

MONTANA UNIFIED SCHOOL TRUST
2010-2011 ANNUAL REPORT



CEO Message



Eric Schindler, CEO

Almost one year into my tenure, I have had the opportunity to travel the state and meet with many of our groups and members. I've learned a great deal about MUST and the value it brings to Montana's public education community. We have overcome some adversity and we're pleased about the successes we've had this past year. We're also excited about the opportunities that this coming year holds.

Today's Healthcare Environment

The Patient Protection and Affordable Care Act of 2010 will provide better access to healthcare for many Americans, but it unfortunately does not immediately address the cost issues that continue to plague us. As

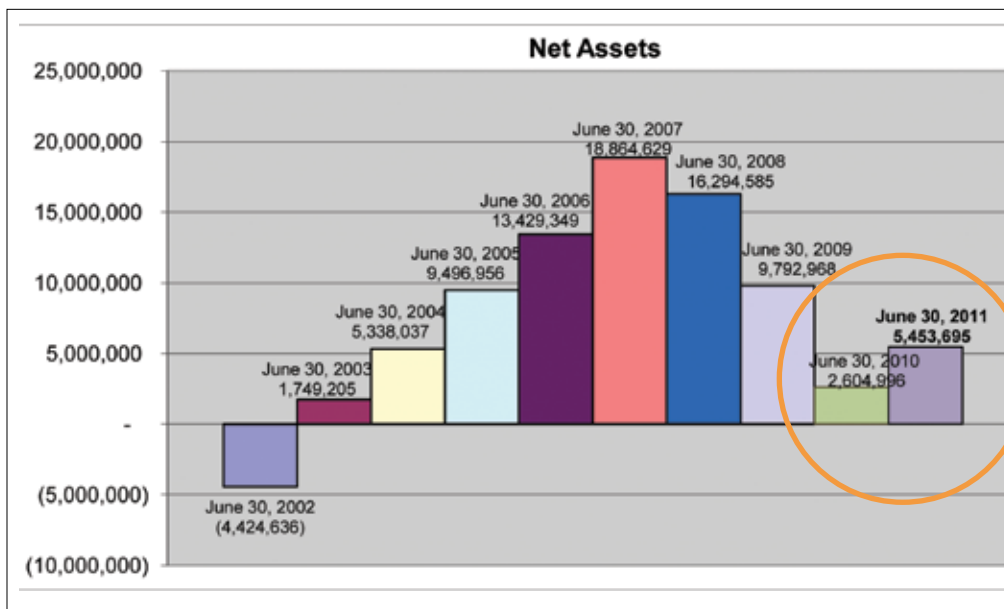
an example, the newly-mandated extension of coverage of adult dependents up to age 26, while advantageous to consumers, is expected to increase healthcare costs for 2011-12.

According to MUST's actuaries, The Segal Company, 2012 healthcare trend (the combination of inflation and increased use of services) is projected to be approximately 10%, putting even more budget pressure on schools and employees alike.

In the post-reform environment, cost-shifting to consumers appears to be an ongoing trend. With consumers assuming more responsibility for their own healthcare decisions, it's increasingly important for health plans to provide education and programs to help their members make the best possible choices.

The Past Year in Review

As a self-funded trust, MUST does not need the net asset 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).



MUST's net assets, which are the amount remaining after accounting for all plan claims and expenses, more than doubled this year, rising from about \$2.6 million to roughly \$5.4 million. To further protect its net assets, MUST has bolstered reinsurance coverage to reduce large-claims risk from \$1 million to \$350,000.

“We’re excited about the success of the past year and the opportunities we have to better serve Montana’s public education community.”

Net assets are the amount remaining after accounting for all plan claims and expenses. Despite a significant loss of membership, MUST ended the 2010-11 plan year with over \$5.4 million in net assets, as illustrated on the previous page.

This is more than a two-fold increase over the prior year, which ended with \$2.6 million in net assets. To further protect MUST’s financial position, we’ve bolstered our reinsurance to reduce our risk for large claims from \$1 million to \$350,000. MUST’s administrative expenses continue to be lower than most of our competitors, in part because MUST does not pay agent commissions. In addition, our unique service model provides a sales and service team solely dedicated to MUST groups and members.

We have successfully completed our transition to First Choice Health, our third-party administrator and claims processor. We’ve also substantially improved our network of participating providers. We also created a strategic plan and redefined our mission, vision and values in order to take advantage of future opportunities and better meet the needs of our members.

