MONTANA STATE FUND
2013 BUDGET ANALYSIS

A Report Prepared for the

Legislative Finance Committee

By

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LFD
MONTANA LEGISLATIVE FISCAL DIVISION

INTRODUCTION

The Montana State Fund (MSF) provides Montana employers with an option for worker's compensation and occupational disease insurance and guarantees available coverage for all employers in Montana. The management and control of MSF is vested solely in the Board of Directors (board).

Due to significant unfunded liabilities associated with workers' compensation in Montana, the May 1990 Montana Special Legislative Session separated funding and accounts for claims and injuries resulting from accidents occurring before July 1, 1990 (Old Fund) and claims occurring on or after July 1, 1990 (New Fund). Statute requires that MSF present the board approved budget to the Legislative Finance Committee (LFC) no later than October 1 for their review. While the LFC reviews the MSF 2013 budget, it has no authority to require MSF to change its budget unless it amends statute. The only entity charged with overseeing and approving budgets, operations, and expenditures of MSF is the Board of Directors (board).

This report discusses the analysis of the MSF board-approved 2013 budget for the New Fund, which is attached, and administrative and benefit and claim costs for the Old Fund. It also discusses the FY 2012 budget and actual costs, and general fund transfers required in the 2015 biennium. In summary, the report outlines the following:

- Changes to the premium rating tiers
    - New variables for determining rating tiers
    - Shifts in tiers for policyholders
    - Changes to the manual rates adopted by the board
        - Changes to manual rates for state agencies
- Budgetary risks associated with the funds
    - Estimated revenues, benefits, and operational costs
    - Achievement of reserve to equity targets
- Costs of Operating MSF
    - FY 2012 personal service costs above budget
    - Budgeted statutory expense ratio declines
- General fund transfers of $13.0 million needed for the Old Fund in the 2015 biennium

CHANGES TO THE PREMIUM RATING TIERS

There is a change in the way some employers' rating tier will be determined, and changes in the costs to employers depending upon their tier placement. The MSF premium rating process is used to determine the final amount of premium a Montana business will pay for its workers' compensation insurance during the year. The first component of the rate is the loss costs or the cost of providing indemnity and medical benefits to the injured worker. The National Council on Compensation Insurance (NCCI) develops advisory loss costs for workers' compensation in Montana. The costs include the costs to the insurer directly related to the benefit claims and the cost for the administration or management of those claims. The costs are issued by job classification, also referred to as class code.

Once the board establishes the loss costs it approves the lost cost multipliers that are used in MSF rating tiers. The loss cost multiplier includes production and general expenses, licenses and fees, profit, and contingencies costs of MSF. Rating tiers are used to determine the workers' compensation insurance premium charged Montana employers. The objective of the MSF tiered rating process is to assign policies to a rate tier that best reflects the employer's propensity to incur (or not incur) losses in a policy period. Overall MSF uses five different rating tiers to determine the manual premium it will assess Montana employers. Tier 1 is used for the lowest risk employers and tier 5 is for the highest risk employers.

Previously, MSF used NCCI experience modifiers to place employers into various rating tiers. The experience modifier is a percentage that increases or decreases based on the employer's workers' compensation accident history over the previous 3 years. The lower the experience rating percentage the lower the rating tier the employer was placed in. If an employer has annual premiums greater than $5,000 they generally are experience rated by NCCI. Of the 26,121 policies written by MSF in FY 2012 73.7% were not experienced rated.

For those policies without an experience rating, the MSF board approved the tier ratings that determined the workers' compensation manual rates for the employers. Until July 1, 2012, the 12,443 Montana employers with policies of less than $1,500 in annual premiums were assessed at the two most expensive tiers, tiers 4 or 5. The businesses did not have the opportunity for lower premiums to be assessed through the rating tiers or through lower experience modification factors.

New Variables for Determining Rating Tiers

In FY 2011 the independent consulting actuary for MSF conducted an analysis of MSF policyholder loss experience over the last 10 years and found five variables that the actuary identified as being statistically predictive of future loss experience when taken in combination. The variables include:

- NCCI Experience Rating Factor (If applicable)
- Three-year claim frequency ($500+ claims only)
- Account size
- NCCI Hazard Code
- Claim-free Tenure ($500+ claims only)

The board approved implementing the new tiered rating program effective July 1, 2012. The new rating program, known as Tiered Rating 2.0, expands the differences in the loss cost multipliers and thus the differences in the premiums assessed policyholders.

