

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

February 22-23, 2018

The Board of Directors of the State Compensation Insurance Fund met on February 22-23, 2018 at the State Fund Pleasanton Office, 5890 Owens Drive (Pacific and Atlantic rooms), Pleasanton, California.

February 22, 2018

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 1:35 p.m.

Ms. Chalupa requested Ms. Padua to call roll. The following were present: Sheryl A. Chalupa (Chair); Robin L. Baker; Daniel M. Curtin; Marvin P. Kropke; Sen. Michael J. Machado (Ret.); Lawrence E. Mulryan; Jack L. Neureuter; Steven L. Rank; Thomas E. Rankin; Scott K. Reid; and William M. Zachry.

Absent: Christine Baker (non-voting member).

There was a quorum.

Also present: President and CEO Vernon L. Steiner; General Counsel and Corporate Secretary 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

Ms. Chalupa 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 November 16-17, 2017 Open Meeting Minutes**
- 3b. Board Member Educational Opportunities and Approval of Planned Board Member Education and Expense Reimbursement**
- 3c. Ratification of SB 272 Exempt Positions**
- 3d. Approval of Investment and Risk Committee Charter**
- 3e. Approval of Short-Term Investment Policy Statement and Guidelines Resolution No. 2133 and Investment Policy Statement and Guidelines Resolution No. 2127**
- 3f. Approval of Retirement Resolutions**

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

MOTION: Mr. Kropke

SECOND: Mr. Zachry

To approve the Consent Calendar as presented.

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

YES: 11

NO: 0

Abstain: 0

Motion carried.

With the ratification of SB 272 Exempt positions, Ms. Chalupa welcomed the following individuals to State Fund: Alvin Cheung, Executive Vice President of Strategic Planning; Kevin Harnetiaux, Senior Vice President of Insurance Services; John Gagan, Chief Underwriting Officer; Robert Hamilton, Executive Vice President of Corporate Claims; and Melissa Wang, Pricing Actuary.

AGENDA ITEM 4: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 7 through 16

Ms. Chalupa requested public comment on the appropriateness of Closed Session for agenda items 7 through 16, of which there was none.

AGENDA ITEM 5: PUBLIC COMMENT

Ms. Chalupa requested public comment, of which there was none.

ADJOURNMENT

There being no further business, Ms. Chalupa adjourned the meeting at 1:40 p.m. to immediately reconvene in Closed Session.

February 23, 2018

AGENDA ITEM 17: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 10:45 a.m. at the State Fund Pleasanton Office, 5890 Owens Drive (Pacific and Atlantic Rooms), Pleasanton, California following the conclusion of the Board Closed Session and the following Members were present: Sheryl A. Chalupa (Chair); Robin L. Baker; Daniel M. Curtin; Marvin P. Kropke; Sen. Michael J. Machado (Ret.); Lawrence E. Mulryan; Jack L. Neureuter; Steven L. Rank; Thomas E. Rankin; Scott K. Reid; and William Zachry.

Absent: Christine Baker (non-voting member).

There was a quorum.

Also present: President and CEO Vernon L. Steiner; General Counsel and Corporate Secretary 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 18: STAFFING UPDATE

Executive Vice President and Chief Administrative Officer Andreas Acker presented an update on staffing. Mr. Acker reported that State Fund ended the fourth quarter of 2017 with 4,275 employees, 318 separations, 271 new hires, and 432 promotions. Of the 318 separations, 193 or 60.7% were retirements, 54 were resignations, 44 were transfers, and 27 were others (death or

dismissal). The overall separation rate for the fourth quarter of 2017 was 7.4% and the primary driver was retirements.

Mr. Acker reported as of December 31, 2017 there was a 27.5% decline in the number of hours over the 640 hour cap and a 29.8% decrease in the number of employees over the cap. The number of leave hours over the 640 cap went down dramatically due to employees accepting the options to cash-out their leave credits or put them into their 401K plans. Currently, there are 73 employees with 1000+ hours and 92 employees with 800 hours or less. Mr. Acker noted a cash-out option is expected for 2018.

Mr. Acker reported on the 2017 age and service demographics of State Fund employees, which were unchanged from the prior year. About 16% of the employees are over 55 years old and have more than 20 years of service and approximately 200 retirements are expected by year end.

