

**STATE COMPENSATION INSURANCE FUND  
BOARD OF DIRECTORS**

**MINUTES OF OPEN SESSION MEETING**

**February 18-19, 2016**

The Board of Directors of the State Compensation Insurance Fund met on February 18-19, 2016 at the State Fund Corporate Office, 333 Bush Street, San Francisco, CA.

**February 18, 2016**

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

The meeting was called to order at 2:00 p.m.

Ms. Chalupa requested Ms. Padua to call roll. The following were present: Sheryl A. Chalupa (Chair); Robin L. Baker; Daniel M. Curtin; Marvin P. Kropke; Sen. Michael J. Machado (Ret.); Lawrence E. Mulryan; Jack L. Neureuter; Steven L. Rank; Thomas E. Rankin; Scott K. Reid; and William M. Zachry.

Absent: Christine Baker (non-voting member).

There was a quorum.

Also present: President & CEO Vernon L. Steiner; General Counsel and Corporate Secretary Margie R. Lariviere; Chief Financial Officer Peter A. Guastamachio; Board Liaison and Assistant Corporate Secretary Hilda B. Padua; and Counsel and Assistant Corporate Secretary Judith D. Sapper.

**AGENDA ITEM 2: ANTITRUST ADMONITION**

Ms. Chalupa 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**

- 3a. Approval of December 10 and 11, 2015 Open Meeting Minutes**
- 3b. Board Member Educational Opportunities and Approval of Planned Board Member Education and Expense Reimbursement**
- 3c. Approval of Retirement Resolutions**

Ms. Chalupa asked whether any Board member had any comments on the items on the Consent Calendar of which there were none. Ms. Chalupa called for a Motion.

MOTION: Mr. Kropke

SECOND: Mr. Curtin

To approve the Consent Calendar as presented.

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

YES: 11

NO: 0

Abstain: 0

Motion carried.

#### **AGENDA ITEM 4: STAFFING UPDATE**

Executive Vice President and Chief Administrative Officer Andreas Acker presented an update on staffing. Mr. Acker reported that State Fund ended 2015 with 4,350 employees, 323 separations, 567 new hires, and 1,306 promotions due to the classification changes. Of the 323 separations, 169 were retirements, 57 were resignations, 68 were transfers to other agencies, and 29 were others (death or dismissal). The overall separation rate for 2015 was 7.9% and the primary driver was retirements. Mr. Acker noted that the Age Service report will be provided at the May 2016 Board meeting.

Mr. Acker reported as of December 31, 2015 there was an 8% decrease in the number of hours over the 640 hour cap and an 11.6% decrease in the number of employees over the cap. State Fund is awaiting CalHR approval to offer a leave cash-out option again.

Ms. Chalupa requested public comment, of which there was none.

#### **AGENDA ITEM 5: FINANCIAL UPDATE – Year End 2015**

Chief Financial Officer Peter Guastamachio reported on the Year-End 2015 financial results. Mr. Guastamachio reported that net premium earned of \$1.6B through December was down 4% from last year, which is a \$64M decrease over the prior year. Mr. Guastamachio noted that there is an increase in payroll from renewal business but a decline in new business. The policy count for the year is down by 5% while average premium per policy is up by 6%. The overall forecast for the California and U.S. economy is still positive and projects GDP growth in the 2% to 2.5% range. The major growth is coming from real estate and construction markets as well as health and trade services. Manufacturing, commodities, and oil and gas are the weakest industry sectors.

State Fund combined Loss and Loss Adjustment Expense ratios totaled 106.3% through December 2015 which was 12 points lower than the same period in the prior year and slightly above budgeted target of 106%. This is due to State Fund increasing its reserves by \$250M and increasing its own reserves on its Workers' Compensation self-insurance program by \$16M. The Underwriting Expense Ratio of 23.5% was 1.3% lower than the same period in the prior year.

