

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

May 24-25, 2018

The Board of Directors of the State Compensation Insurance Fund met on May 24-25, 2018 at the State Fund Pleasanton Office, 5890 Owens Drive (Pacific and Atlantic rooms), Pleasanton, California.

May 24, 2018

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 1:35 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: David Lanier (non-voting member).

There was a quorum.

Also present: President and 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 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 February 22-23, 2018 Open Meeting Minutes**
- 3b. Board Member Educational Opportunities and Approval of Planned Board Member Education and Expense Reimbursement**
- 3c. Annual Review and Approval of State Fund By-Laws**
- 3d. Annual Review and Approval of Board Delegated Authority and Approval Levels**
- 3e. Annual Review and Approval of Board Education and Travel Reimbursement Policy**
- 3f. Annual Review and Approval of Committee Charters**
- 3g. Approval of Revised Board and Committee 2018 Agenda Items**
- 3h. Ratification of Appointment of Chief Investment Officer**
- 3i. Authorization to Secure Renewal of the September 2018 Expiring Policies**
- 3j. Approval of Investment Policy Statement and Guidelines**
- 3k. Approval of Retirement Resolutions**

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

MOTION: Mr. Zachry

SECOND: Mr. Reid

To approve the Consent Calendar as presented.

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

YES: 10

NO: 0

Abstain: 0

Motion carried.

Mr. Curtin was not present when the vote was taken.

Ms. Chalupa acknowledged and congratulated Ms. Stephanie Chan as State Fund's new Chief Investment Officer.

AGENDA ITEM 4: STATEMENT OF ACTUARIAL OPINION

Mr. Guy Avagliano, FCAS, MAAA of Milliman, State Fund's Appointed Actuary, reviewed the Loss and Loss Adjustment Expense reserves as of December 31, 2017. He reported State Fund's booked loss reserves for Statutory Claim and Claim Adjustment Expense Reserves were: unpaid losses (including direct and assumed) at \$10.6B and unpaid loss adjustment expense (including direct and assumed) at \$2.4B. Milliman provided a clean Actuarial opinion, noting the reserves set were consistent with California State standards; consistent with Actuarial standards; and reasonable provisions were made for unpaid loss and loss adjustment expense obligations.

AGENDA ITEM 5: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 8 through 21

Ms. Chalupa requested public comment on the appropriateness of Closed Session for agenda items 8 through 21, of which there was none.

AGENDA ITEM 6: PUBLIC COMMENT

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

ADJOURNMENT

There being no further business, Ms. Chalupa adjourned the meeting at 1:40 p.m. to immediately reconvene in Closed Session.

May 25, 2018

AGENDA ITEM 22: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 10:00 a.m. at the State Fund Pleasanton Office, 5890 Owens Drive (Pacific and Atlantic Rooms), Pleasanton, California 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; Scott K. Reid; William Zachry; and David Lanier (non-voting member).

Absent: Thomas E. Rankin.

There was a quorum.

Also present: President and 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 23: OPIOID MANAGEMENT

Dr. Dinesh Govindarao, Chief Medical Officer described the comprehensive strategy to significantly reduce the level of opioids prescribed to injured workers and reduce the number of injured workers on opioids overall. The two-pronged strategy was developed by Dr. Govindarao, with a team from the Claims Medical and Regulatory Division (CMRD). The focus is on prevention and reduction of chronic opioid cases. The results are significant with a 60% reduction in total opioid prescriptions to injured workers and a 74% reduction in expenditures on opioids prescribed to injured workers. With early intervention the percentage of new claims with opioids prescribed within the first 90 days dropped from 14% in 2014 to 7% in 2017.

State Fund started addressing issues with opioids before the opioid crisis was identified. In 2013, the Pharmacy Benefit Manager (PBM) red flagged claims with high dosage opioids greater than 120 Morphine Equivalency Dosage (MED) and opioid flyers were mailed to Medical Provider Network (MPN) Physicians, and opioid educational materials were provided to injured workers with their first script. In 2014, a huge impact was made with reduced opioid approvals to 30 days and limiting long-acting opioids. In 2015, a chronic pain program was put in place for injured workers dependent on opioids and doctors took evidence-based education modules for acute and chronic pain. In 2016, high dosage prescribing patterns were reported for further education and/or termination. In 2017, the Functional Restoration program helped injured workers to detoxify and get off opioids. The Nurse Case Management Triage identifies high risk injured workers upfront for early intervention and consistent monitoring. Next steps include updating modules to be released end of June or early July 2018 and expanding the chronic pain program to include injured workers who are on 50 MED or higher.

