

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

January 17, 2014

The Board of Directors of the State Compensation Insurance Fund met on January 17, 2014 at the State Fund Corporate Office, 333 Bush Street, San Francisco, CA 94103.

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on January 17, 2014 at 8:35 a.m.

Mr. Mulryan requested Ms. Padua to call roll. The following were present: Lawrence E. Mulryan, Chair; Sheryl A. Chalupa; Daniel M. Curtin; Marvin Kropke; Sen. Michael J. Machado (Ret.); Jack Neureuter (joining at item 2); Steven L. Rank; Thomas E. Rankin; Scott Reid; William M. Zachry and Christine Baker (non-voting member).

Absent by prior arrangement: Robin Baker

There was a quorum.

Also present: Interim President and CEO Carol R. Newman; Interim Chief Financial Officer and Chief Investment Officer Peter Guastamachio; Board Liaison and Assistant Corporate Secretary Hilda B. Padua; and Randall Keen with Manatt, Phelps & Phillips, LLP.

Mr. Mulryan welcomed the new board member, Jack Neureuter. The particulars of the new appointment are as follows. Mr. Neureuter was appointed on January 16, 2014 by Governor Edmund Brown Jr. for a term expiring on January 15, 2016. Mr. Neureuter assumed Francis Quinlan's expired position. The oath provided by the governor was administered by a State Fund Notary on January 17, 2014.

Mr. Neureuter is the former CEO of Alliance Medical in Healdsburg, California, as well as the executive director of the Oakland Association of Insurance Agents from 1980 to 1998 and an account executive at Fritz Insurance Agency from 1977 to 1980. He is a member of the Memorial Hospice Board and the Health Action Sonoma Palliative Care Committee.

The Governor also reappointed Board members Sheryl Chalupa for a term expiring on January 15, 2017; and William Zachry and Robin Baker for a term expiring on January 15, 2019.

Mr. Mulryan also recognized outgoing Board member Francis Quinlan's contributions to the Board. Mr. Quinlan joined the Board in 2007 and provided strong leadership, particularly in the Audit Committee of which he was the Chair and architect of its charter. He also provided important insight and direction over the years in the areas of information technology and good governance practice and was a true champion for State Fund's transformation.

AGENDA ITEM 2: ANTITRUST ADMONITION

Mr. Mulryan called attention to and requested confirmation that the Board members read State Fund's Antitrust Admonition, which is included in each Board member's meeting materials.

AGENDA ITEM 3: CONSENT CALENDAR

Mr. Mulryan asked whether any Board member had any comments on the items on the Consent Calendar. Mr. Rankin noted that with the removal of Mr. Quinlan and appointment of Mr. Neureuter to the Board there should be further review of the 2014 Board Committee assignments. The proposed revisions to the 2014 Board Committee Assignments will be presented and approved at the February 2014 meeting.

MOTION: Mr. Rankin

Second: Mr. Kropke

To approve the Consent Calendar as amended with removal of 2014 Board Committee Assignments.

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: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 7-8.

Mr. Mulryan requested public comment on the appropriateness of closed session for items 7-8, of which there was none.

AGENDA ITEM 5: PUBLIC COMMENT

Mr. Mulryan requested further public comment of which there was none.

AGENDA ITEM 9: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 3:00 p.m. following the conclusion of the Closed Session and the following Members were present: Lawrence E. Mulryan, Chair; Sheryl A. Chalupa; Daniel M. Curtin; Marvin Kropke; Sen. Michael J. Machado (Ret.); Jack Neureuter; Steven L. Rank; Thomas E. Rankin; Scott Reid; William M. Zachry; and Christine Baker (non-voting member).

Absent by prior arrangement: Robin Baker

There was a quorum.

Also present: Interim President and CEO Carol R. Newman; Interim Chief Financial Officer and Chief Investment Officer Peter Guastamachio; Board Liaison and Assistant Corporate Secretary Hilda B. Padua; and Randall Keen with Manatt, Phelps & Phillips, LLP.

