

BOARD OF DIRECTORS (OPEN)

AGENDA ITEM 17a

ATTACHMENT 17a-I

CONSENT CALENDAR:  
APPROVAL of MARCH 18-19, 2010  
OPEN MEETING MINUTES

PRESENTED BY: Sheryl Chalupa

May 21, 2010

**STATE COMPENSATION INSURANCE FUND  
BOARD OF DIRECTORS**

**MINUTES OF OPEN SESSION MEETING**

**March 18, 2010**

The Board of Directors of State Compensation Insurance Fund met on March 18, 2010 and March 19, 2010 in the Milton Marks Conference Center, State Building, 455 Golden Gate Avenue, San Francisco, California.

**March 18, 2010**

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

The meeting was called to order on March 18, 2010 at 4:00 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; Thomas Rankin; and James S. Richardson. Absent: Daniel Curtin, Steven L. Rank, and William Zachry (by prior arrangement) and non-voting member John. C. Duncan.

There was a quorum.

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

**AGENDA ITEM 2: APPOINTMENT OF ASSISTANT CORPORATE SECRETARIES**

Chairperson Cain reported that additional Assistant Corporate Secretaries were needed to assist with Board duties, including Committee meetings.

MOTION: Mr. Richardson                      Second: Ms. Chalupa

To approve the appointment of Marie Wardell, Judith Sapper and Leslie Dawe as Assistant Corporate Secretaries for the Board.

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

AYES: 8                      NOES: 0                      Motion carried.

### **AGENDA ITEM 3: 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 4: PUBLIC COMMENTS ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 6 THROUGH 9 ON MARCH 18 AND ITEMS 10 THROUGH 14 ON MARCH 19**

Ms. Cain requested public comment of which there was none. The meeting convened immediately into Closed Session and reconvened at 1:30 p.m. on March 19, 2010 into Open Session.

## **MARCH 19, 2010**

### **AGENDA ITEM 15: CALL TO ORDER AND ROLL CALL**

The meeting was called to order on March 19, 2010 at 1:30 p.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Donald E. Garcia; Sen. Michael J. Machado (Ret.); Lawrence Mulryan; Steven L. Rank; Thomas Rankin; James S. Richardson; William Zachry and non-voting member John C. Duncan. Absent: Mr. Daniel Curtin and Francis E. Quinlan (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 Corporate Secretary Suzanne Ah-Tye; and Randall Keen, Esq. of Manatt, Phelps & Phillips LLP.

### **AGENDA ITEM 16: 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. 907 in appreciation of Ruben Morales, thanking him for serving State Fund with distinction for more than 43 years;  
Resolution No. 908 in appreciation of Myrna H. Resalvo, thanking her for serving State Fund with distinction for more than 33 years;  
Resolution No. 909 in appreciation of Dennis Sheehy, thanking him for serving State Fund with distinction for more than 36 years; and

Resolution No. 910 in appreciation of Ida Yagi, thanking her for serving State Fund with distinction for more than 40 years.

The Board Member Training Opportunities were removed from 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: Mr. Richardson                      Second: Ms. Chalupa

To approve the Consent Calendar with the removal of the Board Member Training Opportunities.

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

AYES: 9                      NOES: 0                      Motion carried.

Chairperson Cain encouraged Board members to take the online webinar on the Board's Role in Corporate Strategy on May 5, 2010. Ms. Cain called attention to the listing of pre-approved educational conferences for Board members in Agenda Item 16b. The list of Board member training was selected from research performed through the Society of Corporate Secretaries and the internet, taking into account appropriateness and statutory requirements. There is a \$2,500 limit for classes.

MOTION: Mr. Mulryan                      Second: Mr. Rankin

To adopt the Board Member training classes and educational conferences in Agenda Item 16b except for any event greater than \$2,500.

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

AYES: 9                      NOES: 0                      Motion carried.

