

MONTANA UNIFIED SCHOOL TRUST
2009-2010 ANNUAL REPORT



CEO Message



Eric Schindler, CEO

As the new CEO of the Montana School Services Foundation, I am excited about the opportunity to serve the education community through the Montana Unified School Trust. Although I am new to this position, I have had the opportunity to look at the year in hindsight and to look positively toward the future.

Today's Healthcare Environment

Healthcare-reform legislation was passed into law and signed by President Obama in 2010. While the new law contains needed health-insurance reform, it does not adequately address healthcare cost trends that have been averaging three times the rate of consumer inflation.

In the next year, national costs will increase because of mandates in the healthcare reform legislation. Those mandates include eliminating pre-existing-condition exclusions for dependents younger than age 19, providing dependent coverage up to age 26, and prohibiting lifetime-benefit limits. In the long term, experts only agree that they are uncertain about how healthcare-reform legislation will affect cost trends.

Our actuaries, The Segal Company, project that national medical inflation and utilization will increase costs by 11% for 2011. Another compounding factor is that every year a participant ages above 40, he or she uses about 5% more healthcare services, which results in further premium increases.

MUST Reserves

The accompanying table shows that MUST premiums per member increased 5.3% annually over the last five years while claims costs increased 10.2%. The 2009-2010 benefit year was the third consecutive period of unanticipated claims growth. During that three-year period (2007-2010), claims costs increased 14.5% annually while premiums increased

only 6.9%. As a result, reserves were used to fund the premium deficiencies.

For the second time in its 23-year history, the MUST Board of Trustees elected to assess member groups a contribution adjustment to keep the Trust in good financial position. The total amount of the contribution adjustment was \$3,025,000. That left \$2.6 million in reserves for the 2010-2011 year.

As a self-funded trust, MUST does not need the reserve amounts required of fully-insured carriers (which are frequently used to invest in for-profit companies or, in some cases, to provide a return to shareholders). We only exist to serve the needs of members and to achieve reserve levels to meet those needs. We will continue to strengthen MUST reserves for our specific needs and not in order to benefit any third party or to derive a profit like you may see from some of our competitors.

Significant premium increases were required to adequately fund the increases in claims. The contribution adjustment and required premium increases caused some member groups to consider other health-benefit providers for 2010-2011. It is the goal of the Board of Trustees, and my personal goal, not to have future contribution adjustments. Furthermore, we intend to win back those member groups that elected to change health-benefit providers.

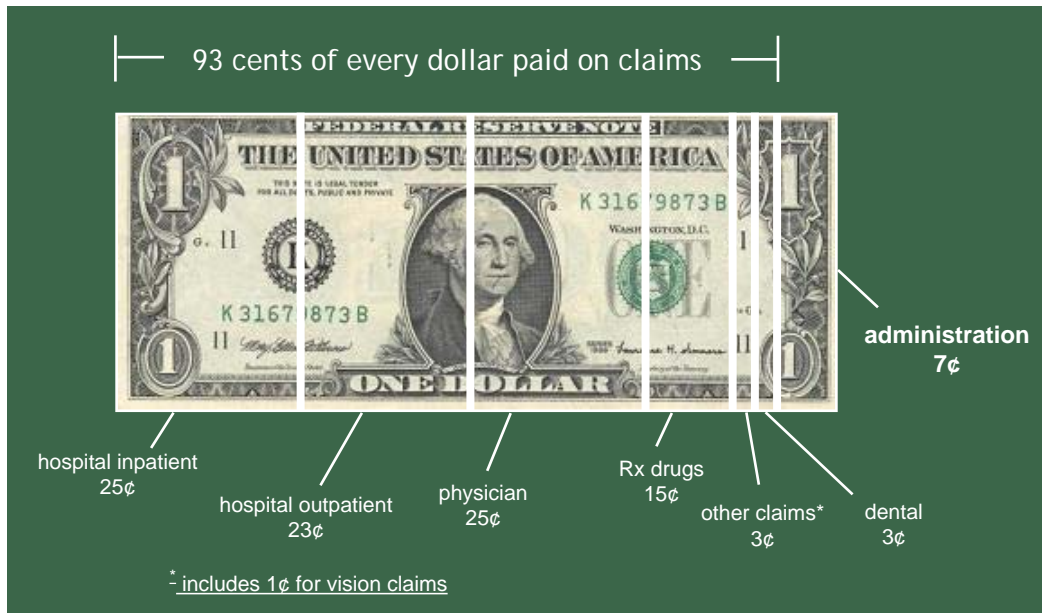
Increase in Premiums and Claims (per member, per month)