Looking Ahead

While we are proud of our low administrative expenses, the key to managing future premiums is to focus on strategies that tackle claims costs. We’ve launched a new “Continuum of Care” model that contains two important components: an enhanced wellness program and a data system that allows us to help our members better manage their own health.

We’re continuing our tradition of pioneering in the field of wellness by revamping our Healthy

Futures program. We’ve partnered with TwoMedicine Health and Financial Fitness to offer this robust, year-round program, which includes health screenings, annual health assessments, ongoing educational programs, and continuing access to the Mayo Clinic’s Embody Health website, including online and telephonic coaching.

We’re excited about the success of the past year and the opportunities we have to better serve Montana’s public education community.

Mission

To serve the public-education community of Montana by providing high-quality, cost-effective health-benefit plans and services through the Montana Unified School Trust.

As a team, we are committed to the following values:

- *Exceptional Service.* Serving members every day, not just the day they enroll.
- *Integrity.* Being honest in all that we do.
- *Innovation.* Using technology and creativity to deliver solutions.
- *Continuous improvement.* Always getting better at what we do.
- *Wellness.* Improving the health and well-being of our members and employees.

Vision

To be the most trusted benefits provider in Montana.

FY 2011 Financial Summary

MONTANA UNIFIED SCHOOL TRUST STATEMENTS OF BENEFIT OBLIGATIONS AND NET ASSETS AVAILABLE FOR BENEFITS

June 30, 2011 and 2010

| | 2011 | 2010 |
|--|-----------------------------|-----------------------------|
| BENEFIT OBLIGATIONS | | |
| Estimated Premium Benefits Incurred But Not Paid | <u>\$ 3,793,000</u> | <u>\$ 11,476,716</u> |
| NET ASSETS | | |
| ASSETS | | |
| Cash in Operating and Savings Accounts | \$ 3,429,231 | \$ 5,990,290 |
| Cash in Claims Account | 80,790 | 22,530 |
| Total Cash and Cash Equivalents | <u>\$ 3,510,021</u> | <u>\$ 6,012,820</u> |
| Premiums Receivable, Net of Allowance for Doubtful Accounts | 59,138 | 230,296 |
| Premium Contribution Adjustment Receivable | 912,215 | 2,809,038 |
| Interest Receivable | 30,946 | 53,576 |
| Other Receivables | 219,379 | 78,175 |
| Prepaid Expenses | 20,464 | 48,451 |
| Investments at Fair Value | 6,033,885 | 6,996,894 |
| Total Assets | <u>\$ 10,786,048</u> | <u>\$ 16,229,250</u> |
| LIABILITIES | | |
| Accounts Payable | \$ 336,348 | \$ 922,416 |
| Other Payables | 219,661 | 72,251 |
| Deferred Premium Revenue | 983,344 | 1,152,871 |
| Total Liabilities | <u>\$ 1,539,353</u> | <u>\$ 2,147,538</u> |
| NET ASSETS AVAILABLE FOR BENEFITS | | |
| Net Assets Available for Benefits | \$ 9,246,695 | \$ 13,081,712 |
| Board Designated Net Assets Available for Benefits | - | 1,000,000 |
| Total Net Assets (Deficit) Available for Benefits | <u>\$ 9,246,695</u> | <u>\$ 14,081,712</u> |
| Net Assets Available for Benefits, in Excess of Benefit Obligations | <u>\$ 5,453,695</u> | <u>\$ 2,604,996</u> |

