

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

November 17-18, 2011

The Board of Directors of the State Compensation Insurance Fund met on November 17-8, 2011 at 333 Bush Street, San Francisco, California.

November 17, 2011

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on November 17, 2011 at 1:45 p.m. and the following were present: Lawrence E. Mulryan, Chair; Sheryl A. Chalupa; Daniel M. Curtin, Donald E. Garcia; Sen. Michael J. Machado (Ret.); Francis E. Quinlan; Steven L. Rank; Thomas E. Rankin; Scott K. Reid; William M. Zachry; and non-voting member Christine Baker (joining at item 14).

There was a quorum.

Also present: President and CEO Thomas E. Rowe; Chief Financial Officer Dan Sevilla; General Counsel and Corporate Secretary Carol R. Newman; Board Liaison and Assistant Corporate Secretary Hilda Padua; and Assistant Corporate Secretary Judith D. Sapper.

AGENDA ITEM 2: ANTITRUST ADMONITION

Mr. Mulryan 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 5: PERSONNEL MATTERS (TAKEN OUT OF ORDER)

President and CEO Thomas Rowe presented an update on personnel matters. Mr. Rowe reported on the ongoing discussions and meetings with employees, unions, legislative representatives and other key stakeholders about the layoff plan and transitional payment option arranged with Service Employees International Union (SEIU). Senior Vice President of Human Resources and Organizational Development Andreas Acker provided additional details about the transitional payment option. Employees in layoff classifications would be eligible for a payment representing four to six months of salary and an additional payment to offset their costs. They must make a voluntary election to separate or retire from State Fund as of December 31, 2011. State Fund is working with the Joint Legislative Budget Committee for required approval of the transitional payment option. State Fund also reached an agreement with SEIU to provide additional reimbursement and resources for employees who relocated as part of the geographic strategy and then became subject to layoff. Human Resources will provide all eligible employees with training on finding and interviewing for jobs, plus expanded job postings and employment fairs. Mr. Acker reported the layoff base plan is on schedule. Mr. Acker presented an update on the workforce and accrued leave balances.

a. Workforce Update

As of September 30, 2011 there were 6627 active employees on the payroll with a total of 6851. All Youth Aid and Annuitant positions have been terminated. There were 9 new hires, 120 promotions, and 446 separations plus 69 additional separations in October. The annualized separation rate through September 30, 2011 was 8.2% and an additional 500 separations are forecast for the end of the year.

b. Accrued Leave Balances

There is a total of 226,000 annual leave and vacation hours over the 640 hour cap, which is less than in 2010. The number of employees with leave balances exceeding the cap increased from 808 to 813, both from the requirement to use Personal Leave Program credits before vacation leave and employee use of accrued vacation to separate from employment with a higher pay out rather than relocate geographically. The number of hours exceeding 640 will decrease by end of year 2011. The cash out value of all leave balances over 640 hours is \$73M.

AGENDA ITEM 3: CONSENT CALENDAR

Mr. Mulryan asked whether any Board member had any comments on the items on the Consent Calendar of which there were none.

MOTION: Mr. Curtin

Second: Mr. Rankin

To approve the Consent Calendar as presented.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 10

NO: 0

Motion carried.

AGENDA ITEM 4: ECONOMIC UPDATE AND REACHING FOR YIELD

Peter Guastamachio, Chief Investment Officer, introduced Mr. Christian Auger, Client Strategist and Mr. William Rotatori, President of General Re New England Asset Management to present on the Economic Update and Reaching for Yield. Mr. William Rotatori discussed the domestic and global forces negatively affecting economic growth including excess inventory of houses; continued high unemployment; the total US debt as a percentage of the Gross Domestic Product is at a peak of 250% or \$35T and the federal government's significant debt load. The European economy is reaching a crisis stage and will be a main driver of market volatility. An ongoing weakening economic and low yield environment was forecast. Mr. Christian Auger discussed falling yields and the impact on investment strategy. Opportunities to maintain yields through increasing the credit risk or duration of investments must be analyzed carefully for balance between risk and return.