Ms. Chalupa requested public comment, of which there was none.

AGENDA ITEM 19: FINANCIAL UPDATE – 4th Quarter 2017

Chief Financial Officer Peter Guastamachio reported on the 4Q 2017 financial results.

Premiums

The past two years, State Fund continued to see a decline in new and renewal business. The Estimated Annual Premium of \$1.2B was 13.4% lower than prior year and Net Premiums Earned of \$1.3B were 14.2% lower than the prior year (\$1.5B), which is attributed to a soft market and a filed rate decrease of 9.5% in 2016 and 8% in 2017. In 2017, State Fund wrote about 123,000 policies, which was 4.2% lower than the prior year. State Fund ended the year with 111,000 policies in-force or 3.9% less than prior year (115,000).

Losses and Loss Adjustment Expense (LAE)

State Fund moved \$448M from Loss Reserves to LAE Reserves and strengthened LAE for prior years by an additional \$217M. This resulted in a total LAE figure of \$1B for the year versus \$493M last year. These changes also lowered Losses from \$1.1B in 2016 to \$521M for 2017. For 2017 the Loss and LAE ratios ended the year at 39.8% and a 77.4% and overall combined Loss and Loss Adjustment Expense Ratio of 117.2% was 10.9 points higher than prior year.

The underwriting expense ratio of 32.2% was 8.3 points higher than the same period last year, which can be attributed to the methodology of allocating expenses.

The combined ratio for 2017 was 149.4%, and underwriting loss was \$658M. The combined ratio and underwriting loss for the same period last year were 130.2% and \$478M. Offsetting the underwriting loss, net investment income was \$619M plus realized gains of \$122M due to liquidation of equity holdings in March 2017 when one of the equity managers was replaced.

Overall this resulted in net income of \$40M, which was \$151M lower than the last year. The policyholders' surplus was basically unchanged for the year.

Ms. Chalupa requested public comment, of which there was none.

AGENDA ITEM 20: PRESIDENT'S REPORT

President and CEO Vernon Steiner provided an update on the following:

Market

The California workers' compensation market continues to be very competitive. Although carriers filed more modest rate decreases (0% - 9 %) in 2017 compared to double-digit decreases (up to 20%) in 2016, it is apparent carriers are willing and continuing to price aggressively, often using discretionary pricing, to win business. State Fund in 2Q 2017 saw improved results; specifically in the middle market segment, which includes policies between \$25k - \$500k and its largest segment at \$703M, has experienced positive gains in premium retention across all four regions.

Training and Development

Mr. Steiner spoke about efforts made to improving the employee experience and development at State Fund. New training programs were put in place by Learning & Organizational Development which include the new onboarding program and the Emerging Leader Program. State Fund was recognized for its entire training program for 2017 in the Top 125 U.S. contest through Training Magazine, earning 87th place.

Cannabis Industry

In January 2018, Proposition 64 legalized the recreational use of cannabis in the state. This California law requires employers to provide workers' compensation benefits to their employees either by carrying insurance or being self-insured. Smaller growers and dispensaries that have operated under the radar since the legalization of medical marijuana in 1996 are facing some new realities about becoming compliant with state labor laws, including providing workers' compensation insurance, to be competitive in the booming industry. State Fund is one of five carriers writing coverage for this industry in California. The small number of carriers willing to write policy for the cannabis industry severely impacts the ability of employers to be in compliance with the law.

Currently State Fund has over 300 active policies in the cannabis industry (nearly \$8M EAP). As the state continues to create a system to transform a loosely regulated industry into a legal and licensed one, State Fund has been working to find ways to educate and help these businesses learn about and attain workers' compensation insurance. State Fund is working with brokers who write this business to learn how State Fund can help. In addition, State Fund is participating in industry tradeshow to educate cannabis industry employers on the importance of workers' compensation coverage, how to file a claim, and owning a workplace safety plan.

