violence, Online Safety Content, and Resources Sales Training.
  - \$36,035 – Other professional training costs, such as: conference fees, underwriting and marketing training, online webinars, speaker fees, ethics training and Board member training.
  
- ❖ **Financial and Legislative Audits** - \$162,534 - This is a decrease of \$9,267 or 5.4% from the 2019 budget of \$171,800.
  - \$83,000 is for an independent accounting firm to audit the 2019 statutory financial statements.
  - \$79,534 is for the financial compliance audit performed by the Legislative Audit Division (LAD) of the 2019 governmental financial statements.
  
- ❖ **Printing** - \$153,622 - This is an increase of \$22,696 or 17.3% from the 2019 budget of \$130,926. This includes ‘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.
  
- ❖ **Legal Fees and Court Costs** - \$159,100 - The budget amount is like last year and will fund employers’ liability coverage opinions and other legal service costs.
  
- ❖ **SABHRS Administrative Costs** - \$73,620 - This is an increase of \$1,660 or 2.3% from the 2019 budget of \$71,960. 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.
  
- ❖ **State Human Resources Information System (Payroll) Service Fee** - \$67,970 - This is an increase of \$2,299 or 3.5% from the 2019 budget of \$65,671 and will fund charges to MSF for services of the State’s Central Payroll and Human Resource module.
  
- ❖ **Security Protection** - \$63,372 – This is an increase of \$2,741 or 4.5% from the 2019 budget of \$60,631. The budget increase in this area is due to the planned upgrade of MSF’s security access system.
  
- ❖ **Warrant Writing** - \$47,199 - This is a decrease of \$1,073 or 2.2% from the 2019 budget of \$48,272. 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** – \$25,474 - This is a decrease of \$5,683 from the 2019 budget of \$31,157.

- \$13,008 - Microfiche retrieval of archived data for claims management.
  - \$12,466 - Off-site storage of back-up tapes and claim information retrieval from data archived with State Records Management.
- ❖ **Data Network and Miscellaneous Information System Services - Non-DOA - \$29,260 -** This is a decrease of \$180 or 0.6% from the 2019 budget of \$29,440.
    - \$28,380 – Disaster recovery services that allow employee access to workstations if the MSF building cannot be entered.
    - \$880 – Montana Integrated System to Improve Customer Service (MISTICS) – DoLI’s unemployment insurance system is accessed to determine workers’ compensation eligibility, Public Access to Court Electronic Records (PACER) system for bankruptcy research, and other minor online subscriptions.
- ❖ **Temporary Services - \$18,400 –** This is a \$5,200 or 39.4% increase from the 2019 budget of \$13,200. Temporary staff will be used to support functions during periodic workload demands. These situations are associated with the renewal process, retirements, and new employee training.
- ❖ **Worker’s Compensation Program Fees - \$7,278 –**This funds MSF’s portion of the State’s Workers’ Compensation Program, the amount of expense was estimated by the Office of Budget and Program Planning (OBPP) and is similar to the 2019 budget of \$7,064.
- **Supplies and Materials Categories**
    - ❖ **Educational Supplies - \$35,326 -** This is an increase of \$12,311 or 53.5% from the 2019 budget of \$23,015. The budget provides for purchase of employee and team assessment materials and manuals used in training courses.
    - ❖ **Gasoline - \$37,673 -** This is an increase of \$1,893 or 5.3% from the 2019 budget of \$35,781. The budget estimate was based on \$2.76 per gallon (MSF is exempt from gas tax) for gasoline, and a fleet of 26 vehicles, with an estimated average of 12,428 miles per vehicle.
    - ❖ **Safety Supplies - \$39,475 -** This is an increase of \$15,754 or 66.4% from the 2019 budget of \$23,721. The increase is driven by the \$33,000 in support of more grants for safety supplies through the WorkSafe Champions project.
    - ❖ **Minor Office Equipment - \$23,794 -** This is a decrease of \$81,218 or 77.3% from the 2019 budget of \$105,012. The 2019 budget includes:
      - \$13,840 – Office chair replacements
      - \$9,954 – Phone headsets, projectors, and other ergonomic accessories
    - ❖ **Computer Hardware - \$135,045 -** This is an increase of \$108,982 or 418% from the 2019 budget of \$26,063. The 2020 budget includes:
      - \$104,986 – Desktop computers, monitors and printers are routinely replaced on a five-year cycle. This equipment is generally out of warranty after three years and is therefore replaced after five years.
      - \$19,000 – Wireless network system for MSF building that will provide secured encrypted access to MSF and State networks.