State Fund ended the year with a Combined Ratio of 129.8% and an Underwriting Loss of \$483M which were 13.3 points and \$198M lower than the prior year. Offsetting the underwriting loss, the net investment income through December was \$642M with realized capital gains of \$89M. This resulted in net income of \$271M for the year which is \$234M better than last year's net income of \$37M. There was an increase in policyholders' surplus of \$164M since December 31, 2014.

Ms. Chalupa requested public comment, of which there was none.

#### **AGENDA ITEM 6: PRESIDENT'S REPORT**

President and CEO Vern Steiner reported on the following activities:

##### **Roofing Safety Incentive Program**

Mr. Steiner reported that State Fund has launched the Roofing Safety Incentive program. There were 162 accounts for January and February that were identified as eligible of which 28 or 17% signed up. The program is a pilot focused on certain classifications within the roofing industry and intended to reduce workplace injuries by providing financial incentives of up to 10% of estimated annual premium to participating policyholders who adopt and adhere to State Fund's rolling safety program.

## Next Generation Deployment

Mr. Steiner reported that State Fund continues to make good progress on the core Information Technology system initiatives. Phase 0 of the NextGen Policy Administration System, which consolidates and streamlines the endorsement process, was successfully implemented. The Quote Management System (QMS) has now been fully deployed to all segments for new business and is scheduled to be rolled out for renewals in February 2016. The Single Quote Engine (SQE) is expected to roll out in 2Q 2016. As for Claims, modules from the Electronic Claims File (ECF) continue to migrate to CARE and the plan to retire ECF in 2Q 2016 is on track.

## Harbor Health Medical Network Plan (MPN)

Mr. Steiner reported that the new outcomes-based Medical Provider Network with Harbor Health Systems was launched on February 1, 2016. Mr. Steiner acknowledged and thanked everyone on the team for their hard work with Harbor Health in making it happen. This was a major achievement toward State Fund's goal to improve patient outcomes for the injured employees State Fund serves.

## **AGENDA ITEM 7: REPORTS BY THE CHAIRS OF COMMITTEE ACTIVITIES**

### **7a: GOVERNANCE COMMITTEE**

#### **7ai: GOVERNANCE, COMPLIANCE AND PRIVACY UPDATE**

Mr. Mulryan reported on the following activities:

#### **Compliance Training**

Mr. Mulryan reported that State Fund attained 100% workforce compliance for mandatory training. There were three consultants that failed to complete the required training and their access to State Fund was disabled until training was completed.

#### **Conflict of Interest Code**

Mr. Mulryan reported that the Fair Political Practices Commission (FPPC) approved State Fund's Conflict of Interest Code and it became effective November 27, 2015. The announcement about the new code was made to the organization on the effective date.

#### **Own Risk and Solvency Assessment (ORSA)**

State Fund submitted its ORSA report, as attested by the Chief Risk Officer, to the California Department of Insurance on November 27, 2015. As allowed under the Insurance Code, the ORSA report will be referenced in State Fund's Corporate Governance Annual Disclosure due on June 30, 2016.

#### **Phase 2 Regulatory Reporting Requirements Compliance Testing Completed**

Mr. Mulryan reported that the Regulatory Reporting phase two compliance testing was completed in November 2015. State Fund meets regulatory requirements for its low and medium risk reports. There are 82 reports maintained in the regulatory inventory.

## **Ethics and Privacy Reports**

Mr. Mulryan reported that the State Fund hotlines were benchmarked against Navex Global's 2015 report. The results are as follows: 1) No significant deviation in allegation category distribution. 2) State Fund uses online reporting more frequently than telephonic reporting. 3) State Fund reporting frequency (3.3/100 vs. 1.3/100) is higher than the benchmark reporting average. Frequency may be attributable to higher awareness about what and how to report concerns. 4) Anonymous reporting at State Fund is lower than in the benchmark report (49% vs. 60%). This may be attributed to a greater comfort in the confidential nature of the hotline.

