

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

August 20 and 22, 2019

The Board of Directors of the State Compensation Insurance Fund met on August 20-22, 2019 at The Lodge at Sonoma Renaissance, 1325 Broadway, Sonoma, California.

August 20, 2019

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on August 20, 2019 at 1:25 p.m.

Mr. Lanier requested Ms. Padua to call roll. The following were present: David M. Lanier (Chair); Robin L. Baker; Sen. Thomas C. Berryhill (Ret.); Daniel M. Curtin (joined during item 6d); Marvin P. Kropke; Jack L. Neureuter; Arthur H. Pulaski; Thomas E. Rankin; Angela Tate; and William M. Zachry.

Absent by prior arrangement: Sen. Michael J. Machado (Ret.)

There was a quorum.

Also present: President and CEO Vernon L. Steiner; General Counsel, Corporate Secretary and Acting Chief of Internal Affairs 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

Mr. Lanier 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 23-24, 2019 Open Meeting Minutes**
- 3b. Board Member Educational Opportunities and Approval of Planned Board Member Education and Expense Reimbursement**
- 3c. Ratification of Appointment of Senior Vice President of Insurance Services**
- 3d. Approval of Retirement Resolutions**

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

MOTION: Mr. Kropke

SECOND: Mr. Zachry

To approve the Consent Calendar as presented.

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

YES: 9

NO: 0

Abstain: 0

Motion carried.

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

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 2Q 2019 with 4,282 employees, 126 separations, 148 new hires, and 196 promotions. Of the 126 separations, 62 or 49.2% were due to retirements, 27 were resignations, 19 were transfers to other agencies, and 18 were others (death or dismissals). Mr. Acker noted that the new hires exceeded the number of separations. This is a normal trend and separations will increase by the 4Q. The overall separation rate was 5.9% and the primary driver was retirements.

Mr. Acker noted that included in the Board materials as reference was a report on age and state service as of June 30, 2019.

Mr. Acker reported that in 1Q 2019 there was an increase in the number of hours over the 640 hour cap and an increase in the number of employees over the cap, which was a normal trend since many employees don't take vacation during the 1Q.

Mr. Acker reported that as of June 30, 2019 there was a decrease of 13% in the number of hours over the 640 hour cap due to the cash out program. There were 785 employees who opted to participate in the cash out program. In addition, State Fund required employees over the cap to have a plan to reduce their leave hours. This is a liability which is important to State Fund to monitor and maintain.

Mr. Lanier requested public comment, of which there was none.

AGENDA ITEM 5: FINANCIAL AND PRESIDENT'S REPORT

President and CEO Vernon Steiner provided the following updates:

Underwriting results

Mr. Steiner noted that due to the nature of State Fund business, the underwriting results are significantly impacted by the dynamics that affect California business including economic conditions, market pricing as well as the effects of the insurance profitability cycle. State Fund net premiums earned of \$587 million were 15.4% lower than the prior year which can be attributed to an ongoing competitive environment, State Fund's filed rate decrease of 10% effective January 2019, and lower audited premium compared to last year. The most significant factor is actually the lower audited premium as last year audit premium was unusually high due to delays in 2017 that arose from the implementation of AB 2883.

The State Fund's loss and loss adjustment expense (LAE) ratio of 99.8% was 0.5 points higher than prior year. The underwriting expense ratio of 35.2% was 2 points higher than prior year due to lower net premiums written. Overall, the underwriting loss of \$207 million was 7.7% lower than prior year. The combined ratio of 135.1% was 3 points higher than prior year.

Investment and other non-underwriting results

Mr. Steiner reported that the net investment income of \$320 million was \$10 million higher than prior year. The realized capital gains of \$48 million were \$34 million higher than prior year due to sales of stocks during favorable market conditions. Other expenses, mostly representing charge-offs of uncollectible premiums, were \$12 million higher than prior year. This increase was also attributable to the unusually high audited premium in 2018. Overall State Fund ended the 2Q 2019 with net income of \$121 million, which was \$49 million higher than prior year. The policyholders' surplus grew by \$261 million since December 31, 2018.

