



1275 Market Street
San Francisco, CA 94103
(415) 565-1456
www.statefundca.com

Date: January 10, 2011

AGENDA ITEM 4a

TO: MEMBERS, BOARD OF DIRECTORS

- I. SUBJECT:** Approval of November 18-19, 2010
Open Meeting Minutes
- II. PROGRAM:** Legal Department
- III. RECOMMENDATION:** Action: To approve.

Attached November 18-19, 2010 Open Meeting Minutes of the Board of Directors is presented for consideration and approval at the Board meeting of January 20, 2011.

Suzanne Ah-Tye

Chief Counsel and Assistant Corporate
Secretary

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

November 18-19, 2010

The Board of Directors of State Compensation Insurance Fund met on November 18, 2010 and November 19, 2010 in the Milton Marks Conference Center, State Building, 455 Golden Gate Avenue, San Francisco, California.

November 18, 2010

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on November 18, 2010 at 2:25 p.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Donald E. Garcia; Sen. Michael J. Machado (Ret.); Lawrence E. Mulryan; Francis E. Quinlan; Thomas E. Rankin; James S. Richardson and non voting member John C. Duncan. Absent: (by prior agreement) Daniel M. Curtin, Steven L. Rank and William M. Zachry.

There was a quorum.

Also present: President and CEO Thomas E. Rowe; Acting Chief Financial Officer Daniel J. Sevilla; General Counsel and Corporate Secretary Carol R. Newman and Suzanne Ah-Tye, Chief Counsel and Assistant Corporate Secretary.

AGENDA ITEM 2: ANTITRUST ADMONITION

Ms. Cain 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: CONSENT CALENDAR

Ms. Cain referred to the Consent Calendar matters which are included with each member's agenda noting particularly the approval of the September 9-10, 2010 Open Meeting Minutes and October 12-14, 2010 Open Meeting Minutes, the Board Member Training Opportunities and Approval of Planned Board Member Training, the report on Board Member Travel Expense Reimbursement for the period August 2010 through October 2010, Renewal of January 2011 Insurance Coverage, Appointment of Assistant Corporate Secretary Stephanie Chan and Retirement Resolution Nos. 945-950.

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

MOTION: Sen. Machado Second: Mr. Mulryan

To approve the Consent Calendar as presented.

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

YESSES: 8 NOES: 0 Motion carried.

AGENDA ITEM 4: 3RD QUARTER 2010 FINANCIAL REPORT

Acting Chief Financial Officer Dan Sevilla reported on State Fund's financial performance for the nine months ending September 30, 2010. Financial results were impacted by economic conditions, including unemployment and market pricing. As of 3Q 2010, State Fund wrote 125,000 policies, which was 17,000 or 12% less than 3Q 2009. In 3Q 2010, the average premium per policy was \$7100, which is \$600 or 8% less than 3Q 2009. Net premium earned at the end of 3Q 2010 was \$850M which is 12% less than budget and 10% less than 3Q 2009. Losses incurred were \$638M which is 12% less than budget and 10% less than 2009. Incurred loss ratio was 75% which is on budget and consistent with 2009. Loss adjustment expenses, underwriting expenses and other expenses totaled \$777M, which is 9% less than budget and 8% less than 2009. State Fund's expense ratio was 91% or 3 points more than budget and 2 points more than 2009, due largely to a \$26M group program charge off recorded 2Q 2010. Net investment income for the period ending 3Q 2010 was \$567M, which was 4% more than budget, but 4% less than the period ending 3Q 2009. Net income was \$100M for the period ending 3Q 2010, compared to a budget of \$21M and \$73M for 3Q 2009. For the period ending 3Q 2010, policyholder surplus is \$5.4B, an increase of \$139M or 3% greater than the same period in 2009.

AGENDA ITEM 5a: RATIFICATION OF INVESTMENT TRANSACTIONS - Bond Transactions

Treasury Manager Stephanie Chan, on behalf of the Investment Committee, recommended the ratification of investment transactions from August 1, 2010 to September 30, 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 August and September, State Fund purchased 18 securities totaling \$335.7M. During this same time period, State Fund sold 9 securities totaling \$37.5M. Year-to-date through September 30, 2010, State Fund has

booked a net capital gain of approximately \$5.5M. The book value of State Fund's portfolio as of September 30, 2010 was approximately \$19.2B.

MOTION: Ms. Chalupa Second: Sen. Machado

To ratify the investment transactions from August 1, 2010 to September 30, 2010.

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

YESSES: 8 NOES: 0 Motion carried.

AGENDA ITEM 5b: 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 \$4M. 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 on the list because it does not carry a rating. It was initially rated AAA based on financial strength of an insurance enhancement, but was subsequently withdrawn. State Fund has other Oregon State bonds, and they are rated AAa2/AA. At the end of September 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. Mulryan Second: Mr. Quinlan

To ratify the Compliance Report for the period August 1, 2010 to September 30, 2010.

