

BOARD OF DIRECTORS MEETING (OPEN)

AGENDA ITEM 13a

ATTACHMENT 13a-I

MINUTES OF MARCH 12-13, 2009 OPEN MEETING OF
THE BOARD OF DIRECTORS

PRESENTED BY: Jeanne Cain

May 15, 2009

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

MARCH 12-13, 2009

The Board of Directors of State Compensation Insurance Fund met on March 12-13, 2009 in the Milton Marks Conference Center, State Building, 455 Golden Gate Ave, San Francisco, California.

MARCH 12, 2009

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on March 12, 2009 at 5:10 p.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Daniel M. Curtin; Sen. Michael J. Machado (Ret.); Vincent E. Mudd; Francis E. Quinlan; Steven L. Rank; Thomas E. Rankin; and nonvoting member John C. Duncan.

Also present: President and CEO Janet D. Frank; Chief Financial Officer Jay Stewart; Chief Investment Officer Peter Guastamachio; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Assistant Secretary Judith D. Sapper; and Randall Keen, Esq. of Manatt Phelps & Phillips.

AGENDA ITEM 2: ANTITRUST ADMONITION

Ms. Cain called attention to State Fund's Antitrust Admonition which is included in each member's agenda material:

"Certain information discussed and disseminated at State Fund Board of Directors' Closed Sessions may be confidential and proprietary to State Fund. Board members should not share or discuss information pertaining to the operation of State Fund with representatives from other workers' compensation insurers, even if that information is intended to be, or is already, public. For example, Board members should not discuss rate-making or other financial information with representatives of other insurers, including proposed rates, merit rating plans, premium discounts, surcharges or dividends. Board members also should refrain from discussing broker commission payments or commission plans with other insurers. To do so may create the impression of collusion between insurers, which could result in civil and/or criminal charges being filed against the Board member and State Fund for alleged violations of state and federal antitrust laws."

AGENDA ITEM 3: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS THROUGH 6

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

The meeting convened immediately into Closed Session and reconvened at 8:00 a.m. on March 13, 2009 into Open Session.

MARCH 13, 2009

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting came to order at 8:00 a.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Daniel M. Curtin; Sen. Michael J. Machado (Ret.); Vincent E. Mudd; Francis E. Quinlan; Steven L. Rank; Thomas E. Rankin; and nonvoting member John C. Duncan.

Also present: President and CEO Janet D. Frank; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Corporate Secretary Judith D. Sapper; and Randall Keen, Esq. of Manatt Phelps & Phillips.

AGENDA ITEM 2: ANTITRUST ADMONITION

Ms. Cain referred to State Fund's Antitrust Admonition, contained in the agenda material.

AGENDA ITEM 3: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 4 THROUGH 9

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

The meeting convened immediately into Closed Session.

AGENDA ITEM 4: IT AND CAPITAL PROJECT UPDATES Closed Session.

AGENDA ITEM 5: PORTFOLIO RESULTS AND INVESTMENT STRATEGY

Closed Session.

AGENDA ITEM 6: FINANCIAL RESULTS AND COMPETITIVE STRATEGY

Closed Session.

AGENDA ITEM 7: DEVELOPMENT OF 2009 LONGSHORE & HARBOR RATES Closed Session.

AGENDA ITEM 8: AUDIT UPDATE Closed Session.

AGENDA ITEM 9: PERSONNEL MATTERS INCLUDING CEO'S 2008 PERFORMANCE AND IDENTIFICATION OF 2009 PERFORMANCE OBJECTIVES Closed Session.

AGENDA ITEM 10: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 11:25 a.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Sen. Michael J. Machado (Ret.); Vincent E. Mudd; Francis E. Quinlan; Steven L. Rank; Thomas E. Rankin; and

nonvoting member John C. Duncan. Absent: Daniel M. Curtin (by prior arrangement).

Also present: President and CEO Janet D. Frank; Chief Financial Officer Jay Stewart; Chief Investment Officer Peter Guastamachio; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Assistant Secretary Judith D. Sapper; and Randall Keen, Esq. of Manatt Phelps & Phillips.

AGENDA ITEM 11: ANTITRUST ADMONITION

Ms. Cain referred to State Fund's Antitrust Admonition, contained in the agenda material.

AGENDA ITEM 12: INTRODUCTION OF GUESTS

No introductions were made during this agenda item.

