

**STATE COMPENSATION INSURANCE FUND
BOARD OF DIRECTORS**

MINUTES OF OPEN SESSION MEETING

November 15 and 16, 2018

The Board of Directors of the State Compensation Insurance Fund met on November 15-16, 2018 at the State Fund Pleasanton Office, 5890 Owens Drive (Atlantic and Pacific conference rooms), Pleasanton, California.

November 15, 2018

AGENDA ITEM 1: CALL TO ORDER AND ROLL CALL

The meeting was called to order at 2:00 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; William M. Zachry; and David Lanier (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 August 15 and 17, 2018 Open Meeting Minutes**
- 3b. Board Member Educational Opportunities and Approval of Planned Board Member Education and Expense Reimbursement**
- 3c. Review and Approval of 2019 Board and Committee Meeting Schedule and Location**
- 3d. Review and Approval of 2019 Board and Committee Agenda Items**
- 3e. Review and Approval of Board Committee Assignments for 2019**
- 3f. Approval of Retirement Resolutions**
- 3g. Approval of Investment Policy Statement and Guidelines**

Ms. Chalupa pulled out item 3d "Review and Approval of 2019 Board and Committee Agenda Items" and reported that both the Governance and Board agendas would be revised to note performance awards, Exempts and Executive Leadership performance against plan and executive compensation will now be reviewed and approved during the November meeting.

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: Sen. Machado

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.

AGENDA ITEM 4: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 7 THROUGH 17

Ms. Chalupa requested public comment on the appropriateness of Closed Session for agenda items 7 through 17, of which there was none.

AGENDA ITEM 11: PUBLIC COMMENT

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

ADJOURNMENT

There being no further business, Ms. Chalupa adjourned the meeting at 2:05 p.m. to immediately reconvene in Closed Session.

November 16, 2018

AGENDA ITEM 18: CALL TO ORDER AND ROLL CALL

The meeting reconvened at 11:15 a.m. at the State Fund Pleasanton Office (Atlantic and Pacific conference rooms), Pleasanton, California 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; William M. Zachry; and David Lanier (non-voting member) (joined at item 22).

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 19: STAFFING UPDATE

Executive Vice President and Chief Administrative Officer Andreas Acker presented an update on staffing. Mr. Acker reported that State Fund's staffing is stable with the last few years with the separation rate at 7.5%. It is anticipated that this year will end with a separation rate closer to 8%. Mr. Acker reported that State Fund ended the third quarter with 4,324 employees, 219 separations, 256 new hires, and 333 promotions. Of the 219 separations, 122 were retirements, 40 were

resignations, 31 were transfers, and 26 were others (death or dismissals). The overall separation rate was 6.8% and the primary driver was retirements.

Mr. Acker reported as of September 30, 2018 there was a decrease of 16% in the number of hours over the 640 hour cap and a 7% decrease in the number of employees over the cap. Other than retirements, the key driver for the decreased number of leave hours over the 640 cap is the cash-out offered by the State of California. A total of 1,100 employees participated in the 2018 Leave Buy Back and Savings Plus Buy Back with 60K hours cashed out. It is anticipated that another cash-out program will be offered in 2019.

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

AGENDA ITEM 20: FINANCIAL AND PRESIDENT'S REPORT

President and CEO Vernon Steiner provided the following updates:

Workers' Compensation Market

Mr. Steiner reported that the California workers' compensation market continues to be highly competitive with rate decreases driven by reduced medical losses and medical cost containment expenses, due largely to SB 863 reform. The positive trend in loss development has contributed to increased underwriting profits and the Insurance Commissioner has strongly encouraged insurers to factor the federal corporate tax reductions into their rate filings. Last week, Insurance Commissioner Dave Jones approved an additional 8.5% rate reduction effective January 1, 2019. This was four points lower than the WCIRB recommendation of 4.5%.

Premiums

The Estimated Annual Premium (EAP) of \$864M was 4.7% lower than last year. The past two years, State Fund continued to see a decline in new business and renewal business. However, this year the new business has started to stabilize. The EAP in new business was \$168M through the 3Q 2018, same as last year, and the EAP on renewal business was \$696M, down from \$739M last year, which is attributed to a filed rate decrease of 8% in September 2017.

As for the net premiums earned, it was down slightly at \$1,024M versus \$1,028M last year. The main reason the net premiums earned were performing better than EAP was due to audited premium of \$201M this year versus \$151M last year.