The Board acknowledged the staff for the great work that has been done on this area.

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

AGENDA ITEM 24: STAFFING UPDATE

Executive Vice President and Chief Administrative Officer Andreas Acker presented an update on staffing. Mr. Acker reported that State Fund ended the first quarter of 2018 with 4,324 employees, 52 separations, 93 new hires, and 317 promotions. Of the 52 separations, 22 or 42.3% were retirements, 12 were resignations, 11 were transfers, and 7 were others (death or dismissal). The overall separation rate for the first quarter of 2018 was 1.2% and the primary driver was retirements. In following with the trend from the past 3-4 years, retirements are expected to be about 7% by the end of the year.

Mr. Acker reported as of March 31, 2018 there was a slight increase of 4.7% in the number of hours over the 640 hour cap and an 18.1% increase in the number of employees over the cap. The number of leave hours over the 640 cap will decrease by the end of the year due to the option to cash-out leave credits up to 80 hours and more employees tend to take more vacation during the summer and fall months. Those employees who are over the 640 hour cap have submitted plans for reduction of leave hours and no new employees have exceeded the 640 hour cap.

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

AGENDA ITEM 25: FINANCIAL UPDATE – 1st Quarter 2018

Chief Financial Officer Peter Guastamachio reported on the 1Q 2018 financial results.

Premiums

The past two years, State Fund continued to see a decline in new and renewal business. However, this quarter State Fund started to see an uptick in the new business. The Estimated Annual Premium (EAP) in new business was \$56M for the quarter versus \$53M last year and the EAP on renewal business was \$264M, down from \$291M last year, which is attributed to a filed rate decrease of 8% in September 2017. In 1Q 2018, State Fund wrote about 32,000 policies, which was 4.8% lower than the prior year. State Fund has about 109,000 policies-in-force or 3.7% less than prior year (113,000).

Losses and Loss Adjustment Expense (LAE)

State Fund had \$257M in Losses and an LAE of \$97M this year versus \$262M and \$94M from the prior year. For the 1Q 2018, the Loss and LAE ratios were 72% and 27.3% and overall combined Loss and Loss Adjustment Expense Ratio of 99.3% was 1.3 points lower than the prior year.

The underwriting expense ratio of 29.3% was 2.7 points lower than the same period last year. The combined ratio for 1Q 2018 was 128.6%, and underwriting loss was \$102M. The combined ratio and underwriting loss for the same period last year were 132.6% and \$116M. Offsetting the underwriting loss, net investment income was \$156M plus realized gains of \$10M. Last year the realized gains were \$93M due to liquidation of equity holdings when one of the equity managers was replaced.

Overall this resulted in net income of \$48M, which was \$79M lower than the last year. The policyholders' surplus grew by \$15M since year-end.

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

AGENDA ITEM 26: PRESIDENT'S REPORT

President and CEO Vernon Steiner provided an update on the following:

Market

The California workers' compensation soft market persists. Although carriers filed more modest rate decreases (0% - 9 %) in 2017 compared to double-digit decreases (up to 20%) in 2016, they continue to use discretionary pricing to win business.

This makes sense in light of the most recent WCIRB analysis that reports the average industry loss ratio is 56% for 2017 and 51% for 2016. The WCIRB indicated they will recommend a mid-year rate decrease of 7.2%.

This competitive state of the California workers' compensation market means that employers have many choices for their insurance – and that is positive for the economy. While State Fund continues to maintain appropriate pricing discipline, State Fund has engaged more intentionally and positively in the market, particularly with its contracted brokers. Mr. Steiner receives regular feedback from brokers that State Fund has become much easier to do business with and results reflect this improvement. Although State Fund premium and policy count is down slightly over last year, its premium decrease is lower than the rate decreases it had taken.

As part of the transition from two to four regions (as part of a new regional operation structure), each Regional Vice President who oversees the coordination of their respective region's operations will have more opportunity to deepen State Fund's relationships with brokers and drive improved business performance.