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

YESSES: 8 NOES: 0 Motion carried

AGENDA ITEM 6a: UPDATE ON STAFFING

Senior Vice President of Human Resources Andreas Acker reported there are approximately 7400 employees as of September 30, 2010. There were 16 outside hires in 2010, 215 promotions and 253 separations.

AGENDA ITEM 6b: UPDATE ON LEAVE BALANCE

Mr. Acker reported that State Fund continues to work to reduce the number of employees who have more than 640 hours of accrued vacation time. Employees who are over the 640 hour cap have reduction plans in place. There has been an 11.7% decrease in hours over the cap compared to 2009. As of September 30, 2010, there are 795 employees who are over the cap. Human Resources will continue to monitor the reduction of leave balances.

AGENDA ITEM 6c: LEADERSHIP DEVELOPMENT

Mr. Acker reported that HR is working on a Leadership Development program for supervisors and managers. The program consists of the following elements: Insight, Motivation, Capabilities, Real World Practice and Accountability. Insight includes 360 evaluations, Individual Development Plans and a Talent Review Process (Succession Plan). The 360 evaluations were rolled out on a voluntary basis in 2010 to Managers. It will be rolled out to second level supervisors in 2011 and offered to line supervisors in 2012. The 360 evaluation consists of questions given to subordinates, peers, and the direct supervisor of the manager. A report is produced from the responses and made available to the manager through coaching sessions. For the “Capabilities” component of the program, a Leadership Academy will be introduced 1Q 2011. For Real World Practice, a Rotational Leadership Program is being developed to allow line managers to work in Home Office in a corporate setting to gain technical and leadership skills. For “Accountability,” there will be specific performance plan objectives for leaders.

AGENDA ITEM 7: LEGAL DEPARTMENT OVERVIEW OF ORGANIZATION AND FUNCTION

General Counsel and Corporate Secretary Carol Newman presented on the Legal Department Overview and Function. Legal’s mission is to be effective and efficient in advice and advocacy with diplomacy and integrity, leading State Fund in compliance with the law and in support of State Fund’s vital role as a strong and stable workers’ compensation insurer for all California employers. Legal provides defense in Workers’ Compensation which includes Appellate and

Subrogation. Legal pursues subrogation against third parties, which will have an impact on employers experience modification. Other functions within Legal include Corporate Civil Litigation, Contract Review, Fraud and Board Support. The use of outside counsel has diminished in 2010. Legal continues to develop talent in house. There are approximately 340 Workers' Compensation attorneys handling 84,000 open files involving 66,000 injured workers. Legal is in the process of getting the current case inventory under control and were able to close 26,000 cases in 2010. Approximately one third of open files involve liens. The appearance rate at the WCAB was over 100,000 in 2009 and is projected to be the same at year-end 2010. State Fund's appellate unit has a review committee with business stakeholders. The Almaraz case is a State Fund appellate case that the industry is watching following the decision on Guzman involving the use of the AMA Guides in determining permanent disability. State Fund's Corporate Civil Litigation unit has 100 open cases compared to 200 open in 2005. The Civil Litigation unit handles cases involving underwriting, auditing, bad faith allegations, unfair competition and bankruptcy. Corporate Legal provides proactive legal advice and legal review on transactions. The Attorney IV classification at State Fund was recently approved by the Department of Personnel Administration.

AGENDA ITEM 8: PRESIDENT'S REPORT

President and CEO Thomas E. Rowe reported that State Fund's charter is to be an open and stable market for California employers. As an open market, State Fund must accept all risks, and to ensure success, it is essential to maintain pricing discipline by consistently and efficiently assigning the right price to each risk. Effective January 1, 2011, employers will have greater choices in the form of direct accounts and policy credits.

AGENDA ITEM 9a: GOVERNANCE COMMITTEE REPORT

1. *Approval of 2011 Board of Directors Meeting Schedule:* Ms. Cain reported on the proposed 2011 Board of Directors and Governance, Audit, and Investment Committee meeting schedule. After discussion, the 2011 Board meeting dates will be as follows: January 20-21, March 17-18, May 12-13, July 14-15, September 8-9 and November 17-18. The Board directed staff to take action consistent with the scheduled dates above.

2. *Update on Chief Risk Officer and Chief Financial Officer Search:* Ms. Cain reported that a search is underway for both the Chief Risk Officer and the Chief Financial Officer. It is expected that the positions will be filled and the vote to ratify same will be taken at the January 11, 2011 Board meeting.