This year, State Fund wrote about 90,000 policies, which was 5% lower than the prior year. State Fund has about 107,000 policies-in-force or 4.4% less than prior year (112,000).

Losses and Loss Adjustment Expense (LAE)

State Fund had \$737M in Losses and an LAE of \$280M this year versus \$761M and \$273M from the prior year. For the 3Q 2018, the Loss and LAE ratios were 72% and 27.3% and overall combined Loss and Loss Adjustment Expense Ratio of 99.3% was 1.3 points lower than the prior year.

The underwriting expense ratio of 33.9% was 1.2 points higher than the same period last year. The Underwriting expenses were up by \$10M from last year primarily from increases in salary and benefits.

The combined ratio for 3Q 2018 was 133.2%, and underwriting loss was \$336M. The combined ratio and underwriting loss for the same period last year was 133.3% and \$340M. Offsetting the

underwriting loss, net investment income was \$465M plus realized gains of \$59M. Overall this resulted in net income of \$150M, which was \$60M lower than the last year. The policyholders' surplus grew by \$123M since year-end.

Spotlight Recognition

Mr. Steiner reported on a significant achievement of State Fund's Learning and Organizational Development Team. DevLearn, the leading conference of training professionals focusing on learning technologies, awarded State Fund Best Video for an Active Shooter Training. The conference was attended by about 5,000 people from around the world, from academia, business, and government.

Mr. Steiner noted that in today's world, far too many people and communities are confronting active shooter situations. Carol Kim and Tiana Mitchell developed the Active Shooter Training at the request of State Fund's Threat Management team. Ms. Kim and Ms. Mitchell carefully developed training so it would teach this important information in a way that would be impactful, yet not too upsetting. Their goal was to help employees to learn, not be scared. Mr. Steiner noted that this was a great achievement and thanked everyone who worked on this training.

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

AGENDA ITEM 21: REPORTS BY THE CHAIRS OF COMMITTEE ACTIVITIES

7a: GOVERNANCE COMMITTEE

7ai: GOVERNANCE, COMPLIANCE AND PRIVACY UPDATE

Governance Chair Mr. Mulryan reported on the following:

Corporate Policy EC&F 2.2 Incompatible Activities Statement

The Corporate Policy on Incompatible Activities was revised to include a policy statement regarding nepotism, which is expressly prohibited by the State of California because it is antithetical to a merit-based personnel system. State Fund workforce members must notify their supervisors regarding close personal relationships with other State Fund employees and/or contractors working in the same program area, activity, or location. The policy was posted for 30 day employee comments. HR is in the process of addressing a comment received from an employee regarding the notification process. The policy will be submitted to CalHR for approval and union review.

2018 Compliance Training – Security Awareness Training

State Fund achieved its mandatory compliance goal with a completion rate of 98% for active employees and 100% for consultants for security awareness training.

The following are the three mandatory trainings scheduled for the rest of the year.

- Privacy – Completion date 11/30/2018
- Code of Conduct – Completion date 12/31/2018
- Anti-Fraud – Completion date 12/31/2018

Ethics and Privacy Reported Issues

The total number of hotline reports declined by 36% (22 Q2 vs. 14 Q3). Governance, Compliance and Privacy (GCP) participated in the Corporate Compliance and Ethics Week (a national event) during November 4-10, 2018. GCP highlighted and raised awareness about the Ethics & Privacy hotline during this event.

Human Resources related issues continue to be the most reported category. A new category, organized by reporter type, was added. The reporter types are: a) Complainant, b) Investigation, c) Management, and d) Witness. State Fund management reported the highest number of incidents (60%) while investigation referrals rank second highest (26%). Investigation referrals include referrals made by Privacy and Internal Audit.

Mr. Mulryan noted that the reporting of Governance, Ethics, and HR related incidents was co-mingled with Audit and Hotline issues. The Committee concurred with the staff's recommendation to change the report moving forward to only report hotline complaints received. The staff will also continue to monitor the management initiated performance report and will provide an update to the Committee as needed.

7b: AUDIT COMMITTEE

7bi: UPDATE ON COMPLETED CLOSED AUDITS

Audit Chair Mr. Reid reported on the following activities:

Completed Closed Audits

Mr. Reid reported that twelve projects were reported in the second quarter of 2018 in the Closed Session in August 2018, of which eight new issues identified were added to the issue track database. Of the eight new issues, two were high risk, three moderate and three were low. Internal Audit Department continues to monitor Management's progress in addressing these issues until Management implements an action plan to mitigate the risk identified.