MONTANA UNIFIED SCHOOL TRUST
STATEMENTS OF CHANGES IN BENEFIT OBLIGATIONS AND NET ASSETS
AVAILABLE FOR BENEFITS
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|--|-----------------------------------|-----------------------------------|
| NET CHANGE IN BENEFIT OBLIGATIONS | | |
| Increase (Decrease) in Estimated Premium Benefits | | |
| Incurred But Not Paid (IBNP) | <u>\$ 7,683,716</u> | <u>\$ (5,384,795)</u> |
| NET CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS | | |
| ADDITIONS TO ASSETS: | | |
| Premium Contributions | \$ 40,689,313 | \$ 73,533,956 |
| Premium Contribution Adjustment | - | 3,024,960 |
| Uncollectible Amount Recovered | 29,376 | - |
| Administration Fee Rebates | 200,000 | 800,000 |
| Pharmacy Rebates | 783,221 | 935,987 |
| Miscellaneous Income and Fees | 26,222 | 4,143 |
| Investment Income | 167,029 | 290,607 |
| COBRA Administration Fees | 3,837 | 7,404 |
| Appreciation (Depreciation) in Fair Value of Investments | 156,850 | 351,325 |
| Total Additions to Assets | <u>\$ 42,055,848</u> | <u>\$ 78,948,382</u> |
| DEDUCTIONS FROM ASSETS: | | |
| Claim Payments | \$ 42,543,701 | \$ 73,825,013 |
| Wellness Benefit Payments | 103,686 | 217,933 |
| Total Estimated Claims Incurred | <u>\$ 42,647,387</u> | <u>\$ 74,042,946</u> |
| Group Life & Disability Insurance Premiums Incurred | 145,739 | 409,106 |
| Group Reinsurance Premiums Incurred | 277,046 | 196,881 |
| Administration Expense (Excluding Sponsorship Fees) | 3,586,796 | 5,705,556 |
| Sponsorship Fees | 233,897 | 397,070 |
| Total Deductions From Assets | <u>\$ 46,890,865</u> | <u>\$ 80,751,559</u> |
| Net Increase (Decrease) in Net Assets Available For Benefits During the Year | <u>\$ (4,835,017)</u> | <u>\$ (1,803,177)</u> |
| Change in Net Assets Available for Benefits, in Excess of Benefit Obligations | <u>\$ 2,848,699</u> | <u>\$ (7,187,972)</u> |
| Excess Net Assets (Deficit) - Beginning of Year | 2,604,996 | 9,792,968 |
| Net Assets Available for Benefits, in Excess of Benefit Obligations - End of Year | <u><u>\$ 5,453,695</u></u> | <u><u>\$ 2,604,996</u></u> |

Statement from MUST Board Chair

“Last year, I expressed confidence in MUST’s ability to strengthen its financial position. I am pleased that we’ve doubled our net assets over the past year.”

As trustees, we represent the members of MUST. Our voting members are educators, administrators and school board members. This is how we ensure that we represent the best interests of our members.

To assist our Board with the more technical aspects of providing members with quality health benefits, we added two non-voting board members. These consultants possess knowledge and experience that heighten our ability to make the best decisions for the trust.

Last year, I expressed confidence in MUST’s ability to strengthen its financial position. I am pleased that we’ve doubled our net assets over the past year.

We’re proud of our history

of providing innovative preventive benefits, and we’ve increased those benefits this year. We believe that wellness and prevention are keys to a healthier, more productive membership that, in turn, leads to more manageable costs.

The trust was created to offer health-benefit choices to Montana’s public education community. As a trust, we have a responsibility to spend our members’ money wisely. Our lower administrative expenses, which do not include agent commissions, allow us to spend more of each premium dollar on member claims.

Our “members-first” philosophy has served us well for 24 years, and we’ll continue to treat our members as our highest priority.

Voting Members



Jan Riebhoff, chair

Jan B. Riebhoff



Joe Knapp



Jule Walker



Mark Halvorson



Mike Thiel



Dennis Davenport



Shawn Bubb



Diane Fladmo



Frank Miller

Non-Voting Members



Connie Welsh



Martell Hilderbrand

Statement from MSSF Board



Lance Melton



Darrell Rud



Eric Feaver

MUST has completed its 24th year as a trust, providing health benefits to Montana's public education community. As consolidation of health insurers continues to occur, it's more important than ever for us to provide choice for schools.

MSSF has also undergone significant transitions in leadership over the last year, with our new CEO Eric Schindler having completed his first full fiscal year at the helm of MSSF and MUST. Eric has brought an unprecedented degree of expertise to the position of MSSF CEO, built from a substantial depth and breadth of previous leadership experience in the fields of health insurance, finance and strategic planning.

Capitalizing on Eric's strong work ethic and his determination to see MUST not only survive but thrive, MSSF and MUST are poised to enhance the delivery of health benefits by seizing some unique opportunities that exist in today's school market.

We had high expectations

of our new CEO given the challenges we were all facing in MUST two years ago and we are thankful to reflect on our choice in hiring Eric Schindler. We know that we selected the right person at the right time to help MUST regain its financial footing and its reputation for value. We are looking forward to continued progress in this regard and are confident that Eric shares our enthusiasm for schools and choice in health benefits.

In December 2010, MUST retained The Segal Company to provide actuarial and consulting services for the trust. As a national firm, Segal has a wealth of expertise in a number of areas including risk management, national health trends, implementation of the Affordable Care Act, and medical and pharmacy benefit plans. Segal actuaries also worked with the MUST board and MSSF staff to implement a simpler rating method that was easier for our groups to understand.