AGENDA ITEM 6: FINANCIAL UPDATE--3RD QUARTER 2011

Chief Financial Officer Dan Sevilla reported on State Fund's unaudited statutory financial results through September 30, 2011. State Fund's financial results are significantly impacted

by economic conditions, including unemployment and market pricing. State Fund continues to exercise disciplined pricing and wrote approximately 115,000 policies during the first nine months of 2011, which was 3% less than budget and 8% less than the prior period. Due to the continued loss of larger premium accounts, average premium per policy was approximately \$6,700 or 9% less than budget and 8% less than the prior period. Net premiums earned of \$732M were 12% less than budget and 14% less than the prior period.

During the third quarter State Fund completed a periodic analysis of the adequacy of the loss and loss adjustment expense (LAE) reserves. The analysis indicated that loss and LAE reserves overall remain adequate, but LAE reserves needed strengthening. Effective September 30, 2011, State Fund reallocated \$500M of reserves for prior accident years from loss reserves to LAE reserves. The reallocation had no effect on total reserves or net income, but did impact losses and LAE incurred (as well as related ratios) by offsetting amounts. The incurred losses of \$916M were 12% less than budget and 12% less than the prior year. State Fund's incurred loss ratio and LAE ratio of 125% was 1 point higher than budget and 3 points higher than the prior year.

Underwriting expenses of \$285M were 4% less than plan and 10% less than the prior year. The underwriting expense ratio of 39% was 4 points higher than plan and 2 points higher than the prior year due to premiums declining faster than expenses. There was an underwriting loss of \$469M, which was 5% lower than budget and 7% lower than the prior period. The combined ratio was 164%, or 5 points higher than both budget and the prior period.

Net investment income of \$627M was 10% more than budget and 5% less than the prior period. Investment yields were higher than planned. State Fund realized capital gains of \$14M, which was \$14M more than budget and \$8M more than the prior period. Other expenses of \$50M consisted of charge-offs of uncollectible premiums and were \$2M more than budget and \$1M less than the prior period. Because of the improved underwriting results, net investment income and realized gains, State Fund's net income of \$113M was \$97M more than budget and \$13M more than the prior period. Mr. Mulryan requested public comment of which there was none.

AGENDA ITEM 7: WORKERS' COMPENSATION LEGISLATIVE UPDATE

Brian Watson, Senior Vice President of Government and Business Affairs, provided a legislative update. Mr. Watson reported that Governor Brown signed legislation enabling State Fund to provide coverage to California based employers with some operations outside the state. Other significant legislation that was adopted included establishment of guidelines for dispensing and reimbursement for compound drugs, removing incentives for physicians to refer patients to pharmacies in which the physician has a financial interest; prohibition and penalty for intentional misclassification of workers as independent contractors; and a requirement that workers' compensation insurers disclose to employers the use of dispute resolution or arbitration agreements and obtain the employer's signature on that disclosure, which will cause State Fund to change its process for binding insurance. Governor Brown vetoed legislation increasing permanent and temporary disability benefits and prohibiting consideration of certain personal characteristics as factors for denial or evaluation of disability.

AGENDA ITEM 8: PRESIDENT’S REPORT

8a: STATE OF THE MARKET

Mr. Rowe provided an update on the state of the workers’ compensation market. Mr. Rowe reported market conditions are basically unchanged since the last Board meeting. There continues to be intense competition especially in new business pricing. State Fund’s strategic response is to maintain fair and adequate pricing and to deliver superior services. This strategy has led to State Fund’s lost of business due to unsustainable pricing by competitors, but overall the decline in premium has been modest. It is appropriate for State Fund to maintain adequate pricing. However, we held the line in overall pricing in our new rate filing. And the rate filings, expected later in 2012 will continue to improve our ability to spread prices and more fairly price all employers.

While it is impossible to predict when the market will begin to recognize the deteriorating results of the past several years and increase rates, the market is entering the later phases of the competitive cycle. Mr. Mulryan requested public comment of which there was none.

AGENDA ITEM 9: REPORTS BY THE CHAIRS OF COMMITTEE ACTIVITIES

9a: GOVERNANCE COMMITTEE

Mr. Mulryan reported the Governance Committee heard an update on Board training and a session being planned for March 29-30, 2012 with training provided by the National Association of Corporate Directors (“NACD”). In addition, State Fund has re-launched its Privacy Office which supports strategic objectives of a strong governance, risk management and compliance framework to protect private and confidential information.