AGENDA ITEM 21: REPORTS BY THE CHAIRS OF COMMITTEE ACTIVITIES

21a: GOVERNANCE COMMITTEE

21ai: GOVERNANCE, COMPLIANCE AND PRIVACY UPDATE

Mr. Mulryan reported on the following activities:

New Legislation – SB 396 (Lara) – Transgender Work Opportunity Act

This legislation amended the Government and Unemployment Insurance Codes to prohibit employment discrimination based on gender orientation; requires biennial sexual harassment supervisor training to include training related to gender identity and expression,

and sexual orientation; and requires display of the Department of Fair Employment and Housing's (DFEH) poster about transgender rights in employee locations.

State Fund in compliance with SB 396 posted the new DFEH poster in all locations where employee notices are maintained; reviewed the Code of Conduct and Corporate Policies for compliance; and assured 2019 supervisor anti-harassment training contains the required orientation components.

2017 Own Risk and Solvency Assessment (ORSA) Report

State Fund submitted its ORSA report, as attested by the Chief Risk Officer, to the California Department of Insurance on November 28, 2017. As allowed under the Insurance Code, the ORSA report will be referenced in State Fund's Corporate Governance Annual Disclosure due June 1, 2018.

2017 Compliance Training

State Fund achieved its goal, with 99% active employees and 100% consultants completing mandatory compliance training.

Ethics and Privacy Reported Issues

Hotline reporting remained steady at 16% of reported issues (27 of 173), which is in line with the national average for hotline reporting versus other sources.

The reporting volume increased by 21% in the second half (47) compared to first half of 2017 (39), which can be attributed to the April 2017 message to State Fund about the hotline as a safe zone. Human Resources issues continue to be the most reported category.

Compliance Framework

State Fund's Compliance Framework (Framework) reflects State Fund's commitment to be an honest, legally compliant, and responsible organization. The framework aligns with the U.S. Sentencing Commission's seven essential elements of an effective compliance & ethics program:

1. Oversight, Accountability & Resources
2. Standards of Conduct, Policies, & Procedures
3. Effective Training, Communications, & Awareness
4. Consistent Monitoring, Evaluation & Reporting
5. Due Care in Delegating Authority
6. Consistent Promotion & Enforcement
7. Risk Assessment, Response, Continuous Improvement, & Auditing

To assist the Board in overseeing the execution of the Framework, a series of questions to ask, arranged by the Guidelines' seven elements, has been compiled by the Governance, Compliance, and Privacy unit for reference and use. The materials were included in the Committee and Board materials.

21b: AUDIT COMMITTEE

21bi: UPDATE ON COMPLETED CLOSED AUDITS

Mr. Reid reported on the following activities:

Completed Closed Audits

Mr. Reid reported that three projects were reported in the third quarter of 2017 in the Closed Session in November 2017. There are no non-proprietary projects to report in Open Session.

21c: INVESTMENT COMMITTEE

21ci: BOND TRANSACTIONS AND COMPLIANCE REPORT

Investment Chair Senator Machado (Ret.) reported on the following:

In recognition of evolving risk issues particularly in Cybersecurity, the current Investment Committee was expanded in November 2017 into an Investment and Risk Committee with oversight of State Fund's investment strategy, enterprise risk management, and cybersecurity. Expanding the Investment Committee into an Investment and Risk Committee will assist the Board in fulfilling its risk oversight responsibilities by identifying, evaluating and mitigating strategic, operational, and external environment risks including a focus on cybersecurity risks, protection and mitigation. The Committee approved the revised Charter, 2018 Committee meeting schedule and the Committee's 2018 Agenda Items.

The investment transactions and compliance reports for the periods of October 1, 2017 to December 31, 2017 were approved by the Investment Committee pursuant to its delegated authority. Sen. Machado also reported the Investment Committee heard a report from Deutsche Asset Management on the Strategy Asset Allocation; and a report from staff on portfolio performance.

21d: AD HOC SAFETY AND LOSS PREVENTION COMMITTEE

Ms. Robin Baker reported that the Ad Hoc Safety and Loss Prevention Committee has been meeting now for 1.5 years. In January 2018, a loss prevention cross functional team was put together to develop a strategy for loss prevention services. A proposal will be presented to the Board during the August 2018 Board Strategic Planning meeting.

AGENDA ITEM 22: CHAIRWOMAN'S REPORT

Ms. Chalupa has indicated there is nothing to report at this time.

AGENDA ITEM 23: BOARD MEMBER REPORTS

Ms. Chalupa requested any Board member reports, of which there were none.

