

MONTANA STATE FUND
2024 ANNUAL BUDGET
(Effective for period of January 1 to December 31, 2024)

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 instead of the State's fiscal year.

This 2024 annual budget identifies expenditures to fund the business operations and approved projects for the January 1 to December 31, 2024, reporting period. The 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 strategic initiatives, and effectively support business operations.

I. Total Expenditures

The total budget for 2024 expenditures is \$203,485,760. Claim benefit payments and operational expenditures are the two primary components of the budget.

- **Claim benefit payments** of \$134.2 million to injured workers are 65.9% of the total budget. Benefit payments include all expected funding required to pay existing and anticipated injured worker claims for indemnity and medical related claim benefit payments in 2024.
- **Operational expenditures** include all staffing, overhead, and other costs needed to support MSF business operations. The total Operational Expenditure budget of \$69.3 million equates to 34.1% of the total budget.

II. Revenue

Premium revenue, along with investment income, provides the funding to service policyholders, pay indemnity and medical claim benefit payments, and cover operational expenditures. On March 8, 2024 the MSF Board of Directors approved a 10% aggregate rate reduction for the rate year beginning July 1, 2024.

For 2024, MSF is estimating net earned premium of \$172.8 million. The projection assumes 22,800 active policies, wage growth of 4.5%, premium retention of 92.3%, and Other States Coverage (OSC) premium of \$3.15 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.

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. The ratio is calculated by dividing MSF's statutory operating expenses of \$71.7 million by its net earned premium of \$172.8 million, resulting in an estimated statutory operating expense ratio of 41.5%.

MSF's statutory operating expense ratio compares favorably to the workers' compensation industry. The following compares the MSF operating expense ratio to the workers' compensation industry and other state funds, taken from 2023 Best's Aggregates & Averages (*A.M. Best Company online benchmarking www.ambest.com*).

Best's Work Comp Composite (260 Organizations)	Best's Total US PC State Funds (23 Organizations)	MSF 2024 Budget
43.5%	49.2%	41.5%

IV. Benefit Payments

The 2024 budget for claim benefit payments is \$134.2 million. By category, the budget for indemnity benefit payments is \$50.1 million, while the budget for medical benefit payments is \$84.1 million.

- **Settlements:** Claim closure settlements continue to be an integral part of MSF's claim management process. Mutually beneficial claim closure settlements are expected to be \$50.3 million.
- **Wage growth:** The wage growth experienced in 2023 is expected to continue through 2024 though at a slower pace. Wage-based indemnity benefit payments for non-settlement payments are expected to increase by 5% and are based on the state's average weekly wage (AWW) as determined annually by the Department of Labor and Industry.
- **Medical inflation:** Medical inflation has not risen as rapidly as wage inflation due to fee schedules and other medical industry constraints. However, new fee schedules and rising wages in the health care industry are increasing medical cost.

V. Operational Expenditures

Operational expenditures include personal services (employee wages, taxes, and benefits), operating expenses, state agency transfers, capital expenditures, and allocated loss adjustment expense (ALAE). The following table provides a summary of these areas, including the number of FTEs and positions.

Operational Expenditures	2024 Budget
FTEs	290.75
Positions	294
Personal Services	\$35,705,554
Operating Expenses and Transfers	\$29,205,458
Capital Expenditures	\$657,000
ALAE	\$3,736,958
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Total Operational Expenditures	\$69,304,970

a. MSF Staffing

MSF management reviewed existing position vacancies, upcoming retirements, and anticipated workloads to ensure that staffing levels were appropriate. For the 2024 budget, there is a decrease 3.75 FTE. Three vacant positions were reduced from the 2024 budget. One position was reduced by 0.50 FTE to accommodate a half-time schedule, and another position was reduced by 0.25 FTE for a future retirement.

MSF will have 290.75 FTEs and 294 positions for 2024. This total includes 288 positions that are 1.00 FTE each, one position at 0.75 FTE, three half-time (0.50 FTE) positions and two positions at 0.25 FTE each.

b. Personal Services – Salaries, employer taxes, and benefits

To support the 290.75 FTEs, MSF has budgeted expenditures of \$35.7 million for the 2024 personal services budget. This includes expenditures for employee salaries, taxes, and benefits. A vacancy savings reduction factor of 4% 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.

c. Operating Expenses and Transfers

The Operating Expenses and Transfers budget of \$29,205,458 is another grouping of expenses underneath the overall category of “Operational Expenditures” and includes the following categories and amounts.

Other Services - \$20,772,923: Two significant items comprise \$19.1 million of expenditures in this category. Commissions paid to agents is budgeted at \$13,561,613. An additional \$5,537,273 is budgeted for consulting and professional services. These services include but are not limited to SITSD service fees, NCCI subscription fees, IT and actuarial consulting services, miscellaneous insurance coverages, and OSC program-related services.

Other Expenses - \$3,470,403: Miscellaneous smaller expenses including but not limited to cloud-based software subscriptions, education, and training.

Facilities and Maintenance - \$2,234,758: Includes utilities, field office rent, and maintenance expenses for building, automobiles, hardware, and software.

Communications - \$1,148,373: Includes postage and State Print and Mail Division services, advertising, and routine business communication services.

Supplies and Materials - \$915,406: Includes miscellaneous office and business supplies, as well as minor software and hardware expenditures.

Travel - \$402,152: Includes all travel costs to support customer visits, training, board meetings, and other travel.

Transfer - \$261,443: Funding transfer to the Commissioner of Securities and Insurance pursuant to § 33-1-115(6), MCA.

d. Capital Expenditures

The total 2024 budget for capital expenditures is \$657,000. 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.

e. Allocated Loss Adjustment Expense (ALAE)

ALAE is the specific cost of managing and adjusting a claim; therefore, it is allocated to a specific insurance claim. These expenses include but are not limited to medical invoice processing, investigative services, legal expenses, medical consultants, and OSC program claim adjusting services. \$3,736,958 is budgeted for these claim management and adjustment costs.

VI. Old Fund Administration

The 2024 budget includes \$484,364 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.