AGENDA ITEM 13: CONSENT CALENDAR

The consent calendar consisted of the following items: Approval of Open Minutes of January 15-16, 2009 Board Meeting; and Approval of Retirement Resolutions.

Retiring employees serving over 30 years were recognized in four resolutions attached hereto and incorporated as a part of these minutes:

Resolution No. 862 in appreciation of Donald B. Moulds, thanking him for serving as an Ex-Officio Member of the Board of Directors of State Fund;

Resolution No. 863 in appreciation of Gloria Espinoza, thanking her for serving State Fund with distinction for more than 30 years;

Resolution No. 864 in appreciation of Carolyn J. Potts, thanking her for serving State Fund with distinction for more than 38 years;

Resolution No. 865 in appreciation of Steven R. Codron, thanking him for serving State Fund with distinction for more than 30 years;

MOTION: Ms. Chalupa Second: Mr. Quinlan

To approve the Open minutes of the January 15-16, 2009 Board Meeting and Retirement Resolutions 862-865.

AYES: 7 NOES: 0 Motion carried.

AGENDA ITEM 14: YEAR END PORTFOLIO REVIEW & IMPACT OF CALIFORNIA AND U.S. ECONOMIC OUTLOOK

Conning Asset Management Chief Investment Officer and Managing Director Richard Sega and Vice President of Portfolio Management Kevin Antaya made an oral report. They advised that Conning performs asset management, strategic asset investing, and consulting services with \$10B in assets under management. Conning also has relationships with 12 state funds. Mr. Antaya presented the 2008 year-end State Fund portfolio results. The unrealized gain of \$278M was an improvement over 2007. The credit quality of the portfolio was

high, with about 60% of the securities having a AAA rating or a government guarantee. The income generated by the portfolio was \$974M. New purchases were diversified across the sector allocations. There was \$1.5B in sales with a \$23M net gain. The portfolio's 6.21% return outperformed the 4.14% benchmark because the investments were underweighted in the banking sector.

Mr. Segal discussed the U.S. and California economic outlook for 2009-2010. He advised upcoming changes may have a deflationary effect, improving real disposable income and strengthening consumer spending but offset by instability in banking. In 2009, a 2-1/2% negative growth is forecast, with a potential of a 1% positive growth for 2010. He noted the growth and inflation figures are more likely to be worse than forecast. Interest rates are predicted to rise in 2010 because of inflation and Treasury bond pressure. He described the Capital Assistance Program (CAP), a new program to support the banking sector, noting that stress tests will be performed to give the Federal Reserve Board an indication of areas to address. He discussed the Temporary Asset-backed Loan Facility (TALF), a program to restart funds for credit card companies and automobile loans. He noted no one knows the effect of the Stimulus Package on any particular industry. California is expected to receive about \$60B of this funding, which either will be earmarked for specific projects or directed to programs with more leeway for spending. Ms. Cain requested public comment of which there was none.

AGENDA ITEM 15: 2008 YEAR END RESULTS

Mr. Jay Stewart made an oral report of the 2008 year-end results. The year-end annual statement ("yellow book") with the 2008 unaudited financial results was filed with the Department of Insurance and National Association of Insurance Commissioners (NAIC) by March 1, 2009 and the audited financials are due June 1, 2009. Mr. Stewart provided highlights of the year-end 2008 financial results. He noted the direct premiums written were \$1.725B, exceeding budgeted \$1.6B by 7.8% but a decrease of 27.7% from the 2007 premium of \$2.39B. The loss incurred was \$1.25B vs. a budget of \$1.17B and \$1.6B for the prior year. The loss adjustment expense was \$.61B vs. a budget of \$.47B and \$.62B for the prior year. The underwriting expense was \$.54B vs. budgeted \$.52B and \$.64B for the prior year. The underwriting loss was \$.74B vs. a budget of \$.6B. The prior year was \$.59B. The combined loss ratio (comprising a 75.3% loss ratio, a 36.7% loss adjustment expense ratio, and a 37.5% underwriting expense ratio) was 149.4% vs. a budget of 141.4%. About 10% of the combined ratio was attributable to the GASB 45 Accounting rule change that altered the way the State accounts for its post-retirement medical benefits. The combined ratio would be below budget at 139.9% without the unplanned expense of \$158M. The prior year combined ratio was 127.9%.