All the completed project reports were deemed to be proprietary. There are no non-proprietary projects to report in Open Session.

7c: INVESTMENT and RISK COMMITTEE

7ci: BOND TRANSACTIONS AND COMPLIANCE REPORT

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

Sen. Machado reported that the Investment and Risk Committee received a report from Willis Re benchmarking State Fund's Enterprise Risk Management (ERM) program against other insurance companies. The report noted that State Fund's ERM program is well developed from a capital adequacy perspective and is market leading in its approach to stress testing.

Sen. Machado also noted that the Committee received an update on the status of the State Fund's Information Security Plan.

The investment transactions and compliance reports for the periods of July 1, 2018 to September 30, 2018 were approved by the Investment and Risk Committee pursuant to its delegated authority. Sen. Machado also reported the Investment and Risk Committee heard a report from staff on portfolio performance.

7d: AD HOC SAFETY AND LOSS PREVENTION COMMITTEE

Chair Robin Baker reported that the Ad Hoc Safety and Loss Prevention Committee is scheduled to meet in January 2019. The meeting will cover the update on the implementation of the approved safety plan from the August 2018 Strategic Board Meeting.

AGENDA ITEM 22: CHAIRWOMAN'S REPORT

Board Chair Ms. Chalupa reported on the following:

National Association of Corporate Directors (NACD) CONFERENCE

Ms. Chalupa reported that she and Board members Lawrence Mulryan, William Zachry, and Jack Neureuter and several members of the executive team attended the NACD conference which was held last September 29 – October 2, 2018 in Washington, D.C. There was a wide range of topics discussed including: risk (cyber risk, disruptive risk, risk oversight, risk management), strategy, productivity, board committees, culture, innovation, political speech and governance, privacy, digital transformation, artificial intelligence, and economic trends.

The key takeaways were as follows:

- 1) Dependence on past data in enterprise risk management is insufficient. Past data has severe limitations and boards need to take steps to develop a fuller and more robust way to think about and prepare for risk.
- 2) Boards should always think about organizational culture as the key strategy – as the “secret sauce”. Culture is both a reflection of strategy and a driver of strategy.
- 3) The asymmetric information risk is pretty high for State Fund. Both the Board of Directors and the senior-level executives play a vital role in providing strategic oversight of management and operations. As the State Fund Board is comprised of mostly non-insurance experts, the gap in the Board understanding the intricacies of workers’ compensation insurance means that State Fund needs to have board processes in place to enable directors to get the information needed for effective oversight. Ms. Chalupa noted that she has been mindful of that in recent years, but came away from the conference with additional tools and tips.

Ms. Chalupa then asked other Board members who attended if they have anything to share. Mr. Zachry noted this year there were specific trainings for Committees and the focus was helpful for organizational culture.

Mr. Mulryan noted the speakers were of high caliber and experts in their field on nationwide issues facing Boards, individuals, and organizations.

Mr. Neureuter noted there was good networking with other Directors, from small companies to Fortune 200, to discuss the challenges they faced.

California Fires

Lastly, Ms. Chalupa acknowledged the devastating fires, the Camp Fire in Butte County and the Woolsey Fire in Southern California, that have ravaged California the past weeks. On behalf of everyone at State Fund, Ms. Chalupa extended heartfelt sympathy to its employees and fellow Californians who have been directly impacted by the fires and deep appreciation for the brave fire fighters and other emergency responders battling the blazes and working to meet the needs of victims.

Ms. Chalupa thanked all employees for their hard work and on behalf of the Board wished all employees a very Happy Holiday season.

AGENDA ITEM 23: BOARD MEMBER REPORTS

Ms. Chalupa requested any Board member reports.

Bill Zachry attended the Kids' Chance dance event at the end of October. Kids' Chance provides scholarships to children affected by a parent's work related injury or death. State Fund is a Platinum Sponsor of Kids' Chance California and 40% of all successful scholarship referrals were from State Fund. Mr. Steiner noted that State Fund put the families of recent mass shooting victims in touch with Kids' Chance.