- \$11,059 – MSF phone system integration for remote workers and all other minor computer hardware.
- ❖ **Non-Capitalized Software** - \$253,508 - This is a decrease of \$20,121 or 7.4% from the 2019 budget of \$273,629. This is for software that has a purchase price of less than \$100,000. Software to be purchased in 2020 includes:
  - \$148,968 - PBRI project:
    - ✓ \$90,000 - Cincom Eloquence license
    - ✓ \$23,000 - Database licensing
    - ✓ \$20,500 - WebSphere application licensing
    - ✓ \$15,468 - VPN, SQL Server, and other access licenses
  - \$30,000 - Cloud security tools required for the cloud pilot project.
  - \$23,760 - NASPO Value Point software required for operating the new document processing folder/inserters.
  - \$17,500 - WebSphere licensing for additional servers to provide enhanced resource allocation.
  - \$14,600 - Splunk license to enable enhanced security logging and audit information on MSF workstations.
  - \$18,680 - All other software - Building information modeling, financial reporting and filing software, network monitoring, IP address management tool, medical auditing software, and an appointment application to improve scheduling of injured employee appointments.
- ❖ **General Office Supplies** - \$149,911 - This is a decrease of \$14,325 or 8.7% from the 2019 budget of \$164,236. This is for paper, toner, and a wide variety of minor office supplies.
- ❖ **Promotional Aids** - \$29,467 – The budget is similar to last years and provides for small MSF branded items to be distributed; enhancing safety and brand awareness.
- ❖ **All Other Supplies and Material Categories** - \$31,555 - Includes budget for:
  - \$16,460 – MSF logo wear for employees and protective clothing for safety training and facility support staff
  - \$13,211 – Books, reference materials, and specialized desk manuals
  - \$1,584 - Diesel fuel for back-up generator
  - \$300 – Video transcribing software
- **Communications**
  - ❖ **Postage** - \$448,538 - This is a decrease of \$19,649 or 4.2% from the 2019 budget of \$468,187. Includes budget for:
    - \$279,758 – The State’s print and mail service fees
    - \$150,000 - Meter postage
    - \$13,000 – Letter to policyholders related to launch of new policy system
    - \$5,780 - All other – post office box rental, intra-agency mail service, field staff postage, and stamps
  - ❖ **Advertising** - \$667,860 - This is an increase of \$202,100 or 43.4% from the 2019 budget of \$465,760. This is the expense to purchase media time and placement. In 2020, three different media campaigns are planned while there were only two completed in 2019.

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 winter and fall of 2020.
- \$52,000 – Sponsorships with various safety and community organizations.
- \$15,500 - Class of 2019 WorkSafe Champions Elite - professional film crew for alumni spotlight and advertising opportunity.
- \$12,000 – Search engine marketing.
- \$10,360 - Facebook boosting for safety workshops and eBlast notifications.

- ❖ **All Non-SITSD Data and Telephone Categories** - \$112,285 - This is an overall increase of \$12,120 or 12.1% from the 2019 budget of \$100,165. This expense covers cell phones, tablets, long-distance charges, language translation, and ‘800’ line services. The budget is based on prior usage and rates expected in 2020.