3. *Evaluation of Board Member Education and Travel Expense Reimbursement Policy*: Ms. Cain reported that there has been no change in the Board member Education and Travel Expense Reimbursement Policy. A national Workers' Compensation conference in Las Vegas has been added to the pre-approved list of conferences.

AGENDA ITEM 9b: AUDIT COMMITTEE

Mr. Quinlan provided an Audit Committee update. Mr. Quinlan recognized Lisa Middleton, Senior Vice President of Internal Affairs, who will be retiring at the end of November, for her years of dedicated service to State Fund. Mr. Quinlan reported that the California Department of Insurance (CDI) Claims review had 183 findings from 100 claims reviewed. There were 72 claims regarding the failure to correctly pay and process medical bills and failure to comply with Utilization Review (UR) standards. State Fund has a plan to remediate all claims, which will be posted on the CDI website. The fleet audit is not yet complete. The data transfer from ARI on the use of vehicles is ready to be finalized and reported to CDI. KPMG, State Fund's external auditors, presented their 2011 Audit Plan, which will include a review for compliance with Model Audit Rule (MAR).

AGENDA ITEM 9c: INVESTMENT COMMITTEE

Sen. Machado reported that the Investment Committee reviewed State Fund's Investment Charter and made recommendations to amend it. The proposed charter includes adding an executive session at the request of any Committee member as needed to fulfill its investment oversight responsibilities. Also, the charter delegates the authority to direct investment transactions on behalf of State Fund to the President and Chief Investment Officer, and in their absence, to delegate that authority to the Chief Financial Officer or Chief Risk Officer.

MOTION: Ms. Cain Second: Mr. Quinlan

To ratify the amendments to the Investment Committee Charter.

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

YESSES: 8 NOES: 0 Motion carried

Sen. Machado also reported that the Investment Committee recommends that the Board of Directors ratify Resolution No. 951 to replace Investment Resolution No. 919 effective January 1, 2011. This resolution specifies new guidelines in the allocation of bonds as follows: a maximum of 45% corporate bonds, 20% municipal bonds, and 55% aggregate total of corporate and municipal bonds.

MOTION: Mr. Mulryan Second: Mr. Richardson

To ratify the Investment Policy Statement and Guidelines Resolution
(No. 951).

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

YESSES: 8 NOES: 0 Motion carried

AGENDA ITEM 10: REPORT BY CHAIR OF BOARD ACTIVITIES

Ms. Cain reported that the Board's schedule was changed to be more efficient and responsive to the public by scheduling the majority of open Board and Committee matters before the Closed Sessions.

AGENDA ITEM 11: BOARD MEMBER REPORTS

There were no Board member reports.

AGENDA ITEM 12: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 15 THROUGH 20

Ms. Cain requested public comment of which there were none.

AGENDA ITEM 13: PUBLIC COMMENTS

Randall Cheek, Legislative Advocate for SEIU Local 1000 thanked the Board for making changes to the open session scheduling. Also, Mr. Cheek voiced SEIU's appreciation for Lisa Middleton's 36 years of contributions and service to State Fund.

Mr. Michael Holzman, Vice President and Chief Operating Officer of Cumbre Insurance Services also made public comment. Mr. Holzman stated that Cumbre lost the lawsuit against State Fund on the issue of whether or not State Fund had violated California's Fair Procedure Doctrine in terminating Cumbre from its preferred broker network. Mr. Holzman stated that in order to put this case to rest, he would like State Fund to consider their offer to pay legal costs in installments.

Ms. Cain requested further public comments of which there were none.

ADJOURNMENT

There being no further business, Chair Cain adjourned the meeting at 3:40 p.m.

November 19, 2010

The Board of Directors of State Compensation Insurance Fund continued their Open Session on November 19, 2010 at the Milton F. Marks Conference Center, State Building, 455 Golden Gate Avenue, San Francisco, California.

AGENDA ITEM 21: CALL TO ORDER AND ROLL CALL

The meeting was called to order on November 19, 2010 at 11:25 a.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Donald E. Garcia; Sen. Michael J. Machado (Ret.); Lawrence E. Mulryan; Francis E. Quinlan; Thomas E. Rankin; James S. Richardson; William M. Zachry and non-voting member John C. Duncan. Absent: (by prior agreement) Daniel M. Curtin and Steven L. Rank. There was a quorum.

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

AGENDA ITEM 22: PROPOSALS AND SUGGESTIONS FOR JANUARY, 2011 AGENDA:

There were no proposals or suggestions for the January, 2011 Agenda.

There being no further business, Chair Cain adjourned the meeting at 11:30 a.m.

The next regularly scheduled Board meeting will begin on Thursday, January 20, 2011 at 2:00 p.m. at a location to be determined.

Respectfully submitted,

Suzanne Ah-Tye
Assistant Corporate Secretary