### **7b: AUDIT COMMITTEE**

#### **7bi: UPDATE ON COMPLETED CLOSED AUDITS**

Ms. Chalupa reported on the following activities:

#### **Completed Closed Audits**

There was one completed closed audit, Claims Operations Site Visit and File Review - Bakersfield. There were two identified issues related to improving controls over sending timely benefit notices and posting of case plans.

The closed audit is correctible in the normal course of business and does not represent significant risk to State Fund. Management has provided their corrective action plans and Internal Audit monitors the completion of the corrective action plans.

#### **Whistleblower Hotline**

All reports made through the Ethics Hotline are investigated. During 4Q 2015 there were 27 cases reported through Navex Global, 43 management referrals, and 25 referrals from the Privacy Office. There were 95 new allegations received and 53 investigations completed. From the 53 completed investigations, there were 8 unsubstantiated allegations, 2 inconclusive, and 43 substantiated. Of the 43 substantiated allegations, 39 were referred to Manager Services for action and 4 involved employees who separated or retired from State Fund.

Every instance of observed misconduct and privacy violations represents a risk to the organization. Human Resources and the Privacy Office will work with management on identifying and implementing risk mitigation measures, implementing corrective actions and taking disciplinary measures where necessary, and to seek out opportunities to raise awareness and educate the State Fund workforce of their responsibility to prevent the improper disclosure or use of private/confidential information.

#### **Ratification of Engagement of External Auditor**

Ms. Chalupa reported that at the January 6, 2016 Audit Committee meeting, the Committee ratified the engagement of external auditor KPMG for 2015 Audit Plan at a cost of \$872,000 for audit services and an additional amount for travel costs of \$17,500.

## **7c: INVESTMENT COMMITTEE**

### **7ci: BOND TRANSACTIONS AND COMPLIANCE REPORT**

Investment Chair Senator Machado (Ret.) reported on the following:

The investment transactions and compliance reports for the period of October 1, 2015 to December 31, 2015 were approved by the Investment Committee pursuant to its delegated authority, which included the purchase of 83 bonds totaling \$736.2M and sale of 9 bonds for \$163.5M. In the equity portfolio \$51.6M were purchased and \$150.5M were sold for rebalancing. The total net gain from the entire portfolio was \$89.1M. The aggregate book value of all the investments was \$19.4B. There were 2 bonds no longer in compliance with State Fund's Investment Policy.

Sen. Machado also reported the Investment Committee heard a report from Investment Manager GR NEAM on the economic outlook and State Fund's portfolio performance results. Flat or declining returns are expected because of global economic issues.

### **AGENDA ITEM 8: CHAIRWOMAN'S REPORT**

Ms. Chalupa noted the first quarter of 2016 is half over and to be successful State Fund must tap its employees' commitment, experience, and courage to do what is right for the businesses and injured employees that depend on State Fund. In 2016, the focus areas are as follows: 1) improve core processes from underwriting to processing a claim to improve customer experience; 2) evolve pricing tools to be able to offer the right price for the right risk; 3) update technology to make it easier for employees to do their jobs; and 4) make it easier for customers to do business with State Fund.

Ms. Chalupa noted that this is an exciting time to be at State Fund and she is confident that State Fund will continue to improve and evolve to grow to fully achieve its purpose and support California's economy.

### **AGENDA ITEM 9: BOARD MEMBER REPORTS**

Ms. Chalupa requested any Board member reports, of which there were none.

### **AGENDA ITEM 10: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 13 through 23**

Ms. Chalupa requested public comment on the appropriateness of Closed Session for items 13 through 23, of which there was none.

### **AGENDA ITEM 11: PUBLIC COMMENT**

Ms. Chalupa requested public comment, of which there was none.

## **ADJOURNMENT**

There being no further business, Ms. Chalupa adjourned the meeting at 2:20 p.m. to immediately reconvene in Closed Session.