AGENDA ITEM 24: APPROVAL OF 2017 PERFORMANCE AWARDS

Ms. Chalupa noted that State Fund is working to become a more efficient and agile insurance organization and building a performance based culture that can support and sustain State Fund's unique role in California's workers' compensation market. To fulfill its role, State Fund must have

the tools necessary to successfully compete with the market for talent, including the ability to recognize and reward performance. In 2013 the Board introduced performance awards to ensure State Fund has the ability to attract and retain talent in the marketplace. Performance awards are tied to enterprise results as well as individual performance/contribution and are an appropriate investment in building and sustaining a performance culture that delivers value to its customers.

Ms. Chalupa noted that State Fund continues to make important strides to become a customer-centric, agile, and efficient insurance carrier. In reviewing the organization's performance in 2017, Ms. Chalupa congratulated the State Fund team for successfully meeting its 2017 Strategic Goals. The Board recognizes and is encouraged by the significant progress the team is making in improving culture, quality and service as well as progress on important enterprise initiatives.

Highlights for 2017 results include:

- State Fund wrote \$1.35B in premiums for more than 110,000 policyholders.
- Investment income was \$619M.
- State Fund bolstered Loss Adjustment Expense Reserves by \$217M, further strengthening its risk management position. This had a 16.6 point impact on the combined ratio, which would have been 132.8% without the strengthening.
- Net income was \$40M.
- Policyholders' surplus was basically unchanged since December 31, 2016.

Ms. Chalupa noted that despite an increasingly competitive marketplace, State Fund is meeting its financial goals. Both the combined ratio and net income are better than budget, excluding the impact of the reserve strengthening. In addition, overall enterprise performance was excellent and the organization met, and in some cases exceeded, all of its goals for the year. Of particular note are the better-than-expected improvements in quality scores across the organization. In light of this outstanding performance, the Board decided to fund the 2017 Performance Award Program with a pool of \$15.7M, and to pay employees slightly above target. All eligible frontline staff will receive 112% of their target and leaders will receive 108%.

Ms. Chalupa congratulated and thanked the staff for their hard work and for achieving such positive results.

Ms. Chalupa requested a Motion and Second.

MOTION: Ms. Robin Baker

SECOND: Mr. Zachry

To approve the 2017 Performance Awards Resolution No. 2144 as presented.

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

YES: 10

NO: 0

Abstain: 0

Resolution carried.

Mr. Kropke had left the meeting before the vote was taken.

The certified Resolution No. 2144 is attached hereto.

AGENDA ITEM 25: APPROVAL OF PRESIDENT AND EXECUTIVE LEADERSHIP 2017 PERFORMANCE AGAINST PLAN AND 2018 EXECUTIVE COMPENSATION

Ms. Chalupa reported that the Board of Directors has evaluated the performance of each executive for 2017. Ms. Chalupa noted that the compensation packages for exempt members of State Fund's Executive Committee contain both fixed and variable components designed to produce high

performance. Since the goal is to attract experienced executive-level talent, the Board has carefully benchmarked State Fund's executive compensation and designed it to be relevant to the competitive market place without being excessive. Ms. Chalupa reported that in the performance-based compensation determination process, the Board reviewed both the overall performance of the business and the value of each exempt executive's contribution.

Ms. Chalupa requested a Motion and Second.

MOTION: Mr. Neureuter

SECOND: Ms. Robin Baker

To approve the 2017 At-Risk Compensation Differential and 2018 Compensation for President and Exempt positions as presented.

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

YES: 10

NO: 0

Abstain: 0

Resolution carried.

Mr. Kropke had left the meeting before the vote was taken.

The certified Resolution No. 2145 is attached hereto.

AGENDA ITEM 26: APPROVAL OF LONG-TERM INCENTIVE PLAN

Ms. Chalupa reported that the Board decided to establish a Long-Term Incentive Plan (LTIP) to provide contingent financial incentives to executive and key management of State Fund who contribute to the company's long-term strategic objectives. The objectives of the plan are to:

- Incentivize executive and key management towards achieving the company's long-term strategic objectives
- Attract, retain and motivate leadership talent
- Provide competitive pay opportunities

LTIP is a cash-based incentive plan with payout opportunities based on achievement of annual performance targets. The Board of Directors will establish performance measures and set the targets every year. Individual target awards are based on a percentage of base pay.