The rating tiers for MSF for FY 2012 and FY 2013 and the corresponding loss cost multipliers are presented in Figure 1. Rate tier 1.0 applies only to the experience modifier for placement into the tier while Tier 2.0 provides a rating factor by combining the five variables discussed above, including the experience rating factor. The two processes for determining the rating tier are completely different but each establishes the loss cost multiplier that will be used in the premium rate. As noted above, the loss cost multiplier and the resulting premiums assessed employers increase or decrease based on the assigned rating tier.

Figure 1

Montana State Fund
New Fund
Rating Tiers
Changes Adopted As of July 1, 2012

	Previous (Rate Tier 1.0) Experience Modifier				Current (Rate Tier 2.0) Rating Factor Score				Change	
Tier	From	To	Loss Cost Multiplier	Premium Rate*	From	To	Loss Cost Multiplier	Premium Rate*	Loss Cost Multiplier	Premium Rate
Tier 1	0.010	0.790	1.013	$1,013	0.000	0.475	0.801	$801	(0.212)	($212)
Tier 2	0.800	0.940	1.082	1,082	0.476	0.700	1.026	1,026	(0.056)	(56)
Tier 3	0.950	1.240	1.157	1,157	0.701	1.025	1.157	1,157	0.000	0
Tier 4	1.250	1.740	1.389	1,389	1.026	1.300	1.420	1,420	0.031	31
Tier 5	1.750	& above	1.852	1,852	1.301	& above	1.977	1,977	0.125	125

* Premium rate per $1,000 of loss cost

The new rating factor scores have narrower ranges for each tier, increasing the number of policyholders in tier 5. However, by expanding the eligibility of the program to all policyholders, the board has also increased the policyholders in the other tiers as well. As shown, the newly adopted loss cost modifiers lower the costs for policies assigned to tiers 1 and 2 by $212 and $56 per $1,000 of loss costs respectively, and increase the costs for tiers 4 and 5 by $31 and $125 per $1,000 of loss costs respectively. Tier 3 remains unchanged.

Shifts in Tiers for Policyholders

Figure 2 shows the changes in the number of policies written between July 1, 2012 and September 21, 2012 associated with each tier.

Figure 2

Montana State Fund Changes to Rating Tiers			
	Previous	Tiered Rating 2.0	Difference
Tier 1	18	315	297
Tier 2	3,080	5,993	2,913
Tier 3	2,552	2,314	(238)
Tier 4	6,391	1,878	(4,513)
Tier 5	32	1,573	1,541
Total	12,073	12,073	0

With about a third of the anticipated 2013 policies written, the new rating plan has markedly shifted the number of policies in tiers 2 and 4. As the majority of policies written by MSF are for small businesses with premiums of less than $5,000 a year, the overall effect of the change is lower premiums for a number of small businesses in Montana.

Figure 3 shows the change in rate tier for policies written between July 1, 2012 and September 21, 2012.

Figure 3

Montana State Fund Redistribution of Previous Rating Tiers							
Previous Tiers		New Tiers (Rate Tier 2.0)					
		Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Total
Tier 1	18	2	14	2	0	0	18
Tier 2	3,080	303	2,007	496	116	158	3,080
Tier 3	2,552	1	775	779	658	339	2,552
Tier 4	6,391	9	3,195	1,034	1,102	1,051	6,391
Tier 5	32	0	2	3	2	25	32
Total	12,073	315	5,993	2,314	1,878	1,573	12,073

While 32.4% of the policies written have no change in the rate tier they are assigned to, 44.0% have been moved to a lower cost rating tier and 23.5% have moved to a higher cost tier. For an example, in figure 3 above 3,195 policies that had been in tier 4 are now tier 2, while 658 policies that had been tier 3 are now tier 4. This does not mean that 32.4% have no change to their premiums, however. For example, 1,102 of the policyholders were previously in tier 4 and remained in this tier. As a result, their premiums increased by $31 per $1,000 of loss costs. By contrast 2,007 policyholders were in tier 2 and remained there after the shift. Their premiums decreased by $56 per $1,000 of loss costs. The most dramatic change applies to the 1,548 policyholders previously in the other tiers that moved to tier 5. This tier has premium costs for manual rates that are 70.9% above tier 3 costs.

