

BOARD OF DIRECTORS MEETING (OPEN)

AGENDA ITEM 17a

ATTACHMENT 17a-l

APPROVAL of MAY 14-15, 2009 OPEN MEETING MINUTES

PRESENTED BY: JEANNE CAIN

July 10, 2009

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

MAY 14-15, 2009

The Board of Directors of State Compensation Insurance Fund met on May 14-15, 2009 in the Milton Marks Conference Center, State Building, 455 Golden Gate Ave, San Francisco, California.

MAY 14, 2009

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on May 14, 2009 at 4:00 p.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Sen. Michael J. Machado (Ret.); Vincent E. Mudd; Francis E. Quinlan; and Steven L. Rank. Absent: Thomas Rankin (by prior arrangement).

There was a quorum.

Also present: President and CEO Janet D. Frank; Chief Financial Officer Jay Stewart; Chief Investment Officer Peter Guastamachio; Chief Risk Officer Doug Stewart; Chief Operating Officer Harrison Jerome; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Assistant Secretary Judith D. Sapper; and Randall Keen, Esq. of Manatt Phelps & Phillips.

AGENDA ITEM 2: ANTITRUST ADMONITION

Ms. Cain called attention to State Fund's Antitrust Admonition which is included in each member's agenda:

"Certain information discussed and disseminated at State Fund Board of Directors' Closed Sessions may be confidential and proprietary to State Fund. Board members should not share or discuss information pertaining to the operation of State Fund with representatives from other workers' compensation insurers, even if that information is intended to be, or is already, public. For example, Board members should not discuss rate-making or other financial information with representatives of other insurers, including proposed rates, merit rating plans, premium discounts, surcharges or dividends. Board members also should refrain from discussing broker commission payments or commission plans with other insurers. To do so may create the impression of collusion between insurers, which could result in civil and/or criminal charges being filed against the Board member and State Fund for alleged violations of state and federal antitrust laws."

AGENDA ITEM 3: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 5 THROUGH 8

Ms. Cain requested public comment of which there was none.

The meeting convened immediately into Closed Session and reconvened at 11:20 a.m. on May 15, 2009 into Open Session.

AGENDA ITEM 4: APPROVAL OF MARCH 12-13, 2009 AND APRIL 16, 2009 CLOSED MEETING MINUTES Closed Session.

AGENDA ITEM 5: IT CONTRACTING AND RELATED STRATEGY Closed Session.

AGENDA ITEM 6: FINANCIAL RESULTS AND COMPETITIVE STRATEGY Closed Session.

AGENDA ITEM 7: AUDIT UPDATE Closed Session.

AGENDA ITEM 8: PENDING LITIGATION Closed Session.

MAY 15, 2009

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting came to order at 8:00 a.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Daniel M. Curtin; Sen. Michael J. Machado (Ret.); Vincent E. Mudd; Francis E. Quinlan; Steven L. Rank; and nonvoting member John C. Duncan. Absent: Thomas Rankin (by prior arrangement).

There was a quorum.

Also present: President and CEO Janet D. Frank; Executive VP Jim Neary; Chief Financial Officer Jay Stewart; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Corporate Secretary Judith D. Sapper; and Randall Keen, Esq. of Manatt Phelps & Phillips.

AGENDA ITEM 2: ANTITRUST ADMONITION

Ms. Cain referred to State Fund's Antitrust Admonition.

AGENDA ITEM 3: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 4 THROUGH 9

Ms. Cain requested public comment of which there was none.

The meeting convened immediately into Closed Session.

AGENDA ITEM 4: PRESIDENT'S 2009 STRATEGIC PERFORMANCE PLAN OBJECTIVES Closed Session.

AGENDA ITEM 5: INDEPENDENT ACTUARIAL RESERVE OPINION AND IMPACT ON RATES Closed Session.

AGENDA ITEM 6: LOSS ADJUSTMENT EXPENSE Closed Session.

AGENDA ITEM 7: JULY 1, 2009 RATE RECOMMENDATION Closed Session.

AGENDA ITEM 8: NEW MARKETING INITIATIVE Closed Session.

AGENDA ITEM 9: SECURED BOARD COMMUNICATION DEMO (SEIPP)
Closed Session.