**AGENDA ITEM 17: U.S. ECONOMIC OUTLOOK AND IMPACT ON CALIFORNIA**

Kevin Antaya, Vice President and Investment Manager of Conning Asset Management and Rich Sega, Chief Investment Officer of Conning Asset Management presented on the U.S. economic outlook and impact on California. For the national economy, Gross Domestic Product for Q4 2009 came in at a strong 5.9% as inventories were rebuilt. Growth will be positive going forward but below trend as housing and employment remain weak. In regard to California's economy, there are five main themes: high income level, high per capita income, weak competitive index, high unemployment and a weak housing market. Mr. Antaya also reported on the impact of inflation in property casualty insurance and

noted that general measures such as the Consumer Price Index do not accurately reflect insurance exposure to inflation, particularly in workers' compensation, as the focus should be on medical inflation.

**AGENDA ITEM 19b: WORKERS' COMPENSATION INSURANCE RATING BUREAU'S ROLE IN THE CALIFORNIA WORKERS' COMPENSATION MARKET**

Mr. Neary introduced Robert Mike, President of the WCIRB. Mr. Mike presented on the structure of the WCIRB, which is a non profit organization comprised of workers' compensation insurers. To accurately reflect the cost of providing workers' compensation benefits, the WCIRB collects a variety of rating, loss and coverage information. The WCIRB has three standing committees: 1. Governing Committee 2. Actuarial Committee and 3. Classification and Rating Committee. The California Department of Insurance (CDI) participates on all committees. Core functions of the WCIRB include producing accurate pure premiums rates, reviewing policies for CDI compliance, reviewing uniform statistical reporting for accuracy, producing experience ratings and inspection reports, providing timely access to data, and producing advisory plans and endorsement forms. The WCIRB uses aggregate financial data to develop pure premium rates for workers' compensation insurance. The rates are subject to approval by the Insurance Commissioner. The standard classification system is used to facilitate the accurate collection of data so that the cost of workers' compensation insurance can be distributed equitably. Payroll data is divided into groups to match the premium paid to the average potential risk of injury. The WCIRB also administers a Test Audit Program to test the accuracy and reliability of insurer audits and payroll reporting.

Ms. Cain requested public comment of which there was none. Mr. Rank left the meeting.

**AGENDA ITEM 21: RATIFICATION OF INVESTMENT TRANSACTIONS**

Leslie Dawe, Fiscal and Investment Services Manager, recommended the ratification of investment transactions from December 1, 2009 to January 31, 2010. Investment transactions for the period were made in conformance with State Fund's Investment policy at the time of purchase. During the months of December and January, State Fund purchased 29 securities consisting of 1 U.S. Government securities, 2 Sovereign securities, 8 Mortgage-Backed securities, and 18 Taxable Municipal securities totaling \$411M. During this same time period, State Fund sold 10 securities totaling \$129M. Year-to-date through December 31, 2009, State Fund has booked a net capital gain of approximately \$4.3M. The value of State Fund's portfolio as of December 31, 2009 was approximately \$19.6B.

MOTION: Mr. Rankin                      Second: Mr. Mulryan

To ratify the investment transactions from December 1, 2009  
to January 31, 2010.

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

AYES: 8                      NOES: 0                      Motion carried.

Ms. Dawe presented the Compliance Report which includes securities whose  
credit ratings fell below the "A" credit rating required at the time of purchase.  
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 0.5% currently allows State Fund to hold approximately \$98M in  
any one Taxable Municipal issuer, and State Fund's holding in Southern  
California Public Power Authority is approximately \$100M, or \$2M more than the  
0.5% limit. The 0.5% "Per Issuer" limit for Taxable Municipal was implemented  
after this bond was originally purchased. There are also 10 other securities  
totaling approximately \$183M whose credit ratings have fallen below the  
minimum single 'A' credit rating required at the time of purchase. One of State  
Fund's Oregon State bond holdings totaling \$25M is not rated, but the state of  
Oregon is rated AAa2/AA, which is also the rating for the other Oregon State  
bond held in the portfolio. At the end of January, 2010 the value of the securities  
listed on the Compliance Report totaling \$308M represent less than 2% of State  
Fund's total investments of approximately \$19.6B.

MOTION: Mr. Mulryan                      Second: Sen. Machado

To ratify the compliance report for the period December 1, 2009  
to January 31, 2010.

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

AYES: 8                      NOES: 0                      Motion carried.

