

SB-19 State Fund Structure Study Committee Old Fund Claim Administrative Costs

During the last Study Committee meeting, there was discussion about the cost of administering the Old Fund outstanding claims. As a point of clarification, the \$1.25 million allowed to be paid to MSF for the administration of the Old Fund includes the following.

- Cost of Claims Management;
- Actuarial Cost for establishing reserves for the ultimate costs of the claims;
- Financial Statement Preparation;
- Audit Cost;
- Budget Tracking and Reporting, and,
- Indirect Cost allocated to the Old Fund including system costs and other indirect costs.

The following provides an analysis of these costs and provides a breakdown of expenses for the fiscal year ended June 30, 2002. The Legislative Audit Division audits the allocation process used by MSF annually.

The MSF is required in law (39-71-2352, MCA) to:

- Determine the cost of administering and paying claims for injuries of the Old Fund separately from the New Fund;
- Keep adequate and separate accounts of the costs of the Old Fund and New Fund;
- Fund administrative expenses and benefit payments of the Old Fund separately from the New Fund.
- May not spend more than \$1.25 million a year to administer claims of the Old Fund.
- Determine 'adequate funding' on the Old Fund and transfer excess of adequate funding as required by law.
- Engage the services of an independent actuary to project the unpaid claim liability of the Old Fund.

Total Old Fund expense in FY02, including the MSF expense of administering Old Fund Claims, was \$14,343,002. The expenses are broken down as follows:

- \$12,636,226 - Benefits and Claim Payments of Old Fund claims.
- \$107,249 - Allocated Loss Adjustment Expenses of Old Fund Claims.
- \$349,527 – Regulatory assessments charged by the Department of Labor and Industry to the Old Fund not included as a cost of administering the claims.
- \$1,250,000 – MSF cost to administer Old Fund claims.

The services the MSF provides the Old Fund cost include:

- ✓ The Old Fund Claim Unit - Team of claim adjusters and Team Leader specialized in laws pertaining to Old Fund Claims.
- ✓ MSF attorneys and paralegals costs working specific Old Fund claim files.
- ✓ Department of Justice cost for investigating and prosecuting Old

- Fund fraud.
- ✓ Actuarial Services - Costs for retaining services of an independent actuary and costs of MSF's internal actuary, actuarial analyst.
- ✓ Financial Services – Finance Team cost for preparing financial statements, budget, projections, auditing, and investment services (does not include cost from Board of Investments).
- ✓ Management Services – Board of Directors, President/CEO, General Counsel, Vice President of Corporate Support, Vice President of Insurance Operations Support, and Internal Auditor providing leadership and decision making regarding the Old Fund.
- ✓ Medical Payments – Cost of Medical Payments Unit for paying medical bills associated with Old Fund Claims.
- ✓ Document Processing – Cost of Document Processing Unit for processing, scanning, imaging, and indexing documents associated with Old Fund claims.
- ✓ Other services provided include Quality Assurance and infrastructure support.

The following breaks down the total \$1,250,000 of MSF expense in administering the Old Fund by requested area.

- \$1,089,337 - Direct cost of managing Old Fund Claims Actuarial Services
- \$59,186 – Actuarial Services
- \$99,504 - Financial and Budget Services
- \$1,973 - Legislative Audit Division Services

The costs of administering the claims in the Old Fund for fiscal year 2002 is 10% of the amount of claim payments made for the year. According to AM Best's Aggregates and Averages for the calendar year end 2001 for 85 insurance organizations where the predominate line of business is workers compensation, the claim management expenses as a percent of paid losses for the year was 24%. The organizations in AM Best Aggregates and Averages data have new claims reported and it generally takes additional efforts to set up the claim, investigate to determine whether to accept the claim, and establish treatment plans. There is generally a higher initial cost for the early management activity of a claim. AM Best does not have data for managing claims in the unique situations such as the Old Fund. However, the 10% management of the Old Fund as compared to the 24% in the industry provides some comparison of cost. The remaining Old Fund claims are older claims and are the more complex claims requiring active management. In addition, the costs making up the 10% include the other services discussed earlier, which are the actuarial reviews and financial statement preparation.

As the committee considers any changes to the administration of the Old Fund claims, key consideration must be given to the treatment of the injured employees in this group of claims. Consistency and stability in handling of their claims is important to these injured employees. Changes and dislocation of management and treatment of these injured employees places additional stress on their lives.