AGENDA ITEM 10: APPROVAL OF PERFORMANCE AWARD

Mr. Mulryan noted that items 10 and 11 would be approved together since there is only one resolution for both Performance Awards and 2014 Compensation for Exempt Executives. Copies of the Resolution No. 2006 were available for the public.

Mr. Mulryan reported that State Fund had an outstanding 2013, strengthening its ability to provide California employers increased access to fair pricing with the launch of tiered rating, streamlining the underwriting process and the new online application, PriceNow, continuing to reduce operating expenses, and improving customer service. Most importantly, State Fund's 2013 results reflect increased value for policyholders and claimants. In addition, State Fund declared a \$100M policyholder dividend.

The Board recognized that these results would not be possible without the contributions of State Fund employees. Mr. Mulryan reported that the Board approved a performance award pool not to exceed \$6.2M to be distributed to the employees of State Fund who have contributed to the outstanding results in 2013, including staff, supervisors, managers, program managers and executives. Mr. Mulryan noted that in the next couple of weeks management will communicate and distribute these performance awards across the organization and provide additional information to employees. Mr. Mulryan congratulated staff on their tremendous achievement and thanked them for the hard work they have done for State Fund and the people of California.

Mr. Mulryan requested a motion and second.

MOTION: Mr. Zachry

SECOND: Sen. Machado

To approve the 2013 Performance Award program as stated in Resolution No. 2006.

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

YES: 10

NO: 0

Resolution carried

AGENDA ITEM 11: EXECUTIVE COMPENSATION

Mr. Mulryan reported that the Board of Directors has evaluated the performance of each executive for 2013. Mr. Mulryan noted that the compensation packages for exempt members of State Fund's executive committee contain both fixed and variable components designed to produce high performance. Since the goal is to attract experienced executive level talent, the Board has carefully benchmarked State Fund's executive compensation and designed it to be relevant to the competitive market place without being excessive. Mr. Mulryan reported that in the performance based compensation determination process, the Board reviewed both the overall performance of the business and the value of each exempt executive's contribution.

Mr. Mulryan requested a motion and second.

MOTION: Mr. Zachry

SECOND: Sen. Machado

To approve the 2013 At-Risk Compensation Differential and 2014 Compensation for Executives as stated in Resolution No. 2006

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

YES: 10

NO: 0

Resolution carried

**APPROVAL OF 2013 AT-RISK COMPENSATION DIFFERENTIAL AND 2014
COMPENSATION FOR EXECUTIVES**

WHEREAS, the Board has approved a Performance Awards program for State Fund staff, managers, supervisors, CEAs and Program Managers, with the total size of award pool subject to the Board's discretion, based on enterprise performance; and

WHEREAS, the Board has considered State Fund's enterprise performance for 2013, and now seeks to establish and approve the total size of the 2013 performance award pool for State Fund staff, managers, supervisors, CEAs and Program Managers; and

WHEREAS, the annual compensation package for State Fund's president ("President"), chief financial officer, chief operating officer, chief information officer, chief investment officer, chief risk officer and general counsel ("Exempt Executives") includes an annual base salary, retention differential and an at-risk differential based upon an annual performance evaluation conducted by the Board of Directors ("Board"); and

WHEREAS, the Board has completed its performance evaluations for each of the Exempt Executives and Non-Exempt Executive Committee Members for calendar year 2013; and the Board seeks to increase the base salary and retention differentials for 2014 and approve some of the at-risk compensation for certain of the Exempt Executives for 2013 as identified in the attached Schedule of Executive Committee At-Risk 2013 Compensation Differential and Salary Adjustments Based on Performance Evaluations.

NOW, THEREFORE,

IT IS RESOLVED that the Board hereby finds that State Fund's enterprise performance for 2013 exceeded expectations; and hereby approves a 2013 performance award pool not to exceed \$6.2 million for State Fund staff, managers, supervisors, and CEAs, Program Managers and Executives; and

BE IT FURTHER RESOLVED that the Board hereby adopts and approves the increases in 2014 base salaries and retention differentials and the 2013 at-risk component of 2013 compensation as identified in the attached Schedule of Executive Committee 2013 At-Risk Compensation Differential and Salary Adjustments Based on Performance Evaluations; and

BE IT FURTHER RESOLVED that the Chair of the Board of Directors is hereby granted the authority to enter into interim employment agreements with Carol Newman and Peter Guastamachio to address the terms and conditions of their interim appointments.