**AGENDA ITEM 20b(i): AUDIT COMMITTEE UPDATE (out of order)**

Mr. Zachry provided an Audit Committee update. One audit investigation involved  
rejected claims in the Bay Area and Los Angeles counties. A review of the  
rejected claims process used to deny claims was performed to ensure a timely  
denial of liability. Another audit involved reinsurance payments and billing  
statements to ensure proper accounting of reinsurance recovery. There are  
ongoing audits by the CDI and KPMG. Mr. Zachry also recommended that the

2010 Audit Plan include an audit of claims to ascertain if medical payments authorized were for medical treatment that was evidenced based medicine.

MOTION: Mr. Zachry          Second: Mr. Mulryan

To include in the 2010 Audit Plan an audit of claims to ascertain if medical payments authorized were for medical treatment that was evidenced based medicine.

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

AYES: 8                      NOES: 0                      Motion carried.

**AGENDA ITEM 20a: GOVERNANCE COMMITTEE UPDATE (iii) PROCESS FOR BOARD MEMBER SPEECHES, ARTICLES AND PRESS STATEMENTS (taken out of order)**

Ms. Cain, as Chairperson of the Governance Committee reported that the committee would like to ensure a coordinated procedure for Board members who give speeches, write articles and press releases. The Governance Committee is recommending that the Board adopt the Process and Procedure on Board Member Speeches, Articles and Press Releases as attached hereto and made a part of these minutes.

MOTION: Ms. Cain          Second: Mr. Richardson

To approve the Process and Procedures on Board Member Speeches, Articles and Press Releases recommended by the Governance Committee as attached hereto and made a part of these minutes.

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

AYES: 8                      NOES: 0                      Motion carried.

Ms. Cain also reported that the Governance Committee is recommending that the Board adopt the Enterprise Risk Management Resolution (ERM) as a best practice and that management be directed to work with the Chair of the Audit and Governance Committees to amend the charters of those committees to include ERM within the Committees' Mission, Purpose, Duties and Responsibilities.

MOTION: Ms. Cain          Second: Ms. Chalupa

WHEREAS, Enterprise Risk Management ("ERM") is an emerging best practice in the insurance industry; and

WHEREAS, one of State Fund's exempt positions is a Chief Risk Officer whose duties include a focus on ERM; and

WHEREAS, State Fund has established a Risk Committee whose mission includes a focus on ERM; and

WHEREAS, Governance Committee discussions have identified the importance of each Board committee developing different perspectives; and

WHEREAS, it is appropriate for the Governance Committee to have oversight on the identification of key risks, the likelihood and impact of those risks if they would occur, and mitigation plans for those risks; and

WHEREAS, it is appropriate for the Audit Committee to have oversight of testing of the processes and controls in place to mitigate risk;

Now therefore, be it RESOLVED:

State Fund management is directed to work with the chair of the Audit Committee and the chair of the Governance Committee to amend the charters of those committees to include ERM within those committees' Mission/Purpose and Duties and Responsibilities, consistent with the Board's findings above.

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

AYES: 8

NOES: 0

Motion carried.

**AGENDA ITEM 20a: GOVERNANCE COMMITTEE UPDATE (i) (taken out of order) REPORT ON NATIONAL SEARCH FOR PRESIDENT AND CEO**

Ms. Cain reported that the IR Group Companies is in the process of screening candidates and conducting interviews for the President and CEO position. A final decision is targeted for sometime in June.

**AGENDA ITEM 20a: GOVERNANCE COMMITTEE UPDATE (ii) UPDATE ON BOARD EVALUATION PROCESS**

Ms. Cain reported that the vendor selected to conduct the Board evaluation has begun the process and has met with some Board members. Questions are being customized for the Board to ascertain whether the Board has the information and tools to do an effective job. Ms. Cain requested public comments of which there were none.



