

BOARD OF DIRECTORS (OPEN)

AGENDA ITEM 15a

ATTACHMENT 15a-l

APPROVAL of NOVEMBER 12-13, 2009 OPEN MEETING MINUTES

PRESENTED BY:

January 22, 2010

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

November 12-13, 2009

The Board of Directors of State Compensation Insurance Fund met on November 12, 2009 and November 13, 2009 in the Milton Marks Conference Center, State Building, 455 Golden Gate Ave, San Francisco, California.

NOVEMBER 12, 2009

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on November 12, 2009 at 4:15 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 Thomas Rankin. There was a quorum.

Also present: Interim President and CEO Doug Stewart; Chief Financial Officer Jay Stewart; General Counsel and Corporate Secretary Carol R. Newman; and Chief Counsel and Assistant Corporate Secretary Suzanne Ah-Tye

AGENDA ITEM 2: ANTITRUST ADMONITION

Ms. Cain called attention to and requested the Board members read State Fund's Antitrust Admonition which is included in each Board member's meeting materials.

AGENDA ITEM 3: PUBLIC COMMENTS ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 5 THROUGH 7 ON NOVEMBER 12 AND ITEMS 9 THROUGH 12 ON NOVEMBER 13

Ms. Cain requested public comment of which there was none. The meeting convened immediately into Closed Session and reconvened at 11:55 a.m. on November 13, 2009 into Open Session.

NOVEMBER 13, 2009

AGENDA ITEM 13: CALL TO ORDER AND ROLL CALL

The meeting was called to order on November 13, 2009 at 12:30 p.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Daniel Curtin; Sen. Michael J. Machado (Ret.); Vincent E. Mudd; Francis E. Quinlan; and Steven L. Rank; Thomas Rankin; and nonvoting member John C. Duncan. There was a quorum.

Also present: Interim President and CEO Doug Stewart; Chief Financial Officer Jay Stewart; Chief Investment Officer Peter Guastamachio; General Counsel and Corporate Secretary Carol R. Newman; Chief Counsel and Assistant Secretary Suzanne Ah-Tye; and Randall Keen, Esq. of Manatt, Phelps & Phillips.

AGENDA ITEM 14: ANTITRUST ADMONITION

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

AGENDA ITEM 15: CONSENT CALENDAR

Ms. Cain referred to the Consent Calendar matters which are included with each members agenda noting particularly the recognition of retiring employees attached hereto and incorporated as part of these minutes:

Resolution No. 887 in appreciation of Lilian P. Abrenica, thanking her for serving State Fund with distinction for more than 34 years;
Resolution No. 888 in appreciation of Nicholas C. Leonovicz, thanking him for serving State Fund with distinction for more than 34 years;
Resolution No. 889 in appreciation of Nancy E. Powell, thanking her for serving State Fund with distinction for more than 36 years;
Resolution No. 890 in appreciation of Pamela A. Branch, thanking her for serving State Fund with distinction for more than 37 years;

Resolution No. 891 in appreciation of Cheryl Barker, thanking her for serving State Fund with distinction for more than 40 years;
Resolution No. 892 in appreciation of Sharon E. Fujimoto, thanking her for serving State Fund with distinction for more than 36 years;
Resolution No. 893 in appreciation of William J. Landsiedel, thanking him for serving State Fund with distinction for more than 30 years;

Ms. Cain requested whether any Board member had any comments on the items on the Consent Calendar of which there was none.

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

MOTION: Mr. Mudd Second: Ms. Chalupa

To approve the Open minutes of the September 10-11, 2009 Board Meeting, the October 19 and 20, 2009 Board Meetings, approval of planned Board Member training, approval of the Renewal of 2010 Reinsurance; approval of the Renewal of expiring January 2010 Insurance Coverage and Approval of Retirement Resolutions Nos. 887-893.

Ms. Cain called for the vote:

AYES: 8 NOES: 0 Motion carried.