State Fund's New Trucking Unit

In April 2018, State Fund implemented a comprehensive new strategy to enhance the accuracy of its pricing and create more consistency in how it underwrites trucking accounts.

To support upfront, accurate pricing of these businesses, State Fund assembled a specialized team of underwriters trained to identify risks and manage challenges unique to trucking operations. State Fund also introduced a questionnaire that captures owner-operator and sub hauling information to help reduce billing surprises at time of audit.

Over time, the formation of this new unit to underwrite and service this business exclusively ensures State Fund delivers a more consistent experience to its trucking clients.

Claims Tours

Revamping State Fund Claims operations has been a huge undertaking led by Chief Claims Operations Officer Steve Hunckler. The Claims team systematically examined all claims and legal processes to identify the merits, shortcomings, and alternatives and designed a process focused on segmentation and specialization. This new specialized approach is enabling State Fund to deliver the type of quality outcomes and experience its customers expect.

To promote and provide an up close and personal view of claims management services to State Fund brokers and customers, scheduled on-site claims tours in various offices throughout the state are available. These tours run roughly 45 minutes and will provide attendees the opportunities to visit with four specific claims functions: (Claims Intake, Fast Track, Return to Work, and Legacy).

Brokers and customers will have a chance to interact with supervisors and claims adjusters from these specialties and hear their perspective on the following: 1) Mission Statements; 2) Claims Profiles; 3) Key Desk Behaviors; 4) Key Results; and 5) Success stories.

Criminal Restitution

Mr. Steiner reported on the potential for restitution in the *Pacific Hospital* criminal case. Although several insurers submitted requests for restitution, only State Fund may be able to prove it was damaged. Mr. Steiner commended staff on their significant efforts in fighting this workers' compensation fraud. Ms. Chalupa extended the Board's congratulations to staff.

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

AGENDA ITEM 27: REPORTS BY THE CHAIRS OF COMMITTEE ACTIVITIES

27a: GOVERNANCE COMMITTEE

27ai: GOVERNANCE, COMPLIANCE AND PRIVACY UPDATE

Mr. Mulryan reported on the following activities:

New Legislation – AB 119 (Committee on Budget) – State Government

Chapter 11.5 is added to the Government Code requiring state agencies to provide unions access to new employee on-boarding activities and existing employee contact information. This would allow union representatives to meet with employees during onboarding and require State Fund to provide new employees' work and home contact information. State Fund will work with unions to ensure non-public information is kept confidential and employees will be notified when State Fund shares their work and home contact information with unions.

National Privacy Trends – Breach Notification Laws

All 50 states enacted breach notification laws. South Dakota and Alabama were the last to enact. Breach laws vary by state and include differences in notification range (between 250-1000 affected persons), types of information requiring notification and consumer credit reporting agency notification. The National Association of Insurance Commissioner's Data Security Model Rule if adopted by California would decrease the regulator notification threshold from 500 to 250 affected persons.

Ethics & Privacy Hotline Vendor

State Fund changed its independent Ethics & Privacy hotline to Ethix360/InTouch effective March 1, 2018. Communication of this change has been posted in internal and external websites and corporate policies, and flyers were posted in all locations where employee notices are maintained. The vendor was changed due to the contract expiring. A new Request for Proposals (RFP) was sent out and this vendor was chosen based on business needs.

Statement of Economic Interest (Form 700) Annual Filing Compliance

The annual compliance rate for the annual Form 700 filing was 100% for active employees and consultants who are designated filers in the State Fund's Conflict of Interest Code. Statutory annual filing was completed for Board members and the Chief Executive Officer, Chief Information Officer and Chief Financial Officer positions.

2018-2019 Compliance Training

State Fund's compliance training program for 2018-2019 is for all employees and consultants. Mandatory training includes Security & Privacy Awareness & Proprietary System Acknowledgement; Ethics, Code of Conduct & Acknowledgement; Workplace Harassment Prevention for supervisors and all employees; and Anti-Fraud. Regular training helps State Fund's workforce to be aware of legal, security, privacy and ethical issues which leads to safer business practices and reduction in unnecessary risk.

Ethics and Privacy Reported Issues

There was a slight decline for the total number of hotline calls from 20 in 4Q 2017 to 16 in 1Q 2018. A contributing factor may be the change of hotline reporting vendor effective March 1, 2018. Management referrals and other sources remain constant 137 in 4Q 2017 to 135 in 1Q 2018. Human Resources-related issues continue to be the most reported category with 109 in 4Q 2017 to 99 in 1Q 2018.