Mr. Zachry also reported he is putting together a group encompassed of various agencies within the Workers' Compensation realm, including State Fund, that will create an open source data dictionary for the industry. The goal is to pool together data from different sources to find ways to improve analytics for workers' compensation.

David Lanier noted this was the last meeting of the Board of Directors under Governor Brown's administration and thanked the Board for their years of service and contributions to State Fund. Through their dedication and commitment, State Fund is far stronger today than it was when they first started their terms and they helped State Fund make significant progress.

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

AGENDA ITEM 24: APPROVAL OF 2018 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 traditionally the Board takes up the Performance Award vote in its February meeting. However, commencing this year, the Board has revised the annual agenda to move review of the Performance Awards to the November meeting with approval contingent on State Fund meeting or exceeding its annual goals by year end.

Ms. Chalupa noted that State Fund's performance against the 2018 enterprise strategic plan was very strong; most goals have already been achieved and those that are based on year-end results were strongly projected to meet targets. The Board resolution approves funding for the 2018 performance award pool and establishes the payouts occurring in 2019 subject to State Fund

meeting or exceeding established year-end targets based on results presented at the November 2018 meeting.

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 2018, Ms. Chalupa congratulated the State Fund team for its strong performance. 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.

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. In addition, the overall enterprise performance has been excellent and the organization is meeting, and in some cases exceeding, its goals for the year. Of particular note are the continued significant improvements in quality scores across the organization.

Contingent upon State Fund meeting its goals based on the results presented at the November 2018 meeting, the Board decided to fund the 2018 Performance Award program with a pool of \$16.9M (5% of annual salary spend) to be administered by management to staff, supervisors and managers, senior leaders, and non-exempt executives.

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

Ms. Chalupa noted that copies of Resolution No. 2187 are available at the front table outside.

Ms. Chalupa requested a Motion and Second.

MOTION: Mr. Kropke

SECOND: Mr. Mulryan

To approve the 2018 Performance Awards Resolution No. 2187 as presented.

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

YES: 11

NO: 0

Abstain: 0

Resolution carried.

The certified Resolution No. 2187 is attached hereto.

AGENDA ITEM 25: APPROVAL OF EXEMPT LEADERSHIP 2018 AT-RISK COMPENSATION DIFFERENTIAL AND 2019 EXEMPT LEADERSHIP COMPENSATION

Ms. Chalupa noted that agenda items 25 and 26 will be approved together.

Ms. Chalupa reported that the Board of Directors has evaluated the performance of each executive and exempt employee for 2018. 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 marketplace without being excessive. Ms. Chalupa reported that in the same vein as the Performance Awards, the Board evaluated the performance of State Fund's exempt executives for 2018 year to date to determine appropriate performance-based compensation contingent upon State Fund ending the year within the projected targets. If the agreed upon targets are met, the payments will be made in 2019.

Also, Ms. Chalupa noted that in the performance-based compensation determination process, the Board reviewed both the overall performance of the business and the value of each exempt leader's contribution.

Ms. Chalupa noted that copies of Resolution No. 2189 are available at the front table outside.

Ms. Chalupa requested a Motion and Second.

MOTION: Ms. Baker

SECOND: Sen. Machado

To approve the Exempt Leadership 2018 At-Risk Compensation Differential and 2019 Compensation for Exempt Leadership Resolution No. 2189 as presented.

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

YES: 11

NO: 0

Abstain: 0

Resolution carried.

The certified Resolution No. 2189 is attached hereto.

AGENDA ITEM 26: APPROVAL OF PRESIDENT'S 2018 AT-RISK COMPENSATION DIFFERENTIAL, LONG-TERM INCENTIVE, AND 2019 COMPENSATION

Ms. Chalupa noted that copies of Resolution No. 2188 are available at the front table outside.

Ms. Chalupa requested a Motion and Second.

MOTION: Ms. Baker

SECOND: Sen. Machado

To approve the President's 2018 At-Risk Compensation Differential, Long-Term Incentive, and 2019 Compensation.

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

YES: 11

NO: 0

Abstain: 0

Resolution carried.

The certified Resolution No. 2188 is attached hereto.

AGENDA ITEM 27: APPROVAL OF 2018 EXEMPT EMPLOYEE AND CEA LONG-TERM INCENTIVE

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

The 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.