According to MSF, the change in tiers for rating purposes is revenue neutral. MSF expects near revenue neutrality for accounts below $1,500 in annual premiums, a net increase for accounts between $1,500 and $5,000, a net decrease for accounts between $8,000 and $50,000, and a net increase for accounts over $100,000. See Appendix A for changes by account size under the new tiered rating system.

Changes to Manual Rates Adopted by the Board

As discussed above the premium assessment begins with loss costs that are associated with each job classification. For the majority of job classifications the board adopted , the NCCI recommended loss costs effective July 1, 2012. Figure 4 shows the changes by industry for the loss costs.

Figure 4

Montana State Fund New Fund Adopted NCCI Loss costs By Industry			
Industry	Average Increase	Maximum Decrease	Maximum Increase
Manufacturing	-0.50%	-25.00%	25.00%
Office and Clerical	-0.70%	-26.00%	24.00%
Goods and Services	-1.90%	-27.00%	23.00%
Contracting	1.20%	-24.00%	26.00%
Miscellaneous	3.80%	-21.00%	29.00%
Overall	0.00%		

While the overall effect of the recommendation is no change to the loss costs for Montana as a whole, changes were made by industry and job description. On average, contracting and miscellaneous industries had increases to their loss costs while goods and services, office and clerical, and manufacturing had lower loss costs based on the experience of each industry. The range of the changes is shown as the maximum increase or decrease to loss costs within each industry.

Loss cost multipliers are the other component of manual rates. The components of the loss cost multiplier include an assumed investment yield on underwriting cash flow of 3.0% and a target contribution to equity of 6.2%. The premium collected in FY 2013 and related investment income needs to be sufficient to pay for administrative costs of MSF and make benefit payments for as long as the next 50 to 60 years to workers injured in FY 2013. Both investment income and equity components of the loss cost multiplier impact the determination of the adequacy of the premiums budgeted in FY 2013.

Loss reserves are the portion of premium revenues collected for the payment of benefits over the life of the claims occurring in FY 2013. This funding earns investment income and a component for investment income is included in the loss cost multiplier. The assumed investment yield on underwriting cash flow has been decreased for the third year in a row, from 3.25% included in FY 2012 to 3.00%, reflecting:

- Impacts of low interest rates over the last several years
- Less investment income on reserves over time. Due to benefit changes made by the 2011 Legislature, NCCI and MSF both anticipate that the length of time claims are paid to injured workers will be shortened. This change results in less investment generated on loss reserves

The amount of the net premium that is associated with target contribution to equity increases 0.7% from a target contribution to equity of 5.5% in FY 2012. With a net premium of $154.2 million included in the board-adopted budget, the board has included $9.56 million for contribution to equity.

Changes to Manual Rates for State Agencies

NCCI loss costs are not used for state agencies. Figure 5 shows the board adopted FY 2013 loss costs for state positions compared to the FY 2012 loss costs.

Figure 5

Montana State Fund
New Fund
FY 2013 State Agency Loss Costs

Class Description	FY 2012 Loss Cost	FY 2013 Loss Cost	Change in Loss Costs
State Aircraft Operation NOC: Flying Crew	$3.99	$3.97	-0.50%
State Penal Institutions: All Other Employees	4.14	4.52	9.18%
State Highway Patrol Officers	3.76	4.49	19.41%
Municipal: Professional or Adminsitrative	0.78	0.79	1.28%
State, Hospital, Penal: Prof or Administrative	0.83	0.81	-2.41%
State: Clerical Office Employees	1.31	1.39	6.11%
State Hospital: All Other Employees & Drivers	8.24	8.33	1.09%
State Highway Dept: Administrative or Non-Professional	1.46	1.33	-8.90%
State: Administrative or Non-Professional	1.39	1.36	-2.16%
State Highway Dept: All Others & Drivers	8.60	8.65	0.58%
State: All Other Employees NOC & Drivers	7.22	6.97	-3.46%
Municipal: Relief Workers	4.73	4.77	0.85%
Community Service Workers	4.73	4.77	0.85%

Changes are based on the loss experience of the various state agencies for each of the class codes. The final amount of premium costs incurred by state agencies will be modified by their related experience rating, loss cost multiplier, and other factors. The legislature requires that state agencies return savings generated from reduced workers' compensation costs to the fund paying the costs.

According to staff in the Healthcare and Benefits Division changes are driven by injuries incurred by workers, including the highway patrol. While these impact the rates that state agencies pay, the changes in the tiers also impact agencies.

BUDGETARY RISKS ASSOCIATED WITH THE FUNDS

A significant difference between MSF and other state agencies reviewed by the Legislative Finance Committee is that revenues, in this case net earned premiums, are collected in the current fiscal year and used to pay benefits for injuries to workers in the current year and the benefits and claims relating to those injuries in subsequent years, in some cases for 50 to 60 years in the future. The net earned premiums that are collected above what is needed to pay current year benefits and operational costs are set aside in reserves to pay future claims. The major budgetary risk associated with the funds of MSF is that the net earned premiums collected in a year may not be sufficient to pay all benefits, claims, and operational costs associated with injuries over the long period the benefits and claims are paid out. To offset this risk MSF maintains equity and includes a component for contribution to equity in the loss cost multiplier.

Estimated Revenues, Benefits, and Operational Costs

To determine the changes in equity that is budgeted in FY 2013, the estimated revenues, benefits, and operational costs are examined. While the budget does not include the anticipated future benefit costs for FY 2013, the strategic business plan includes an expected loss ratio of 71.1% for FY 2013. MSF anticipates $106.1 million in losses or costs associated with accidents occurring in FY 2013.

Examining the comparison between the board-approved budget and FY 2012 actuals shows:

- Net premium revenues increase under the following assumptions:
  - 25,771 policies written in FY 2013 compared to 26,121 in FY 2012 or a decrease of 1.3%
  - No average manual rate change
  - 4% wage growth
  - 90.9% premium retention
  - $15.4 million in new business premiums
- Operational costs increase due to:
  - Personal service costs that are lower than actuals mainly due to elimination of employee incentive payments from budgeted costs
  - Increased operating expenses mainly related to:
    - A $0.45 million increase in consulting and professional services
    - $1.2 million in commission costs that increase as gross earned premiums increase
- Estimated benefit costs for accidents incurred in FY 2013 decrease $7.1 million over those estimated for FY 2012

Overall, remaining funds are available to increase equity and strengthen MSF against unforeseen cost increases in benefits and claims or are returned to those policy holders that are eligible for a dividend.

Achievement of Reserve to Equity Targets

Equity increases through: 1) contributions to equity charged through premiums to Montana businesses insuring with MSF; and 2) investment income. Equity measured at June 30, 2012 was $317.67 million, an increase of $21.3 million from the equity of $296.3 million measured at June 30, 2011. As discussed previously, the board approved a contribution to equity of 5.5% or $8.277 million included in net earned premium revenues received in FY 2012. The total increase in equity of $21.3 million was generated from net income of $23.8 million reduced $2.5 million, mostly due to changes for unrealized gains in the investment portfolio.

If estimates of the costs of FY 2013 future benefits change from the currently estimated cost of $106.1 million needed to be set aside in loss reserves, the amount of the loss reserves must be adjusted. If the costs increase, this is known as prior year development. Funding for the prior year development comes from investment income or equity. In FY 2012 development on prior accident years was estimated to be $5.3 million. The preliminary financial report for FY 2012 reports prior year development as $1.97 million. In FY 2013 it is not estimated that development on prior accident years will occur.

The adequacy of the equity used to offset increases to loss reserves is measured using reserve to equity ratios, as this ratio reflects the multi-year nature of MSF's obligations. The multi-year nature of obligations refers to the need for MSF to use current net premiums to pay benefits for workers injured in FY 2013 over next 60 years or so. The lower the reserve to equity ratio (2.0 to 1.0 compared to 4.0 to 1.0) the greater the financial strength of the insurer and in MSF's case, the lower the risk that the state's general fund will be needed for unfunded liabilities. Due to the significance of the long term risk associated with the need for additional loss reserves in the New Fund, the budget analysis has focused on reserve to equity ratios of MSF for the last several years.