➤ **Travel**

- ❖ \$369,124 is the total MSF travel budget - this is an increase of \$29,435 or 8.7% from the 2019 budget of \$339,690. The travel category includes all airfare, lodging and other travel costs for safety services, customer visits, professional training, association membership and projects. This travel budget includes increased lodging costs that have been reviewed and approved by management in consideration that government lodging rates are not always available where conferences are held. The 2020 budget supports:
  - \$167,123 - Employee out-of-state travel for business and training needs.
  - \$132,802 - Employee in-state travel for business and training needs.
  - \$42,074 - Travel for training and industry research associated with projects.
  - \$27,126 - Travel for Board members and agents classified as non-employee travel.

➤ **Rent**

- ❖ \$45,006 - Effective January 1, 2020, governmental accounting standards required different accounting for lease commitments greater than one year. Therefore, expenditures of \$446,555 that were budgeted in Rent for 2019 are now listed under ‘Capital Leases’ in 2020. The 2020 budget of \$407,710 for the leases, principal and interest of the parking garage, field office space, and photocopiers are now noted under section ‘d. Capital Expenditures’ on pages 22 and 23.

The 2020 budget of \$45,006 for Rent is comprised of obligations of less than one year, including:

- \$36,206 - Annual lease overage fees on photocopy equipment.
- \$4,800 - Rent for the photocopy machine used in PBRI project room.
- \$4,000 – Missoula office space rented on a short-term arrangement.

➤ **Utilities**

- ❖ \$224,319 - This is comparable to the 2019 budget amount of \$223,768 and includes electricity, natural gas, water, and sewage services for the building.

➤ **Repairs and Maintenance**

- ❖ \$2,371,394 - This is an increase of \$59,345 or 2.6% from the 2019 budget of \$2,312,049.
  - \$1,280,069 - IT Department maintenance agreements for application software and hardware such as servers, routers, and associated peripherals. The 2019 budget is \$1,153,734.
  - \$858,951 – PBRI project software and hardware maintenance agreements:
    - ✓ \$738,747 - Guidewire maintenance agreement.
    - ✓ \$106,204 – All other software maintenance agreements used to manage software development, network traffic, server load balancing, enterprise architecture modeling, document controls, batch processing, data management and data storage related to the project.
    - ✓ \$14,000 – Hardware (database server, storage and blade) maintenance agreements.
  - \$156,810 – Facilities building and grounds maintenance and repairs including: Heating, ventilation and air conditioning (HVAC), equipment replacement parts, snow removal, exterior maintenance, building monitoring system upgrade, audio/visual system preventative maintenance, window cleaning, elevator maintenance, fire system services, ballast replacements for lighting, paper shredding services, generator maintenance, and other items.
  - \$28,749 - Repairs and maintenance on MSF-owned-and-operated fleet of 26 vehicles.
  - \$19,915 – Document processing’s scanning machines and mailing equipment hardware and software maintenance contracts.
  - \$19,800 – Software maintenance agreements needed for the Producer Portal Accelerator project.
  - \$7,100 - Replacement parts for monitors, computers, hard drives, keyboards and printer maintenance kits.

Effective January 1, 2020, governmental accounting standards require different accounting for building and land improvements expected to last more than one year, which are now listed under ‘Capital Outlay’ on page 23.

➤ **Other Expenses**

- ❖ **Dues** - \$89,989 - This is an increase of \$6,836 or 8.2% from the 2019 budget of \$83,152. This expense is for membership dues with professional business organizations such as the Montana Chamber of Commerce (\$36,050) and other local chambers (\$8,420), 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** - \$1,051,615 - This is an increase of \$361,360 or 52.4% from the 2019 budget of \$690,255. The increase is primarily driven by new annual subscription fees associated with software purchased for ongoing development of data analytics. This includes:
  - \$195,000 – Expanded Cloudera (big data) subscriptions outside of the Data Discovery project.
  - \$138,700 - Clearwater Analytics for regulatory investment reporting.
  - \$98,600 - WDesk solution used for statutory and governmental financial reporting, budget planning and reporting, and enterprise risk management.