**February 19, 2016**

**AGENDA ITEM 24: CALL TO ORDER AND ROLL CALL**

The meeting reconvened at 10:50 am at the State Fund Corporate Office, 333 Bush Street, San Francisco, CA, following the conclusion of the Board Closed Session and the following Members were present: Sheryl A. Chalupa (Chair); Robin L. Baker; Daniel M. Curtin; Marvin P. Kropke; Sen. Michael J. Machado (Ret.); Lawrence E. Mulryan; Jack L. Neureuter; Steven L. Rank; Thomas E. Rankin; Scott K. Reid; and William Zachry.

Absent: Christine Baker (non-voting member).

There was a quorum.

Also present: President & CEO Vernon L. Steiner; General Counsel and Corporate Secretary Margie R. Lariviere; Chief Financial Officer Peter Guastamachio; Board Liaison and Assistant Corporate Secretary Hilda B. Padua; and Counsel and Assistant Corporate Secretary Judith D. Sapper.

**AGENDA ITEM 25: APPROVAL OF 2015 PERFORMANCE AWARDS**

Ms. Chalupa reported that the Board has approved Performance Awards for 2015. Ms. Chalupa noted the Board established Performance Awards to ensure that State Fund has the tools necessary to successfully compete with the market for talent, including the ability to recognize and reward performance. State Fund has been moving through a large-scale business transformation to become a more efficient and agile insurance organization. A big part of that transformation has been focused on building a performance-based culture that can support and sustain State Fund's unique role in California's workers' compensation market. Although there is still much work to do to achieve its long-term objectives, State Fund continues to make important strides in this multi-year business transformation process. Highlights for 2015 results include:

- State Fund met all of its financial objectives for 2015 and continued to be financially strong.
- State Fund wrote approximately \$1.6B premium for 138,000 policyholders.
- Net income at \$271M was \$217M higher than budget.
- The combined ratio at 129.8% was 1.7 points lower than budget.
- Loss and Loss Adjustment Expense reserves continued to be within targeted adequacy levels.
- State Fund's policyholders' surplus grew by \$164M since December 31, 2014.

Based on the results for this year, the Board has funded \$11.8 million in Performance Awards. Ms. Chalupa noted that in addition to funding the individual awards for all eligible employees, the Board also authorized a special award to recognize and acknowledge the extraordinary efforts of the State Fund employees who worked on and completed a significant IT security project which required many hours.

Ms. Chalupa congratulated and thanked the staff on their continued efforts toward the success of State Fund and the positive impact they have on California's employers and injured workers.

Ms. Chalupa requested a Motion and Second.

MOTION: Mr. Mulryan

SECOND: Mr. Neureuter

To approve the 2015 Performance Awards Resolution as presented.

Ms. Chalupa asked for public comment of which there was none. Ms. Chalupa called for the vote.

YES: 11

NO: 0

Abstain: 0

Resolution carried.

The certified Resolution No. 2069 is attached hereto.

**AGENDA ITEM 26: APPROVAL OF PRESIDENT AND EXECUTIVE LEADERSHIP 2015 PERFORMANCE AGAINST PLAN AND 2016 EXECUTIVE COMPENSATION**

Ms. Chalupa reported that the Board of Directors has evaluated the performance of each executive for 2015. Ms. Chalupa 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. Ms. Chalupa 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.

Ms. Chalupa requested a Motion and Second.

MOTION: Mr. Kropke

SECOND: Mr. Zachry

To approve the 2015 At-Risk Compensation Differential and 2016 Compensation for President, Exempt positions and Executive leadership as presented.

Ms. Chalupa asked for public comment of which there was none. Ms. Chalupa called for the vote.

YES: 11

NO: 0

Abstain: 0

Resolution carried.

The certified Resolution No. 2070 is attached hereto.

**AGENDA ITEM 27: PROPOSALS AND SUGGESTIONS FOR MAY 26-27, 2016 AGENDA**

Ms. Chalupa requested other agenda items, of which there were none.

Ms. Chalupa requested public comment, of which there was none, and she noted that the next Board meeting is scheduled for May 26, 2016 at the State Fund Corporate Office, 333 Bush Street, San Francisco, California unless noticed for a new date and time.

