

**STATE COMPENSATION INSURANCE FUND
GOVERNANCE COMMITTEE**

MINUTES OF OPEN SESSION MEETING

MAY 12, 2011

The Governance Committee met on May 12, 2011 at the Omni San Francisco Hotel, Telegraph Hill Room, 500 California Street, San Francisco, California.

AGENDA ITEM 1: ROLL CALL

The meeting was called to order at 10:00 a.m. and the following Members were present: Lawrence E. Mulryan, Chair; Sheryl A. Chalupa; Sen. Michael J. Machado (Ret.); and Thomas E. Rankin. Mr. Mulryan welcomed new committee members Sen. Machado and Mr. Rankin to the Committee.

There was a quorum.

Also present: President and CEO Thomas E. Rowe; Chief Financial Officer Dan Sevilla; Chief Risk Officer Ken Van Laar; General Counsel and Corporate Secretary Carol R. Newman; and Assistant Chief Counsel and Assistant Corporate Secretary Vera C. De Martini.

AGENDA ITEM 2: APPROVAL OF MARCH 17, 2011 OPEN MEETING MINUTES

MOTION: Ms. Chalupa

Second: Mr. Rankin

To approve the minutes of the March 17, 2011 Open meeting of the Governance Committee as presented.

YES: 4

NO: 0

Motion carried.

AGENDA ITEM 3: UPDATE ON DIRECTORS TRAINING

Ms. Valerie Lampson, Learning and Development Manager, presented options for training topics for the Strategic Board Meeting scheduled for September 13-15 such as Enterprise Risk Management, Current Industry Challenges, Function of KPMG Audits, Criminal Prosecution of Workers' Compensation Fraud Crimes presented by the Orange County District Attorney's Office, Fixed Income Markets and Portfolio Management, Challenges of Reaching for Yield in the Current Market, and Board Fiduciary Responsibilities. Discussion centered on topics pertaining to trends affecting the California economy and workers' compensation insurance industry, specifically impacted by the shift in manufacturing following

the recent earthquake and tsunami in Japan; nanotechnology; and the changing work place environment on the continuing need for workers' compensation insurance. Ms. Lampson will work with Sen. Machado to identify a trainer who can speak to these futurist issues.

Ms. Newman noted that the National Association of Corporate Directors (NACD) is recognized for its training resources and programs which are available through web-based tools, as well as local and national events. It was suggested that the three Committee Chairs join NACD to sample its events and tools in order to evaluate product quality. It was noted that an added benefit of full membership is the availability of NACD resources to members' staff providing Board of Director support. The Committee Chairs will report their findings and make a recommendation regarding continued or expanded membership at the November 2011 or January 2012 meeting. Ms. Lampson was excused.

AGENDA ITEM 4: ETHICS AND COMPLIANCE UPDATE

Mr. Van Laar presented an update on the reorganization of the former Ethics and Compliance Program to clarify and align roles and responsibilities to the appropriate areas of functional expertise. The Model Audit Rule (MAR) functions will move to Financial Reporting & Systems under the jurisdiction of the Chief Financial Officer; the Privacy and Regulatory Compliance functions will move to Governance under the General Counsel's jurisdiction; Ethics, including Whistleblower & Integrity in Action functions will transition to Labor Relations under the oversight of the Senior Vice President of Human Relations; and Enterprise Risk Management will remain under the supervision of the Chief Risk Officer. The realignment will be accomplished without additional dislocation as all affected employees will be based in Pleasanton or San Francisco.

AGENDA ITEM 5: GOVERNANCE UPDATE

Ms. Simmons reported that State Fund's new Code of Conduct is on schedule for its roll out. The Department of Personnel Administration (DPA) approved State Fund's proposed Incompatible Activities Statement, and other policies supporting State Fund's Code of Conduct were also approved and are being deployed. Ms. Simmons noted that for messaging clarity Governance collaborated with the Communications and Learning & Development departments. The design of the Code of Conduct is complete; it will be online, introduced by a message from the President and topically segmented and accessed through active links. Code of Conduct online employee training is on track for its scheduled roll out.

Ms. Simmons advised the Committee that the Corporate Policy review process continues as scheduled. The Information Security Policy, the Financial & Budget Policy as well as the Social Media Policy are all complete and undergoing legal review. The Data Governance/Data Security Policies are in development and targeted for completion by the end of Q2. Ms. Simmons was excused.

AGENDA ITEM 6: UPDATE ON EMPLOYEE TRANSITION PROGRAMS

Mr. Acker reported that State Fund and the Service Employees International Union (SEIU) Local 1000 reached an agreement regarding the geographic relocations, and he commended the SEIU bargaining team for their professionalism and candor during the negotiation process. SEIU has signed the agreement now under DPA, which has signaled agreement with the terms although it has not yet signed the agreement. However, State Fund will move to fully implement the agreement as soon as possible.