Ms. Chalupa requested a Motion and Second.

MOTION: Ms. Robin Baker

SECOND: Mr. Zachry

To approve the Long-Term Incentive Plan Resolution No. 2146 as presented.

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

YES: 10

NO: 0

Abstain: 0

Resolution carried.

Mr. Kropke had left the meeting before the vote was taken.

The certified Resolution No. 2146 is attached hereto.

AGENDA ITEM 27: PROPOSALS AND SUGGESTIONS FOR MAY 24-25, 2018 AGENDA

Ms. Chalupa requested suggestions for agenda items for the May 24-25, 2018 Board meeting. Ms. Padua noted that the proposed agenda items are for Closed Session.

Ms. Chalupa requested public comment, of which there was none, and she noted that the next Board meeting is scheduled for May 24-25, 2018 at the State Compensation Insurance Fund Office, Pleasanton, California unless noticed for a new date and time.

Ms. Chalupa adjourned the meeting at 11:20 a.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Assistant Corporate Secretary



BOARD OF DIRECTORS

APPROVAL OF 2017 PERFORMANCE AWARDS

WHEREAS, the Board has approved a Performance Awards program for State Fund staff, supervisors and managers, senior leaders, and non-exempt executives, with the total size of the award pool subject to the Board’s discretion, based on enterprise performance and individual performance; and

WHEREAS, the Board approved a 2017 potential award pool of approximately 5% of annual salary spend (\$15.7 million); and

WHEREAS, the Board has considered State Fund’s enterprise performance for 2017, and now seeks to establish and approve the total size of the 2017 performance award pool for State Fund staff, supervisors and managers, senior leaders, and non-exempt executives; and

NOW, THEREFORE,

IT IS RESOLVED that the Board hereby finds that State Fund’s enterprise performance for 2017 continued to demonstrate significant progress in its multi-year business transformation to become a more efficient and agile insurance carrier; that 2017 performance specifically strengthened financial stability and State Fund’s enterprise risk management position; that 2017 performance demonstrated improvement in customer service; that overall State Fund met or exceeded most enterprise objectives; and hereby approves a 2017 performance award pool to be administered by management not to exceed \$15.7 million for State Fund staff, supervisors and managers, senior leaders, and non-exempt executives.

PASSED AND ADOPTED at the meeting of the Board of Directors of the State Compensation Insurance Fund held on this 23rd day of February, 2018 by the following vote:

<u>MEMBER</u>	<u>VOTE</u>
Sheryl A. Chalupa, Chair	Yes
Robin L. Baker	Yes
Daniel M. Curtin	Yes
Marvin P. Kropke	Not present
Sen. Michael J. Machado (Ret.)	Yes
Lawrence E. Mulryan	Yes
Jack L. Neureuter	Yes
Steven L. Rank	Yes
Thomas E. Rankin	Yes
Scott K. Reid	Yes
William M. Zachry	Yes

BOARD of DIRECTORS of the STATE COMPENSATION INSURANCE FUND

Approval of 2017 Performance Awards
Page 2 of 2

Certification by the Assistant Corporate Secretary

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 meeting held February 23, 2018.



Hilda B. Padua
Assistant Corporate Secretary



Date



BOARD OF DIRECTORS

APPROVAL OF PRESIDENT AND EXEMPT LEADERSHIP 2017 AT-RISK COMPENSATION DIFFERENTIAL AND 2018 EXEMPT LEADERSHIP COMPENSATION

WHEREAS, the Board has approved a Performance Awards program for State Fund staff, supervisors and managers, senior leaders, and non-exempt executives, with the total size of the award pool subject to the Board's discretion, based on enterprise performance and individual performance; and

WHEREAS, the annual compensation package for the exempt employees appointed pursuant to California Insurance Code section 11785 ("exempt employees") includes an annual base salary, an at-risk differential based upon an annual evaluation of enterprise and individual performance conducted by the Board of Directors ("Board") and, for four exempt employees (President & Chief Executive Officer, Chief Financial Officer, Chief Information Officer, and Chief Risk Officer) a retention differential (as identified in the attached Schedule of Exempt Leadership 2017 At-Risk Compensation Differential and 2018 Exempt Leadership Compensation); and