27b: AUDIT COMMITTEE

27bi: UPDATE ON COMPLETED CLOSED AUDITS

Mr. Reid reported on the following activities:

Completed Closed Audits

Mr. Reid reported that 18 projects were reported in the fourth quarter of 2017 in the Closed Session in February 2018. There are no non-proprietary projects to report in Open Session.

27c: INVESTMENT and RISK COMMITTEE

27ci: BOND TRANSACTIONS AND COMPLIANCE REPORT

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

The investment transactions and compliance reports for the periods of January 1, 2018 to March 31, 2018 were approved by the Investment and Risk Committee pursuant to its delegated authority. Sen. Machado also reported the Investment and Risk Committee heard a report from Wellington Management regarding its Investment portfolio; and a report from staff on portfolio performance. Sen. Machado also noted that State Fund acquired the services of a portfolio manager for Environmental, Social and Governance (ESG) investments. The Committee had a robust discussion regarding ESG investments particularly on Opioids. The Committee directed the staff to divest the investment equity bond portfolio in the least disruptive method of companies engaged in distributing or manufacturing opioids.

As for the Risk portion of the meeting, the Committee received an update from staff on the Enterprise Management and Security plan and will have a report on the cost benefits in November.

27d: AD HOC SAFETY AND LOSS PREVENTION COMMITTEE

Ms. Robin Baker reported that the Ad Hoc Safety and Loss Prevention Committee has been working with staff to develop a plan to enhance the loss prevention program. The plan is on track and will be presented to the Board during the August 2018 Board Strategic meeting.

AGENDA ITEM 28: CHAIRWOMAN'S REPORT

Ms. Chalupa acknowledged the retirement of ex-officio member Christine Baker and welcomed David Lanier. Ms. Chalupa reported on the following:

Recreational Room Tours

As State Fund continues to evolve into a customer centric organization, State Fund has been investing in its culture and work environment. Becoming an employer of choice is an important key to becoming a carrier of choice.

On May 3-4, 2018, State Fund's Admin team opened its first two recreational rooms in the Fresno and Bakersfield offices. Ms. Chalupa attended the openings for both locations and thoroughly enjoyed seeing employees jump in and test out the numerous amenities the rooms have to offer. The table tennis, board games, massage chairs and exercise equipment were particular favorites. There are also quiet areas and reading spaces.

Ms. Chalupa was impressed by the thought and care that went into creating these new break rooms. They are important for a couple of reasons. First, they give people a chance to unwind and engage in an activity that doesn't stress them out. It helps relieve stress and promotes greater productivity when the employees go back to work. Second, offering multiplayer games promotes bonding amongst employees and leads to a stronger team mentality.

As Ms. Chalupa met with staff, they expressed a deep appreciation for the thoughtfulness put into crafting these unique spaces. There was something for everyone and the enthusiastic mood was contagious. These recreational rooms offer an innovative, collaborative space for all employees to relax and recharge during the workday.

Fit2Be Cancer Free

A couple of years ago State Fund formed a strategic alliance with the American Cancer Society. Throughout the year State Fund participates in events like *Making Strides Against Breast Cancer* and *Relay for Life* - strengthening its partnership and allowing employees to support the organization throughout the year.

On April 18, 2018, President Vern Steiner joined CEOs from around the world in the Fit2Be Cancer Free event: a 24-hour virtual step-tracking challenge. The entire State Fund community was behind Mr. Steiner and held pre-race day rally walks to show support, and on the day of the event employees participated in walks at different campuses throughout the day.

Mr. Steiner won the race, having walked over 79 miles in 24 hours to represent State Fund and bring awareness to the importance of fitness in the fight against cancer.

Ms. Chalupa congratulated and presented Mr. Steiner with a medal of honor commemorating his incredible achievement.

AGENDA ITEM 29: BOARD MEMBER REPORTS

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

AGENDA ITEM 30: APPROVAL OF PRESIDENT'S COMPENSATION AND LONG-TERM INCENTIVE PLAN

Ms. Chalupa noted that the Board needed to revisit the discussion held at the May 2018 meeting regarding the Long-Term Incentive Plan (LTIP). After the Board approved the Long-Term Incentive plan concept, the Board realized there were some tax and benefit considerations and that it would be better to first put a Long-Term Incentive Plan in place for the President, then work on a plan for the remaining eligible participants.