9ai: BOARD MEMBER EDUCATION AND TRAVEL REIMBURSEMENT POLICY

Mr. Mulryan reported that the Governance Committee reviewed and recommended approval of the revised Board Member Education and Travel Expense Reimbursement Policy. The revisions were mostly technical in nature such as clarifying that the cap on authorized training is based on a calendar year and attendance by a majority of Board or Committee members at educational or social events does not constitute a Bagley-Keene Open Meeting Act violation. There was a further recommendation to amend Exhibit A to recognize a Board member’s discretion regarding reasonable expenses for food and beverages while on State Fund business.

MOTION: Ms. Chalupa

Second: Mr. Rankin

To recommend the Board of Directors approve the amended and revised Board Member Education and Travel Expense Reimbursement Policy, with the additional amendment to the exhibit as presented.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 10

NO: 0

Motion carried.

9aii: APPROVAL OF 2012 BOARD SCHEDULE AND COMMITTEE AGENDA ITEMS

The Governance Committee recommended scheduling four standing meetings with two additional meetings for Board and Committee training and Strategic Planning, respectively, as well as other business as needed.

MOTION: Mr. Rankin Second: Mr. Zachry

To recommend the Board of Directors approve the 2012 Board Schedule and Agenda items as presented.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 10 NO: 0 Motion carried.

9aiii: PERFORMANCE AWARDS

The Governance Committee heard an update from Chief Financial Officer Dan Sevilla on the latest legal research and proposed next steps for having Performance Awards available at State Fund. The Committee also reviewed the performance of Chief Operating Officer Tom Clark and recommended the Board direct the President and CEO to implement the second year performance pay structure.

MOTION: Ms. Chalupa Second: Sen. Machado

In recognition of Tom Clark, Chief Operating Officer's performance in 2011, the Governance Committee recommend to the Board implementing the 2nd Year performance pay structure with the base annual salary of \$180,000, a recruitment and retention differential decrease to \$27,000 (15% of base) effective December 1, 2011 and annual incentive performance award target to remain at 15% of the base salary up to \$27,000, and further; the 2012 annual incentive performance award shall be subject to approval by the Board and based on the Chief Operating Officer's achievement of specifically defined metrics and performance goals.

Mr. Mulryan requested public comment. A member of the public commented on the description of the performance goals. Mr. Mulryan called for the vote.

YES: 10 NO: 0 Motion carried.

9aiv: DILIGENT BOARDBOOKS

Mr. Mulryan reported the Governance Committee saw a presentation on Diligent Boardbooks, a user friendly online portal that simplifies and reduces material preparation and distribution time of Board meeting materials. Diligent Boardbooks may be viewed on iPad, desktop or laptop and offers desired architecture, hosting and user security and data encryption. Implementation costs are under \$50,000 for on and offline use for Board members and management and staff that support the Board. State Fund anticipates savings greater than costs related to Board preparation time and current technology support.

MOTION: Mr. Rankin Second: Mr. Zachry

To direct management to take all actions necessary to enter into a Service Agreement for Diligent Boardbooks at the best commercial terms with a target implementation for the February 2012 State Fund Board and Committee meetings.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 10 NO: 0 Motion carried.

9b: AUDIT COMMITTEE

9bi: COMPLETED CLOSED AUDITS

Mr. Quinlan reported on matters from the Audit Committee meeting. Mr. Quinlan reported the Audit Committee heard a report of a completed closed audit of 2010 purchases through the office supply ordering system. Guidelines for permitted and non-permitted purchases will be clarified to address minor findings of non-permitted purchases and there will be additional controls. An audit of the corporate governance framework resulted in minor findings that will be remediated by April 2012. The external auditor KPMG provided an overview of the Audit Plan for the 2011 financial audit. Mr. Quinlan signed the engagement letter with KPMG for the 2011 audit as authorized by the last Committee meeting.

9c: INVESTMENT COMMITTEE

Sen. Machado reported on matters from the Investment Committee meeting. Sen. Machado reported the Committee authorized State Fund to investigate investing in equities.