Contingent upon State Fund meeting its goals based on the results presented at the November 2018 meeting, the Board decided to fund the 2018 Long-Term Incentive with a pool of \$779,088.60 to be administered by management and paid out over a three-year period in accordance with the terms of the LTIP plan and Award Notice, subject to State Fund continuing to meet established year-end results.

Ms. Chalupa noted that copies of Resolution No. 2190 are available at the front table outside.

Ms. Chalupa requested a Motion and Second.

MOTION: Mr. Kropke

SECOND: Mr. Zachry

To approve the 2018 Long-Term Incentive Plan Resolution No 2190 as presented.

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

YES: 11

NO: 0

Abstain: 0

Resolution carried.

The certified Resolution No. 2190 is attached hereto.

AGENDA ITEM 28: PROPOSALS AND SUGGESTIONS FOR FEBRUARY 14-15, 2019 AGENDA

Ms. Chalupa requested suggestions for agenda items for the February 14-15, 2019 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 February 14-15, 2019 at the State Compensation Insurance Fund Office, Pleasanton, California unless noticed for a new date and time.

Ms. Chalupa adjourned the meeting at 11:55 a.m.

Respectfully submitted,

Hilda B. Padua
Board Liaison and Assistant Corporate Secretary



BOARD OF DIRECTORS

APPROVAL OF 2018 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, commencing in 2018 the Board has revised the annual Governance and Board agendas to move the review of the Performance Awards to the November Board meeting with approval contingent on State Fund meeting or exceeding its annual enterprise goals by year end; and

WHEREAS, the Board has considered a 2018 potential award pool of approximately 5% of annual salary spend (\$16.9 million); and

WHEREAS, the Board has considered State Fund's enterprise performance for 2018 which is projected to achieve its enterprise goals by year end; and

WHEREAS, the Board now seeks to establish and approve the total size of the 2018 performance award pool for State Fund staff, supervisors and managers, senior leaders, and non-exempt executives, subject to State Fund meeting or exceeding its enterprise goals by year end based on the goal results presented at the November Board meeting; and

WHEREAS, if State Fund does not meet or exceed its enterprise goals by year end based on the goal results presented at the November Board meeting, the Board may reconsider the potential for and size of a 2018 performance award pool.

NOW, THEREFORE,

IT IS RESOLVED that the Board hereby finds that State Fund's enterprise performance for 2018 continued to demonstrate significant progress in its multi-year business transformation to become a more efficient and agile insurance carrier; that 2018 performance specifically strengthened financial stability and State Fund's enterprise risk management position; that 2018 performance demonstrated improvement in customer service; that overall to date State Fund has met or exceeded enterprise goals; and hereby approves a 2018 performance award pool to be administered by management not to exceed \$16.9 million for State Fund staff, supervisors and managers, senior leaders, and non-exempt executives, subject to State Fund meeting or exceeding its enterprise goals by year end based on the goal results presented at the November Board meeting; and

IT IS FURTHER RESOLVED that if State Fund does not meet or exceed its enterprise goals by year end based on the goal results presented at the November Board meeting, the Board may reconsider the potential for and size of a 2018 performance award pool.

Approval of 2018 Performance Awards

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PASSED AND ADOPTED at the meeting of the Board of Directors of the State Compensation Insurance Fund held on this 16th day of November, 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	Yes
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 November 16, 2018.



Hilda B. Padua
Assistant Corporate Secretary



Date



BOARD OF DIRECTORS

APPROVAL OF EXEMPT LEADERSHIP 2018 AT-RISK COMPENSATION DIFFERENTIAL AND 2019 EXEMPT LEADERSHIP COMPENSATION

WHEREAS, commencing in 2018 the Board has revised the annual Governance and Board agendas to move the annual review of the Exempt Leadership Compensation package to the November Board meeting with approval contingent on State Fund meeting or exceeding its annual enterprise goals by year end; 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 the Chief Financial Officer, Chief Information Officer, and Chief Risk Officer a retention differential (as identified in the attached Schedule of Exempt Leadership 2018 At-Risk Compensation Differential, 2019 Exempt Leadership Compensation, and 2018 Long-Term Incentive); and

WHEREAS, the Board has considered State Fund's enterprise performance for 2018 which is projected to achieve its enterprise objectives by year end and based on that projection has completed its performance evaluations for the exempt employees for calendar year 2018; and

WHEREAS, for certain of the exempt employees the Board seeks to increase the base salary and approve the retention differentials for 2019 and approve the at-risk compensation for 2018 as identified in the attached Schedule of Exempt Leadership 2018 At-Risk Compensation Differential, 2019 Exempt Leadership Compensation, and 2018 Long-Term Incentive, subject to State Fund meeting or exceeding its enterprise goals by year end based on the goal results presented at the November Board meeting; and

WHEREAS, if State Fund does not meet or exceed its enterprise goals by year end based on the goal results presented at the November Board meeting, the Board may reconsider the 2018 at-risk compensation.

