

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

July 27 and July 29, 2016

The Board of Directors of the State Compensation Insurance Fund met on July 27 and July 29, 2016 at The Renaissance Lodge at Sonoma, 1325 Broadway, Sonoma, CA.

July 27, 2016

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 11:10 a.m.

Ms. Chalupa requested Ms. Padua to call roll. The following were present: Sheryl A. Chalupa (Chair); Robin L. Baker; Daniel M. Curtin (joined on item 6a); Lawrence E. Mulryan; Jack L. Neureuter; Steven L. Rank; Thomas E. Rankin; Scott K. Reid; and William M. Zachry.

Absent by prior arrangement: Marvin P. Kropke; Sen. Michael J. Machado (Ret.); and 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 May 26 and 27, 2016 Open Meeting Minutes**
- 3b. Board Member Educational Opportunities and Approval of Planned Board Member Education and Expense Reimbursement**
- 3c. Ratification of Investment Policy Statement and Guidelines**
- 3d. Approval of Investment Committee Charter**
- 3e. Renewal of Expiring 3rd and 4th Quarter Insurance Policies**
- 3f. 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. Zachry

SECOND: Mr. Neureuter

To approve the Consent Calendar as presented.

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

YES: 8

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 the second quarter of 2016 with 4,384 employees, 132 separations, 147 new hires, and 173 promotions. Of the 132 separations, 58 were retirements, 36 were resignations, 23 were transfers to other agencies, and 15 were others (death or dismissal). The overall separation rate for the second quarter of 2016 was 6.1% and the primary driver was retirements.

AGENDA ITEM 5: PRESIDENT'S REPORT

President and CEO Vern Steiner reported on the following activities:

Market

Mr. Steiner reported that there are no new developments to report in the market since his last report in May 2016. The market remains competitive. State Fund has announced its 9/1/16 rate filing, an overall 9.5% rate decrease, which also includes some significant enhancements that will make State Fund pricing more accurate and stable year over year.

Broker Distribution

Mr. Steiner reported that State Fund is in the process of announcing some significant changes to its broker distribution strategy in order to strengthen its operational effectiveness and position in the market place. These changes will ultimately deepen State Fund's relationship with brokers who write significant workers' compensation premiums. The highlights of the change include the following:

- State Fund will discontinue its practice of tying performance on certain metrics to direct commission and move to a more traditional commission plan. (Flat commissions with back-end incentives.)
- State Fund will continue to monitor, measure and manage brokers' overall performance and tie it directly to contract eligibility.
- Effective in 2018 State Fund is raising the paid premium eligibility for a direct contract to \$500K.

Discussion ensued on the broker distribution strategy. Mr. Steiner further noted that managing expenses effectively is a critical element in State Fund's ability to fulfill its purpose of providing California employers with fair prices. Today brokers who place less than \$500K in paid premium with State Fund make up 54% of its direct contracts, but only 13% of its brokered paid premium. This is an opportunity for State Fund to improve efficiency, streamline its contract administration, and manage expenses.

Mr. Steiner noted that although all the of details of the plan have not been finalized, State Fund will continue to provide access to brokers who no longer qualify for a direct contract and will share details regarding how access will work as State Fund moves through the process in 2017.

AGENDA ITEM 6: REPORTS BY THE CHAIRS OF COMMITTEE ACTIVITIES

6a: GOVERNANCE COMMITTEE

6ai: GOVERNANCE, COMPLIANCE AND PRIVACY UPDATE

Mr. Mulryan reported on the following activities:

2016 Corporate Governance Annual Disclosure

Mr. Mulryan reported that the Corporate Governance Annual Disclosure report was prepared, vetted, and submitted to the Department of Insurance on May 31, 2016. The report describes State Fund's governance structures, policies, and practices.

Annual Whistleblower Protection Act Notification

The annual notification about State Auditor's Whistleblower Program was emailed to all employees. Posters were displayed in areas where other employee notices are maintained and attestation was sent to the State Auditor. Information about State Fund's hotline was included in the introductory message.

