Montana Department of
LABOR & INDUSTRY
Employment Relations Division

Steve Bullock, Governor
Pam Bucy, Commissioner

Workers' Compensation Regulations Bureau
Self-Insurance

March 19, 2014

MUS Self-Funded Workers' Compensation Program
Leah Tietz, Director, Workers' Compensation
2500 Broadway
Helena, MT 59620-3201

RE: Approval to Self-Insure Workers' Compensation Granted

Transmitted Electronically

Dear Ms. Tietz:

Permission is granted to self-insure workers' compensation liabilities in Montana effective April 1, 2014 through March 31, 2015. Enclosed is a posting notice that may be copied and must be posted in each Montana work site as well as a copy of our review for your records.

1. Excess Insurance Coverage - $750,000 SIR with statutory limits (ongoing)
2. **Please have Milliman include specific confidence levels for their low, middle (or expected) and high estimates in the next actuarial report.**

Please feel free to contact me if you have any questions.

Sincerely,

Erin Weisgerber
Department of Labor & Industry
Employment Relations Division
Workers' Compensation Regulation Bureau
eweisgerber@mt.gov

Enclosures: Posting Notice and Review

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MUS Self-Funded Workers' Compensation Program

Self-Insurance Renewal for Montana

Prepared by: Erin Weisgerber

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2014

Background

The MUS Self-Funded Workers' Compensation Program (hereinafter called MUS) began operations July 1, 2003. The purpose of MUS is to provide workers' compensation coverage for its members. All members are jointly and severally liable and agree to assume and discharge the obligations of MUS. Approved members of MUS are: University of Montana, Montana State University and the Office of Commissioner of Higher Education. MUS's inception date for Montana workers' compensation self-insurance was July 1, 2003.

Renewal Date

The renewal date for MUS is April 1, 2014.

Loss Information

	2013	2012	% change	change
Employees	23,746	23,844	-0.4%	-98
Payroll	390,763,914	374,217,738	4.4%	16,546,176
Accidents and Claims				
Medical only	273	271	0.7%	2
Indemnity	52	46	13.0%	6
Fatal	1	0		1
Paid				
Medical paid	1,527,375	1,482,415	3.0%	44,960
Indemnity paid	534,887	675,084	-20.8%	-140,197
Other paid	68,002	123,484	-44.9%	-55,482
Liability				
Incurred liability	2,260,783	1,726,713	30.9%	534,070
3 yr average	2,083,549	1,954,739	6.6%	128,810
Total unpaid liability	2,416,960	1,839,682	31.4%	577,278

The amount paid reported on the application is in sync with MUS's quarterly expenditure reports (QER) for calendar year (CY) 2013. Incurred liability and total unpaid liability are up again this year. There has been a 69.5% increase in incurred liability since 2011 and a 54.5% increase in total unpaid liability in the same time frame. The cost of paid claims (medical and indemnity) in Montana per $100 in payroll for CY 2013 was $0.53, down slightly from $0.58 in CY 2012. Both of these numbers are excellent.

Safety

Colleges and Universities have a workers' compensation rating of 6-medium using Best's Hazard Index in Best's Underwriting Guide. The most common injuries include slips, trips, and falls. MUS reports they have a formal safety program and that they do have a safety engineer at

Montana locations. In general, the trend in the number of accidents per 100 employees has been fairly consistent over the past several years with only a slight uptick this year after. MUS did have one fatality in 2013 involving an accident overseas.

	2013	2012	2011	2010	2009
# Medical	273	271	294	317	289
# of Lost Time	52	46	39	49	44
# of Fatal	1	0	0	0	0
Total Accidents	326	317	333	366	333
MT Employees	23,746	23,844	23,081	22,516	22,326
Per 100 Employee	1.37	1.33	1.44	1.63	1.49

Excess Insurance Coverage

	Specific Excess	Aircraft - Related
Self-Insured Retention (SIR)	$750,000	$1,000,000
Policy Limit	Statutory	Statutory
Policy Period	8/1/2013 to 7/1/2014	8/1/2013 to 7/1/2014