The net investment income before gains, losses, and impairments of \$983M slightly exceeded the budget of \$978M. The prior year was \$996M. The net gains/losses and impairments resulted in a net reduction of net investment income of \$87M, less than half of one percent of the total cash and investments

of \$20.4B. The net income for 2008 after dividends was \$75M vs. budgeted \$341.4M and \$327M for the prior year. The net income would have been approximately \$231M without the additional charge of \$158M resulting from the GASB 45 rule change and the remaining variance from the budgeted \$341.4M is almost entirely the result of the unexpected impairment of the holdings in Lehman bonds. For 2008, with a book yield of just under 5%, State Fund generated nearly \$1B in net investment income, offsetting the underwriting loss by \$160M. Mr. Stewart noted State Fund's assets exceed liabilities by approximately \$5.1B, a 3.7% increase over the \$180M at year-end 2007.

State Fund's independent actuary and external auditor have both indicated that the carried reserves on the balance sheet are a fair and reasonable estimate of the loss and loss adjustment expense ultimate liability. State Fund has met all of the NAIC's required solvency and leverage measurements designed to indicate the financial health of insurance carriers. State Fund's financial position remains strong despite the current economic crisis. Ms. Cain requested public comment of which there was none.

AGENDA ITEM 16: RATIFICATION OF INVESTMENT TRANSACTIONS

Mr. Stewart presented this item for ratification of bond transactions, noting the investment transactions were reviewed in detail in the Investment Committee meeting. Ten (10) bonds were purchased from December 1, 2008 to January 31, 2009, totaling \$183,417,988 and nineteen (19) were sold totaling \$212,110,000. Ms. Cain requested public comment of which there was none. The following action was taken:

MOTION: Mr. Mudd Second: Ms. Chalupa

To ratify the December 1, 2008-January 31, 2009 bond transactions.

AYES: 7 NOES: 0 Motion carried.

There were no Short-Term Investment Transactions to ratify. The report of seventeen (17) long-term investments totaling \$290,928,966 in compliance with State Fund's investment guidelines at the time of purchase but no longer within the rating criteria was presented. Ms. Cain requested public comment of which there was none. The following action was taken:

MOTION: Mr. Rankin Second: Mr. Mudd

To ratify the January 31, 2009 Compliance Report and holdings and to dispose of them at the most advantageous time for State Fund.

AYES: 7 NOES: 0 Motion carried.

AGENDA ITEM 17: COMMITTEE REPORTS

Mr. Quinlan presented the Audit Committee report. He discussed the Completed Audits report, noting Internal Audit was on schedule with thirty six planned audits and seventeen completed. The Audit Committee amended the 2009 Audit Plan to add 1000 hours for the Electronic Claims File (ECF) audit. Mr. Quinlan noted that Internal Audit needed expertise in Information Technology. He reported a backlog of seventy two investigations. He noted the Audit Committee discussed findings on key areas of the Human Resources audit and the need to reduce the current average 82-day turnaround time to take disciplinary action after Internal Audit completes an employee investigation. Mr. Quinlan noted the Audit Committee recommended changes to the proposed Charter and would review the revised version at the May meeting. Ms. Cain requested public comment of which there was none.

Mr. Mudd presented the Investment Committee report, noting that the Committee had made recommended changes to the proposed Investment Committee Charter and would review the revised version at the May meeting. He reported that State Fund and its Investment Manager continue to monitor the investment portfolio performance and California economic conditions carefully. Ms. Cain requested public comment of which there was none.

Ms. Cain reported that the Governance Committee had met for the first time the day before on March 12, 2009. The Committee made recommended changes to the proposed Governance Committee Charter and would review the revised version at the May meeting. The Committee adopted the Board Orientation Manual with changes and approved the Training Program with a one and one-half day training session to be scheduled for April. The Committee requested staff consider whether training webinars could be conducted. Ms. Cain reported the Governance Committee recommended holding a Fall retreat with the executive staff for discussions of State Fund's strategic direction. Ms. Cain requested public comment of which there was none.