Organizational Updates

State Fund was recently named to the Forbes Top 500 "America's Best Mid-Size Employers" list for 2019. Out of a pool of thousands of companies in 25 industry sectors from across the country, State Fund ranked 492. Forbes partnered with survey company Statista to poll roughly 50,000 employees, working for companies with at least 1,000 people in their U.S. operations. Employees were contacted anonymously so they could openly state opinions without influence from their employer and were asked questions about work related topics such as working conditions, salary, potential for development, and company image. Each employee answered 35 questions about their current and former employers on a scale of 0 ("*I would not recommend in any circumstance*") to 10 ("*would definitely recommend*"). The surveys took place between September 17, 2018 and October 5, 2018.

Utilization Review (UR) Connected

Mr. Steiner provided an update on UR Connected. Mr. Steiner noted that UR Connected was a technology State Fund was implementing, in partnership with Conexia, which is designed to empower physicians to treat injured workers faster and more effectively. UR Connected uses real-time point-of-care technology to respond to most Utilization Review requests in seconds, rather than days (as is often the case today).

In addition to helping doctors and injured workers, UR Connected will also improve operational efficiency and consistency across claims operations. This will help lower claims administrative costs over time and provide greater value to California employers.

Mr. Steiner reported that State Fund implemented its real-time automated UR submission process for specialist providers in late July 2019. State Fund currently has four providers submitting through the on-line portal. State Fund has scheduled providers for training at a rate of 3 to 4 per week for the next month. Training for specialist providers will continue into the fall and primary care doctors will be added in November.

Mr. Steiner noted that the feedback from the providers has been outstanding. The providers have all been very happy with the portal and the rapid approval when appropriate. The automated approvals have been for physical therapy and medications (ones on approved drug lists). Program enhancements are scheduled into 2020.

Mr. Steiner reported on the two recently completed audits by the State Auditor. State Fund was part of a technology audit of 33 agencies not subject to the Department of Technology oversight. The State Auditor had no findings or recommendations as to State Fund. The second audit evaluated the timeliness of medical care to Department of Corrections and Rehabilitation (CDCR) employees and inmates who sustained work-related injuries. The State Auditor found the CDCR employees and inmates received necessary care within reasonable time frames and did not issue

any findings as to State Fund. Discussion ensued on the type of information that can be shared with employers about injured employees.

Mr. Lanier requested public comment, of which there was none.

AGENDA ITEM 6: REPORTS BY THE CHAIRS OF COMMITTEE ACTIVITIES

6a: GOVERNANCE COMMITTEE

6ai: GOVERNANCE, COMPLIANCE AND PRIVACY UPDATE

Governance Chair Mr. Rankin reported on the following:

Corporate Policy HR 4.1 Discrimination, Harassment, Sexual Harassment and Retaliation Prevention

Mr. Rankin noted that the Corporate Policy on HR 4.1 Discrimination, Harassment, Sexual Harassment and Retaliation Prevention was revised to replace two prior sections that were identical: HR 4.1 Equal Employment Opportunity and HR 4.3 Sexual Harassment Prevention.

Mr. Rankin noted that the Governance Committee recommended approving the revised Corporate Policy and was now requesting Board approval. Mr. Lanier called for a Motion.

MOTION: Mr. Kropke

SECOND: Mr. Neureuter

To approve the revised Corporate Policy HR 4.1 Discrimination, Harassment, Sexual Harassment and Retaliation Prevention as presented.

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

YES: 9

NO: 0

Abstain: 0

Motion carried.

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

2019 Compliance Training – Privacy

Mr. Rankin reported that State Fund achieved its mandatory compliance goal, with a completion rate of 99.6% for active employees and 100% for consultants for Privacy compliance training.

2019 Corporate Governance Annual Disclosure (CGAD)

Mr. Rankin noted that the confidential CGAD report provides information about governance activities at State Fund. State Fund submitted its annual CGAD report, attested by the CEO and General Counsel/Corporate Secretary, to the California Department of Insurance on May 15, 2019. Reports are due annually by June 1.

California Whistleblower Protection Act Annual Notification

Mr. Rankin reported that the annual Whistleblower communication and brochure about the State Auditor's Whistleblower Program was sent by email to all employees on July 22,

2019. The 2019 whistleblower posters were displayed in State Fund locations where other employee notices are maintained. Attestation of distribution was sent to the State Auditor on July 24, 2019.