9ci: BOND TRANSACTIONS AND COMPLIANCE REPORTS

Sen. Machado discussed the investment transactions and compliance reports for the period of August 1, 2011 to September 30, 2011, which are now approved by the Investment Committee. Treasury and Investments Program Manager Stephanie Chan presented the 84 investment transactions for the period. There were purchases of \$779M, and sales of \$111M.

MOTION: Mr. Rankin Second: Ms. Chalupa

To approve the investment transactions as presented.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 10 NO: 0 Motion carried.

MOTION: Mr. Garcia Second: Mr. Rankin

To approve the compliance report as presented.

Mr. Mulryan requested public comment of which there was none. Mr. Mulryan called for the vote.

YES: 10 NO: 0 Motion carried.

Sen. Machado reported the Committee reviewed the recommendation by management to have portfolio accounting of the Investment Managers' performance conducted by an independent firm, and that a Request for Proposal (RFP) is in progress. The Committee recommends renewal of the engagement of Conning and New England Asset Management as State Fund Investment Managers for a three year term effective April 1, 2012 and engagement of Deutsche Asset Managers effective April 1, 2012 to provide for diversification of the investment portfolio with a global perspective.

MOTION: Mr. Quinlan Second: Mr. Rankin

To approve the hiring of Conning and New England Asset Managers and Deutsche Asset Managers as Investment Managers for State Fund and that the BOD authorize State Fund management to negotiate investment services contracts for a three year period on terms that management determines are in the best interests of State Fund.

Mr. Mulryan requested public comment. A member of the public asked whether the three investment firms were based in California. Staff noted the firms were not but had been selected pursuant to an RFP and the selected firms represented the best quality and price. Mr. Mulryan called for the vote.

YES: 10 NO: 0 Motion carried.

AGENDA ITEM 10: REPORT BY CHAIR OF BOARD ACTIVITIES

Mr. Mulryan reported State Fund is operating with an overall expense ratio of 90%, spending more to operate the company than to pay benefits to injured workers. State Fund is addressing this imbalance through reduction of its real estate footprint and expense and through assessment of staffing requirements. State Fund conducted a benchmarking exercise comparing the organization to other state funds and insurance companies that write workers' compensation in California. The analysis also considered State Fund's unique role in the market and its legacy claims inventory. It was determined that State Fund will be overstaffed by more than 2,000 positions at the end of the year and that a reduction in force was necessary that will layoff up to 1800 employees by the second quarter of 2012. This will bring expenses down by \$150M. State Fund expects to reduce its operating expenses by 40% by the end of 2012. The savings will help California employers manage the cost of their workers' compensation insurance. Mr. Mulryan requested public comment of which there was none.

AGENDA ITEM 11: BOARD MEMBER REPORTS

Mr. Mulryan requested any Board Member reports of which there were none.

AGENDA ITEM 12: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 15-23

Mr. Mulryan requested public comment on the appropriateness of closed session for items 15-23. Carol Newman, Corporate Secretary and General Counsel explained the time limits for the public comments. State Fund employee Ms. Andree Joseph-Conley read a statement about the legislative history of the Bagley-Keene Open Meetings Act and requested the Board to hold open meetings especially when discussing strategic planning and layoffs.

AGENDA ITEM 13: PUBLIC COMMENT

The Reverend Donna Wood of Park Presidio United Methodist Church in San Francisco and member of the Clergy and Laity United for Economic Justice said a prayer reflecting on current economic times and human needs and requested decisions be made with compassion and care.

Mr. Tim Paulson, Executive Director of the San Francisco Labor Council, commented on the percentage of layoffs and requested the Board not to implement the layoff plan.

Ms. Josie Camacho, Executive Secretary/Treasurer of the Alameda Labor Council, commented on the layoff plan, the effect on the California economy, State Fund's vision and values, the bonuses being paid to executive management, and urged the Board not to implement the reduction in force at the proposed scale.

State Fund Senior Claims Adjuster Mr. Joe Severino submitted a written statement on behalf of SEIU Local 1000 Margarita Maldonado, and commented on State Fund's mission and role in relation to the California economy and the impact of the layoff plan.