AGENDA ITEM #10: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 11:20 a.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Daniel M. Curtin; Sen. Michael J. Machado (Ret.); Vincent E. Mudd; Francis E. Quinlan; Steven L. Rank; and nonvoting member John C. Duncan. Absent: Thomas Rankin (by prior arrangement).

There was a quorum.

Also present: President and CEO Janet D. Frank; Chief Financial Officer Jay Stewart; Chief Investment Officer Peter Guastamachio; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Assistant Secretary Judith D. Sapper; and Randall Keen, Esq. of Manatt Phelps & Phillips.

AGENDA ITEM 11: ANTITRUST ADMONITION

Ms. Cain referred to State Fund's Antitrust Admonition.

AGENDA ITEM 12: INTRODUCTION OF GUESTS

No introductions were made.

AGENDA ITEM #13: CONSENT CALENDAR

The consent calendar consisted of the following items: Approval of Open Minutes of March 12-13, 2009 Board Meeting; Renewal of Expiring Third Quarter Insurance Policies; and Approval of Retirement Resolutions.

Retiring employees serving over 30 years were recognized in five resolutions attached hereto and incorporated as a part of these minutes:

Resolution No. 866 in appreciation of Lorraine Luna-Cano, thanking her for serving State Fund with distinction for more than 31 years;

Resolution No. 867 in appreciation of Mary T. Briseno, thanking her for serving State Fund with distinction for more than 33 years;

Resolution No. 868 in appreciation of James P. Kirkpatrick, thanking him for serving State Fund with distinction for more than 37 years;
Resolution No. 869 in appreciation of Rachel Hernandez, thanking her for serving State Fund with distinction for more than 34 years; and
Resolution No. 870 in appreciation of Constance Raiche, President of Claims Operations and Member of the Executive Committee, thanking her for serving State Fund with distinction for more than 38 years.

MOTION: Ms. Chalupa Second: Mr. Curtin

To approve the Open minutes of the March 12-13, 2009 Board Meeting as presented, the renewal of expiring Third Quarter insurance policies, and Retirement Resolutions 866-870.

AYES: 7 NOES: 0 Motion carried.

AGENDA ITEM 14: PRESENTATION OF INDEPENDENT ACTUARIAL RESERVE OPINION

Mr. Guy Avagliano of Milliman, Inc. presented the Independent Actuarial Reserve Opinion, the scope of which was State Fund's unpaid claim liabilities. He reported State Fund had booked reserves of \$14.6B that were reasonable and consistent with insurance laws and actuarial principles. There was a material risk of adverse deviation because of a potential variance of \$500M in the reserves, typical of the workers' compensation industry. Ms. Cain requested public comment of which there was none.

AGENDA ITEM 15: FINANCIAL UPDATE--1ST QUARTER 2009

Mr. Jay Stewart presented an oral report of 1st Quarter 2009 actual expenses to budget and as compared to the 1st Quarter 2008. He reported net written premium of \$318M was below the budget of \$388M and actual expenses of \$437M for the same period in 2008 representing an 18% and 27% variance respectively, due to policyholder bankruptcies, competition, furloughs and staff disruption. Net losses of \$239M was 18.3% below the budget of \$293M but up .5% from budget as a percentage of earned premium. Loss adjustment expense (LAE) was 50.9 as compared to the budget of 41.3 and 34.5 for the same period in 2008. The LAE is higher as a result of the lower earned premium. Underwriting expenses of \$114M was 16% below the budget of \$135M and 18.6% below \$140M for the same period 2008 with the expense ratio at 35.7 compared to the budget of 34.9 and 32 for the same period 2008. Taxes, licenses and fees and salary and related expenses were down by \$20.6M and \$5.8M respectively.

