

State of Montana
Costs of State Option of Choosing Among Plan 1, Plan 2, Plan 3
Work Comp Insurers
Department of Administration
Presentation to the Economic Affairs Interim Committee

May 26, 2010

At its January 21, 2010 meeting, the Economic Affairs Interim Committee requested that the Department of Administration obtain an actuarial estimate of what the cost would be to Montana if state government were allowed to obtain its workers' compensation insurance either through a self-insurance mechanism or from a private insurer.

A brief background may assist the committee in understanding the existing framework of workers' compensation coverage for state government.

In 2006 the Schweitzer Administration reviewed a number of areas of unsustainable growth in state government. One area they identified was the cost of workers' compensation coverage for state employees. Under 39-71-403, MCA, Montana State Fund (Plan 3) is the exclusive provider of workers' compensation coverage for state agencies. For the five years prior to that time, workers' compensation costs to state government were increasing at approximately 21% per year and grew from a premium volume of \$6M to more than \$18M annually.

In May of 2006 the administration met with Montana State Fund staff and launched an initiative to turn this trend around. As a result, the Workers' Compensation Management Bureau was created in the Department of Administration. Our annual premium for FY2010 is less than it was for FY2007. Since beginning the workers' compensation management function in the department, we have saved over \$21M.

We are now looking at systemic and infrastructure issues to determine if there are further efficiencies that may be gained within state government. Last fall, Budget Director David Ewer requested data and information from Montana State Fund to enable analysis. Montana State Fund worked with the administration to provide information and respond to questions regarding how coverage is provided to the state.

Following that effort, the Department of Administration engaged Aon Consulting, Inc., a large national benefits and management consulting firm to review the workers' compensation program for state government in Montana. They were charged with the objectives outlined in the Economic Interim Affairs Committee Chairman's letter to Director Janet Kelly, dated February 1, 2010. Mr. Steve Kahn with Aon will present those results shortly. However, in the process of reviewing the data provided by Montana State Fund, we determined that further analysis of the underlying business processes was warranted. Aon performed a claims audit and reported their findings to the department. Mr. Kahn will also speak about the findings of the Claims Best Practice Audit.

In summary, Aon identified three areas of concern regarding business practices that could have a significant impact on the bottom line of cost. Those are Contact and Investigation, Litigation Management, and Reserving.

Reserving is of particular concern to any employer. The accuracy of reserves has substantial bearing on the determination of premiums levels and those costs have a long lasting impact on employer premiums. Improvement to minimum best practices standards in those area by Montana State Fund could potentially improve financial outcomes for all employers.

With these findings in mind, and with the potential to realize additional efficiencies, the administration believes that further examination of the business practices is warranted.