Ms. Chalupa noted that the Board needed to rescind the previous Resolution on the LTIP, adopt a new program for the President, then come back at the August 2018 meeting with an LTIP design for the remaining executives for the Board to consider and vote on.

Ms. Chalupa noted that copies of Resolution No. 2158 are available at the front table outside.

Approval to Rescind Resolution No. 2146 and Establishment of Long-Term Incentive Plan for President and CEO Vernon Steiner

Ms. Chalupa requested a Motion and Second.

MOTION: Ms. Robin Baker

SECOND: Mr. Zachry

To approve the Long-Term Incentive Plan Resolution No. 2158 as presented. Resolution No. 2158 rescinds Resolution No. 2146.

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

YES: 9 NO: 0 Abstain: 0 Resolution carried.

Mr. Kropke had left the meeting before the vote was taken and Mr. Rankin was absent.

The certified Resolution No. 2158 is attached hereto.

Approval of President's Deferred Compensation Plan

Ms. Chalupa noted that Resolution No. 2159 addresses a deferred compensation package for President and CEO Vernon Steiner. Ms. Chalupa noted that the Board is very happy with the direction State Fund has received from Mr. Steiner and the Board would like to provide an incentive for Mr. Steiner to stay for the next few years. Ms. Chalupa had been working with Mr. Steiner on a package that will provide that incentive. Resolution No. 2159 will authorize the Board Chair to execute an addendum to Mr. Steiner's employment agreement that provides for a deferred compensation package.

Ms. Chalupa noted that copies of Resolution No. 2159 are available at the front table outside.

Ms. Chalupa requested a Motion and Second.

MOTION: Mr. Zachry

SECOND: Mr. Mulryan

To approve the President's Deferred Compensation Plan Resolution No. 2159 as presented.

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

YES: 9 NO: 0 Abstain: 0 Resolution carried.

Mr. Kropke had left the meeting before the vote was taken and Mr. Rankin was absent.

The certified Resolution No. 2159 is attached hereto.

AGENDA ITEM 31: PROPOSALS AND SUGGESTIONS FOR AUGUST 15, 2018 AGENDA

Ms. Chalupa requested suggestions for agenda items for the August 15, 2018 Board meeting. Ms. Padua noted that the proposed agenda items are for Closed Session.

Ms. Chalupa requested public comment, of which there was none, and she noted that the next Board meeting is scheduled for August 15, 2018 at the State Compensation Insurance Fund Office, San Francisco, California and the Board will also hold its Strategic meeting at the Omni Hotel, San Francisco, California unless noticed for a new date and time.

Ms. Chalupa adjourned the meeting at 11:05 a.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Assistant Corporate Secretary



Resolution No. 2158

BOARD OF DIRECTORS

RESOLUTION REGARDING LONG-TERM INCENTIVE PLAN

WHEREAS, the State Fund Board of Directors is vested with full power, authority and jurisdiction over State Fund and may perform all acts necessary or convenient in the exercise of any power, authority or jurisdiction over State Fund, as fully and completely as the governing body of a private insurance carrier; and

WHEREAS, private insurance carriers utilize long-term incentive programs to retain top talent by recognizing exceptional management and executive level contributions and achievements; and

WHEREAS, State Fund must be able to attract and retain top management and executive level employees with needed leadership, skills, experiences, and other superior qualifications, and reward those employees for attaining challenging goals in furtherance of State Fund's strategic plans and objectives; and

WHEREAS, the Board approved and adopted Resolution No. 2146 at the February 23, 2018 meeting establishing a Long-Term Incentive Program for the exempt employees appointed pursuant to California Insurance Code section 11785 and certain Career Executive Assignment Positions (collectively, "designated employees"), with an effective date of January 1, 2018.