NOW, THEREFORE,

IT IS RESOLVED that the Board hereby finds that State Fund's enterprise performance for 2018 continued to demonstrate significant progress in its multi-year business transformation to become a more efficient and agile insurance carrier; that 2018 performance specifically strengthened financial stability and State Fund's enterprise risk management position; that 2018 performance demonstrated improvement in customer service; that overall to date State Fund and the exempt employees met or exceeded enterprise goals; and hereby adopts and approves the increases in certain 2019 base salaries, the 2019 retention differentials, and the 2018 at-risk component of

Resolution No. 2189

Approval of Exempt Leadership 2018 At-Risk Compensation Differential and 2019 Exempt Leadership Compensation

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2018 compensation as identified in the attached Schedule of Exempt Leadership 2018 At-Risk Compensation Differential, 2019 Exempt Leadership Compensation, and 2018 Long-Term Incentive, subject to State Fund meeting or exceeding of its enterprise goals by year end based on the goal results presented at the November Board meeting; and

IT IS FURTHER RESOLVED that if State Fund does not meet or exceed its enterprise goals by year end based on the goal results presented at the November Board meeting, the Board may reconsider the 2018 at-risk compensation.


PASSED AND ADOPTED at the meeting of the Board of Directors of the State Compensation Insurance Fund held on this 16th day of November, 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	Yes
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 November 16, 2018.



Hilda B. Padua
Assistant Corporate Secretary



Date



BOARD OF DIRECTORS

**SCHEDULE OF EXEMPT LEADERSHIP 2018 AT-RISK COMPENSATION DIFFERENTIAL,
2019 EXEMPT LEADERSHIP COMPENSATION, AND 2018 LONG-TERM INCENTIVE**

Position	2018 Annual Base Salary*	Recommended 2019 Base Salary*	Recommended Annual Retention for 2019*	Recommended At-Risk Compensation Differential for 2018	2018 LTIP Program**
President & CEO (Vern Steiner)	\$508,250	\$508,250	\$30,000	\$181,659	\$53,825
Chief Financial Officer (Peter Guastamachio)	\$338,750	\$338,750	\$55,000	\$118,125	\$39,375
Chief Operating Officer (Richard Law)	\$392,437	\$415,983	Not applicable	\$129,504	\$39,244
Chief Claims Operations Officer (Steve Hunckler)	\$393,750	\$393,750	Not applicable	\$129,938	\$39,375
General Counsel (Margie Lariviere)	\$393,750	\$393,750	Not applicable	\$118,125	\$39,375
Chief of Internal Affairs (Dante W. Robinson)	\$325,815	\$325,815	Not applicable	\$92,857	\$32,582
Chief Information Officer (Marj Hutchings)	\$357,739	\$375,625	\$61,646	\$125,816	\$41,939
Chief Risk Officer (Ken Van Laar)	\$328,600	\$328,600	\$40,000	\$113,345	\$36,860
EVP of Strategic Planning (Alvin K. Cheung) (Eff. 1/3/18)	\$275,532	\$284,073	Not applicable	\$53,729	\$27,553
Chief Investment Officer Stephanie Chan (Eff. 4/1/18) (Salary increase eff. 9/1/18 to \$175,000)	\$151,187	\$175,000	Not applicable	\$30,237	\$15,119
Chief Medical Officer (Dinesh Govindarao)	\$385,875	\$385,875	Not applicable	\$77,175	\$38,588

State Compensation Insurance Fund
Board of Directors – November 16, 2018
Open Agenda Item 25 & 26 – Approval of Exempt Leadership 2018 At-Risk Compensation Differential and 2019 Exempt Leadership Compensation; Approval of President’s 2018 At-Risk Compensation Differential, Long-Term Incentive, and 2019 Compensation (Chart-Schedule of Exempt Leadership 2018 At-Risk Compensation Differential, 2019 Exempt Leadership Compensation, and 2018 Long-Term Incentive)



