

BOARD OF DIRECTORS (OPEN)

AGENDA ITEM 3a

ATTACHMENT 3a-I, II

CONSENT CALENDAR

Approval of September 9-10, 2010 Open Meeting Minutes

Approval of October 12-14, 2010 Open Meeting Minutes

PRESENTED BY: Jeanne Cain

November 18, 2010

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

September 9-10, 2010

The Board of Directors of State Compensation Insurance Fund met on September 9, 2010 and September 10, 2010 in the Milton Marks Conference Center, State Building, 455 Golden Gate Avenue, San Francisco, California.

September 9, 2010

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on September 9, 2010 at 12:00 p.m. and the following were present: Sheryl A. Chalupa, Acting Chair; Daniel Curtin; Lawrence Mulryan; Thomas Rankin; James S. Richardson; and William Zachry. Absent: Jeanne L. Cain (by prior agreement); Steven L. Rank; Donald E. Garcia; Sen. Michael Machado; Francis E. Quinlan; and non-voting member John C. Duncan.

There was a quorum.

Also present: President and CEO Thomas E. Rowe; General Counsel and Corporate Secretary Carol R. Newman; and Chief Counsel and Assistant Corporate Secretary Suzanne Ah-Tye.

AGENDA ITEM 2: ANTITRUST ADMONITION

Ms. Chalupa called attention to and requested the Board members read State Fund's Antitrust Admonition which is included in each Board member's meeting materials.

AGENDA ITEM 3: PUBLIC COMMENTS ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 5 THROUGH 12 ON SEPTEMBER 9 AND ITEMS 13 THROUGH 17 ON SEPTEMBER 10.

Ms. Chalupa requested public comment. Ms. Kathleen B. Collins, Vice President of Bargaining for SEIU Local 1000 commented that personnel matters should be discussed at Board meetings more openly, as this impacts SEIU membership. The subject of "fringe benefits" to be discussed under agenda item 11 during closed session needs greater clarification. Ms. Chalupa noted this objection and closed the Open Session. The meeting convened into Closed Session at 12:05 p.m. and reconvened at 11:55 a.m. on September 10, 2010 into Open Session.

SEPTEMBER 10, 2010

AGENDA ITEM 18: CALL TO ORDER AND ROLL CALL

The meeting was called to order on September 10, 2010 at 11:55 a.m. and the following were present: Sheryl A. Chalupa, Acting Chair; Daniel Curtin; Donald E. Garcia; Sen. Michael Machado (Ret.); Lawrence Mulryan; Francis E. Quinlan; Steven L. Rank; Thomas Rankin; James S. Richardson; William Zachry and non-voting member John. C. Duncan. Absent: Jeanne Cain (by prior arrangement).

There was a quorum.

Also present: President and CEO Thomas E. Rowe; Chief Financial Officer Jay Stewart; General Counsel and Corporate Secretary Carol R. Newman; and Chief Counsel and Assistant Corporate Secretary Suzanne Ah-Tye.

AGENDA ITEM 19: CONSENT CALENDAR

Ms. Chalupa referred to the Consent Calendar matters which are included with each member's agenda noting particularly the approval of the August 19, 2010 Open Meeting Minutes, the Board Member Training Opportunities, Planned Board Member Training, the report on Board Member Travel Expense Reimbursement for the period May 2010 through August 2010, Renewal of Expiring November 2010 Insurance Coverage, Delegated Authority re Management of Bank Signatures, and Retirement Resolution Nos. 933-941. Ms. Chalupa indicated that Board Member Training Opportunities was pulled from the Consent Calendar so that approval of additional training could be considered.

Ms. Chalupa requested whether any Board member had any additional comments on the items on the Consent Calendar of which there were none.

MOTION: Mr. Rankin Second: Mr. Curtin

To approve the Consent Calendar as presented with the exception of the Board Member Training Opportunities.

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

AYES: 10 NOES: 0 Motion carried.

Ms. Newman explained that two training opportunities were added to the list, including training by IAIA in Los Angeles and a training by the Rand Institute of Civil Justice. Ms. Chalupa requested if there were other training conferences to add to the list. Hearing none, Ms. Chalupa asked for a motion to approve the

Board Member Training Opportunities with the amendments and to post the amended training opportunities with the open minutes.

MOTION: Mr. Curtin

Second: Mr. Rankin

To approve the Board Member Training Opportunities with the amendments and directing the Secretary to post the amended Training Opportunities with the open minutes.

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

AYES: 10

NOES: 0

Motion carried.