AGENDA ITEM 18: PRESIDENT'S REPORT

Ms. Frank introduced State Fund's new Chief Investment Officer, Peter Guastamachio, and outlined his recent background with Argonaut Insurance and Bank of the West. Ms. Frank presented an overview of 2008 events significant to State Fund. She reported that State Fund had met its targeted goals for the year. State Fund supported the passage of SB1145 and AB1874, fostering transparency, applying the Bagley-Keene Open Meeting Act and the California Public Records Act to State Fund, and adding new Executive positions. State Fund created a new Public Records Office in preparation for implementation of the legislation. State Fund filled the new Executive positions with top-notch talent and, with the increased size of the Board of Directors, is on a par with other similar insurance carriers. State Fund realigned its Claims and Field operations and already noted improvements in its operations and customer focus. State Fund rolled out an internal branding effort and adopted new mission, vision, and values statements. State Fund used green building methods

in its new Vacaville and Redding buildings and launched a statewide Go Green campaign. State Fund is in the final stages of the Department of Insurance audits and has made progress in implementing changes. State Fund is strongly positioned because of its changes, strategy, and talent.

Ms. Frank then introduced David Bellusci of the Workers' Compensation Insurance Rating Bureau (WCIRB), a nonprofit organization that is the Insurance Commissioner's designated statistical agent, for an overview of the California Experience Rating Plan ("Plan"). Mr. Bellusci reviewed the WCIRB ratemaking process. Mr. Bellusci explained the Standard Classification System and the importance of correctly classifying employees. He noted only 20% of policies are experience rated but generate 85% of premium. Mr. Bellusci reported a Task Force created at the direction of the Insurance Commissioner submitted recommendations to the Department of Insurance in July of 2008 primarily including modest changes to the experience modification formula and suggesting outreach to employers on safety issues. Board members asked questions about subrogation recoveries, payroll, and particular classifications. A representative of Service Employees International Union Local 1000 (SEIU) questioned why the WCIRB looks at the degree of unionization of employers. Ms. Cain requested public comment of which there was none.

AGENDA ITEM 19: CHAIR'S REPORT & RECRUITMENT OF NEW BOARD MEMBERS

Ms. Cain noted the appointment of new voting Board Member Thomas E. Rankin. Mr. Rankin was appointed on March 11, 2009 by Assembly Speaker Karen Bass for a term expiring January 1, 2012. The oath for State Fund was administered by Janet D. Frank on March 12, 2009 prior to the start of the Committee meetings and Deputy Legislative Counsel Michael P. Beaver administered the oath for the Assembly Speaker on March 16, 2009. Ms. Cain requested public comment of which there was none.

AGENDA ITEM 20: BOARD MEMBER REPORTS

There were no reports. Ms. Cain requested public comment of which there was none.

AGENDA ITEM 21: PROPOSALS AND SUGGESTIONS FOR MAY 15, 2009 AGENDA

Mr. Mudd requested the Investment Committee report be presented before the Investment Transactions are ratified. Board members requested a review of the Committee Charters be placed on the May agenda, along with a report on Return to Work. A suggested report on prescription drug use and opiate study results may be deferred to the July meeting. Ms. Cain requested public comment of which there was none.

AGENDA ITEM 22: PUBLIC COMMENT

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

ADJOURNMENT

There being no further business, Chair Cain adjourned the meeting at 12:50 p.m.

The next regularly scheduled Board meeting will begin on Thursday, May 14, 2009 at 4:00 p.m. for a Closed Session at the Milton Marks Conference Center, 455 Golden Gate Ave, San Francisco and will resume there at 8:00 a.m. on Friday, May 15, 2009 with the Open Session to begin at 11:00 a.m.

Respectfully submitted,

Judith D. Sapper,
Assistant Secretary

BOARD OF DIRECTORS MEETING (OPEN)

AGENDA ITEM 13a

ATTACHMENT 13a-II

MINUTES OF APRIL 16-17, 2009 OPEN MEETING and
TRAINING SESSIONS of the BOARD OF DIRECTORS

PRESENTED BY: Jeanne Cain

May 15, 2009

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

April 16-17, 2009

The Board of Directors of State Compensation Insurance Fund met on April 16-17, 2009 for a training session at the Grand Hyatt Hotel, 345 Stockton St, San Francisco, California.

APRIL 16, 2009

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order on April 16, 2009 at 12:40 p.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Daniel M. Curtin; Sen. Michael J. Machado (Ret.); Vincent E. Mudd; Francis E. Quinlan; and Thomas Rankin. Absent: Steven L. Rank; and nonvoting member John C. Duncan.