MUS previously had Star Insurance Company as their excess carrier. In 2013 Star was downgraded from an A- carrier to a B++ carrier which no longer complied with the Department's administrative rules. Effective August 1, 2013, MUS had their excess policy endorsed so the policy was replaced by State National Insurance Company. State National Insurance Company is rated A (Excellent) and has a financial size category rating of VIII ($100 - $250 million) by Best's Insurance Reports. The outlook, updated May 14, 2013, is listed as stable. This complies with our excess insurance carrier administrative rules, which require a rating of A- or better and a financial size category of VI or better. The Department has waived the aggregate excess insurance requirements for this employer. The required Montana endorsements #1-insolvency, #2-cancellation, #3-commutation, and #4-late claim reporting penalty waiver are included in the policy.

In addition to the changes to the insurance carrier, MUS requested an increase in their SIR during the 2013 year. At the time of the request MUS had only one claim that had pierced their $500,000 retention level and one claim outstanding that is projected to reach the retention level in the future. Due to a strong financial position and low number of claims over the $500,000 level, the Department agreed to an increase in the SIR to $750,000.

Deposit and Guaranties

The Department has previously waived the security deposit requirement for MUS. The need for a security deposit is based on many factors including, but not limited to, financial condition, SIR level on excess coverage, outstanding reserve requirements and general trends in these factors for the self-insured entity. The Department maintains a conservative position on the necessity of requiring a security deposit.

All members are jointly and severally liable and agree to assume and discharge the workers' compensation obligations of MUS.

Actuarial Report

Milliman Inc. provided an actuarial study that included a reserve analysis, projected premiums and financial pro forma for MUS's self-insurance program as of June 30, 2013. Milliman noted that they looked at NCCI loss information for Montana in addition to MUS's internal loss data in developing their conclusions. Total undiscounted outstanding liabilities were $7.806 million, at an expected level, as of June 30, 2013. This is a -26.8% decrease from 2012 and is at its lowest level since 2009. Outstanding liabilities at a high confidence level are $8.017 million. The actuary assumes that MUS's future losses will be somewhat better than historical levels due to legislative changes as well as MUS's $afety $mart initiatives. Based upon NCCI circulars used by the actuary, estimated changes in loss costs due to the law change for the two class codes that pertain to MUS decreased by -22.4%. The actuary chose to use a more conservative reduction in loss cost in the -5.0% to -10.0% range until more time has passed to allow for a more complete evaluation of the impact of the law change.

Date	Case	IBNR	Total
30-Jun-2013	1,699,000	6,107,000	7,806,000
30-Jun-2012	1,582,000	9,086,000	10,668,000
30-Jun-2011	1,175,000	8,379,000	9,554,000
30-Jun-2010	1,407,000	6,947,000	8,354,000
30-Jun-2009	995,000	6,738,000	7,733,000

The actuary projects premiums to be $2.268 million in fiscal year (FY) 2014. MUS has implemented a premium holiday for (FY) 2014 where no workers' compensation premium payments are owed to MUS for the first 6 months of the fiscal year. In (FY) 2015, the premiums will revert back to normal and are projected to be $4.674 million, increasing to $4.961 million in (FY) 2018. With the premium estimates at an expected level, Milliman projects MUS to have a surplus of $11.563 million by the end of 2018.

Claims Examiner

Connie Hoffman, with Intermountain Claims in Billings, adjusts MUS's Montana claims. This is in compliance with our in-state adjuster rule and statute.

Financial

Selected Ratios and Financial Information

Balance Sheet –

- Cash & Equivalents $19.2 million up 8.5%
- Total Assets $19.6 million up 6.7%
- Current Liabilities $2.1 million up 10.8%
- Long-Term Claims Payable $6.1 million down -32.8%
- Total Liabilities $8.2 million down -25.3%
- Surplus $11.4 million up 54.2%

Income Statement –

- Premiums $4.3 million up 2.7%
- Cost of Claims ($0.65 million) down -119.0%
- Gain $4.0 million up 1,381.2%

Cash Flows –

- Net cash provided from (used for) operations $1.4 million
- Net cash provided from (used for) investing $82 thousand
- Net cash provided from (used for) financing $0
- Net increase (decrease) in cash $1.5 million

Comments on Financial Statements –

For the years ended June 30, 2013 and 2012 Junkermier, Clark, Campanella, Stevens PC completed an audit of the MUS financial statements.