Ms. Chalupa adjourned the meeting at 10:55 a.m.

Respectfully submitted,

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Hilda B. Padua  
Board Liaison and Assistant Corporate Secretary



**Resolution No. 2069**

**BOARD OF DIRECTORS**

**APPROVAL OF PERFORMANCE AWARDS**

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

WHEREAS, the Board approved a 2015 potential award pool of approximately 5% of annual salary spend (\$14.3 million), with targets of 4% for staff, up to 8% for supervisors and managers and up to 12% for senior leaders; and

WHEREAS, the Board has considered State Fund's enterprise performance for 2015, and now seeks to establish and approve the total size of the 2015 performance award pool for State Fund staff, supervisors and managers, and senior leaders; and

WHEREAS, the Board additionally desires to recognize and acknowledge the extraordinary efforts of the employees who worked on and completed the remediation of the California Department of Insurance IT audit findings.

**NOW, THEREFORE,**

IT IS RESOLVED that the Board hereby finds that State Fund's enterprise performance for 2015 continued to demonstrate significant progress in its multi-year business transformation to become a more efficient and agile insurance carrier; that 2015 performance specifically strengthened financial stability and State Fund's enterprise risk management position; that 2015 performance demonstrated some improvement in customer service; that overall State Fund met or exceeded most enterprise objectives; and hereby approves a 2015 performance award pool not to exceed \$11.8 million for State Fund staff, supervisors and managers, and senior leaders; and

BE IT FURTHER RESOLVED that the Board hereby approves an additional pool not to exceed \$500,000 for a special one-time award of up to \$3,000 for each of the employees who devoted extraordinary efforts to complete the remediation of the California Department of Insurance IT audit findings.

**PASSED AND ADOPTED** at the meeting of the Board of Directors of the State Compensation Insurance Fund held on this 19<sup>th</sup> day of February, 2016 by the following vote:






**Resolution No. 2069**

<u>MEMBER</u>	<u>VOTE</u>
Sheryl A. Chalupa	Yes
Robin L. Baker	Yes
Daniel M. Curtin	Yes
Marvin P. Kropke	Yes
Sen. Michael J. Machado (Ret.)	Yes
Lawrence E. Mulryan	Yes
Jack L. Neureuter	Yes
Steven L. Rank	Yes
Thomas E. Rankin	Yes
Scott K. Reid	Yes
William M. Zachry	Yes

**BOARD of DIRECTORS of the STATE COMPENSATION INSURANCE FUND**

*I, Hilda B. Padua, Assistant Corporate Secretary for the State Compensation Insurance Fund Board of Directors, hereby certify that the foregoing resolution was adopted by the Board of Directors at their meeting held February 19, 2016.*

  
\_\_\_\_\_  
Hilda B. Padua  
Assistant Corporate Secretary

  
\_\_\_\_\_  
Date



**Resolution No. 2070**

**BOARD OF DIRECTORS**

**APPROVAL OF PRESIDENT AND EXECUTIVE LEADERSHIP 2015 AT-RISK  
COMPENSATION DIFFERENTIAL AND 2016 EXECUTIVE COMPENSATION**

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

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

WHEREAS, the Board has considered State Fund's enterprise performance for 2015 and has completed its performance evaluations for each of the Exempt Executives and Non-Exempt Executive Committee Members for calendar year 2015; and the Board seeks to increase the base salary and retention differentials for the Exempt Executives for 2016 and approve some of the at-risk compensation for certain of the Exempt Executives and Non-Exempt Executive Committee Members for 2015 as identified in the attached Schedule of Executive Leadership 2015 At-Risk Compensation Differential and 2016 Executive Compensation.