Investment income of \$234M exceeded the budget of \$213M by 10.2% but is 9.1% below \$258M for the same period 2008. The yield net of expense for the 1st quarter was 1.1% or 4.4% annualized compared to 4.7% for 2008. State Fund had a net realized capital gain of \$151,000 for the quarter compared to a

net realized capital loss of \$1.8M for the same quarter in 2008. No significant impairments occurred during the 1st quarter 2009. Premium charge-offs of \$7M are 66.9% below \$21M for the same quarter 2008. Net income of \$30M exceeded the budget of \$1M primarily due to higher investment income than budgeted. The net income was below the \$47M of the same period 2008. The combined ratio is 164.4% of net earned premium compared to the budget of 154.4% and 148.1% for the same period 2008. Mr. Stewart reported balance sheet highlights of \$21.1B in total admitted assets, cash and invested assets of \$20.4B, total liabilities of \$15.9B, and loss reserves of \$15.5B versus \$15.9B prior year quarter, with .5% surplus growth this quarter and assets exceeding liabilities by approximately \$5.1B. Ms. Cain requested public comment of which there was none.

AGENDA ITEM #16: COMMITTEE REPORTS

Mr. Quinlan presented the Audit Committee update. He reported on the CDI Operational Review which in 2007 had 110 findings and 35 additional findings in 2008 that have been fully or partly remediated or are being addressed. The auditors will return during the customary Market Conduct audit. Mr. Quinlan noted the Committee approved the Audit Charter. Internal Audit informed the Committee it has sufficient resources and is concentrating on better analytics and investigation updates, progress, and training, and has closed out half its pending cases during a backlog reduction project. Risks related to investment and IT issues will be the main focus for the Committee.

Mr. Mudd reported on the Investment Committee meeting. State Fund added a Chief Investment Officer, maintained its portfolio quality, and earned gains on its investments. The liquidity of the portfolio was reviewed. The Committee heard a market update and will monitor the impact on State Fund and its investments. The Committee approved the updated Investment Policy and the Investment Charter.

Ms. Cain presented the Governance Committee report. The Governance Charter was reviewed and approved. The Committee discussed additional committees to be created when all Board members have been appointed including the potential for an IT Committee or an Advisory Committee to oversee strategic decisions. Ms. Cain reported the Board training was very good but will continue to be refined and improved and will be provided to any members not in attendance. She noted the agenda item for self-performance review was deferred to the July Open committee meeting.

Ms. Cain requested public comment of which there was none. The following action was taken:

MOTION: Sen. Machado (Ret.) Second: Mr. Quinlan

To adopt the updated Investment Policy Statement and Guidelines Resolution No. 871, replacing Investment Resolution No. 842 effective May 15, 2009.

AYES: 7 NOES: 0 Motion carried.

MOTION: Sen. Machado (Ret.) Second: Mr. Quinlan

To adopt the Investment Charter as presented to and approved by the Investment Committee.

AYES: 7 NOES: 0 Motion carried.

MOTION: Mr. Quinlan Second: Ms. Chalupa

To adopt the Audit Charter as presented to and approved by the Audit Committee.

AYES: 7 NOES: 0 Motion carried.

MOTION: Ms. Cain Second: Mr. Curtin

To adopt the Governance Charter as presented to and approved by the Governance Committee.

AYES: 7 NOES: 0 Motion carried.

AGENDA ITEM #17: RATIFICATION OF INVESTMENT TRANSACTIONS

Chief Investment Officer Mr. Guastamachio reported on the investment transactions. Ratification of Bond Transactions: Fourteen (14) bonds were purchased from February 1, 2009 to March 31, 2009, totaling \$314,029,263 and six (6) were sold totaling \$82,627,009. Ms. Cain requested public comment of which there was none. The following action was taken:

MOTION: Mr. Mudd Second: Ms. Chalupa

To ratify the February 1, 2009-March 31, 2009 bond transactions.

AYES: 7 NOES: 0 Motion carried.

There were no Short-Term Investment Transactions to ratify. The report of sixteen (16) long-term investments totaling \$282,600,000 in compliance with State Fund's investment guidelines at the time of purchase but no longer in

compliance was presented. Ms. Cain requested public comment of which there was none. The following action was taken:

MOTION: Mr. Mudd Second: Sen. Machado (Ret.)

To ratify the March 31, 2009 Compliance Report.

AYES: 7 NOES: 0 Motion carried.