Ethics and Privacy Reported Issues

The total number of hotline reports decreased by 83% (6 in 2Q 2019 vs. 11 in 1Q 2019) while non-hotline reports increased resulting in only 3% decrease in total reports (35 in 2Q 2019 vs. 36 in 1Q 2019). According to Human Resources (HR), they have not done any outreach regarding reporting complaints and use of hotline vs non-hotline avenues for reporting.

HR-related issues remain the most reported category (91% of total issues reported).

6b: AUDIT COMMITTEE

6bi: UPDATE ON COMPLETED CLOSED AUDITS

Audit Chair Mr. Zachry reported on the following activities:

Completed Closed Audits

Mr. Zachry reported that one project was reported in the first quarter of 2019 in the Closed Session in May 2019. Internal Audit Department continues to monitor Management's progress in addressing these issues until Management implements an action plan to mitigate the risk identified.

All the completed project reports were deemed to be proprietary. There were no non-proprietary projects to report in Open Session.

In addition, Mr. Zachry reported the State Auditor completed its technology audit of State Fund. The State Auditor reported during the exit meeting that there are no specific recommendations for State Fund to address.

Whistleblower Hotline

All Ethics Hotline reports are investigated. For the 2Q 2019, there were 35 new allegations received. Of the 35 new allegations, 7 did not require investigation and were referred to Manager Services and 28 were referred to the Internal Investigations Unit. Of the 28 allegations, 13 are currently still in progress and 1 has been closed as unsubstantiated. In addition, 3 investigations from prior quarters were closed. This report is available to the public and posted on State Fund's website.

6c: INVESTMENT and RISK COMMITTEE

6ci: BOND TRANSACTIONS AND COMPLIANCE REPORT

Investment & Risk Committee Acting Chair William Zachry (Ret.) reported on the following:

The investment transactions and compliance reports for the periods of April 1, 2019 to June 30, 2019 were approved by the Investment and Risk Committee pursuant to its delegated

authority. Mr. Zachry also reported the Investment and Risk Committee heard a report from staff on portfolio performance.

Mr. Zachry also noted that the Committee received a report from the Enterprise Risk Management (ERM) program and there were no significant changes in the overall risk position of State Fund over the 2Q 2019.

6d: AD HOC SAFETY AND LOSS PREVENTION COMMITTEE

6di: Update on Roofing Incentive Program

Mr. Curtin joined the meeting.

Sr. Vice President of Safety and Health Services Lauren Mayfield provided a report on the Roofing Incentive program.

Ms. Mayfield noted that in order to pursue innovative ways to reduce the incidence of injuries in the workplace, State Fund developed a safety incentive pilot program aimed at the roofing industry. The intent was to see if monetary incentives, safety culture change and reinforcement by field loss prevention personnel could positively impact this segment of the construction sector and reduce the incidence of serious claims. An analysis of the first two years of the program has demonstrated that it did have a positive impact on reducing claims for the participating employers.

Ms. Mayfield provided an overview of the program. The program began on January 1, 2016 and is sunsetting on December 31, 2019. Every employer selected was given the opportunity to participate for two years. The employers were selected on the basis of Underwriting tier and premium level of \$10,000 or greater. The employers had to agree to develop a safety program; have all roofers take safety training prescribed by State Fund; have all roofers wear fall protection at all times while on a roof; submit to periodic job site inspections; and have no preventable accidents. Under this program, employers could receive up to 10% of their roofing premium spread out over three incentive payments in the first year of the program and two payments in the second year.

Ms. Mayfield reported that 956 employers were eligible since 1/1/2016, of which 15 are currently in the program; 43% of policyholders offered have accepted the program; and \$1,802,958 was paid in incentive payments, representing \$39M in roofing premium. The Actuarial Analysis performed on July 2019 on 2016 and 2017 participants showed that the program was successful in reducing indemnity claim frequency in the population targeted by services. The 2016 year participants reduced indemnity frequency dramatically from 9.71 to 5.62 equating to a reduction of 26 claims. The 2017 year participants further reduced indemnity frequency to 2.45 which equates to a reduction of 33 claims. The 2017 participant indemnity frequency outperformed those employers not offered the program, 2.45 vs 4.94. In terms of a long term run rate of savings, it is estimated at least a 33% reduction in annual indemnity claim frequency for participating employers, or a reduction of at least 20 claims per year. With an average indemnity claim cost of \$100,000 that equates to a \$2,000,000 savings per year for participating employers.