NOW, THEREFORE,

IT IS RESOLVED that Resolution No. 2146 is rescinded; and

BE IT FURTHER RESOLVED that the Board hereby approves and adopts the establishment of a Long-Term Incentive Program for the President and CEO, with an effective date of January 1, 2018; and

BE IT FURTHER RESOLVED that the Long-Term Incentive Program for the President and CEO shall include an annual target award starting in 2018 with the payment of awards, if any, over a three year period; and

BE IT FURTHER RESOLVED that the Long-Term Incentive Program shall not entitle the President and CEO to any award and that any awards provided through the Long-Term Incentive Program shall be subject to the Board's discretion based on individual and enterprise performance; and

BE IT FURTHER RESOLVED, that the Chair of the Board of Directors be, and hereby is, authorized to execute and deliver on behalf of the Board of Directors any such agreements, instruments, certificates and other documents, to effectuate the Board's foregoing Resolutions, and to take all such further actions as the Chair may deem necessary or appropriate to implement the foregoing Resolutions.

PASSED AND ADOPTED at the meeting of the Board of Directors of the State Compensation Insurance Fund held on this 25th day of May, 2018 by the following vote:



Resolution No. 2158

<u>MEMBER</u>	<u>VOTE</u>
Sheryl A. Chalupa, Chair	Yes
Robin L. Baker	Yes
Daniel M. Curtin	Yes
Marvin P. Kropke	Not present
Sen. Michael J. Machado (Ret.)	Yes
Lawrence E. Mulryan	Yes
Jack L. Neureuter	Yes
Steven L. Rank	Yes
Thomas E. Rankin	Absent
Scott K. Reid	Yes
William M. Zachry	Yes

BOARD OF DIRECTORS OF THE STATE COMPENSATION INSURANCE FUND

Certification by the Assistant Corporate Secretary

I, Judith D. Sapper, 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 May 25, 2018.

Judith D. Sapper

Judith D. Sapper
Assistant Corporate Secretary

June 11, 2018

Date



BOARD OF DIRECTORS

APPROVAL OF PRESIDENT'S DEFERRED COMPENSATION PLAN

WHEREAS, the State Fund Board of Directors is vested with full power, authority and jurisdiction over State Fund and may perform all acts necessary or convenient in the exercise of any power, authority or jurisdiction over State Fund, as fully and completely as the governing body of a private insurance carrier; and

WHEREAS, the Board of State Fund is vested with the authority to appoint the President and set the salary for that position; and

WHEREAS, private insurance carriers utilize deferred compensation programs to retain top talent by recognizing exceptional management and executive level contributions and achievements; and

WHEREAS, State Fund must be able to attract and retain top management and executive level employees with needed leadership, skills, experiences, and other superior qualifications, and reward those employees for attaining challenging goals in furtherance of State Fund's strategic plans and objectives; and

WHEREAS, the Board previously approved an annual compensation package for President & Chief Executive Officer Vernon Lee Steiner including an annual base salary, an at-risk differential based upon an annual evaluation of enterprise and individual performance conducted by the Board of Directors ("Board") and a retention differential; and

WHEREAS, in recognition of Mr. Steiner's highly effective leadership, the Board now wishes to establish a deferred compensation plan for Mr. Steiner with an effective date of January 1, 2018.

NOW, THEREFORE,

IT IS RESOLVED that the Board hereby adopts and approves the establishment of a deferred compensation program for Mr. Steiner with an effective date of January 1, 2018.

BE IT FURTHER RESOLVED, that the Chair of the Board of Directors be, and hereby is, authorized to execute and deliver on behalf of the Board of Directors any such agreements, instruments, certificates and other documents, to effectuate the Board's foregoing Resolutions, and to take all such further actions as the Chair may deem necessary or appropriate to implement the foregoing Resolutions.

PASSED AND ADOPTED at the meeting of the Board of Directors of the State Compensation Insurance Fund held on this 25th day of May, 2018 by the following vote:



<u>MEMBER</u>	<u>VOTE</u>
Sheryl A. Chalupa, Chair	Yes
Robin L. Baker	Yes
Daniel M. Curtin	Yes
Marvin P. Kropke	Not present
Sen. Michael J. Machado (Ret.)	Yes
Lawrence E. Mulryan	Yes
Jack L. Neureuter	Yes
Steven L. Rank	Yes
Thomas E. Rankin	Absent
Scott K. Reid	Yes
William M. Zachry	Yes

BOARD OF DIRECTORS OF THE STATE COMPENSATION INSURANCE FUND

Certification by the Assistant Corporate Secretary

I, Judith D. Sapper, 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 May 25, 2018.

Judith D. Sapper

Judith D. Sapper
Assistant Corporate Secretary

June 11, 2018

Date