WHEREAS, the Board has considered State Fund's enterprise performance for 2017 and has completed its performance evaluations for the exempt employees for calendar year 2017; and

WHEREAS, the Board seeks to equalize the at-risk differentials for certain of the exempt positions resulting in an increase in the 2017 at-risk differentials for four exempt employees (General Counsel, Chief of Internal Affairs, Chief Information Officer, and Chief Risk Officer); and

WHEREAS, for certain of the exempt employees the Board seeks to increase the base salary and retention differentials for 2018 and approve the at-risk compensation for 2017 as identified in the attached Schedule of Exempt Leadership 2017 At-Risk Compensation Differential and 2018 Exempt Leadership Compensation.

NOW, THEREFORE,

IT IS RESOLVED that the Board hereby finds that State Fund's enterprise performance for 2017 continued to demonstrate significant progress in its multi-year business transformation to become a more efficient and agile insurance carrier; that 2017 performance specifically strengthened financial stability and State Fund's enterprise risk management position; that 2017 performance demonstrated improvement in customer service; that overall State Fund and the exempt employees met or exceeded most enterprise objectives; and hereby adopts and approves the increases in certain 2017 at-risk differentials, and in the 2018 base salaries and retention differentials and the 2017 at-risk component of 2017 compensation as identified in the attached Schedule of Exempt Leadership 2017 At-Risk Compensation Differential and 2018 Exempt Leadership Compensation.

PASSED AND ADOPTED at the meeting of the Board of Directors of the State Compensation Insurance Fund held on this 23rd day of February, 2018 by the following vote:

Approval of President and Exempt Leadership 2017 At-Risk Compensation Differential
and 2018 Exempt Leadership Compensation


Page 2 of 2

<u>MEMBER</u>	<u>VOTE</u>
Sheryl A. Chalupa, Chair	Yes
Robin L. Baker	Yes
Daniel M. Curtin	Yes
Marvin P. Kropke	Not present
Sen. Michael J. Machado (Ret.)	Yes
Lawrence E. Mulryan	Yes
Jack L. Neureuter	Yes
Steven L. Rank	Yes
Thomas E. Rankin	Yes
Scott K. Reid	Yes
William M. Zachry	Yes


BOARD of DIRECTORS of the STATE COMPENSATION INSURANCE FUND

Certification by the Assistant Corporate Secretary

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 meeting held February 23, 2018.



Hilda B. Padua
Assistant Corporate Secretary



Date



BOARD OF DIRECTORS

Resolution No. 2145

**SCHEDULE OF EXEMPT LEADERSHIP 2017 AT-RISK COMPENSATION DIFFERENTIAL AND
2018 EXEMPT LEADERSHIP COMPENSATION**

Position	2017 Annual Base Salary	Recommended 2018 Base Salary*	Recommended Annual Retention for 2018*	Recommended At-Risk Compensation Differential for 2017
President & CEO (Vern Steiner)	\$475,000	\$508,250	\$30,000	\$151,500
Chief Financial Officer (Peter Guastamachio)	\$320,000	\$338,750	\$55,000	\$112,500
Chief Operating Officer (Richard Law)	\$392,437	\$392,437	Not applicable	\$117,731
Chief Claims Operations Officer (Steve Hunckler)	\$375,000	\$393,750	Not applicable	\$112,500
General Counsel (Margie Lariviere)	\$375,000	\$393,750	Not applicable	\$112,500
Chief of Internal Affairs (Dante Robinson)	\$310,300	\$325,815	Not applicable	\$93,090
Chief Information Officer (Marj Hutchings)	\$357,739	\$357,739	\$61,646	\$125,816
Chief Risk Officer (Ken Van Laar)	\$310,000	\$328,600	\$40,000	\$105,000
Chief Medical Officer (Dinesh Govindarao)	\$367,500	\$385,875	Not applicable	\$73,500
Chief Actuary (Kate Smith)	\$280,000	\$294,000	Not applicable	\$56,000
EVP of Strategic Planning (Alvin K. Cheung) (Eff. 1/3/18)	Not applicable	\$275,532	Not applicable	Not applicable
Chief Underwriting Officer (John M. Gagan) (Eff. 1/3/18)	Not applicable	\$220,500	Not applicable	Not applicable
Pricing Actuary (Melissa Wang) (Eff. 1/3/18)	Not applicable	\$192,504	Not applicable	Not applicable