Figure 6

Montana State Fund
New Fund
Reserve to Equity Targets

	Projected	Revised FY 2011	Revised FY 2012	Revised FY 2013	Actual
FY 2010	4.24				3.30
FY 2011	3.88	3.05			2.95
FY 2012	3.55	2.77	2.70		2.80
FY 2013	2.48		2.46	2.32	
FY 2014	2.27			2.13	
FY 2015	1.99				

Figure 6 presents equity to target ratios contained in MSF board-approved strategic business plans for FY 2010 through FY 2015.

As shown, MSF has been making steady progress on achieving the board's targeted reserve to equity of 2.0 to 2.5 to 1.0 as recommended by MSF's contracted actuary. The estimated FY 2012 reserve to equity target is 2.80 to 1.0. However, this estimate includes dividend declaration and payments of $6.0 million. As dividends are paid from equity, they decrease equity and increase the loss reserve to equity ratio, from 2.75 to 1.00 to 2.80 to 1.00 in FY 2012.

If the targets are achieved as proposed through FY 2015 MSF should achieve the reserve to equity targets of 2.0 to 2.5 to 1.0 recommended by MSF's contracted actuary, reducing the long term risk to the legislature that prior year development may result in an unfunded liability for the New Fund. Another consideration is that once the target has been achieved, the contribution to equity component of the loss cost multiplier may be reduced, thus reducing premiums for all ratepayers. However, consideration must be given to the amount of the dividends that are declared by the board, as dividends reduce the amount of equity and change the actual reserve to equity ratio that is achieved as shown by the change in the ratio discussed for FY 2012.

Costs of Operating MSF

The costs of operating MSF include personal services, operating expenses, equipment and intangible assets, and allocated loss adjustment expenses. Figure 7 shows budgeted FY 2012 and FY 2013 costs and FY 2012 actuals.

Figure 7

Montana State Fund New Fund Operational Costs					
Description	Budgeted FY 2013	% Change From FY 2012	Budgeted FY 2012	Actual FY 2012	% Over Under Budget
Personal Services*	$23,643,743	-3.33%	$23,445,096	$24,457,604	4.32%
Operating Costs	20,414,426	22.06%	18,819,810	16,724,641	-11.13%
Equipment and Intangible Assets	538,659	-16.16%	394,505	642,469	62.85%
Allocated Loss Adjustment Expenses	4,065,860	4.89%	4,547,212	3,876,262	-14.76%
Total	$48,662,688	6.48%	$47,206,623	$45,700,976	-3.19%

* Budgeted personal services do not include employee incentive payments, FY 2012 actuals includes $1.4 million in employee incentive payments

FY 2012 Personal Service Costs above Budget

As shown, the personal service costs in FY 2012 were higher than budgeted by $1.0 million. The increased costs were associated with employee incentive payments made to MSF employees for attainment of defined success measures for FY 2011 and FY 2012. The amount of employee incentives is determined through a weighted formula depending on MSF achievement of incentive targets. The board considered the performance results for FY 2012 and approved 18.0% or $46,988 of the base salary of $261,047 as an employee incentive payment for the CEO. Other employees within MSF will receive an employee incentive payment based on results. The amounts vary by position and attainment of outlined targets. MSF estimates that the total cost of the employee incentive payments for FY 2012 will be $1.5 million.

In FY 2011 the board increased the percentage of payout opportunities for the various targets for the CEO for FY 2012. Payout opportunities for the CEO range from 12.5% for attaining the threshold targets to 37.5% if MSF attains all targets at the outstanding level. In FY 2012 the board made changes to the weights of the measurements used to determine the CEO incentive payments for FY 2013 but left the payout opportunities at the higher level established for FY 2012.

According to Montana Public Employee Retirement Administration staff, employee incentive payments are considered part of earned compensation for purposes determining pension retirement benefits. The average of the three highest years of compensation would include the payments of employee incentive, increasing the overall costs to the retirement systems as a result. It should be noted that IRS requirements for defined benefit plans limit the salary amount on which retirement contributions are paid and retirement benefits paid under the plan. In 2012 the salary cap is $250,000 and the benefit is limited to $200,000 per employee. Both amounts are adjusted each year based on cost of living increases. The impact of the limitations means that the employee incentive for the CEO does not impact retirement benefits as the base salary paid the position is above the salary cap without pension benefits. However, other MSF employees have not attained this salary level meaning that for retiring employees the incentive would impact the retirement benefits.