Also present: President and CEO Janet D. Frank; Chief Operating Officer Harrison Jerome; President of Field Operations North Tom Clark; President of Field Operations South Linda Hoban; Chief Investment Officer Peter Guastamachio; Fiscal and Investment Services Manager Leslie Dawe; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Assistant Secretary Judith D. Sapper; David Hancock, Esq., Jim Woods, Esq., Nicole Zayac, Esq., and Margaret Keane, Esq., of Dewey & LeBoeuf LLP; Michael Nolan, Alex Swedlow, and Mike McClain of the California Worker's Compensation Institute; and Timothy Price of Milliman, Inc..

AGENDA ITEM 2: ANTITRUST ADMONITION

Ms. Cain called attention to State Fund's Antitrust Admonition which is included in each member's agenda:

"Certain information discussed and disseminated at State Fund Board of Directors' Closed Sessions may be confidential and proprietary to State Fund. Board members should not share or discuss information pertaining to the operation of State Fund with representatives from other workers' compensation insurers, even if that information is intended to be, or is already, public. For example, Board members should not discuss rate-making or other financial information with representatives of other insurers, including proposed rates, merit rating plans, premium discounts, surcharges or dividends. Board members also should refrain from discussing broker commission payments or commission plans with other insurers. To do so may create the impression of collusion between insurers, which could result in civil and/or criminal charges being filed against the Board member and State Fund for alleged violations of state and federal antitrust laws."

TRAINING SESSION:

Ms. Frank provided opening comments on the Training Session. Mr. Jerome presented a history and overview of State Fund. Ms. Newman introduced the guest speakers. Mr. Hancock, Mr. Woods, and Ms. Zayac gave a presentation on the insurance industry, State Fund and the workers' compensation industry, regulatory agencies, and rates and policy forms. Ms. Keane, Mr. Nolan, Mr. Swedlow, and Mr. McCain gave a presentation on workers' compensation laws and regulations. Mr. Hancock, Ms. Zayac, and Mr. Price gave a presentation on investments, finance, and audit requirements. Ms. Newman thanked the speakers and the staff organizing the training session.

AGENDA ITEM 3: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEM 4

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

The meeting convened immediately into Closed Session for a discussion of the President's 2009 Strategic Performance Objectives and reconvened at 8:15 a.m. on April 17, 2009 into Open Session.

APRIL 17, 2009

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting came to order at 8:15 a.m. and the following were present: Jeanne L. Cain, Chair; Sheryl A. Chalupa; Sen. Michael J. Machado; Vincent E. Mudd; Francis E. Quinlan; Thomas Rankin; and nonvoting member John C. Duncan. Absent: Daniel M. Curtin; and Steven L. Rank;

Also present: Chief Information Technology Officer Becky Wanta; Senior VP of Internal Affairs Lisa Middleton; Ethics and Compliance Manager Don Butler; General Counsel and Corporate Secretary Carol R. Newman; Assistant Chief Counsel and Corporate Secretary Judith D. Sapper; Margaret Keane, Esq. and John Kennedy, Esq. of Dewey & LeBoeuf LLP; Chief Investment Officer Peter Guastamachio; and Randall Keen, Esq. and Ashley Dunning, Esq. of Manatt Phelps & Phillips.

AGENDA ITEM 2: ANTITRUST ADMONITION

Ms. Cain referred to State Fund's Antitrust Admonition.

TRAINING SESSION

Ms. Cain made opening comments and Ms. Newman introduced the guest speakers. Ms. Keane and Mr. Kennedy presented an overview of Information Technology (IT), IT Governance and Controls, and Privacy and Security. Ms. Dunning and Mr. Keen gave presentations on Board form and function, fiduciary duties, conflicts of interest, Board of Director ethics, SB1145 requirements, Enterprise Risk Management, and Best Practices. Ms. Newman and Ms. Cain

thanked the speakers. Ms. Cain requested Board members provide dates in October 2009 for a strategic retreat.

ADJOURNMENT

There being no further business, Chair Cain adjourned the meeting at 3:30 p.m.

The next regularly scheduled Board meeting will begin on Thursday, May 14, 2009 at 4:00 p.m. for a Closed Session at the Milton Marks Conference Center, 455 Golden Gate Ave, San Francisco and will resume there at 8:00 a.m. on Friday, May 15, 2009 with the Open Session to begin at 11:00 a.m.

Respectfully submitted,

Judith D. Sapper,
Assistant Secretary