Montana State Fund
Combined Loss Ratios by Account Size
Five Fiscal Year Analyses
Senate Bill 19 Study Committee

The attached worksheets provide a historical loss analysis by size of account of accounts insured by Montana State Fund (MSF). This information is provided at the request of the chairman of the committee. This analysis shows the volatility that occurs with the small account premium segment from year to year.

We have broken the account size segments by premium size as follows.

- $0 to $1,000 in annual premium
- $1,000 to $2,500 in annual premium
- $2,500 to $5,000 in annual premium
- Over $5,000 in annual premium

The columns provided include the number of policies serviced in each segment, the premium. Losses and loss adjustment expenses (LAE), other operating expenses allocated to the segment and the combined loss ratio. The combined loss ratio is calculated as the total of all the expenses including loss and LAE divided by the premium for the segment. Montana State Fund generally has a breakeven point of approximately 120% losses and expenses to premium collected. The information is presented on an accident year basis. An accident year for MSF is defined as all losses incurred and premiums associated with those losses from July 1 to June 30 of any given period.

The data indicates there is volatility in the small premium segment of businesses insured by MSF as compared to the total book of business. The accounts with less than $1,000 in premium make up over 50% of the businesses insured by MSF. The 1998 accident year is outside an array of the other four years, but there were rate level decreases after the 1998 year.

Note there is a small range of variability in the over $5,000 premium segment as compared to those accounts less than $1,000. Basically what this means is that since the total book of business insured by MSF shows fairly stable trends, we are able to predict loss results and therefore able to estimate the level of premiums to charge businesses we insure with a fairly high level of confidence. However, given the wide swings in the results of the smallest segment of our business, we are less confident in the pricing of this segment of business.

If we only had the smallest accounts or those with premiums less than $1,000 in annual premium, we would need to adjust our premiums charged to these accounts to consider the significant volatility in this segment. We would need to select a rate level at the high end of the range of the volatility in order to provide any reasonable opportunity to at least breakeven on the segment. It is only when we add larger accounts, those over $5,000 in premium that we see stability begin to form in the overall results.

This analysis shows the strong indication of the need to MSF to be able to compete for a cross section of business and size of business in order to offer the small business owner an affordable and stable option for their workers compensation insurance coverage.