The Board was very impressed with the outcome of the program and acknowledged the Ad Hoc Safety Committee and staff's work.

AGENDA ITEM 7: CHAIRPERSON'S'S REPORT

Mr. Lanier noted he had nothing to report. However, he commended the great work that the staff has done on the Roofing Incentive Program and UR Connected and noted the Board was pleased with the results of the external audits by the State Auditor.

AGENDA ITEM 8: BOARD MEMBER REPORTS

Mr. Lanier 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

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

AGENDA ITEM 10: PUBLIC COMMENT

Mr. Lanier requested public comment, of which there was none.

ADJOURNMENT

There being no further business, Mr. Lanier adjourned the meeting at 2:05 p.m. to immediately reconvene in Closed Session.

August 22, 2019

AGENDA ITEM 22: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 12:30 p.m. at The Lodge at Sonoma Renaissance, 1325 Broadway, Sonoma, California and the following Members were present: David M. Lanier (Chair); Robin L. Baker; Sen. Thomas Berryhill (Ret.); Daniel M. Curtin; Marvin P. Kropke; Jack L. Neureuter; Arthur H. Pulaski; Thomas E. Rankin; Angela Tate; and William M. Zachry.

Absent by prior arrangement: Sen. Michael J. Machado (Ret.)

There was a quorum.

Also present: President and CEO Vernon L. Steiner; General Counsel, Corporate Secretary and Acting Chief of Internal Affairs 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: ANNUAL REVIEW AND APPROVAL OF BOARD DELEGATED AUTHORITY AND APPROVAL LEVELS

Mr. Lanier noted that copies of Resolution No. 2221 were available at the front table outside.

Mr. Lanier requested a Motion and Second.

MOTION: Mr. Zachry

SECOND: Mr. Kropke

To approve the Board Delegated Authority and Approval Levels as presented.

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

YES: 10

NO: 0

Abstain: 0

Resolution carried.

The certified Resolution No. 2221 is attached hereto.

AGENDA ITEM 24: PROPOSALS AND SUGGESTIONS FOR NOVEMBER 21-22, 2019
AGENDA

Mr. Lanier requested suggestions for agenda items for the November 21-22, 2019 Board meeting. Ms. Padua noted that the proposed agenda items are for Closed Session.

Mr. Lanier requested other agenda items, of which there were none.

Mr. Lanier requested public comment, of which there was none, and he noted that the next Board meeting is scheduled for November 21-22, 2019 at the State Fund Pleasanton Office, California, unless noticed for a new date and time.

Mr. Lanier adjourned the meeting at 12:35 p.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Assistant Corporate Secretary



Governance Committee: Resolution No. 2112 Approved May 18, 2017
Board of Directors: Resolution No. 2112 Approved May 18, 2017
Governance Committee: Resolution No. 2150 Approved May 24, 2018
Board of Directors: Resolution No. 2150 Approved May 24, 2018
Governance Committee: Resolution No. 2221 Approved May 23, 2019
Board of Directors: Resolution No. 2221 Approved August 22, 2019

BOARD OF DIRECTORS

STATE COMPENSATION INSURANCE FUND

RESOLUTION OF DELEGATED AUTHORITY AND APPROVAL LEVELS

WHEREAS, the Board of Directors has authorized and directed the President of State Compensation Insurance Fund ("State Fund") to take or to cause to be taken all such actions necessary or desirable in connection with the administration, management, and conduct of the business and affairs of State Fund;

NOW, THEREFORE, BE IT RESOLVED:

That the Board of Directors hereby affirms its delegation to the President of State Fund, subject to conditions that the Board may from time to time prescribe, the powers, functions, and duties conferred by law on the Board of Directors in connection with the administration, management, and conduct of the business and affairs of State Fund. This delegation includes the authority to execute real estate transactions up to \$35M and any procurement contracts valued up to \$25M in any three-year period. The President may exercise those powers and functions and perform those duties with the same force and effect as the Board of Directors.