	Average Premium	Annual Increase	Average Claims	Annual Increase	Medical Cost Index Annual Increase*
2005-2006	\$262.92	1.0%	\$220.64	3.8%	9.1%
2006-2007	\$276.64	5.2%	\$230.53	4.5%	9.6%
2007-2008	\$270.88	-2.1%	\$262.27	13.8%	8.4%
2008-2009	\$293.05	8.2%	\$295.99	12.9%	7.6%
2009-2010	\$337.10	15.0%	\$346.33	17.0%	7.4%
5-yr average		5.3%		10.2%	8.4%

* Milliman Medical Cost Index=Total annual medical costs for a typical family of four

MUST and the Healthcare Dollar

It has already been mentioned that MUST's reserves exist solely to meet the needs of members,



rather than to pay dividends to shareholders or create profit. Also, MUST does not pay commissions to agents, because that simply equates to more dollars being spent on administrative expenses that could be spent paying claims. As the accompanying dollar graph illustrates, for the 2009-2010 benefit year, MUST spent 93 cents of each dollar on claims, while others in our industry spent as little as 83 cents of each dollar on claims.

Even with the low cost of administration, we are able to employ salaried field representatives in five regions in order to provide ready assistance and timely solutions for healthcare issues impacting MUST members and school administrators. We also maintain a help desk in Helena solely focused on helping members and groups with service questions and issues.

Success Despite Adversity

The past year has been one of internal change. Long-time CEO Bob Robinson retired following the end of the benefit year. Also, our previous third-party claims processor resigned before the end of the benefit year, which left a monumental challenge for the Montana School Services Foundation team and First Choice Health (the new third-party administrator and claims processor). Any conversion to a new claims processor is challenging, but the timing of this conversion created additional challenges. The effort to complete this conversion was heroic. Although there continue to be occasional issues six months into the conversion, such issues are diminishing quickly.

With the change of our claims processor to First Choice Health, our provider networks and dis-

counts are improving to the benefit of all MUST members. Furthermore, First Choice Health offers an integrated medical-management approach that aims to help consumers receive only high-quality, necessary healthcare, which results in improved member satisfaction and savings.

The Road Ahead

Looking forward, the challenge for every one of us is to wisely spend healthcare dollars by embracing wellness programs, managing our health, and comparing costs when necessary.

MUST was at the forefront of investing in wellness programs that help members take a proactive stance in managing their health. This includes the use of preventive benefits. But it is MUST members themselves who are opening a new frontier by actively comparing provider costs.

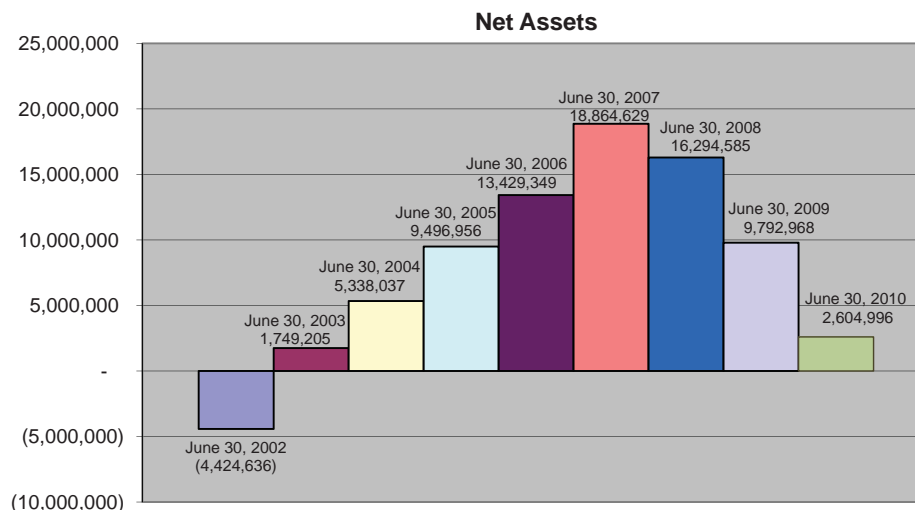
One such member undergoing treatments for Multiple Sclerosis recently informed MUST that she had compared costs for regular infusion treatments and found that she was able to save the Trust as much as \$90,000 per year without sacrificing her quality of care. MUST's entire membership wins in situations like this, because the vast majority of member premiums go directly toward paying medical charges.