- \$94,500 – Enterprise data catalog to help classify data for analytic purposes.
  - \$75,000 – Data Discovery project subscriptions for external data feeds and Informatica for data governance.
  - \$75,000 - Milliman contract for support of claim analytics.
  - \$64,800 – Online reporting software to report on ‘Big Data’ quality and exceptions.
  - \$64,600 - Caliper Data Analytics – human resources competency model used for analysis of job applicants and for internal employee development.
  - \$58,287 – Human Resources recruiting subscriptions:
    - ✓ \$33,215 - LinkedIn recruitment tool for resume searching
    - ✓ \$12,000 - Career Builder online recruitment tool
    - ✓ \$10,572 - Glass Door recruitment tool and professional social media platform
    - ✓ \$2,500 - Interview Mocha online recruitment tool
  - \$48,493 - Online access to Human Resource Management System (HRMS) for training, recruitment and on-boarding.
  - \$24,000 – Extraction and OCR tools.
  - \$19,550 – Standard and Poor’s Global Market Intelligence.
  - \$10,000 - PayScale supports internal compensation work.
  - \$7,400 - NAIC Automated Valuation System (AVS) that provides securities valuation data for Annual Statement Schedule D investment reporting.
  - \$7,000 - Gallup Platform for human resources evaluations associated with training.
  - \$6,700 - Lexis Nexis legal research.
  - \$5,377 – CLEAR public records service to search business and contact information.
  - \$58,608 – Other subscriptions for industry research (Conning, AM Best, Harvard Business Review), legal time tracking, a variety of desk manuals, bulletins, medical and occupational disability guides, and online access to reference materials.
- ❖ **Taxes and Assessments** - \$179,149 - This is an increase of \$49,649 or 38.3% from the 2019 budget of \$129,500. The 2020 budget is comprised of:
- \$163,350 - OSC premium taxes paid for insuring MSF policyholder’s operations in other states where workers’ compensation premium taxes are assessed. For 2020, the OSC premiums are estimated to be \$3,630,000 and the taxes and surcharges are estimated to be 4.5%.
  - \$6,500 – National Association of Insurance Commissioners (NAIC) and the State of Montana annual filing fees.
  - \$5,799 - Annual city assessment for real estate tax, services on building.
  - \$3,500 - Reinsurance excise tax.
- ❖ **Education and Training and Professional Development Center (PDC)** - \$277,912 - This is a decrease of \$12,258 or 4.2% from the 2019 budget of \$290,169. 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 many individual employee registration fees and group training such as: \$15,000 for cloud computing fundamentals; and \$24,120 for PDC courses on communication, Microsoft applications, teamwork and leadership.
- ❖ **Rewards** - \$83,620 - This is a \$2,435 or 2.8% decrease from the 2019 budget of \$86,055. 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** - \$28,000 - This is a \$2,000 or 6.7% decrease from the 2019 budget of \$30,000. For 2020, the maximum amount of annual tuition reimbursement per employee is \$4,000. Eight employees are expected to participate in the tuition reimbursement program in 2020. Reimbursements are based on MSF's pre-approval, successful course completion, and actual cost.
  
- ❖ **Meetings and Conference Cost** - \$231,592 - This is a decrease of \$32,640 or 12.4% from the 2019 budget of \$264,232. 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.
  - Medical Conference.
  - MSF Board meetings.
  - Other meeting space rentals when MSF building conference rooms are full.
  
- ❖ **Recruitment Expenses** - \$192,371 - This is a decrease of \$14,906 or 7.2% from the 2019 budget of \$207,277. This budget includes candidate travel and new employee relocation costs. External recruitment services of \$80,000 are in 'Consulting Services' on page 14 and online recruitment tools of \$58,287 are in 'Subscriptions' on page 20.