AGENDA ITEM #18: PRESIDENT'S REPORT

Ms. Frank presented highlights of the concluded CDI Operational Review and described the progress in implementing 2009 strategic objectives. State Fund is enhancing its Talent Management with updated performance plans, new appraisals, individual development plans, training, a new employee recognition program, and implementation of a mentoring program. State Fund has an important Customer Centricity initiative to allow it to respond effectively and efficiently to businesses of all size. State Fund is building its Brand Identity with a series of internal brand launch meetings. External launches will begin during the next quarter, with new collateral material and a new look and feel for the website, which will be renamed www.statefundca.com. Ms. Frank reported the Ethics & Compliance Department has been created, with Don Butler appointed as Manager, and will focus on becoming Model Audit Rule (MAR) compliant in advance of the deadline. State Fund is enhancing its structural expense planning and management process and will provide monthly and quarterly reporting for Management and the Board.

Ms. Frank next provided a real estate update. State Fund has 31 locations, 19 owned and 14 leased, with 3,000,000 Rentable Square Feet (RSF) of which only 2,000,000 RSF are needed. State Fund is allowing leases to expire, is moving into owned locations, blending and renegotiating leases, and consolidating staff and leasing surplus space. Proactive green building methods are saving \$10,000 per month on utility costs and State Fund obtained a silver Leadership in Energy and Environmental Design (LEED) rating on its Vacaville location and is one point away from a gold rating.

Ms. Frank reported a search is underway for a new Chief Investment Technology Officer and State Fund is receiving and reviewing resumes. Ms. Cain requested public comment of which there was none.

Ms. Frank then presented President of Claims Connie Raiche who introduced Claims Rehabilitation Operations Manager Jose Ruiz, Claims Manager Janet Rowlett and Marketing Manager Theresa Casillas to present a report on State Fund's recently reexamined Return to Work Program (RTWP). They explained helping injured workers return to work is part of State Fund's mission and prompt return to work increases recovery and decreases claims costs. A key component

of the RTWP is identification and reduction in medically unnecessary disability days through early intervention, injury and illness management, and disability prevention. Every State Fund location has RTW Coordinators and health consultants to educate medical providers, brokers and employers on the relationship between treatment and functional recovery and the benefits of early RTW. A predictive modeling software triage tool is used at claim set-up to target early intervention. The Medical Director's Office is actively involved in educating the physician community and recently launched an online training module providing continuing education credits. State Fund is also updating marketing materials and a coordinated communication plan for policyholder outreach on implementing individual RTW programs. State Fund State Contracts employee Kathleen Collins questioned whether these educational measures will be implemented in the State Contracts program. Mr. Ruiz noted that the Master Agreement between State Fund and the Department of Personnel Administration for adjusting state agency claims contains language on agency RTW efforts. Mr. Mudd left the meeting. Ms. Cain requested public comment of which there was none.

AGENDA ITEM #19: CHAIR'S REPORT & COMMITTEE ASSIGNMENTS

Ms. Cain noted there was no update to present and no new Board members had been appointed. Ms. Cain requested public comment of which there was none.

AGENDA ITEM #20: BOARD MEMBER REPORTS

There were no reports. Ms. Cain requested public comment, of which there was none.

AGENDA ITEM #21: PROPOSALS AND SUGGESTIONS FOR JULY 2009

AGENDA

In addition to standing agenda items, the Board directed staff to include any items typically recurring in July. Ms. Cain requested public comment, of which there was none.

AGENDA ITEM #22: PUBLIC COMMENT

Ms. Cain requested public comment. Kathleen Collins, State Fund employee and Service Employee International Union (SEIU) Local 1000 Vice President sought Board reaction to the Governor's budget proposal to sell part of State Fund's assets and was referred to the statement issued by Ms. Frank. Ms. Collins introduced Randall Cheek, SEIU Legislative Advocate and Lisa Davis of the Joint Labor-Management Committee and offered their resources as an ally in resisting the proposed sale.

ADJOURNMENT

There being no further business, Chair Cain adjourned the meeting at 12:25 p.m.

The next regularly scheduled Board meeting will begin on Thursday July 9 at 4:00 p.m. for a Closed Session at the Milton Marks Conference Center, 455

Golden Gate Ave, San Francisco and will resume there at 8:00 a.m. on Friday July 10, 2009 with the Open Session to begin at 11:00 a.m.

Respectfully submitted,

Judith D. Sapper,
Assistant Secretary