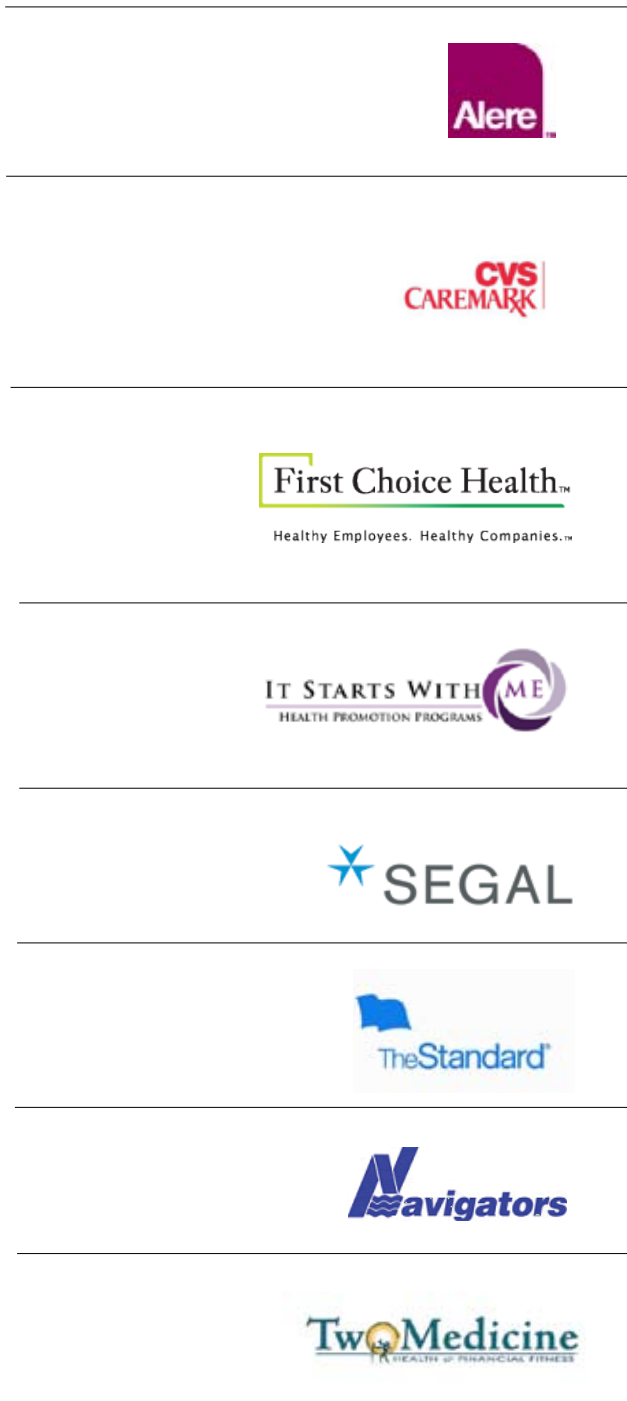
Together, the MSSF board and the MUST trustees

adopted a new strategic plan that defines both organizations' direction and goals. This planning process helps us address past issues and better adapt to the challenges of today's ever-changing healthcare environment. For instance, Montana Senate Bill 329 provides funding advantages for schools that form interlocal cooperatives for the purchase of services, including health benefits. The MUST board and MSSF staff devised a strategy to assist schools in the formation of cooperatives to purchase health benefits for 2012.

One year ago, the financial stability of MUST was in question. As of June 30, 2011, MUST's net assets were \$5.4 million, up from \$2.6 million in 2010. This recovery would not have been achieved without significant changes, including those noted above.

The Montana School Board Association, the School Administrators of Montana and the MEA-MFT remain committed to MUST.

Partnerships | MSSF Staff



Chief Executive Officer
Eric Schindler, CPA

Administrative Officer
Joan Fabricius, RN

Chief Financial Officer
Dena Gormely, CPA

Executive Assistant
Pam Tudor

Administrative Support
Pam Chappell
Nina Herrera

Accounting Specialists
Patricia Cooper
Kelli Hargreaves

Enrollment/Eligibility Supervisor
Judy Sanchez

Enrollment/Eligibility Specialist
Florence "Missy" Smith

Sales and Marketing Director
Christi Sharp

Marketing Assistant
Shelly Batista

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

Care Management Coordinator
Cathy Reagor, RN, CCM

Technical Writer
Shane Castle

* The MSSF staff would like to wish Northwest-Region Field Representative Garth Cox a happy retirement and thank him for his years of stalwart service.