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 the following:

- \$117,221 - Relocation expenses for newly hired employees.
  - \$72,650 - Recruitment and candidate travel expenses.
  - \$2,500 – Out of state employment ads.
- 
- ❖ **Licenses** - \$24,783 - This is an increase of \$8,609 or 53.2% from the 2019 budget of \$16,174. This budget funds professional license expenses of attorneys, certified public accountants, claim examiners, pharmacy technicians, registered nurses, and others.
  
  - ❖ **Bank Service Charges** - \$51,624 - This is an increase of \$6,441 or 14.3% from the 2019 budget of \$45,183. This budget funds the Montana Interactive electronic payment and credit card fees for online customer payments. The use of this vendor's service is continually expanding and includes collection of medical and other types of claimant overpayments.

- ❖ **Charitable Contributions / Scholarships** - \$152,863 - This is an increase of \$54,063 or 54.7% from the 2019 budget of \$98,800 due to increasing levels of safety related award and grant distributions. Charitable contributions include:
  - \$87,563 - Growing a Safer Montana project: Trade, industry, and OSHA scholarship awards (\$60,000), safety and health scholarship awards, and high school safety equipment grants (\$27,563).
  - \$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 2020 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.
  - \$25,000 - ACE (Assisting Charitable Endeavors) Grants program - The grants are awarded by a committee of MSF employees based on applications submitted by not-for-profit organizations throughout the state.
  - \$10,000 – Montana Medical Association Leadership sponsorship.
  - \$3,000 - Support of 'Festival of Trees' events.
  
- ❖ **Fee Collection Expense** - \$31,739 - This is a decrease of \$3,310 or 9.41% from the 2019 budget of \$35,049. 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** - \$71,557 - This is a minor \$185 increase from the 2019 budget of \$71,372. 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)** – \$224,606 – This is an increase of \$8,795 or 4.1% from the 2019 budget of \$215,811. The transfer amount is comprised of personal services and operating expenses for an attorney and a market conduct examiner employed by CSI. MSF is required in law to pay the expense of these CSI positions.

#### **d. Capital Expenditures**

The total 2020 Budget for capital expenditures is \$3,174,108. This is a decrease of \$1,041,414 or 24.7% from the 2019 budget of \$4,215,522. 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** - \$2,347,334 - This is the software development budget amount for:
  - ❖ \$2,122,434 – PBRI:
    - \$1,722,434 HCL milestone payments
    - \$400,000 HCL scope changes
  - ❖ \$224,900 – Producer Portal Accelerator project database licensing for upload/download functionality.

- **Multi-User Computers** - \$192,268 – This budget amount is for:
  - ❖ \$125,000 – Phase 1 of the upgrade of audio-visual equipment in meeting rooms.
  - ❖ \$67,268 – Upgrading the building’s equipment monitoring systems.
- **Office Equipment** - \$89,347 – 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.
- **Autos and Trucks** - \$72,450 – Three SUVs will be purchased at \$24,105 each to replace vehicles that have reached the mileage replacement threshold specified in MSF’s Fleet Management Policy.
- **Capital Outlay** - \$65,000 is budgeted for building and land improvements. This is a new required expenditure category effective January 1, 2020. In prior years, these items were budgeted in operating expenses – building and grounds category. The 2020 budget will fund:
  - ❖ \$35,000 – LED lighting retrofit plan.
  - ❖ \$30,000 – Drain and manhole construction to alleviate building flooding issues.
- **Capital Leases** – \$407,710 is budgeted for the leases, principal and interest, of the parking garage, field office space, and photocopiers. This is a new expenditure category effective January 1, 2020 which is required under new governmental accounting standards to account for lease agreements that are greater than one year. In prior years these items were budgeted in the operating expenses - rent category.