**SCHEDULE OF EXECUTIVE COMMITTEE 2013 AT-RISK COMPENSATION DIFFERENTIAL
AND SALARY ADJUSTMENTS BASED ON PERFORMANCE EVALUATIONS**

Position	2013 Annual Base Salary	Recommended 2014 Base Salary*	Recommended Annual Retention for 2014*	Recommended At-Risk Compensation Differential for 2013
Interim Chief Executive Officer/President (effective 11/14/13) (Carol Newman)	\$450,000	No change	\$18,000 (no change)	Not applicable
General Counsel (Carol Newman)	\$315,180	\$327,787 ¹	\$34,818 (\$33,804 in 2013)	\$63,100
Chief Information Officer (Marj Hutchings)	\$315,000	\$327,600	\$61,646 (\$59,850 in 2013)	\$59,900
Interim Chief Financial Officer (effective 11/14/13) (Peter Guastamachio)	\$305,540	No change	\$33,446 (\$32,472 in 2013)	Not applicable
Chief Risk Officer (Ken Van Laar)	\$296,640	\$308,506	\$29,491 (\$28,632 in 2013)	\$26,700
Chief Investment Officer (Peter A. Guastamachio)	\$250,000	\$260,000 ²	\$18,540 (\$18,000 in 2013)	\$48,800
*Chief Operating Officer (Beatriz Sanchez) (Appointed Chief Claims Operatic Officer eff. 1/1/14)	\$156,000	TBD at time of appointment	TBD at time of appointment	\$18,700
SVP Human Resources (Andreas Acker)	\$119,268 (\$125,076-2012)	Pay adjustments based on State controls and guidelines	Not applicable	\$15,500
EVP Field Operations (Darlyn Regan)	\$126,556	Pay adjustments based on State controls and guidelines	Not applicable	\$12,700
SVP Government Affairs, Marketing and Communications (Jennifer Vargen)	\$115,416	Pay adjustments based on State controls and guidelines	Not applicable	\$17,300

¹ The increases for this position would apply only if Carol Newman returns to her appointment as General Counsel.

² The increases for this position will apply only when a new CFO is appointed and Pete Guastamachio returns to the singular appointment as Chief Investment Officer.

Position	2013 Annual Base Salary	Recommended 2014 Base Salary*	Recommended Annual Retention for 2014*	Recommended At-Risk Compensation Differential for 2013
Interim General Counsel (effective 11/14/13) (Lisa Stolzy)	\$136,330	Pay adjustments based on State controls and guidelines	Not applicable	\$17,800
Chief Claims Operations Officer (Eff. 1/1/14) (Beatriz Sanchez)	Not applicable	\$180,000**	\$27,000**	Not applicable
Chief Medical Officer (Eff. 1/2/14) (Dinesh Govindarao)	Not applicable	\$350,000**	Not applicable	Not applicable
Chief of Internal Affairs (Eff. 1/2/14) (Dante W. Robinson)	Not applicable	\$250,000**	Not applicable	Not applicable

**2014 Annual Base Salary and Annual Retention is effective January 1, 2014.*

*** Already approved by the Board of Directors on November 15, 2013.*

AGENDA ITEM 12: PROPOSALS AND SUGGESTIONS FOR FEBRUARY 20-21, 2014
AGENDA

Mr. Mulryan requested additional items for the February 20-21, 2014 Board meeting of which there were none.

Ms. Chalupa thanked the Claims staff in Southern California who put together the training on "A Day in the Life of State Fund Claims". The 1-day training provided an overview of high level perspective of how claims are established, processed and settled. Mr. Zachry and Mr. Reid shared the same appreciation as well for the Northern Claims staff.

Mr. Mulryan requested public comment, of which there was none, and he noted that the next Board meeting is scheduled for February 20, 2014 at the State Fund Corporate Office, San Francisco, California unless noticed for a new date and time.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Assistant Corporate Secretary