We can all keep costs down by managing our health and remaining diligent. The measure of our success as a trust is to provide quality and affordable healthcare benefits for our members. If we can keep costs below national and regional medical trends, we will have healthier members and more manageable premium increases. Everybody wins.

FY 2010 Financial Summary

Statements of Net Assets Available for Benefits

ASSETS	JUNE 30	
	2010	2009
Cash in Operating and Savings Accounts	\$ 5,990,290	\$ 1,128,463
Cash in Claims Account	22,530	9,982
Premiums Receivable, Net of Allowance for Doubtful Accounts	230,296	312,633
Premium Contribution Adjustment Receivable	2,809,038	-
Interest Receivable	53,576	111,210
Other Receivables	78,175	467,034
Prepaid Expenses	48,451	41,962
Investments at Fair Value	6,996,894	16,196,205
TOTAL ASSETS	\$ 16,229,250	\$ 18,267,489
LIABILITIES AND NET ASSETS		
Accounts Payable	\$ 994,667	\$ 436,291
Deferred Premium Revenue	1,152,871	1,946,309
Estimated Premium Benefits Incurred But Not Paid	11,476,716	6,091,921
Total Liabilities	\$ 13,624,254	\$ 8,474,521
Unrestricted Net Assets	\$ 1,604,996	\$ 8,792,968
Board Designated Net Assets	1,000,000	1,000,000
Total Net Assets (Deficit) Available for Benefits	\$ 2,604,996	\$ 9,792,968
TOTAL LIABILITIES AND NET ASSETS	\$ 16,229,250	\$ 18,267,489



FY 2010 Financial Summary

Statements of Changes in Net Assets Available for Benefits

	JUNE 30	
ADDITIONS TO ASSETS ATTRIBUTED TO:	2010	2009
Premium Revenue	\$ 73,533,956	\$ 65,592,584
Premium Contribution Adjustment	3,024,960	-
Investment Income	290,607	202,085
Appreciation (Depreciation) in Fair Value of Investments	351,325	(469,899)
Pharmacy Rebates	935,987	761,579
Administration Fee Rebates	800,000	300,000
COBRA Administration	7,404	7,515
Miscellaneous Income and Fees	4,143	466,726
TOTAL ADDITIONS TO ASSETS	\$ 78,948,382	\$ 66,860,591
DEDUCTIONS FROM ASSETS ATTRIBUTED TO:		
Claim Payments	\$ 73,825,013	\$ 66,575,745
Wellness Benefit Payments	217,933	278,568
Increase (Decrease) in Estimated Premium Benefits Incurred But Not Paid (IBNP)	5,384,795	1,230,397
Total Estimated Claims Incurred	\$ 79,427,741	\$ 68,084,709
Group Life & Disability Insurance Premiums Incurred	409,106	407,984
Group Reinsurance Premiums Incurred	196,881	192,984
Administration Expense (Excluding Sponsorship Fees)	5,705,556	4,303,087
Sponsorship Fees	397,070	373,444
TOTAL DEDUCTIONS FROM ASSETS	\$ 86,136,353	\$ 73,362,208
NET INCREASE (DECREASE) IN NET ASSETS AVAILABLE FOR BENEFITS		
Net Assets (Deficit) Beginning of Year	\$ (7,187,972)	\$ (6,501,617)
	9,792,968	16,294,585
NET ASSETS (DEFICIT) END OF YEAR	\$ 2,604,996	\$ 9,792,968

Statement from MUST Board Chair

As trustees of MUST, we board members represent the members and school administrators of our healthcare-benefit trust. We accept the challenges involved in making decisions about how to best meet our members' healthcare needs.

The 2009-2010 benefit year was the third in a row of unexpected high claims. It was also a year of much change with the retirement of CEO Bob Robinson and the hiring of our new CEO, Eric Schindler. We also changed third-party administrators (whose job is processing claims) and recently switched actuarial consultants.



Jan Riebhoff

A handwritten signature in cursive script that reads "Jan B. Riebhoff".

The unexpected increase in claims over the past three years caused us to use reserves to fund the premium deficiencies. As a result, we asked groups for a "contribution adjustment" to ensure the trust maintains adequate funds to meet our financial obligations and to be in a financial position to provide future health-benefits solutions for our Montana schools. The requested adjustments were based on seven months of claims and what was anticipated to be the last five months of claims for the year. When those claims came in they were less than anticipated, so the adjustment for each member school was recalculated and schools were notified. Schools that had already paid the adjustment were reimbursed for the difference.