New Federal Law – Defend Trade Secrets Act of 2016 (DTSA)

The Defend Trade Secrets Act was signed into law May 11, 2016, which permits a corporate victim of trade secret theft on/after this date to bring a civil cause of action in federal court. A trade secret is information that an organization takes reasonable steps to protect from disclosure and has economic value from not being known to others. The new law has operational impact and State Fund will: 1) conduct and maintain an inventory of State Fund's trade secrets; 2) revise corporate policies, employee handbooks, and third party contracts to include DTSA whistleblower immunity provisions; 3) revise third party contracts effective on/after May 11, 2016 to include a DTSA whistleblower immunity clause; and 4) incorporate DTSA whistleblower immunity into ethics training and on-boarding/off-boarding processes for employees and consultants.

Board Evaluation

Mr. Mulryan reported that the Governance Committee discussed the Board Effectiveness Evaluation results and the recommendations will be brought to the full Board in the Strategic meeting.

6b: AUDIT COMMITTEE

6bi: UPDATE ON COMPLETED CLOSED AUDITS

Ms. Chalupa reported on the following activities:

Completed Closed Audits

There were two completed closed audits: 2015 CDI Market Conduct Claims Consulting Engagement and 2015 Claims Combined Results projects. Internal Audit did not identify any issues in the 2015 CDI Market Conduct Claims Consulting Engagement. For the 2015

Claims Combined Results project, Internal Audit noted there were no attribute weaknesses for regulatory compliance.

Whistleblower Hotline

All reports made through the Ethics Hotline are investigated. During 2Q 2016 there were 114 reports from the following sources: 5 from Ethics Hotline, 21 from Direct Reports, 59 from Human Resources CMS and 29 referrals from the Privacy Office. Of the 114 allegations received, 82 investigations were completed. From the 82 completed investigations, there were 50 substantiated allegations referred to Manager Services for possible disciplinary action, 29 were unsubstantiated, 1 included an employee who separated or retired and 2 were inconclusive.

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 will continue to work with programs on training and counseling to address identified issues.

6c: INVESTMENT COMMITTEE

6ci: BOND TRANSACTIONS AND COMPLIANCE REPORT

Acting Chair William Zachry reported on the following:

Due to the lack of a quorum, items 3 and 6 of the Investment agenda were deferred for approval at the November 2016 Investment Committee meeting.

Mr. Zachry also reported that the Investment Committee heard a report on State Fund's portfolio performance results and had a proposal for a speaker at the November 2016 Investment Committee meeting.

AGENDA ITEM 7: CHAIRWOMAN'S REPORT

Ms. Chalupa reported that she attended the Bakersfield town hall meeting in June 2016. Board member Jack Neureuter was also in attendance, and has attended several of these with Mr. Steiner over the past year. Ms. Chalupa noted that Mr. Steiner engaged the staff in conversations about some of the very real issues State Fund faces when serving its customers and managing the organization and asked employees to consider how they would have handled these situations. Ms. Chalupa reported that she found the conversations engaging as employees contemplated how they would have approached the issues, finding the balance between being helpful to customers without harming State Fund. Ms. Chalupa acknowledged Mr. Steiner's time and effort in holding town hall meetings, an investment that is already paying off and will continue. Mr. Neureuter concurred.

AGENDA ITEM 8: BOARD MEMBER REPORTS

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

AGENDA ITEM 9: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 12 through 21

Ms. Chalupa requested public comment on the appropriateness of Closed Session for items 12 through 21, of which there was none.

AGENDA ITEM 10: PUBLIC COMMENT

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

ADJOURNMENT

There being no further business, Ms. Chalupa adjourned the meeting at 11:35 a.m. to immediately reconvene in Closed Session.

July 29, 2016

AGENDA ITEM 22: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 11:10 a.m. at The Renaissance Lodge at Sonoma, 1325 Broadway, Sonoma, 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; Lawrence E. Mulryan; Jack L. Neureuter; Steven L. Rank; Thomas E. Rankin; Scott K. Reid; and William Zachry.

Absent by prior arrangement: Marvin P. Kropke; Sen. Michael J. Machado (Ret.); and 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 23: PROPOSALS AND SUGGESTIONS FOR NOVEMBER 17-18, 2016 **AGENDA**

Ms. Padua noted some agenda items. 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 November 17, 2016 at the State Fund Corporate Office, 333 Bush Street, 7th floor, San Francisco, California unless noticed for a new date and time.

Ms. Chalupa adjourned the meeting at 11:15 a.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Assistant Corporate Secretary