State Fund Adjuster Ms. Victoria Jones commented on the layoff plan's impact on State Fund's ability to detect and prevent fraud and educate employers.

State Fund Payroll Auditor Ms. Lesa Malanche commented on the elimination of the Payroll Auditor classification in view of its revenue generating function and the potential for employer underreporting and misreporting of payroll.

State Fund Senior Legal Typist Mr. Joseph Wigon commented on the role of employee input and communication in management decisions and avoiding waste of resources.

State Fund Senior Legal Typist Ms. Adrienne Amader commented that the Board is driving State Fund out of business which would prevent some employers from obtaining insurance and impact the Uninsured Employers' Fund, and might lead to another investigation of State Fund.

State Fund Senior Utilization Review Coordinator Ms. Lydia Gooden commented on the layoff plan's negative impact on compliance with Labor Code requirements for timely utilization review and the potential for fraud or loss of confidentiality if external review services are utilized because of staffing reductions.

State Fund Adjuster Ms. Robin Jones commented on the employees and households impacted by the layoff decisions.

State Fund Workers' Compensation Insurance Technician Ms. Olivia Montano commented on the impact of the layoff.

State Fund Program Technician Mr. Patrick Swift commented that his wife gave up her job when their family relocated to Fresno for the Claims Processing Center expecting to avoid a layoff, but that he received a layoff notice the week following his move.

State Fund Program Technician Ms. Estella Ambrose commented on an employee who moved his family to Fresno but received a layoff notice three days later; she requested bonuses not be paid to executive management given the impact of the layoffs on employees.

State Fund Workers' Compensation Insurance Technician Ms. Ignacia Villapudua commented on the changes at State Fund and its values and the impact of the geographic moves and the layoff plan on employees and their ability to implement State Fund's mission.

State Fund Investigator Ms. Denise Villapudua commented on State Fund's mission, vision, and values and the layoff plan's impact on State Fund's role as an industry leader.

State Fund Loss Control Assistant Ms. Aurora Zendejas commented that layoffs will impair State Fund's delivery of superior services.

State Fund Investigator Ms. Donna Campagna commented that State Fund is outsourcing jobs, eliminating services, acting contrary to its mission, and becoming a corporate entity paying large salaries and bonuses. She expressed concern with changes to State Fund's settlement philosophy and the potential impact on employers.

State Fund Audit Technician Mr. Parvinder Chohan commented on the salary and bonus package for the President and CEO given the rising expense ratio.

There was no further public comment.

ADJOURNMENT

There being no further business, Mr. Mulryan adjourned the meeting at 3:50 p.m.

November 18, 2011

The Board of Directors of State Compensation Insurance Fund continued their Open Session on November 18, 2011 at 333 Bush Street, San Francisco, California.

AGENDA ITEM 24: CALL TO ORDER AND ROLL CALL

The meeting was called to order on November 18, 2011 at 10:35 a.m. and the following were present: Lawrence E. Mulryan, Chair; Sheryl A. Chalupa; Daniel M. Curtin; Donald E. Garcia; Sen. Michael J. Machado (Ret.); Francis E. Quinlan; Steven L. Rank; Scott K. Reid; and William M. Zachry. Absent: Thomas E. Rankin; and non voting member Christine Baker.

There was a quorum.

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Open Agenda Item 3a – Approval of November 17-18, 2011 Open Meeting Minutes and December 14, 2011
Special Board Open Meeting Minutes

Also present: President and CEO Thomas E. Rowe; Chief Financial Officer Dan Sevilla; General Counsel and Corporate Secretary Carol R. Newman; Board Liaison and Assistant Corporate Secretary Hilda Padua; and Deputy Chief Counsel and Assistant Corporate Secretary Judith Sapper.

AGENDA ITEM 25: PROPOSALS AND SUGGESTIONS FOR FEBRUARY, 2012
AGENDA

In addition to the Board Standing Agenda items Mr. Mulryan requested Ms. Newman to note items identified by the Board to consider for the February meeting which included an Accrued Leave Balance Plan. Mr. Mulryan requested additional items for the February Board meeting of which there were none. Mr. Mulryan requested public comment, of which there was none.

There being no further business, Chair Mulryan adjourned the meeting at 10:40 a.m.