BOARD OF DIRECTORS

Resolution No. 2145

SCHEDULE OF EXEMPT LEADERSHIP 2017 AT-RISK COMPENSATION DIFFERENTIAL AND
2018 EXEMPT LEADERSHIP COMPENSATION

Position	2017 Annual Base Salary	Recommended 2018 Base Salary*	Recommended Annual Retention for 2018*	Recommended At-Risk Compensation Differential for 2017
EVP of Corporate Claims (Robert M. Hamilton (Eff. 1/3/18)	Not applicable	\$300,000	Not applicable	Not applicable
Senior VP of Insurance Services (Kevin Harnetiaux) (Eff. 1/3/18)	Not applicable	\$325,508	Not applicable	Not applicable

**2018 Annual Base Salary and Annual Retention is effective January 1, 2018.*



BOARD OF DIRECTORS

RESOLUTION REGARDING LONG-TERM INCENTIVE PLAN

WHEREAS, the State Fund Board of Directors is vested with full power, authority and jurisdiction over State Fund and may perform all acts necessary or convenient in the exercise of any power, authority or jurisdiction over State Fund, as fully and completely as the governing body of a private insurance carrier; and

WHEREAS, private insurance carriers utilize long-term incentive programs to retain top talent by recognizing exceptional management and executive level contributions and achievements; and

WHEREAS, State Fund must be able to attract and retain top management and executive level employees with needed leadership, skills, experiences, and other superior qualifications, and reward those employees for attaining challenging goals in furtherance of State Fund's strategic plans and objectives.

NOW, THEREFORE,

IT IS RESOLVED that the Board hereby approves and adopts the establishment of the Long-Term Incentive Program for the exempt employees appointed pursuant to California Insurance Code section 11785 and certain Career Executive Assignment Positions (collectively, "designated employees"), with an effective date of January 1, 2018.

BE IT FURTHER RESOLVED that the Board will establish annual target awards starting in 2018 for the designated employees for the payment of awards, if any, over a three year period; and

BE IT FURTHER RESOLVED that the Long-Term Incentive Program shall not entitle any State Fund employee to any award and that any awards provided through the Long-Term Incentive Program shall be subject to the Board's discretion on the size of the target awards and award pool, if any, based on individual and enterprise performance, and shall be further subject to the decisions by the President of State Fund or his or her designee on eligibility and qualification for individual awards; and

BE IT FURTHER RESOLVED that awards provided through the Long-Term Incentive Program shall not be considered compensation for calculation of retirement or benefits; and

BE IT FURTHER RESOLVED that the Board authorizes the President of State Fund to implement the Long-Term Incentive Program for the designated employees; and

Resolution Regarding Long-Term Incentive Plan
Page 2 of 2

BE IT FURTHER RESOLVED that the President of State Fund is hereby granted the authority to take all actions necessary, including the establishment of any necessary policies and procedures, to implement the Long-Term Incentive Program pursuant to this resolution; and

BE IT FURTHER RESOLVED that the Board hereby adopts and approves a 10% target award for 2018 for each designated employee.

PASSED AND ADOPTED at the meeting of the Board of Directors of the State Compensation Insurance Fund held on this 23rd day of February, 2018 by the following vote:

<u>MEMBER</u>	<u>VOTE</u>
Sheryl A. Chalupa, Chair	Yes
Robin L. Baker	Yes
Daniel M. Curtin	Yes
Marvin P. Kropke	Not present
Sen. Michael J. Machado (Ret.)	Yes
Lawrence E. Mulryan	Yes
Jack L. Neureuter	Yes
Steven L. Rank	Yes
Thomas E. Rankin	Yes
Scott K. Reid	Yes
William M. Zachry	Yes

BOARD of DIRECTORS of the STATE COMPENSATION INSURANCE FUND

Certification by the Assistant Corporate Secretary

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 meeting held February 23, 2018.



Hilda B. Padua
Assistant Corporate Secretary



Date