BE IT FURTHER RESOLVED that, notwithstanding the foregoing, the President shall continue to obtain the consent of the Chair of the Board of Directors prior to entering into any real estate transaction;

BE IT FURTHER RESOLVED that the President may delegate to the Chief Financial Officer, Chief Operating Officer, or other executive designee, the exercise of those powers, functions, and duties delegated by the Board, during the absence or unavailability of the President; such power or authority to be administered consistent with the requirements of this Resolution. A copy of each such delegation made pursuant to this Resolution shall be delivered to the Corporate Secretary of State Fund to be retained as part of the official records. The Board Chair shall provide written consent to the exercise of the delegated power and authority.

BE IT FURTHER RESOLVED that the President shall continue to regularly advise the Board of Directors on the business and affairs of State Fund, including but not limited to the following topics:

- Key operational matters
- Financial status and issues
- Legal issues affecting State Fund, the Board of Directors or officers
- Legislative issues specific to or affecting State Fund
- Marketing plan
- Information Technology strategic plans
- Human resources issues
- Internal audits

BE IT FURTHER RESOLVED that, notwithstanding the foregoing, the President shall continue to obtain the advice of the Board of Directors, and present to the Board of Directors for its ratification of actions taken pursuant to the Board of Directors' delegated authority on the following topics:

- Appointment of the chief financial officer, chief operating officer, chief information technology officer, chief investment officer, chief risk officer, chief of internal affairs, chief of claims operations, chief actuary, medical director, general counsel, chief underwriting officer, senior vice president of insurance services, executive vice president of corporate claims, executive vice president of strategic planning, and pricing actuary, and the setting of their salaries
- Investment decisions
- Major corporate policy initiatives
- Rate decisions

BE IT FURTHER RESOLVED that, notwithstanding the foregoing, the Board of Directors shall make all final decisions on the following topics, unless otherwise specifically delegated by the Board of Directors:

- Selection and appointment of the President/Chief Executive Officer*
- Approval of the strategic plan
- Selection of State Fund's public accountants**
- Approval of the annual budget
- Adoption and amendment of investment and cash management policies (currently delegated to the Investment Committee)
- Dividend declarations*
- Acquisition and sale of real estate, and major lease transactions, in excess of \$35M
- Selection of an external auditor (currently delegated to the Audit Committee)
- Approval of audit engagement fees (currently delegated to the Audit Committee)
- Approval of the annual audit plan, major changes to the plan, and the annual update of the biennial audit plan (currently delegated to the Audit Committee)
- Adoption of, and approval of changes to, State Fund's by-laws, Conflict of Interest Code,*** Enterprise Risk Management Plan, Code of Ethics, Code of Conduct, charters of the committees of the Board of Directors, and/or other compliance policies and guidelines required by law** (currently delegated to the Governance Committee)
- Selection of appointed actuary**
- Selection of investment advisors (currently delegated to the Investment Committee)

- Procurement contracts with value in excess of \$25M in any three-year period; (currently delegated to the Governance Committee) contracts with a lesser value may still require the advice and consent of the Board of Directors pursuant to any of the other topics listed herein
- Banking management

* Required by laws specific to State Fund

** Required by laws applicable to insurance companies generally in California

*** Required by laws applicable to state agencies in California

PASSED AND ADOPTED at the meeting of the Board of Directors of the State Compensation Insurance Fund held on the 22th day of August, 2019 by the following vote:

<u>MEMBER</u>	<u>VOTE</u>
David M. Lanier	Yes
Robin L. Baker	Yes
Sen. Tom C. Berryhill (Ret.)	Yes
Daniel M. Curtin	Yes
Marvin P. Kropke	Yes
Sen. Michael J. Machado (Ret.)	Absent
Jack L. Neureuter	Yes
Arthur H. Pulaski	Yes
Thomas E. Rankin	Yes
Angela D. Tate	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 regular meeting held August 22, 2019.



Hilda B. Padua
Assistant Corporate Secretary



Date