AGENDA ITEM 17 (c)(i) COMMITTEE REPORTS: (TAKEN OUT OF ORDER)
GOVERNANCE COMMITTEE UPDATE-BOARD DELEGATION OF
AUTHORITY TO PRESIDENT

Ms. Cain announced that Items 16, 17a, and 17b would be deferred until later in the meeting. As Chair of the Governance Committee, Ms. Cain requested Carol Newman, General Counsel to report on the proposed resolution from the Governance Committee regarding the Retained and Delegated Authority of the Board. Ms. Newman outlined the purpose of the resolution and called the Board's attention to the proposed resolution which states:

WHEREAS, the Board of Directors desires to reaffirm its authorization and direction to the President of State Compensation Insurance Fund ("State Fund") to take or to cause to be taken all such actions necessary or desirable in connection with the administration, management, and conduct of the business and affairs of State Fund;

NOW, THEREFORE, BE IT RESOLVED:

That the Board of Directors hereby affirms its delegation to the President of State Fund, subject to conditions that the Board may from time to time prescribe, the powers, functions, and duties conferred by law on the Board of Directors in connection with the administration, management, and conduct of the business and affairs of State Fund.

The President may exercise those powers and functions and perform those duties with the same force and effect as the Board of Directors. The President shall continue to regularly advise the Board of Directors on the business and affairs of State Fund, including but not limited to the following topics:

- Key operational matters
- Financial status and issues
- Legal issues affecting State Fund, the Board of Directors or officers
- Legislative issues specific to or affecting State Fund
- Marketing plan
- Information Technology strategic plans
- Human resources issues
- Internal audits

BE IT FURTHER RESOLVED that, notwithstanding the foregoing, the President shall continue to obtain the advice of the Board of Directors, and present to the Board of Directors for its ratification of actions taken pursuant to the Board of Directors' delegated authority on the following topics:

- Appointment of the chief financial officer, chief operating officer, chief information technology officer, chief investment officer, chief risk officer, and general counsel, and the setting of their salaries
- Investment decisions
- Major corporate policy initiatives

BE IT FURTHER RESOLVED that, notwithstanding the foregoing, the Board of Directors shall make all final decisions on the following topics, unless otherwise specifically delegated by the Board of Directors:

- Selection and appointment of the President/Chief Executive Officer*
- Approval of the strategic plan
- Selection of State Fund's public accountants**
- Approval of the annual budget
- Adoption and amendment of investment and cash management policies
- Dividend declarations*
- Acquisition and sale of real estate, and major lease transactions
- Selection of an external auditor (currently delegated to the Audit Committee)
- Approval of audit engagement fees
- Approval of the annual audit plan, major changes to the plan, and the annual update of the biennial audit plan
- Adoption of, and approval of changes to, State Fund's by-laws, Conflict of Interest Code, *** Enterprise Risk Management Plan, Code of Ethics, Code of Conduct, charters of the committees of the Board of Directors, and/or other compliance policies and guidelines required by law**
- Adoption of rate decisions
- Selection of appointed actuary**
- Selection of investment advisors

- Procurement contracts with a total aggregate value in excess of \$25,000,000; contracts with a lesser value may still require the advice and consent of the Board of Directors pursuant to any of the other topics listed herein
- Banking management

* Required by laws specific to State Fund

** Required by laws applicable to insurance companies generally in California

*** Required by laws applicable to state agencies in California.

A discussion ensued regarding the proposed resolution. Ms. Cain requested public comment of which there was none.

MOTION: Ms. Chalupa Second: Mr. Mudd

To adopt the resolution recommended by the Governance Committee.

Ms. Cain called for the vote.

AYES: 8 NOES: 0 Resolution adopted.

**AGENDA ITEM 17 (c)(ii) COMMITTEE REPORTS: GOVERNANCE
COMMITTEE UPDATE-EXECUTIVE TERMS OF EMPLOYMENT**

Ms. Cain as Chair of the Governance Committee presented on a proposed resolution to ratify and approve the salary schedule for exempt employees, as set forth in the Exempt Position Salary Schedule which was discussed and approved for recommendation to the Board by the Governance Committee. The Resolution is as follows:

WHEREAS, the Board of Directors ("Board") of the State Compensation Insurance Fund ("State Fund") is authorized by California Insurance Code section 11785 to set the salary for State Fund's president ("President"), chief financial officer, chief operating officer, chief information technology officer, chief investment officer, chief risk officer and general counsel ("Exempt Positions"); and

WHEREAS, at its July 9, 2008 meeting, prior to the applicability of the Bagley-Keene Open Meeting Act to State Fund, the Board approved the annual salary for its President, Jan Frank, and delegated to the President the authority to set and adjust the salaries (including but not limited to bonus payment potentials) for employees in the Exempt Positions other than for herself; and

WHEREAS, pursuant to that delegated authority, the President set the salaries for the Exempt Positions other than for herself, including recruitment/retention ("R&R")

differentials, which R&R differential is stated as a percentage of annual base salary and is not included in the calculation of retirement benefits; and

WHEREAS, State Fund may, through an administrative action, limit the amount of maximum amount of leave accrual available to the Exempt Positions to 640 hours; and

WHEREAS, the Board appointed its former Chief Risk Officer Doug Stewart to the position of Interim Chief Executive Officer/President as of October 26, 2009, until the Board selects a new Chief Executive Officer/President, and now seeks to set the salary for that position; and

WHEREAS, the Board seeks to ratify the President's actions pursuant to the President's delegated authority with respect to the annual base salary, R&R differentials and bonus potential (collectively, "Salary") for all current and former employees in the Exempt Positions from July 8, 2008 through the present, and to authorize the interim President and any new President to set R&R differentials for the Exempt Positions, other than for himself or herself, within the range of 0-25% of annual base salary, as individual circumstances of individuals appointed to those Positions warrant.

NOW, THEREFORE,

It is RESOLVED, that the Board hereby ratifies and approves each component of Salary identified in the attached Exempt Position Salary Schedule; and

RESOLVED FURTHER, that the Board hereby authorizes the interim President and any future President to set R&R differentials for the Exempt Positions, other than for himself or herself, within the range of 0-25% of annual base salary, as individual circumstances of individuals appointed to those Positions warrant; and

RESOLVED FURTHER, that the Board authorizes the interim President and any future President to take any administrative action necessary to limit the amount of leave accrual available to the Exempt Positions to 640 hours; and

RESOLVED FURTHER, that any future changes in the components of Salary identified in the Exempt Position Salary Schedule will be presented to the Board for prior approval or for ratification within a reasonable period of time after the change.

EXEMPT POSITION SALARY SCHEDULE AS OF JULY 9, 2008

Position	Annual Base Salary	R&R Differential	Annual Bonus Potential
Chief Executive Officer/President	\$450,000	22% of base salary	40% of base salary
Interim Chief Executive Officer/President	\$400,000 (as of October 26, 2009)	22% of base salary (as of October 26, 2009)	10% of base salary (as of October 26, 2009)
Chief Financial Officer	\$285,000	7.5% of base salary	15% of base salary
Chief Information Officer	\$350,000 (before May 25, 2009) \$300,000 (as of Sept. 21, 2009)	23% of base salary (before May 25, 2009) 25% of base salary (as of September 21, 2009)	15% of base salary
Chief Risk Officer	\$275,000 (before October 26, 2009) TBD (after October 26, 2009)	25% of base salary (before October 26, 2009) TBD (after October 26, 2009)	15% of base salary (before October 26, 2009) TBD (after October 26, 2009)
Chief Operating Officer	\$180,000	15% of base salary	15% of base salary
General Counsel	\$285,000	7.5% of base salary	15% of base salary
Chief Investment Officer	\$225,000	7.5% of base salary	15% of base salary

A discussion ensued regarding the proposed resolution. Ms. Cain requested public comment of which there was none.

MOTION: Sen. Machado Second: Mr. Curtin

To adopt the resolution ratifying and approving the salary schedule for Exempt Employees as recommended by the Governance Committee.

Ms. Cain called for the vote.

AYES: 5 NOES: 0 ABSTAIN: 3 (Mudd, Quinlan and Rankin) Resolution adopted.

AGENDA ITEM 18: RATIFICATION OF INVESTMENT TRANSACTIONS

Leslie Dawe, Fiscal and Investment Services Manager, recommended the ratification of investment transactions from August 1 to September 30, 2009. Investment transactions in Attachment 18 a, b and c were made in conformance with Investment policy at the time of purchase. During the months of August and September 2009, State Fund purchased 56 securities consisting of 3 Agency securities; 1 Canadian Government security; 27 Mortgage Backed securities, and 21 Taxable Municipal securities totaling approximately \$852M. During this same time period, State Fund sold 42 securities totaling \$301 million. There were no short term investments for this period. Attachment 18c sets forth the Compliance Report which shows there were 14 securities totaling approximately \$275 million whose credit ratings fell below the “A” credit rating. These securities represent approximately 1.4% of State Fund’s total investment portfolio.

MOTION: Mr. Mudd Second: Ms. Chalupa

To ratify the investment transactions from August 1 to September 30, 2009 and the compliance report as of September 30, 2009.

Ms. Cain requested public comment of which there was none. Ms. Cain called for the vote

AYES: 8 NOES: 0 Motion carried.

AGENDA ITEM 20a: (TAKEN OUT OF ORDER) CHAIR’S REPORT ON NATIONAL SEARCH FOR PRESIDENT AND CEO

Ms. Cain reported on the national search for President and CEO for State Fund which is being led by the Governance Committee. There will be a search for a recruitment firm to provide executive search services/consultation to the State Fund Board, including preparation of an overall work program and timeline,

milestones and periodic status reports. A salary survey will be conducted with a recommended salary range for the President. There will be a nationwide search to identify the most highly qualified individuals. The firm will conduct in person interviews, background investigations, credit checks, reference checks, confirm academic credentials and prepare in depth profiles on the candidates. After follow up interviews, the firm will refer at least three highly qualified candidates for the position of President who is receptive to relocation to the San Francisco area.

A Board discussion ensued. Ms. Cain requested public comment of which there was none.

MOTION: Ms. Cain

Second: Mr. Quinlan

To authorize the Chairperson to initiate and conduct an RFP process to select an executive search firm, and to present her recommendations for the selection of an executive search firm to the Governance Committee; and to authorize the Governance Committee to select an executive search firm for consideration and approval by the full Board of Directors at the Board's regular meeting in January 2010.

Ms. Cain called for the vote.

AYES: 8

NOES: 0 Motion carried.

AGENDA ITEM 20b: 2010 BOARD OF DIRECTORS, GOVERNANCE, AUDIT, AND INVESTMENT COMMITTEES MEETING SCHEDULE

Ms. Cain reported on the proposed 2010 meeting schedule for the Board of Directors and Governance, Audit, and Investment Committees. A Board discussion ensued. Ms. Cain requested public comment of which there was none.

MOTION: Ms. Cain

Second: Mr. Curtin

To approve the 2010 meeting schedule with the following meeting dates: January 21-22, March 18-19, May 20-21, July 8-9, September 9-10, and November 18-19.

Ms. Cain called for the vote.

AYES: 8

NOES: 0

Motion carried.

AGENDA ITEM 16: (TAKEN OUT OF ORDER) FINANCIAL UPDATE—3rd QUARTER 2009

Mr. Jay Stewart presented an oral report of 3rd Quarter 2009 financials. He reported net written premium of \$959M through the September 30, 2009, which is 17% below budget and 24.8% below the same period last year due to the continued competitive market and reduced payrolls resulting from the severe economic crisis. Year end premium will be approximately \$1.25B, compared to budget of \$1.55B. Net losses were \$808M compared to a budget of \$878M resulting in \$170M or 19.2% below budget. This is a result of a lower exposure base. Year end loss ratio is expected to be at the budgeted loss ratio of 75.. Loss ratio at year end 2008 was 75.3. LAE was \$478M compared to the budget of \$483M. representing approximately \$5M or 1% below budget for 2009. The primary drivers are lower payroll and the scaling back of the IT transformation. Net investment income is \$686M compared to a budget of \$638M Average yield on the portfolio is better than budget. As of September 30, 2009, there is \$28M in uncollectible premium compared to a budget of \$38M. With the severe economic crisis, it is anticipated that premium charge-offs will increase by another \$10M by year end 2009. Net income through the 3rd Quarter is \$73M compared to a budget of \$4M mostly due to the higher investment income than budgeted. The combined ratio is 164.4 compared to a budget of 154.4 due to the LAE ratio. Net income is \$60M higher than the same period in 2008 primarily due to investment income.

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

AGENDA ITEM 17a: COMMITTEE REPORTS: AUDIT COMMITTEE UPDATE

Mr. Quinlan reported that KPMG has developed the KPMG's 2010 Audit Plan for State Fund . The backlog of internal audit investigations is diminishing as 55 cases were closed and another 28 will be closed by year end 2009. There are ongoing CDI and SIU audits this year. The General Counsel performed a legal bill review audit with a positive outcome. Currently, there are open audits pertaining to Underwriting, Real Property Management, Claims, and Document Management.

Ms. Cain requested public comment. Ms. Kathleen Collins from SEIU commented that staff is having problems getting reimbursement for business expenses in a timely manner. Ms. Collins requested that staff be able to obtain reimbursement for parking and other expenses within 30 days. There was no further public comment.

AGENDA ITEM 17b: COMMITTEE REPORTS: INVESTMENT COMMITTEE UPDATE

Mr. Mudd reported that the Investment Committee is working with Chief Financial Officer Jay Stewart and Chief Investment Officer Peter Guastamachio in adhering to investment policy. Efforts are being made to determine the impact of the economic slow down on State Fund's portfolio.

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

AGENDA ITEM 19: (TAKEN OUT OF ORDER) PRESIDENT'S REPORT

Doug Stewart, Interim President and CEO, reported that staff has worked with the goal of stabilizing our book of business. Staff concluded a product fair tour which included six stops throughout California and focused on promoting services to key broker partners. The fairs were very well received by the broker community. Staff in Policy Operations is working on 2010 Joint Planning Sessions. This is a new process and includes re-contracting for 2010 with Preferred, Select and Standard brokerages.

State Fund filed for a 5% increase in collectible premium as of 1/1/10. The primary driver for the rate increase is medical inflation. The Bureau's most recent analysis indicates 14% annual increases in medical costs since 2005. State Fund is also cognizant of the difficult economy and need to maintain long term and responsible pricing. It is important to note that the 2004 reforms reduced premium levels significantly and even after the 2010 increase, State Fund's rates will be 43 percent below pre-reform levels.

Underwriting completed a series of regional training sessions designed to enhance results. This will enable underwriters with improved tool and processes for quoting new and renewal business.

IT plays a significant role in stabilizing State Fund's platform. The IT Infrastructure Library project was rolled out on October 5, 2009. This project provides a set of best practices to promote consistency across IT and will increase IT's ability to provide effective customer services to business departments.

Expense Management is a key deliverable in State Fund's current plan. Finance has implemented a new detailed budget variance reporting process for the 2010 Budget. Claims and Legal are making process on the ASC (ambulatory surgery center) Lien Project and have reached agreements with 86 ASCs to date. Claims completed 6000 subrogation reviews under the new subrogation process. Claims was also successful in reducing the vocation rehabilitation case inventory by 95% bringing the count to 39 open cases.

Human Resources has continued to make progress in enhancing State Fund's Talent Management practices. HR rolled out an employee engagement survey in which 70% of staff participated. HR also completed a request for proposal to obtain a vendor to administer a 360° review process for senior leaders. In regard to building State Fund's brand, the Communications Department published its third policyholder newsletter, COMPonents with information on reducing claims costs for policyholders. State Fund also published a quarterly online newsletter to brokers, Brokers Update Online, which features information on how brokers can access State Fund's services.

In regard to corporate governance, the State Fund Ethics and Compliance Department continues to make progress to ensure State Fund is compliant under the NAIC Model Audit Rule.

Promoting safe workplaces is an integral part of State Fund's mission. State Fund's Safety and Health Department has sponsored employer seminars with UC Berkeley on managing through the H1N1 pandemic.

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

AGENDA ITEM 21: (TAKEN OUT OF ORDER) BOARD MEMBER REPORTS

There were no Board member reports.

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

AGENDA ITEM 22: PROPOSALS AND SUGGESTIONS FOR JANUARY 2010 AGENDA

The following proposals were made for the January 2010 or upcoming Board meetings:

1. How classifications are made by the Rating Bureau
2. An update on prescription drug abuse
3. Best practices for First Aid and safety
4. Fraud enforcement
5. The impact of national healthcare reform on State Fund and the Workers' Compensation industry

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

AGENDA ITEM 23: PUBLIC COMMENT

Ms. Cain requested public comment on any matter or issue under the Board's jurisdiction that was not already addressed at today's meeting, of which there was none.

ADJOURNMENT

There being no further business, Chair Jeanne Cain adjourned the meeting at 1:30 p.m.

The next regularly scheduled Board meeting will begin on Thursday, January 21, 2009 at 4 p.m. at the Milton Marks Conference Center, 455 Golden Gate Ave, San Francisco.

Respectfully submitted,

Suzanne Ah-Tye
Assistant Corporate Secretary