AGENDA ITEM 20: FINANCIAL UPDATE 2ND QUARTER 2010 (ORAL)

Chief Financial Officer Jay Stewart reported on 2nd Quarter 2010 results as compared to budget and the same period in 2009. As an initial matter, State Fund faces a continued soft market with rate pressure from competitors. The financial results include: 2010 net income of \$34M compared to a budget of \$5M and \$54 in 2009. Direct premium written was \$577M compared to a budget of \$673M and \$644M in 2009. Net earned premium was \$569M compared to a budget of \$655M and \$612M in 2009. Net premium charged off for 2Q 2010 was \$40.6M compared to \$ 17M in 2009. Losses incurred were \$428M compared to a budget of \$ 491M and \$461M in 2009. Loss adjustment expenses were \$290M compared to a budget of \$315M and \$315M in 2009. Underwriting expenses were \$223M compared to a budget of \$243M and \$218M in 2009. Underwriting losses were \$372M compared to a budget of \$394M and \$382M in 2009. The Combined ratio was 172% compared to a budget of 164.0% and 164.3% in 2009. Incurred loss ratio for the 2010 period was 75.2 with the Loss adjustment expenses ratio at 50.9 and the Underwriting expense ratio at 46.5. Net investment income was \$442M which represents an \$18M increase compared to budget but a \$20M decrease from 2009. The book yield was 4.57% on a total book value of \$19.2B. The balance sheet remains strong with assets exceeding liabilities by approximately \$5.3B, up \$30M over the same period 2009.

AGENDA ITEM 21: U.S. ECONOMIC OUTLOOK AND IMPACT ON CALIFORNIA

Chief Investment Officer Peter Guastamachio introduced Chip Clark, Vice President of General Re- New England Asset Management, Inc. Mr. Clark presented on the U.S. economic outlook and the economy's impact on California. He reported on the difficulty for workers' compensation carriers nationwide, as insurers were faced with lower employment levels, state rate pressures and

depressed investment income. In 2009, significant factors impacting the national workers' compensation market include a 110% combined ratio, 12% decline in net written premium, medical cost inflation, and increased indemnity claim costs. Challenges facing the California workers' compensation market include the decline in housing prices, state and local budget deficits, layoffs, declining levels of investment income, medical cost inflation, and case law such as Almaraz and Ogilvie which could increase claim costs.

AGENDA ITEM 22: RATIFICATION OF INVESTMENT TRANSACTIONS

AGENDA ITEM 22a: RATIFICATION OF INVESTMENT TRANSACTIONS- Bond Transactions

Treasury Manager Stephanie Chan, on behalf of the Investment Committee, recommended the ratification of investment transactions from June 1, 2010 to July 31, 2010. Investment transactions for the period were made in conformance with State Fund's Investment policy at the time of purchase. During the months of June and July, State Fund purchased 30 securities totaling \$671.7M. During this same time period, State Fund sold 3 securities totaling \$34.7M. Year-to-date through July 31, 2010, State Fund has booked a net capital gain of approximately \$4.3M. The value of State Fund's portfolio as of July 31, 2010 was approximately \$19.4B

MOTION: Mr. Quinlan Second: Mr. Rankin

To ratify the investment transactions from June 1, 2010 to July 31, 2010.

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

AYES: 10 NOES: 0 Motion carried.

AGENDA ITEM 22b: RATIFICATION OF INVESTMENT TRANSACTIONS- Compliance Report

Ms. Chan, on behalf of the Investment Committee, presented the Compliance Report which includes securities whose credit ratings fell below the "A" credit rating required at the time of purchase. There is one Taxable Municipal Issuer, Southern California Public Power Authority, which exceeded State Fund's "Per Issuer" limit of 0.5% by approximately \$3M. There is no credit issue with this bond. This bond was purchased after the per issuer limit was added to the Investment Policy. The Rancho Cucamonga bond is currently rated below single 'A,' but was in compliance at the time of purchase. One of State Fund's Oregon State bond holdings totaling \$25M is not rated, but was initially rated AAA. State Fund has other Oregon State bonds, and they are rated AAa2/AA. At the end of

July 2010, the total value of the securities listed on the Compliance Report is \$139M which represents less than 1% of State Fund's total investments. State Fund's Investment Managers conducted a credit analysis of all bonds listed on the July 2010 Compliance Report and made a recommendation to Executive Management to hold these securities. This recommendation was accepted.

MOTION: Mr. Quinlan Second: Sen. Machado

To ratify the Compliance Report for the period June 1, 2010 to July 31, 2010.

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

AYES: 10 NOES: 0 Motion carried.

AGENDA ITEM 23: PRESIDENT'S REPORT

Ms. Chalupa introduced Thomas E. Rowe, the new President and CEO of State Fund. Mr. Rowe reported that it has been an active and exciting six weeks as the new President of State Fund. In addition to working closely with the Executive Team reviewing operations and initiatives, much time to date has been spent meeting 3400 employees state wide through town hall meetings with plans to meet with all State Fund employees as soon as possible. State Fund's workforce is dedicated to State Fund's unique mission of living up to the Charter of providing a stable and open market for all California employers.