Key agreement provisions include permitting employees to take time off to look for new jobs or prepare to move or search for housing in their relocation area and permitting employees to cash out 80 hours of current leave credits to defray, in their discretion, costs associated with their relocation or job transition efforts. DPA is finalizing the paperwork flow needed to implement the program. Mr. Acker noted that Surplus Letters were sent to affected employees and that State Fund will hold workshops concerning the Surplus Letters, as well as training regarding retirement and separation options, outplacement support service, and the Employment Development Department (EDD) will conduct activities to help employees evaluate their potential future choices. Mr. Acker also reported that the scheduled relocation move dates are on track. Mr. Acker was excused.

AGENDA ITEM 7: BOARD MEMBER UPCOMING SPEECHES OR ARTICLES

Mr. Mulryan requested Board members identify any upcoming speeches and articles. Mr. Zachry reported on developing articles and speeches on such topics as: contingent commissions; nanotechnology; the impact of recent workers' compensation insurance cases; current litigation updates regarding Washington, Illinois and California law; Medicare Set Asides and their impact on liability claims; opioid drug use and abuses; and lien settlements. Mr. Mulryan requested public comment of which there was none. Mr. Zachry was excused.

AGENDA ITEM 8: PUBLIC COMMENT ON THE APPROPRIATENESS OF CLOSED SESSION ITEMS 11-16.

Mr. Mulryan requested public comment on the appropriateness of closed session agenda items 11-16. Mr. Randall Cheek, Legislative Advocate of SEIU Local 1000, made public comment on closed session discussion of agenda item 12, Performance Based Incentive Compensation for CEA's and Program Managers and a perceived lack of transparency. Mr. Cheek raised concerns about State Fund developing a bonus program for some employees while SEIU members will use 80 hours of their leave time to facilitate their relocation. Mr. Mulryan requested Ms. Newman to explain the necessity for these agenda items being in closed session. Ms. Newman noted the performance incentive proposal is a strategic discussion that involves personnel matters pertaining to specific individuals. Ms. Kathleen Collins, SEIU Local 1000 Vice President of Bargaining, made public comment that the discussion was appropriate for Open Session as it was a policy decision rather than a personnel matter.

AGENDA ITEM 9: PUBLIC COMMENT

Mr. Mulryan requested further public comment of which there was none. The Governance Committee immediately convened into Closed Session at 10:35 a.m.

AGENDA ITEM 17: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 11:50 a.m. following the conclusion of the Closed Session and the following Members were present: Lawrence E. Mulryan, Chair; Sheryl A. Chalupa; Sen. Michael J. Machado (Ret.); and Thomas E. Rankin.

Also present: President and Chief Executive Officer Tom Rowe; Chief Financial Officer Dan Sevilla; Chief Risk Officer Ken Van Laar; General Counsel and Corporate Secretary Carol R. Newman; and Assistant Chief Counsel and Assistant Corporate Secretary Vera De Martini.

There was a quorum.

AGENDA ITEM 18: UPDATE ON PERFORMANCE BASED RETENTION TOOL

Mr. Mulryan reported that he is working with outside counsel on developing a performance based retention tool and he requested a motion to recommend to the board that he be authorized to take further steps as necessary to develop a plan for presentation to the Board for approval.

MOTION: Sen. Machado Second: Mr. Rankin

To recommend that the Board of Directors authorize the Chair of the Governance Committee to take such further actions as are necessary to develop a performance based retention tool for the Exempt Positions for further consideration by the Board of Directors.

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

YES: 4 NO: 0 Motion carried.

AGENDA ITEM 19: PROPOSALS AND SUGGESTION FOR JULY 14, 2011
AGENDA

Mr. Mulryan requested proposals and suggestions for the July 2011 agenda. Mr. Rankin suggested that discussion on the topic of Academic Drug Detailing may be instructive and a useful as a program to control medical prescription costs.

Mr. Mulryan also requested public comment of which there were none. Ms. Newman then noted that as General Counsel she discussed with the Committee Members what matters with regard to Closed Session Agenda Item 12 should be discussed in Open Session, and she advised that Mr. Acker will report out on those matters in the Open Session of the Board Meeting.

The next Governance Committee meeting is scheduled for July 14, 2011 at 10:00 a.m. in San Francisco, California.

ADJOURNMENT

There being no further business before the Governance Committee, the meeting adjourned at 11:55 a.m.

Respectfully submitted,

Vera C. De Martini,
Asst. Corporate Secretary