NOW, THEREFORE,

IT IS RESOLVED that the Board hereby finds that State Fund's enterprise performance for 2015 continued to demonstrate significant progress in its multi-year business transformation to become a more efficient and agile insurance carrier; that 2015 performance specifically strengthened financial stability and State Fund's enterprise risk management position; that 2015 performance demonstrated some improvement in customer service; that overall State Fund met or exceeded most enterprise objectives; and hereby adopts and approves the increases in 2016 base salaries and retention differentials and the 2015 at-risk component of 2015 compensation as identified in the attached Schedule of Executive Leadership 2015 At-Risk Compensation Differential and 2016 Executive Compensation.

PASSED AND ADOPTED at the meeting of the Board of Directors of the State Compensation Insurance Fund held on this 19<sup>th</sup> day of February, 2016 by the following vote:

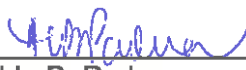


**Resolution No. 2070**

<u>MEMBER</u>	<u>VOTE</u>
Sheryl A. Chalupa	Yes
Robin L. Baker	Yes
Daniel M. Curtin	Yes
Marvin P. Kropke	Yes
Sen. Michael J. Machado (Ret.)	Yes
Lawrence E. Mulryan	Yes
Jack L. Neureuter	Yes
Steven L. Rank	Yes
Thomas E. Rankin	Yes
Scott K. Reid	Yes
William M. Zachry	Yes

**BOARD of DIRECTORS of the STATE COMPENSATION INSURANCE FUND**

*I, Hilda B. Padua, Assistant Corporate Secretary for the State Compensation Insurance Fund Board of Directors, hereby certify that the foregoing resolution was adopted by the Board of Directors at their meeting held February 19, 2016.*

  
\_\_\_\_\_  
Hilda B. Padua  
Assistant Corporate Secretary

*2/19/16*  
\_\_\_\_\_  
Date



**BOARD OF DIRECTORS**

**Resolution No. 2070**

**SCHEDULE OF EXECUTIVE LEADERSHIP 2015 AT-RISK COMPENSATION DIFFERENTIAL AND 2016 EXECUTIVE COMPENSATION**

<b>Position</b>	<b>2015 Annual Base Salary</b>	<b>Recommended 2016 Base Salary*</b>	<b>Recommended Annual Retention for 2016*</b>	<b>Recommended At-Risk Compensation Differential for 2015</b>
President & CEO (Vern Steiner)	\$450,000	\$475,000	\$30,000	\$141,075
Chief Financial Officer (Peter Guastamachio)	\$320,000	\$320,000	\$55,000	\$91,200
Chief Operating Officer (Richard Law)	\$373,750	\$373,750	Not applicable	\$117,171
Chief Claims Operations Officer (Steve Hunckler) (Eff. 10/1/15)	\$375,000	\$375,000	Not applicable	\$26,719
General Counsel (Margie Lariviere) (Eff. 7/1/15)	\$350,000	\$375,000	Not applicable	\$41,563
Chief of Internal Affairs (Dante Robinson)	\$265,000	\$290,000	Not applicable	\$50,350
Chief Information Officer (Marj Hutchings)	\$343,980	\$343,980	\$61,646	\$71,892
Chief Risk Officer (Ken Van Laar)	\$308,506	\$310,000	\$40,000	\$58,616
EVP & Chief Administrative Officer (Andreas Acker)	\$146,167	State Guidelines	Not applicable	\$24,995
EVP of Public Affairs (Jennifer Vargen)	\$146,078	State Guidelines	Not applicable	\$27,755
EVP of EP MO (Darlyn Regan)	\$134,292	State Guidelines	Not applicable	\$25,515
Chief Medical Officer (Dinesh Govindarao)	\$350,000	\$367,500	Not applicable	\$66,500
Chief Actuary (Kate Smith)	\$250,000	\$265,000	Not applicable	\$47,500

**\*2016 Annual Base Salary and Annual Retention is effective January 1, 2016.**

State Compensation Insurance Fund  
 Board of Directors – February 19, 2016  
 Open Agenda Item 26 – Approval of President and Executive Leadership 2015 Performance Against Plan and 2016 Executive Compensation (Chart)