Budgeted Statutory Expense Ratio Declines

Figure 8 presents the budgeted and actual statutory expense ratio from FY 2010 through FY 2013. The FY 2013 budget proposal for the statutory operational expense ratio decreases 1.86% from the FY 2012 expense ratio. This is a result of changes to both net premiums and operational costs of MSF. Budgeted net premiums increase in FY 2013 to $154.2 million from $150.5 million in FY 2012 or 2.5%. Overall operational expenditures increase 3.53% or about $1.65 million when compared to FY 2012 actual operational expenditures. Two components of the budget drive the operational costs:

- Personal services costs, which are 48.7% of the budgeted operational costs
- Commissions to insurance agents

Figure 8

Montana State Fund New Fund Statutory Operating Expense Ratio	
Fiscal Year	Operational Expense Ratio
2010	25.08%
2011	36.49%
2012	31.16%
2013	29.30%

As budgeted in FY 2013, personal services decrease 3.3% when compared to FY 2012 expenditures but increase 1.0% when compared to FY 2012 budgeted amounts. This is due to the impacts of the employee incentive program discussed previously.

As previously stated commissions to insurance agents are directly and proportionately related to gross premiums and as such increase when net premium revenues increase. The average base commission is budgeted at 7.7% of gross premiums written by the agent. In addition, MSF provides agents writing $100,000 or more in premiums with incentive payments if the loss experience of the businesses is less than anticipated. MSF budgets the average agency incentive commission rate to be an additional 1.5%, however this depends on actual loss experience. In FY 2013 commissions are budgeted at $10,757,716, an increase of $1,639,816 or 18.0% compared to the FY 2012 costs of $9,117,900. Commissions in FY 2013 represent 22.2% of total operational expenses.

Allocated loss adjustment expenses (ALAE) are budgeted to increase 4.9% when compared to FY 2012 actuals. Changes include increased costs for legal expenses and fraud related ALAE, offset by decreases for medical invoice processing, medical consultants, and contract adjusters.

$13.0 Million In General Fund Needed For Old Fund In The 2015 Biennium

The state's general fund is responsible for Old Fund claims costs in 2015 biennium. MSF contracts with an actuary to determine the costs of the claims and related administrative costs. The actuary has several estimates, low, high and central. The central estimate is recommended by the actuary for use in determining the costs of the claims. The MSF actuarial central estimate for the general fund costs of benefits in the 2015 biennium is $13.0 million.

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APPENDIX A

The figure below shows the changes in the rating tiers by annual costs of premiums.

Montana State Fund
Redistribution of Previous Rating Tiers
Account Size Less than $1.500 a Year in Annual Premiums

Previous Tiers		New Tiers (Rate Tier 2.0) Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Total
Tier 1	2	0	1	1	0	0	2
Tier 2	70	3	34	8	15	10	70
Tier 3	157	0	15	58	23	61	157
Tier 4	5,824	0	3,157	864	911	892	5,824
Tier 5	11	0	0	2	0	9	11
Total	6,064	3	3,207	933	949	972	6,064

Montana State Fund
Redistribution of Previous Rating Tiers
Account Size Between $1,500 and $5,000 a Year in Annual Premiums

Previous Tiers		New Tiers (Rate Tier 2.0) Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Total
Tier 1	0	0	0	0	0	0	0
Tier 2	1,714	4	1,416	117	38	139	1,714
Tier 3	993	0	316	158	343	176	993
Tier 4	265	0	9	25	97	134	265
Tier 5	19	0	2	1	2	14	19
Total	2,991	4	1,743	301	480	463	2,991

Montana State Fund
Redistribution of Previous Rating Tiers
Account Size Above $5,000 a Year in Annual Premiums

Previous Tiers		New Tiers (Rate Tier 2.0) Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Total
Tier 1	16	2	13	1	0	0	16
Tier 2	1,296	296	557	371	63	9	1,296
Tier 3	1,402	1	444	563	292	102	1,402
Tier 4	302	9	29	145	94	25	302
Tier 5	2	0	0	0	0	2	2
Total	3,018	308	1,043	1,080	449	138	3,018

As shown, the majority of the changes occurred in the policies with less than $1,500 in annual premiums. With 3,157 policies moving from tier 4 to tier 2 and 892 moving from tier 4 to tier 5.