AGENDA ITEM 24a: AUDIT COMMITTEE UPDATE

Mr. Quinlan provided an Audit Committee update. State Fund has implemented the Model Audit Rule (MAR). It requires an attestation letter that must be signed by the Chief Executive Officer and Chief Risk Officer regarding internal controls over the financials when filing the financial statement. During the closed audit meeting, Chief Financial Officer Jay Stewart reported on accounting requirements described in GASB Rule 45 governing the reporting of post retirement medical benefits. State Fund pays an assessment to CALPERS who administers the program. Also, the CDI Operational audit which began in 2007 is drawing to a close and management reported that they expect to have partially or fully remediated all 145 findings.

AGENDA ITEM 24b: GOVERNANCE COMMITTEE UPDATE

Ms. Chalupa reported that executive staff provided an update on select enterprise risks and mitigation for those risks. In addition the agenda for the October Strategic Meeting was discussed with an expectation that the Strategic Meeting will set the foundation for State Fund's Three Year Strategic Plan.

AGENDA ITEM 24c: INVESTMENT COMMITTEE UPDATE

Sen. Machado reported that State Fund is revising its investment portfolio since there are increasing challenges to the investment portfolio resulting in expected return on investments.

AGENDA ITEM 25: REVIEW AND RECOMMENDATION ON BOARD TRAINING

Ms. Chalupa introduced Valerie Lampson, Learning and Development Program Manager. Ms. Lampson provided a report on Board Training and indicated the Governance Committees recommendation is for the Board of Directors to have a hybrid training plan of 1 or 2 days of training once or twice per year, supplemented by training at select Board meetings. The training plan will begin in February, 2011.

MOTION: Mr. Mulryan Second: Mr. Zachry

To approve a hybrid training plan for the Board of Directors consisting of one or two days training once or twice per year, supplemented by training at select Board meetings.

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

AYES: 10 NOES: 0 Motion carried.

Mr. Richardson left the meeting.

AGENDA ITEM 26: CHAIR'S REPORT

Ms. Chalupa introduced and congratulated Financial and Investment Service Program Manager Leslie Dawe on her retirement effective November 17, 2010, after 33 years of service to State Fund. Ms. Chalupa acknowledged Ms. Dawe's integrity and boundless energy and wished her a happy retirement. Mr. Zachry left the meeting. Ms. Chalupa also introduced and congratulated Executive Vice President and Chief Actuarial Advisor James F. Neary on his upcoming

retirement effective November 17, 2010, after 37 years of service. Mr. Neary was thanked for his exceptional commitment and leadership to State Fund, and his talents, integrity, and sense of humor was noted as being widely respected by his colleagues and staff.

AGENDA ITEM 27: BOARD MEMBER REPORTS

There were no Board Member reports.

AGENDA ITEM 28: PROPOSALS AND SUGGESTIONS FOR NOVEMBER 2010 AGENDA

There was a proposal for a Subrogation update and a progress report of State Fund's financial vulnerability assessment.

AGENDA ITEM 29: PUBLIC COMMENT

Ms. Chalupa requested public comment. Randall Cheek, legislative advocate for SEIU stated that some of the committee meetings are held at the same time which makes it difficult to attend all the meetings. In addition, Mr. Cheek brought up transparency issues in regard to agenda items discussed in closed session, which should be discussed in open session. To obtain information which affects SEIU membership, Freedom of Information Act requests are filed.

Dale Debber, President of Compline also made public comment stating that fairness for employer clients requires a change in State Fund's broker of service policy to recognize broker of record (BOR) letters. Mr. Debber stated that current State Fund policy does not provide a commission to a broker who takes over a direct account. Mr. Debber stated that this policy is unfair to employers because they are left with no broker to assist with servicing the account, such as audit disputes, claims services or experience modification review.

Jerry Conrey, CFO of the Alliance of Insurance Agents and Brokers also made public comment. Mr. Conrey stated that State Fund's policy of not recognizing BOR letters is unfair to California business owners and insurance brokers because it doesn't allow employers the right of transfer from their own account to licensed brokers-agents. Mr. Conrey stated that if compensated, agents and brokers bring high levels of service to business owners through consumer advocacy.

Ms. Chalupa requested additional public comments of which there were none.

ADJOURNMENT

There being no further business, Acting Chair Chalupa adjourned the meeting at 2:00 p.m.

The next regularly scheduled Board meeting will begin on Thursday, November 18, 2010 at 2 p.m. at the Milton Marks Conference Center, 455 Golden Gate Avenue, San Francisco.

Respectfully submitted,

Suzanne Ah-Tye
Assistant Corporate Secretary