A ratio analysis using Risk Management Association's Annual Statement Studies (RMA) was completed to compare MUS's key ratios to industry standards. The category that best fit for comparison purposes was the Insurance Agency category (NAICS #524210). Ratios referencing the group's relative strength or weakness in liquidity, ability to service debt, and returns were evaluated. Ratios were categorized in quartiles with (LOWER) referencing the least favorable and (UPPER) the most favorable. With the exception of one ratio, all of MUS's ratios were in the (UPPER) or (UPPER MID) quartiles.

The liquidity ratios measure the company's ability to meet its current obligations. MUS's current ratio was 9.31 and was in the (UPPER) quartile. The quick ratio was 9.25 and was also in the (UPPER) quartile. Net working capital increased by 6.5% to $17.3 million in (FY) 2013. The sales to net working capital ratio was 0.25 and was in the (UPPER) quartile as well. Liquidity remains good.

The Department requires a minimum equity reserves ratio (net worth to total assets) of 25% for all self-insureds. MUS's equity reserves ratio was 58% as of June 30, 2013, up from 40% in 2012. This is well above the Department's requirement. The other coverage and leverage ratios fell in the (UPPER) and (UPPER MID) quartiles indicating good use of debt management by the group. The primary debt held by the group is $6.1 million in claims liabilities as reported in the financial statements.

The premium to surplus ratio helps to measure the adequacy of the equity cushion and thus is an additional gauge of the group's financial strength. The ratio is computed by dividing net premiums written by the surplus. For example, a company that has $2 in net premiums written for every $1 of surplus has a 2-to-1 premium to surplus ratio. A lower ratio is good and obtained through a larger surplus relative to premiums earned. The premium to surplus ratio for MUS was calculated at 0.38 to 1, which is excellent.

MUS had a $4.0 million net gain with a return on net worth of 35.1% for (FY) 2013. This substantial gain is primarily due to a downward revision in claims liability as directed from the actuary. As MUS moves into their second decade in self-insurance they are able to rely on actual self-insured claim experience rather than estimating current and non-current claims liabilities on claim data prior to self-insurance. The actual experience is trending lower than early liability estimates. MUS and the actuary will continue to monitor the claim experience and make adjustments accordingly.

This downward revision in liability estimates produced a net claims paid line item of ($646,710) on the income statement, as well as a 54.2% increase in net worth on the balance sheet. While this has led to increased gains and equity reserves, it should be noted that MUS incurred $2.1 million in claim paid and claims expense during (FY) 2013.

Comments on Investment Portfolio

The value of the STIP listed as a long-term investment had been an area of concern for the department but the department has continued to keep it in perspective with the overall financial statement. The value decreased in 2013 by -13.3%, while at the same time the value of all assets increased by 6.7%. The STIP has seen a decrease in value of -77.0% since 2009.

This large decrease has resulted in the long-term investment not having an impact on the equity reserve ratio any longer.

Summary

MUS is a public group represented by the Montana State University system, the University of Montana system and the Office of Commissioner of Higher Education. Together these entities share the responsibility and liability of paying the claims for MUS. Incurred liability and total outstanding liability continue to trend upwards, while the actuarial estimates have decreased due to changes in the workers' compensation laws. The department will watch these trends in future years to verify MUS and their actuary adjust liabilities if necessary. MUS has a strong financial statement with good liquidity and an excellent equity reserves ratio. The SIR was increased in 2013 to $750,000.

MUS has implemented a premium holiday for the first six months of FY 2014, which, as expected, should cut premium revenue in half in 2014. MUS and their actuary initiated several steps to decrease MUS's net position in a controlled manner consistent with its mission and goals. Premiums for the years following are projected to continue to grow steadily.

Recommendation

I recommend MUS Self-Funded Workers' Compensation Program be approved to self-insure their workers' compensation obligations in Montana for the period from April 1, 2014 through March 31, 2015.