One of the challenges we all face is how to manage our healthcare spending. We can all lower healthcare costs by choosing to use the wellness and preventive benefits offered to MUST members. The Trust pays up to the first \$300 of preventive benefits when members use a network provider. Amounts over \$300 are now processed as medical claims. MUST was one of the first groups to offer wellness and preventive benefits, which are designed to maintain or improve health before problems arise. Using these benefits helps members stay healthy, which results in lower claims.

While MUST experienced some challenges over the last year, we are confident we can meet member needs for many years to come. MUST is unique in that we only provide health benefits for the Montana public-education community. Because we are a trust, we can focus on benefits and services for our members rather than making a profit. MUST will maintain adequate funds to meet our financial obligations and continue to be a leader in providing healthcare benefits.



Bette Albright



Shawn Bubb



Dennis Davenport



Diane Fladmo



Mark Halvorson



Joe Knapp



Mike Thiel



Jule Walker

Statement from MSSF Board



Lance Melton

A handwritten signature in black ink, appearing to read "Lance Melton".



Eric Feaver

A handwritten signature in black ink, appearing to read "Eric Feaver".



Darrell Rud

A handwritten signature in black ink, appearing to read "Darrell Rud".

For only the second time in its 23-year history, MUST assessed a contribution adjustment to its groups in 2010. The final adjustment, which represented less than 5% of 2010 premium, was assessed because of a “perfect storm” in which unexpected claims costs strained reserves that had been used to keep rates low in earlier years and to fund the premium deficiencies caused by those unexpected costs in later years.

The new year for MUST is one of change. Eric Schindler joined the Montana School Services Foundation (MSSF) as the new Chief Executive Officer. Eric has 25 years of experience as a chief financial officer, most recently as CFO of Blue Cross Blue Shield of Montana where his responsibilities included underwriting and actuarial services. Eric’s experience as a healthcare executive will be invaluable as we rebuild MUST reserves and continue to provide health-benefits solutions to Montana’s education community.

Prior to the 2010 benefit-year end, we contracted with First Choice Health (FCH) to be MUST’s new Third Party Administrator (TPA). That change includes improved network discounts and enhanced medical-management and claims-management capabilities. The addition of FCH also adds Centers of Excellence in the northwest, which means more cost-effective critical-care centers that provide quality outcomes. While any conversion to a new system has challenges, FCH and the MSSF teams executed the conversion with less member disruption than anticipated. FCH has been very responsive to our needs and we are excited about our new partnership.

A new actuarial firm, The Segal Company, has also been retained to help us consider the best model for providing contemporary benefits and to help us rethink how to effectively rate groups in the MUST pool. The team from Segal provides actuarial consulting services to a number of similar clients, including the New Mexico Public Schools Insurance Authority.

MSSF also engaged a consultant to review the MSSF organization and MUST benefit plans. A number of quality recommendations were made in the consultant’s report. Eric Schindler and his team are working closely with the MUST Board to act upon those recommendations that will strengthen both MUST and MSSF.

Each of us represents a sponsoring organization that remains committed to MUST. It is our goal and the goal of the MUST Board of Trustees to continue to strengthen MUST reserves while providing quality and cost-effective health-benefit plans for MUST school groups and their members.

Partnerships

Alere

Offers disease-management services to plan members.



Caremark

Provides pharmacy-benefit management.



First Choice Health

A third-party administrator, provides a staff of dedicated professionals who work closely with MUST to administer claims adjudication.



It Starts With Me

Administers screenings for the Healthy Futures Wellness Program in participating districts.



The Segal Company

An actuarial and consulting firm, develops rates for new and renewing business and provides general business information and direction to the Board of Trustees as they manage MUST benefit plans.



Standard Insurance Company

Provides basic life insurance as well as additional life and long-term-disability coverage options.



Symetra Insurance Company

Provides reinsurance coverage.



UMR Precious Cargo Program

Offers a high-risk-maternity screening program on behalf of MUST.



MSSF Staff

Chief Executive Officer
Eric Schindler

Enrollment/Eligibility Specialist
Florence "Missy" Smith

Administrative Officer
Joan Fabricius

Sales and Marketing Director
Christi Sharp

Chief Financial Officer
Dena Gormely

Marketing Assistant
Shelly Batista

Executive Assistant
Pam Tudor

Field Representatives
Garth Cox
Tamara Crowder
Greg Disney
Marcia Ellermeyer
Dawn Smith-Sullivan

Administrative Support
Pam Chappell
Nina Herrera

Accounting Specialists
Patricia Cooper
Kelli Hargreaves

Technical Writer
Shane Castle

Enrollment/Eligibility Supervisor
Judy Sanchez

————— www.mustbenefits.org —————
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