## **AGENDA ITEM 18: FINANCIAL UPDATE 2009 YEAR END RESULTS**

Chief Financial Officer Jay Stewart reported on the 2009 financial year end results. State Fund faced a softening market in 2009 and rate pressure from competitors resulting in less revenue than budgeted. By controlling expenses and maintaining strong investment income, State Fund had a net income of \$143M in 2009. Direct premium written at the end of 2009 was \$1.28B compared to a budget of \$1.6B. This is a decrease of \$438M compared to 2008. Net premium charged off at year end was down 48% from 2008. Losses incurred were \$940M compared to a budget of \$1.17B. The 2008 losses incurred were \$1.25B. Loss adjustment expenses at year end were \$574M compared to a budget of \$644M. The 2008 loss adjustment expenses were \$610M. Underwriting expenses were \$456M compared to a budget of \$542M. Underwriting loss was \$723M compared to a budget of \$795M. The 2008 underwriting loss was \$736M. The combined ratio at year end was 161.5 compared to a budget of 154.4. Net investment income for 2009 was \$908M. 2008 investment income was \$983M. At year end, the book yield was 4.6% on a total book value of \$19.B. The average credit quality of the portfolio remains at Aa1/AA+.

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

## **AGENDA ITEM 19a: PRESIDENT'S REPORT**

Doug Stewart, Interim President and CEO, reported that it was a challenging year for State Fund due in large part to the economy. State Fund provided businesses with a strong and stable choice for workers' compensation insurance to protect businesses and injured workers. Despite the challenges, State Fund ended 2009 with \$1.2B earned. Net income was at \$143M and policy surplus was at \$161M. With sound underwriting discipline, State Fund maintained a 75.3% loss ratio for 2009, identical to the prior year. Underwriting expenses were lowered from \$538M in 2008 to \$456M in 2009. Although State Fund's loss adjustment expense and combined ratio are above industry benchmarks, State Fund has a substantial inventory of open legacy claims from 2001 to 2006 when State Fund's market share was unusually high. As a result, State Fund is serving a higher volume of claims than typical for an insurer writing at State Fund's current premium levels. State Fund is successfully managing through this challenge and State Fund expects the LAE and combined ratio to return to more traditional industry benchmarks over the next few years as claims are brought to resolution. In 2010, State Fund is moving forward with initiatives to make it easier to do business with State Fund and to strengthen its operating platform.

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

**AGENDA ITEM 20c: INVESTMENT COMMITTEE UPDATE (i) STANDING COMMITTEE AGENDA ITEMS FOR 2010**

Sen. Machado, Chairperson of the Investment Committee, reported there were no new standing agenda items. Ms. Cain requested public comments of which there were none.

**AGENDA ITEM 22: CHAIR'S REPORT**

Chairperson Cain complimented staff in preparing Board reports. Also, Ms. Cain reported the success of obtaining the Attorney IV classification within State Fund's Legal Department. Ms. Cain requested public comments of which there were none.

**AGENDA ITEM 23: BOARD MEMBER REPORTS**

There were no other Board Member reports. Ms. Cain requested public comments of which there were none.

**AGENDA ITEM 24: PROPOSALS AND SUGGESTIONS FOR MAY 2010 AGENDA**

There were no proposals or suggestions for the May, 2010 agenda. Ms. Cain requested public comments of which there were none.

**AGENDA ITEM 25: PUBLIC COMMENT**

Ms. Cain requested public comment. Kenny Sims, Research Analyst for SEIU Local 1000, presented an analysis of the Rank Institute Report on State Fund and the Workers' Compensation Insurance Market Collapse. Ms. Sims reported that Recommendation 15 contained in the Rand Report which states that there is a link between State Fund's pricing strategy, market share, and workforce size is not supported by data. Ms. Cain requested public comments of which there were none.

**ADJOURNMENT**

There being no further business, Chair Jeanne Cain adjourned the meeting at 2:50 p.m.

The next regularly scheduled Board meeting will begin on Thursday, May 20, 2010 at 12 noon at the Milton Marks Conference Center, 455 Golden Gate Avenue, San Francisco.

Respectfully submitted,

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**Board Member Speeches, Articles and Press Releases**

## Speeches and Articles

### Overview

As an initial matter, the main goal of these procedures is to ensure timely, accurate, consistent and coordinated communication regarding State Fund. These procedures set forth the processes and controls applied to ensure speeches and articles by Board Members allow the freedom to express opinions without creating public misperceptions that the writings and speeches reflect State Fund policy.

All insurance-related speeches and articles contemplated by any member of the **State Fund Board of Directors** (herein referenced as “*Board Member*”) will be reported to the Governance Committee at a regularly scheduled Committee meeting for information as to topic and forum and whether the speech or article might pose a real or perceived financial, reputational, regulatory, or legal risk to State Fund.

