FISCAL NOTE

Bill #: **HB0057** **Title:** **Exempt university system from state fund requirement**

Primary Sponsor: **John Mercer** **Status:** **Introduced**

Sponsor signature Date Dave Lewis, Budget Director Date

Fiscal Summary

	FY2000 Difference	FY2001 Difference
Expenditures:	Unknown	Unknown
Revenue:	Unknown	Unknown
Net Impact on General Fund Balance:	Unknown	Unknown

Yes	No		Yes	No	
	X	Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget		X	Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

1. Under current law, 39-71-403 MCA, all state agencies, including the Montana University System (MUS), are required to buy workers' compensation insurance from the Montana State Fund (MSF) and the Montana State Fund (MSF) is required to provide coverage for all state agencies, including the Montana University System (MUS).
2. This legislation would redefine the MUS, as a "public corporation" for use only in section 39-71-403. As a "public corporation", the MUS could elect insurance for their workers' compensation liability from Plan 1 (self-insurance), Plan 2 (private insurance) or Plan 3 (State Fund).
3. There is no fiscal impact directly resulting from the passage of this legislation. If one or more units of the MUS select Plan 1 or Plan 2 there could be a fiscal impact on the MUS and MSF would see the loss of up

to 2.18% of total premiums. If one or more units of the MUS select Plan 2, the state general fund would increase by the amount of premium tax paid by the private carrier. This tax is 2.75% of premium.

4. The MUS could begin exploring competitive options for coverage upon passage of the legislation. While it would be possible to prepare an RFP for securing insurance by July 1, 1999, the MSF could retain all or some portion of the MUS workers compensation insurance coverage beyond July 1, 1999.
5. Any savings that accrue to the MUS would benefit the programs based on the funding of personal services. For FY99 that split would be State Support (GF/Millage)-29.5%, Tuition-23.1%, and other current unrestricted and non-appropriated funds-47.4%.
6. The MUS may issue and sell bonds or otherwise incur debt for the purpose of becoming self-insured (Plan 1) to help finance a workers' compensation program.
7. Any reduction in cost would be retained and spent by the MUS.
8. Should the MUS choose Plan 1 or Plan 2, the impact on the MSF will be:
   - reduced revenue from premium associated with the MUS business; and
   - reduced expense of the statutorily required benefits.
9. The MUS is comprised of eight policyholders, 0.033% of the total 24,043 (as of 6/30/98) and $1,665,878, 2.18%of the total net premium in FY 1998, $76,421,000.
10. If all or a portion of the MUS leaves the MSF, the MSF expense ratio would increase, as fixed expenses remain relatively constant and costs that vary with the number of policies decrease less than the decrease in premium revenue. If all MUS agencies left the MSF, rates to all other MSF policyholders would need to be increased by approximately 0.2% to offset the increase in the expense ratio.
11. The Montana University System workers' compensation operating results not including the Commissioner of Higher Education Office from fiscal year 1991 through fiscal year 1998 are: (Note: this is a historical perspective and does not indicate future results)

MSF operating results

FY	Reported payroll	Net premium	Total paid losses	Total unpaid losses	Total loss adjustment expenses	Total underwriting expenses	Total expected expenses	Dividend Return
1991	138,924,281	1,064,923	989,032	49,453	97,450	60,397	1,196,332	0
1992	155,641,880	1,150,391	904,295	330,879	114,643	52,875	1,402,692	0
1993	166,837,340	1,670,868	1,009,035	258,028	127,388	78,561	1,473,012	0
1994	172,450,003	1,781,305	1,035,430	281,937	139,767	55,577	1,512,711	0
1995	178,593,064	2,009,327	818,155	482,808	148,050	88,081	1,537,094	0
1996	190,436,952	1,776,634	597,053	313,255	109,682	79,437	1,099,427	0
1997	202,216,365	1,830,207	604,510	397,195	129,373	109,650	1,240,728	109,942
1998 *	216,164,076	1,665,878	318,006	740,144	136,655	99,503	1,294,308	to be determined
1999 est.**	222,719,611	1,453,717	357,674	834,574	178,837	95,295	1,466,380	to be determined

*The fiscal year 1998 premium includes the amount of $161,000 in premium estimated to be returned to MSU-Bozeman through the retrospective rating plan.
**Expected loss results are based on empirically observed loss trends for the MUS. The actual loss experience for the MUS in FY99 is likely to differ, perhaps significantly, from the expected selection. The allocation of paid to unpaid losses from the total estimated ultimate projected losses is currently estimated to be a 30/70 split.

FISCAL IMPACT:

Given the competitive environment of worker's compensation insurance, it is impossible to determine potential savings from this legislation.

If the MUS agencies choose a private carrier, Plan 2, costs for worker's compensation insurance may be reduced. If any or all of the MUS agencies chooses a private carrier, the state general fund will receive 2.75% of the premium paid to the private carrier, and other state agencies and private policyholders of the MSF will pay slightly higher rates.

If the MUS agencies choose self-insurance, Plan 1, the comparison to current MSF rates is difficult. Self-insurance opens up significant new cost areas including; actuarial analysis of claims reserves, loss control services, reinsurance, and an assumption of risk that is difficult to analyze. Some level of initial surplus would have to be available whether through bonds or cash. If any or all of the MUS agencies chooses to self-insure, other state agencies and private policyholders of the MSF will pay slightly higher rates.

This fiscal note reaches significantly different conclusions than the fiscal note on this bill two years ago for the following reasons:

A. The MSF is now a financially strong workers compensation insurer that offers competitive pricing and underwriting programs to the MUS and other insured customers. Examples of competitive pricing strategies include:
   - Early Return to Work is a 5% credit of premium is available to participating state agencies.
   - Credits are also in place for volume discount and other factors for agencies that are favorable risks.
   - Retrospective rating plans offer incentives to develop a safety conscious work environment and early return to work programs with the potential for return of premium. In FY 1998, Montana State University – Bozeman opted for the retrospective rating plan and will receive an estimated $161,000 in return of premium.
   - Dividend program returns premium (from excess surplus) to insured customers with favorable loss experience. The MUS will receive a $109,942 (6% of premium), dividend in January 1999 based on their loss experience of fiscal year 1997.

B. Prior to July 1, 1998, the MSF could not offer dividends, nor be as competitive. From the beginning of the New Fund, the MSF needed to build an actuarially sound surplus ($117 million before dividend), repay the state general fund ($20 million) and contribute to the Old Fund ($166 million), as required by statute, until it met statutorily defined limits.

C. The effect of dividends: if the $166 million excess surplus had been available to be distributed to policyholders and if the dividend was based on MUS FY 1997 loss experience the MUS would have received an estimated $1.8 million since the inception of the New Fund.

D. The MSF's expense ratio is lower than the expense ratios of competing private carriers and the losses related to benefit payments should be the same as a private carrier as they are set in statute. The MSF average loss adjustment expense (LAE) and underwriting expenses for FY 91 through FY 98 above in the table labeled "MSF operating results" averaged 12.5%. The LAE and underwriting expenses for the top six private carriers in Montana for FY 93 through FY 97 was 46.5% (source – From insurance carrier annual reports filed with the Insurance Commissioner and compiled by "OneSource").

Fiscal Note Prepared by: Mark Barry, Shawn Bubb, Dan Gengler, and John Wilkins
Agency: State Fund
Phone Number: ext. 6454 – John Wilkins
6494 Mark Barry
Fiscal Note Prepared by:
Agency:
Phone Number: