

BOARD of DIRECTORS MEETING (OPEN)

AGENDA ITEM 16a

ATTACHMENT 16a-I

APPROVAL of JANUARY 21-22, 2010 OPEN MEETING MINUTES

PRESENTED BY: Jeanne Cain

March 19, 2010

**STATE COMPENSATION INSURANCE FUND  
BOARD OF DIRECTORS**

**MINUTES OF OPEN SESSION MEETINGS**

**January 21-22, 2010**

The Board of Directors of State Compensation Insurance Fund met on January 21, 2010 and January 22, 2010 in the Milton Marks Conference Center, State Building, 455 Golden Gate Ave, San Francisco, California.

**January 21, 2010**

**AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL**

The meeting was called to order by Acting Chair Steven. L. Rank on January 21, 2010 at 8:30 a.m. and the following were present: Steven L. Rank, Acting Chair; Donald E. Garcia; Lawrence Mulryan; James S. Richardson; and William Zachry. There was not a quorum. Acting Chair Steven Rank recommended that the Board proceed with agenda items 2 and 3, as there were no actions to be taken under these agenda items. The present Board members concurred.

Also present: General Counsel and Corporate Secretary Carol R. Newman; Chief Counsel and Assistant Corporate Secretary Suzanne Ah-Tye; and Randall Keen from Manatt, Phelps & Phillips LLP.

**AGENDA ITEM 2: ANTITRUST ADMONITION**

Mr. Rank 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: BOARD OF DIRECTORS ORIENTATION FOR NEW BOARD MEMBERS.**

The Conflict of Interest and Gift Restrictions were deferred from the January 7, 2010 Open Board Meeting. Mr. Rankin joined the meeting. General Counsel Carol Newman and Randall Keen from Manatt, Phelps & Phillips LLP presented on the conflict of interest rules under the Political Reform Act and Section 1090 of the Government Code which apply to State Fund. They then presented on the rules regarding gift limitations and annual reporting requirements.

Executive Vice President James Neary and State Fund's lead insurance broker Adam McDonough from Lockton presented on State Fund's

Directors and Officers insurance. Mr. McDonough provided an overview of the insurance and outlined the coverage for the Board members in the event the insurance would be triggered.

There being no further business, Acting Chair Steven Rank adjourned the meeting at 9:35 a.m.

#### **AGENDA ITEM 4: CALL TO ORDER AND ROLL CALL**

The meeting was called to order on January 21, 2010 at 4:10 p.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Daniel M. Curtin; Donald E. Garcia; Sen. Michael J. Machado (Ret.); Lawrence Mulryan; Francis E. Quinlan; Steven L. Rank; Thomas Rankin; James S. Richardson; and William Zachry. Absent: non-voting member John. C. Duncan (by prior arrangement).

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 5: 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 6: BOARD MEMBER MATTERS**

- a. Ms. Cain welcomed and introduced the four new voting Board members: Donald E. Garcia, Lawrence E. Mulryan,, James S. Richardson and William M. Zachry.
- b. Ms. Cain recognized the work and leadership role of Vincent E. Mudd who served on State Fund's Board from July 2004 until November 2009, and noted Resolution 894, which expresses the Board's recognition of Mr. Mudd's contributions, attached hereto and incorporated as part of these Minutes.
- c. Ms. Cain proposed the following Committee appointments:

Governance Committee: Jeanne Cain, Chair; Daniel Curtin, Sheryl Chalupa and Alternate Lawrence Mulryan.

Investment Committee: Sen. Michael J. Machado (Ret), Chair;  
Thomas Rankin, Donald Garcia and Alternate Frank Quinlan.

Audit Committee: Frank Quinlan, Chair; Steven Rank, William  
Zachry and Alternate James Richardson.

MOTION: Mr. Mulryan                      SECOND: Ms. Chalupa

To approve the above recommended appointments for the Governance,  
Investment and Audit Committees.

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

AYES: 11                      NOES: 0                      Motion carried.

**AGENDA ITEM 7: PUBLIC COMMENTS ON THE APPROPRIATENESS  
OF CLOSED SESSION ITEM 9 ON JANUARY 21 AND ITEMS 10  
THROUGH 13 ON JANUARY 22**

Ms. Cain requested public comment of which there was none. The  
meeting convened immediately into Closed Session and reconvened at  
1:10 p.m. on January 22, 2010 into Open Session.

**JANUARY 22, 2010**

**AGENDA ITEM 14: CALL TO ORDER AND ROLL CALL**

The meeting was called to order on January 22, 2010 at 1:10 p.m. and the  
following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa;  
Donald E. Garcia; Sen. Michael J. Machado (Ret.); Lawrence Mulryan;  
Francis E. Quinlan; Steven L. Rank; Thomas Rankin; James S.  
Richardson; and William Zachry. Absent: Mr. Daniel Curtin and non-  
voting member John. C. Duncan (by prior arrangement).

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 of  
Manatt, Phelps & Phillips LLP.

**AGENDA ITEM 15: CONSENT CALENDAR**

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

Resolution No. 895 in appreciation of Zenaida G. Mabale, thanking her for serving State Fund with distinction for more than 30 years;  
Resolution No. 896 in appreciation of Norman A. Mapa, thanking him for serving State Fund with distinction for more than 33 years;  
Resolution No. 897 in appreciation of Sheila d. Schmidt, thanking her for serving State Fund with distinction for more than 30 years;  
Resolution No. 898 in appreciation of Daniel B. Hartshorn, thanking him for serving State Fund with distinction for more than 32 years;  
Resolution No. 899 in appreciation of Rebecca A. Gadd, thanking her for serving State Fund with distinction for more than 35 years;  
Resolution No. 900 in appreciation of Gary W. Dunlap, thanking him for serving State Fund with distinction for more than 36 years;  
Resolution No. 901 in appreciation of John Z. Pantangco, thanking him for serving State Fund with distinction for more than 35 years;  
Resolution No. 902 in appreciation of Michelle v. Clabough, thanking her for serving State Fund with distinction for more than 30 years;  
Resolution No. 903 in appreciation of Arlene A. Katanian, thanking her for serving State Fund with distinction for more than 35 years;  
Resolution No. 904 in appreciation of Kermit Kuhn, thanking him for serving State Fund with distinction for more than 31 years;  
Resolution No. 905 in appreciation of Kevin Vollmer, thanking him for serving State Fund with distinction for more than 35 years;  
Resolution No. 906 in appreciation of Michael S. White, thanking him for serving State Fund with distinction for more than 33 years.

The January 7, 2010 Open Meeting minutes correction to include Ms. Sheryl A. Chalupa as present was noted during the January 21, 2010 Closed Board Meeting. The Board Member Training Opportunities was removed from the Consent Calendar because the identified Board Training Opportunities exceeded the approved spending limits. After discussion, the Board concurred that the California Division of Worker's Compensation (DWC) Educational Conference in Oakland California on March 10, 2010 was approved for Board members to attend. The Board Member Training and Travel Expense Reimbursement for October through December 2009 remained on the consent calendar. Ms. Cain requested whether any Board member had any additional comments on the items on the Consent Calendar of which there was none.

MOTION: Ms. Chalupa

SECOND: Mr. Richardson

To approve the Consent Calendar with the January 7, 2010 Open Meeting Minutes corrected to note Ms. Sheryl A. Chalupa as present and with the removal of the Board Training Opportunities except for the DWC Educational Conference on March 10, 2010.

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

AYES: 11

NOES: 0

Motion carried.

**AGENDA ITEM 18.(b)(i) COMMITTEE REPORTS: AUDIT COMMITTEE UPDATE (TAKEN OUT OF ORDER)**

Mr. Quinlan reported that the backlog in investigations has been remedied. Under the new leadership of Marie Wardell, there are changes in the structure and approach to Internal Audits that should allow for more timely and effective investigation and audit results. Completed audits for the last three months include audits regarding E-Commerce, Subrogation, IT Application Development, Reinsurance, Accounts Receivable, Information Security and Loss Control.

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

**AGENDA ITEM 16: MARKET OUTLOOK AND ECONOMIC UPDATE**

Chief Investment Officer Peter Guastamachio reported Gross Domestic Product (GDP) will slow in the second half of 2010. There will be consumer debt reduction and increased savings in 2010. Housing sales are increasing although inventory is decreasing. A Pew Center Study shows there is concern about California's high unemployment rate and state budget. California unemployment rate was 12.4% as of December 2009, compared to the national average of 10%. Ms. Cain requested public comment of which there was none.

**AGENDA ITEM 17.a: PRESIDENT'S REPORT**

Doug Stewart, Interim President and CEO, reported that State Fund was able to increase strength and quality of the 2009 investment portfolio with a modest gain of \$4M. Accomplishments over the past few months include the six product fairs conducted throughout the state in key markets. In November 2009, State Fund launched the straight-through renewals project to enable straight through quotes for policy renewals. There was also great public interest in the Employer Education series on H1N1 and business continuity. State Fund's ergonomic professionals will

deliver a presentation on Back Connection regarding back safety at the 3<sup>rd</sup> Annual International Applied Human Factors and Ergonomics Conference. New IT developments include the improved desk fax and scan capabilities at the Customer Service Center. Also, work is in progress to prepare for Medicare Quarterly Reporting requirements. HR rolled out a new appraisal format and also reviewed and analyzed results from the State Fund employee engagement survey. The Executive Committee visited the state of the art "green" facility in Vacaville in January, where they discussed 2010 planning and strategy with frontline staff.

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

**AGENDA ITEM 17.b: CURRENT ISSUES IN PAIN MANAGEMENT AND OPIOID USE IN THE CALIFORNIA WORKERS' COMPENSATION SYSTEM**

Mr. Curtin joined the meeting. Mr. Quinlan left the meeting. Alex Swedlow, Executive Vice-President for Research at the California Workers' Compensation Institute (CWCI), presented on current issues in pain management and opioid use in the Workers' Compensation system. Opioids are often used to treat pain for industrial injuries. Low back injuries with opioids typically receive 5 prescriptions per injury. Based on a study by CWCI, those who are prescribed Class 4 narcotics for pain management result in higher average benefit costs and greater lost time from work. Claims for injured workers with seven or more narcotic prescriptions were three times more expensive on average than those with zero or one opioid prescription. These workers were 2.7 times more likely to be off work and had 4.7 times as many days off work. The summary of results from the CWCI study showed evidence that prolonged administration of opioids impedes, rather than facilitates recovery from disabling back conditions.

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

**AGENDA ITEM 18.a: COMMITTEE REPORTS: GOVERNANCE COMMITTEE UPDATE**

**i) RATIFICATION OF EXECUTIVE SEARCH FIRM SELECTION:**

Ms. Cain, as Chairperson of the Governance Committee, reported that the committee conducted the RFP process to select an executive search firm for the search for a new State Fund President and CEO. After consideration of the vendors, the Governance Committee is recommending that the IR Group be retained for this purpose. The IR Group Companies has considerable experience in executive search and recruitment for insurance professionals and also has knowledge of State Fund. The firm is located near Sacramento, California.

MOTION: Ms. Cain           SECOND: Ms. Chalupa

To adopt the Governance Committee's recommendation to select the IR Group Companies as the Executive search firm to provide executive search services to the State Fund Board for a national search for President and CEO of State Fund.

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

AYES: 10           NOES: 0           Motion carried.

**ii) APPROVAL OF CEO AND EXEMPTS 2009 PERFORMANCE BONUSES**

Ms. Cain, as Chairperson of the Governance Committee, reported on the Governance Committee's recommendations for the CEO and Exempts 2009 performance bonuses. As background, Ms. Cain stated that the President and Exempt positions are "at will" employees. In addition to the annual base salary, the President and Exempt employees are eligible for an annual bonus if they meet specified performance measures and goals. Based on the Governance Committee's review of the performance metrics accomplished by President and CEO Janet Frank, the Governance Committee recommends that Ms. Frank receive 95% of her potential bonus percentage of 40% of her base annual salary, prorated over 10 months to reflect the fact that she left State Fund in October, 2009. The Governance Committee is recommending that Doug Stewart, the Interim President and CEO, receive 15% of his annual base salary as Chief Risk Officer. The Governance Committee recommends that the Chief Financial Officer, the General Counsel and the Chief Operations Officer receive 15% of their annual base salary. Also, even though the Chief Investment Officer, Mr. Guastamachio, joined State Fund in February 2009 the Governance Committee recommends a 15% bonus of the annual base salary without proration since his performance as the Chief Investment Officer as well as Interim Chief Information Officer exceeded expectations. The Chief Information Officer, Shaun Coyne, joined State Fund in September 2009, and the Governance Committee is recommending that he receive 15% of annual base salary prorated over six months as he exceeded job expectations.

Ms. Cain also reported that the Board plans to develop performance measures and goals for the Interim President and CEO for 2010. Those measurements and goals will be measured from the date he assumed the role as Interim President until a permanent President begins and will be based on the Interim President salary level.



MOTION: Ms. Cain            SECOND: Sen. Machado

To adopt the Governance Committee's recommendation to ratify the following bonuses for the President and Exempt positions for 2009 performance:

<b><u>Position</u></b>	<b><u>Bonus</u></b>
President and CEO (Janet Frank)	95% of 40% of annual base salary, prorated over 10 months.
Interim President and CEO (Doug Stewart)	15% of the Chief Risk Officer's annual base salary
Chief Financial Officer (Jay Stewart)	15% of annual base salary
General Counsel (Carol Newman)	15% of annual base salary
Chief Operating Officer (Harrison Jerome)	15% of annual base salary
Chief Investment Officer (Peter Guastamachio)	15% of annual base salary
Chief Information Officer (Shaun Coyne)	15% of annual base salary prorated over six months

Ms. Cain requested public comments of which there were none. Ms. Cain called for the vote.

AYES: 10            NOES: 0            Motion carried.

**iii) BOARD EVALUATION UPDATE**

Ms. Cain reported that the Governance Committee has directed staff to select and contract with one of the two finalists for conducting the Board evaluation. It is anticipated that a vendor will begin the process by March or April 2010. Estimated contract price is \$25,000 plus travel expenses.

Ms. Cain requested public comments of which there were none.

**AGENDA ITEM 18.c: COMMITTEE REPORTS: INVESTMENT  
COMMITTEE UPDATE**

Sen. Machado reported that the Investment Committee is recommending a new Investment Benchmark which will allow State Fund to better measure the performance of its investment managers. The Committee is recommending the following asset allocation benchmarks be adopted and ratified as of January 1, 2010: Mortgage Backed Securities-40%; US Treasury- 15%; Taxable Municipal- 10%; Corporate Treasuries- 20%; and US Agency- 15%.

MOTION: Sen. Machado                      SECOND: Mr. Mulryan

To adopt the Investment Committee's recommendation to adopt and ratify as of January 1, 2010 the new investment benchmarks as follows:

<b>Sector</b>	<b>Proposed 2010 benchmark</b>
Mortgage Backed Securities	40%
US Treasury	15%
Taxable Municipal	10%
Corporate Treasuries	20%
US Agency	15%

Ms. Cain requested public comments of which there were none. Ms. Cain called for the vote:

AYES: 10                      NOES: 0                      Motion carried.

**AGENDA ITEM 19: RATIFICATION OF INVESTMENT TRANSACTIONS**

Leslie Dawe, Fiscal and Investment Services Manager, recommended the ratification of investment transactions from October 1, 2009 to November 30, 2009. Investment transactions in Attachment 19 a, b and c were made in conformance with State Fund's Investment policy at the time of purchase. During the months of October and November 2009, State Fund purchased 46 securities consisting of 6 U.S. Government securities; 4 Agency securities, 10 Mortgage-Backed securities, and 26 Taxable Municipal securities, totaling \$757 M. During this same time period, State Fund sold 5 Suntrust Bank securities totaling \$21 M. Year- to-date through November 30, 2009, State Fund has booked a net capital gain of approximately \$213,000. The value of State Fund's portfolio as of November 30, 2009 was approximately \$19.6B.

There were no short term investments for this period.

Attachment 19c sets forth the Compliance Report and includes securities whose credit ratings fell below the "A" credit rating required and present at the time of purchase. These securities represent approximately 2% of State Fund's total investment portfolio. There is one Taxable Municipal Issuer, Southern California Public Power Authority, which exceeded State Fund's "Per Issuer" limit of 0.5%. The "per Issuer" limit of .5% currently allows State Fund to hold approximately \$98 M in any one Taxable Municipal issuer, and State Fund's holding in Southern California Public Power Authority is approximately \$100 M, or \$2M more than the .5% limit. The .5% "Per Issuer" limit for Taxable Municipal was implemented after this bond was originally purchased.

MOTION: Sen. Machado                      SECOND: Mr. Rankin

To ratify the investment transactions and compliance report from October 1, 2009 to November 30, 2009.

Ms. Cain requested public comments of which there were none. Ms. Cain called for the vote.

AYES: 10                      NOES: 0                      Motion carried.

#### **AGENDA ITEM 20: CHAIR'S REPORT**

Chairperson Jeanne Cain again welcomed the new State Fund board members and expressed her appreciation for their willingness to serve. The board members remarked on the quality of the Board Orientation on January 7, 2010, and expressed appreciation for the efforts made by State Fund staff.

#### **AGENDA ITEM 22: PROPOSALS AND SUGGESTIONS FOR MARCH, 2010 AGENDA**

The following proposals were made for the March Board meeting:

1. WCIRB and audit procedures and practices.
2. Update on Legislative efforts to expand investment authority.
3. Standing agendas for Board Committee meetings.

**AGENDA ITEM 23: PUBLIC COMMENT**

Ms. Cain requested public comment. Randall Cheek, Legislative Advocate for SEIU Local 1000 welcomed the new Board members. Mr. Cheek invited the Board to the SEIU Legislative reception on February 10, 2010 at the State Capitol Basement at 5:30 p.m.

**ADJOURNMENT**

There being no further business, Chair Jeanne Cain adjourned the meeting at 2:20 p.m.

The next regularly scheduled Board meeting will begin on Thursday, March 18, 2010 at 4 p.m. at the Milton Marks Conference Center, 455 Golden Gate Ave, San Francisco.

Respectfully submitted,

---

Suzanne Ah-Tye  
Assistant Corporate Secretary