The 2020 budget is distributed as follows:

- ❖ \$327,499 - Parking garage: Principal \$221,872 and interest \$105,627
- ❖ \$58,493 - Field office space: Principal \$56,776 and interest \$1,717
- ❖ \$21,717 – Photocopiers: Principal \$16,829 and interest \$4,888

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

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

\$3,837,052 is budgeted for these claim management costs and is an increase of \$127,191 or 3.4% from the 2019 budget of \$3,709,861.

- \$1,571,995 – ‘Medical Invoice Processing’ - The budget is an increase of \$347,874 or 28.4% from the 2019 Budget of \$1,224,121; however, it is only a \$94,322 or 6.4% increase from the 2019 projection of \$1,477,673. Medical invoice processing is budgeted based on estimated medical benefits to be paid, invoices to be processed, and the applicable contracted cost per bill. Beginning January 1, 2019, MSF started using a new medical invoice processing provider, Rising Medical Solutions. Fees charged for identifying corrections to provider medical billing practices were underestimated in the 2019 budget. Review of these services demonstrates “payback” in additional medical payment savings.
- \$648,728 - Investigations - This is a decrease of \$97,755 or 13.1% from the 2019 budget of

\$746,483 based on utilization of services.

- ❖ \$323,293 - Private investigations on claims related issues.
  - ❖ \$200,134 - Department of Justice (DoJ) Fraud investigation and prosecution agreement budget for claim and provider investigations.
  - ❖ \$125,301 - Investigative Job Analysis - This provides for certified rehabilitation counselors to complete thorough and objective investigations of claims to determine MSF liability.
- \$604,907 - All legal expense categories - This is a decrease of \$38,538 or 6.0% from the 2019 budget of \$643,446.
- ❖ \$488,070 - MSF legal contract for services of external counsel and expense of Medicare Set Asides.
  - ❖ \$86,979 – Other associated claimant attorney and legal costs.
  - ❖ \$19,989 - Employer’s liability insured defense costs.
  - ❖ \$9,869 - Photocopy and electronic copy expense.
- \$452,177 - Contract Examiners - This is a decrease of \$66,670 or 12.8% from the 2019 budget of \$518,848.
- ❖ \$445,848 - Examiners and claim management services associated with OSC claims.
  - ❖ \$6,329 – Interpretation and delivery services.
- \$303,469 - Medical Consultants - This is a decrease of \$96,579 or 24.1% from the 2019 budget of \$400,048 and more closely aligns with the 2019 projection. MSF uses medical consultants to enhance staff expertise and knowledge related to diagnosis and treatment plans for injured employees. The budget enables consulting time with medical professionals to provide expertise when managing complex medical issues.
- \$255,776 – ‘Independent Medical Examination’ (IME) – The budget is an increase of \$78,861 or 44.6% from the 2019 budget of \$176,915. 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 2020 budget for all IMEs is \$810,315 and there has been a continual decrease from prior years:

- ❖ 2019 projection - \$987,797
- ❖ 2018 - \$1,267,442
- ❖ 2017 - \$1,470,885
- ❖ 2016 - \$1,966,325

## **VI. Miscellaneous**

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

The 2020 budget includes \$644,680 for the expenditures necessary to administer and manage Old Fund claims. These are claims for injuries that occurred prior to July 1, 1990. By law, MSF is reimbursed by the State’s General Fund for Old Fund administration costs.

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

The 2020 budget includes all known and expected costs for the fiscal period January 1 through December 31, 2020.

- The budget does not include court decisions that may significantly and adversely impact MSF.

- Any compensation adjustments for the President/CEO are determined and approved by the Board.
- The 2020 budget does not include funding for a market conduct examination. If CSI determines a market conduct examination of MSF will be initiated in 2020, estimates of the expense will be presented to the Board for possible budget action.

**c. Premium Estimate and Budget Amendments**

The 2020 budget is prefaced on MSF's net earned premium projection of \$149.1 million. Should premium significantly increase or decrease from the estimate, appropriate budget increases or decreases may be presented to the Board for further review.

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