The next regularly scheduled Board meeting will begin on Thursday, February 16, 2012 at 333 Bush Street in San Francisco.

Respectfully submitted,

Judith D. Sapper,
Assistant Corporate Secretary

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

December 14, 2011

The Board of Directors of State Compensation Insurance Fund met by teleconference on December 14, 2011. Teleconference locations were:

Teleconference location: 333 Bush Street 7th Floor Board Room San Francisco, CA 94104	Teleconference location: 2275 Gateway Oaks Drive, Sacramento, CA 95833
Teleconference location: 1750 E. 4 th Street, Santa Ana, CA 92705	Teleconference location: 9801 Camino Media Bakersfield, CA 93311

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on December 14, 2011 at 9:05 a.m. and the following were present:

San Francisco: Lawrence E. Mulryan, William M. Zachry
Sacramento: Sen. Michael J. Machado (Ret.); Thomas E. Rankin; and Scott K. Reid
Santa Ana: Donald E. Garcia;
Bakersfield: Sheryl A. Chalupa

Christine Baker (Ex-Officio) – Absent by prior arrangement
Daniel M. Curtin – Absent by prior arrangement
Francis E. Quinlan – Absent by prior arrangement
Steven L. Rank – Absent by prior arrangement

There was a quorum.

Also present in San Francisco: President and CEO Thomas Rowe; Chief Financial Officer Dan Sevilla; General Counsel and Corporate Secretary Carol Newman; and Assistant Corporate Secretary Hilda Padua.

AGENDA ITEM 2: ANTITRUST ADMONITION

Chair Mulryan called attention to State Fund's Antitrust Admonition which is included in each member's packet.

AGENDA ITEM 3: FINDING THAT 10-DAY NOTICE REQUIREMENT WOULD CAUSE SUBSTANTIAL HARDSHIP

Chair Mulryan noted that in order to hold a Special Meeting, the Board must find that the 10-day notice requirement under the Bagley-Keene Act would cause a substantial hardship. Chair Mulryan read a proposed resolution and finding:

WHEREAS, under existing facts and circumstances, State Fund believes it has substantial exposure to potential litigation; and

WHEREAS, the Board has an immediate need to discuss potential litigation that may affect State Fund; and

WHEREAS, the delay necessitated by providing notice 10 days prior to a meeting as required by Government Code Section 11125 would not allow the Board of Directors to confer with staff and legal counsel on a timely basis;

NOW, THEREFORE, BE IT RESOLVED:

That the Board of Directors finds that the delay necessitated by providing notice 10 days prior to a meeting as required by Government Code Section 11125 would cause a substantial hardship on the State Compensation Insurance Fund and its Board of Directors.

Mr. Mulryan requested Board comment from San Francisco, Sacramento, Santa Ana and Bakersfield. There were no Board comments.

Mr. Mulryan requested any speaker cards or public comments from Sacramento; San Francisco, Santa Ana or Bakersfield. Mr. Garcia indicated no public comment from Santa Ana; Ms. Chalupa indicated no public comment from Bakersfield; Senator Machado indicated no public comment from Sacramento; and Mr. Mulryan noted there were no public comments from San Francisco.

MOTION: Ms. Chalupa SECOND: Mr. Zachry

To adopt the proposed resolution and finding.

Roll call vote:

Lawrence Mulryan:	Aye
William Zachry:	Aye
Donald Garcia:	Aye
Sen. Michael J. Machado:	Aye
Thomas Rankin:	Aye
Scott Reid:	Aye
Sheryl Chalupa:	Aye

The motion carried.

The meeting convened immediately into Closed Session at approximately 9:15 a.m. for a discussion on agenda Item 4.

The Board reconvened into Open Session at approximately 9:35 a.m. Mr. Mulryan confirmed through a roll call that all locations and all Board Members present during the 9:00 a.m. roll call were present.

AGENDA ITEM 4: POTENTIAL LITIGATION Closed session.

AGENDA ITEM 5: REPORT ON DECLARATION OF DIVIDEND PLAN

Chair Mulryan requested Hilda Padua to project the proposed resolution on the screen in San Francisco location and send to each Board member's State Fund address the resolution. Mr. Mulryan confirmed receipt of the resolution in each location, Sacramento, Santa Ana and Bakersfield. Mr. Mulryan then requested Carol Newman, General Counsel to read the resolution.