All insurance-related speeches and articles prepared by any member of the **State Fund Board of Directors** (herein referenced as “*Board Member*”) are subject to review by the Communications Director. The Communications Director will consult with other State Fund management personnel as is deemed necessary. The article or speech will only be evaluated based on actual or perceived associated risks and impact to the detriment of State Fund if the article or speech would be attributable to State Fund’s policies and procedures. The Communications Director will not be reviewing the content to make editorial changes; recommendations on the forum or any other purpose but to evaluate risk to State Fund. The Communications Director will clear the materials or will advise the Board Member of the actual or perceived risk. In the event the Communications Director and the Board Member cannot reach agreement that would mitigate the risk then the issue will be elevated to the Chair of the Governance Committee or his or her designee.

### Timing

#### Step One

Contemplated speeches or articles written for presentation by or publication attributed to a Board Member must be reported to the Governance Committee well in advance of the proposed speech or article due date and in consideration of the Communication Director’s review process. The Board Member shall disclose the topic, venue, date, intended audience and general outline of materials. The Chair of the Governance Committee or his or her designee will inform the Communications Director of the clearance.

#### Step Two

Upon clearance by the Governance Committee, proposed speeches or articles written for presentation by or publication attributed to a Board Member must be provided to the Communications Director for review and clearance. Such submissions must be received by the Communications Director a minimum of **fourteen (14) days prior to the proposed oration or publication**. Submissions not received within this time period may be deemed not

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approved by the Communications Director and should be discussed directly with the Governance Chair or Board Chair.

## **Content**

Format of proposed speeches and/or articles submissions will include, but not be limited to:

- Proposed Date of Oration or Publication.
- Topic and purpose of the presentation.
- Name of the publication or event where the presentation will be delivered (newsletter, magazine, conference event, business club, et al).
- Intended and/or expected audience.
- Presentation content, including all corresponding sub-text/footnote reference materials.

## **Disclaimer**

To ensure it is clear that a Board Member is not speaking as a member of the State Fund Board of Directors, the following wording will be utilized, depending on whether the material is spoken or written:

### **Oral**

Although I am a member of the Board of Directors of State Compensation Insurance Fund, the views expressed here are my own and should *not* be attributed to State Compensation Insurance Fund.

### **Written**

Although [**enter Board Member name here**] is a member of the Board of Directors of State Compensation Insurance Fund, the views expressed here are his own and should *not* be attributed to State Compensation Insurance Fund.

## **Review and Clearance**

As noted above, the Communications Director will clear the materials or will advise the Board Member of the actual or perceived risk. In the event the Communications Director and the Board Member cannot reach agreement that would mitigate the risk then the issue will be elevated to the Chair of the Governance Committee or his or her designee. In the event there has not been clearance, then the Board Member may present to the Governance Committee at its next regularly scheduled meeting. The Governance Committee decision will be final.

## **Press Releases**

At no time will any Board Member respond to or provide any press release comments on behalf of State Fund. All press releases are effectively under the constructive supervision and control of the Chief Executive Officer (CEO) and Communications Director of State Fund.

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Board Members who are contacted by the media for comments must refer all inquiries to the Communication Director of State Fund.

## **Retention and Tracking**

All submissions will be logged into a central repository maintained and retained by the Board Support Staff in a secured repository. Included in this central repository will be, but not limited to the following:

- Date of the original submissions/request.
- Name of the Board Member who submitted the request.
- Proposed Date of Oration or Publication.
- Topic and purpose of the presentation.
- Name of the publication or event where the presentation will be delivered (newsletter, magazine, conference event, business club, et al).
- Intended and/or expected audience.
- Full content of the presentation, including all corresponding sub-text/footnote reference materials.
- Date the disposition/decision was communicated to the Board Member for each submission.
- Disposition/Decision outcome of each submission.

Copies of all supporting documentation for each submission will be stored in electronic format and retained for subsequent review purposes, for a minimum of seven (7) years.

At minimum, a copy of the materials will be available for Board Member review through the SEIPP portal.

Final copies of speeches and articles will be provided through one-way communication to the full Board and will be distributed concurrently to the Executive Committee members.

***End of Document***