WHEREAS, pursuant to California Insurance Code section 11775, the State Compensation Insurance Fund ("State Fund") is required to be fairly competitive with other insurers, and should be neither more nor less than self-supporting; and

WHEREAS, pursuant to California Insurance Code section 11776, State Fund is required to ascertain the actual loss experience and expense on or about the first of January in each year for the year preceding; and

WHEREAS, if, after ascertaining the actual loss experience and expense, State Fund determines that assets exceed liabilities, necessary reserves, and a reasonable surplus for the catastrophe hazard, State Fund may declare a cash dividend or credit on the renewal premium of, each employer who has been insured with State Fund in the preceding year; and

WHEREAS, pursuant to Insurance Code section 11777, any such cash dividend or credit is to be in an amount which the Board of Directors of State Fund ("Board") in its discretion considers to be the employer's proportion of divisible surplus; and

WHEREAS, State Fund has projected the actual loss experience and expense for calendar year 2011, and has projected that assets will exceed liabilities, necessary reserves, and a reasonable surplus for the catastrophe hazard and has concluded that it has divisible surplus of approximately \$50 million, or 5.2% of 2011 estimated annual premium ("EAP"); and

WHEREAS, a cash dividend or credit on renewal premium for policyholders who obtained or renewed a State Fund policy in 2011, conditioned on a final audit and timely payment of premiums would recognize good policyholder performance;

NOW, THEREFORE, BE IT RESOLVED:

That based on the projected loss experience and expense for calendar year 2011, the Board has determined that assets exceed liabilities, necessary reserves, and a reasonable surplus for the catastrophe hazard, and that there is divisible surplus of approximately \$50 million, or 5.2% of 2011 estimated annual premium (EAP); and,

BE IT FURTHER RESOLVED that, the Board of Directors hereby approves and adopts the 2011 Dividend Plan as amended, which will provide qualifying policyholders who have obtained or renewed a policy in 2011 (2011 Policy) with either a credit against the policyholder's 2012 policy premium payment or a cash dividend payment; which credit or payment shall be based upon the policyholder's 2011 estimated annual premium (EAP); and,

BE IT FURTHER RESOLVED that the amount of any additional premium owed and/or paid by a policyholder, and any refund of premium by State Fund to a policyholder, as a result of an audit on the policyholder's 2011 Policy shall be excluded in the calculation of the policyholder's credit or payment;

BE IT FURTHER RESOLVED that the qualification for a cash dividend or credit on renewal shall be explicitly conditioned upon:

- 1) the completion of a final audit on the policyholder's 2011 Policy within 18 months of the 2011 Policy's renewal date or effective date;
- 2) at the time of the payment of the cash dividend or credit on renewal the policyholder is current with all premium payments; and
- 3) compliance with the policyholder's policy requirements, as determined by the President.

BE IT FURTHER RESOLVED that the President of State Fund is hereby granted the authority to establish the necessary policies and procedures to implement the 2011 Dividend Plan, such policies and procedures to include but not be limited to, the calculation of the proper cash dividend or credit for each policyholder, the timing and form of the credit or cash dividend payment, and the determination of whether renewing policyholders may receive a cash dividend instead of a credit.

BE IT FURTHER RESOLVED that the President of State Fund is hereby granted the authority to take all actions necessary to implement the 2011 Dividend Plan pursuant to this resolution.

MOTION: Mr. Zachry

SECOND: Ms. Chalupa

To adopt the proposed resolution.

Roll call vote:

Lawrence Mulryan:	Aye
William Zachry:	Aye
Donald Garcia:	Aye
Sen. Michael J. Machado:	Aye

Thomas Rankin:	Aye
Scott Reid:	Aye
Sheryl Chalupa:	Aye

The motion carried.

AGENDA ITEM 6: ADJOURNMENT

There being no further business, Chair Mulryan adjourned the meeting at approximately 9:45 a.m.

Respectfully submitted,

Hilda Padua
Board Liaison and Assistant Corporate Secretary