BOARD OF DIRECTORS

**SCHEDULE OF EXEMPT LEADERSHIP 2018 AT-RISK COMPENSATION DIFFERENTIAL,
2019 EXEMPT LEADERSHIP COMPENSATION, AND 2018 LONG-TERM INCENTIVE**

Position	2018 Annual Base Salary*	Recommended 2019 Base Salary*	Recommended Annual Retention for 2019*	Recommended At-Risk Compensation Differential for 2018	2018 LTIP Program**
Chief Actuary (Kate Smith)	\$294,000	\$294,000	Not applicable	\$58,800	\$29,400
EVP of Corporate Claims (Robert M. Hamilton) (Eff. 1/3/18)	\$300,000	\$300,000	Not applicable	\$60,000	\$30,000
Chief Underwriting Officer (John M. Gagan) (Eff. 1/3/18)	\$220,500	\$227,160	Not applicable	\$44,100	\$22,050
Pricing Actuary (Melissa Wang) (Eff. 1/3/18)	\$192,504	\$200,400	Not applicable	\$38,501	\$19,250

****2019 Annual Base Salary and Annual Retention is effective January 1, 2019.***

*****2018 LTIP Program is effective January 1, 2018 and paid out over 3 years.***



BOARD OF DIRECTORS

**APPROVAL OF PRESIDENT'S 2018 AT-RISK COMPENSATION DIFFERENTIAL,
LONG TERM INCENTIVE, AND 2019 COMPENSATION**

WHEREAS, commencing in 2018 the Board has revised the annual Governance and Board agendas to move the annual review of the President's Compensation package to the November Board meeting with approval contingent on State Fund meeting or exceeding its annual enterprise goals by year end; and

WHEREAS, the annual compensation package for the President 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"), a retention differential, and a long term incentive program ("LTIP") (as identified in the attached Schedule of Exempt Leadership 2018 At-Risk Compensation Differential, 2019 Exempt Leadership Compensation, and 2018 Long-Term Incentive); and

WHEREAS, the Board has considered State Fund's enterprise performance for 2018 which is projected to achieve its enterprise objectives by year end and has completed its performance evaluation for the President for calendar year 2018; and

WHEREAS, the Board has considered State Fund's performance against the 2018 LTIP performance goals, which are projected to be met or exceeded by year end; and

WHEREAS, the Board seeks to approve the President's base salary and retention differential for 2019 and approve the at-risk compensation, retention differential, and long term incentive for 2018 as identified in the attached Schedule of Exempt Leadership 2018 At-Risk Compensation Differential, 2019 Exempt Leadership Compensation, and 2018 Long-Term Incentive, subject to State Fund meeting or exceeding its enterprise goals and LTIP performance goals by year end based on the goal results presented at the November Board meeting; and

WHEREAS, if State Fund does not meet or exceed its enterprise goals by year end based on the goal results presented at the November Board meeting, the Board may reconsider the 2018 at-risk compensation and retention differential.

NOW, THEREFORE,

IT IS RESOLVED that the Board hereby finds that State Fund's enterprise performance for 2018 continued to demonstrate significant progress in its multi-year business transformation to become a more efficient and agile insurance carrier; that 2018 performance specifically strengthened financial stability and State Fund's enterprise risk management position; that 2018 performance demonstrated improvement in customer service; that overall to date State Fund and the President met or exceeded enterprise goals and the performance measures underlying the long term incentive; and hereby

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Approval of President's 2018 At-Risk Compensation Differential, Long Term Incentive, and 2019 Compensation

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adopts and approves the President's 2019 base salary and retention differential, and the at-risk component of 2018 compensation, and long term incentive as identified in the attached Schedule of Exempt Leadership 2018 At-Risk Compensation Differential, 2019 Exempt Leadership Compensation, and 2018 Long-Term Incentive, subject to State Fund meeting or exceeding its enterprise objectives by year end based on the goal results presented at the November Board meeting; and

IT IS FURTHER RESOLVED that if State Fund does not meet or exceed its enterprise goals or the performance measures underlying the LTIP based on the goal results presented at the November Board meeting, the Board may reconsider the President's 2018 at-risk compensation and/or long term incentive.

PASSED AND ADOPTED at the meeting of the Board of Directors of the State Compensation Insurance Fund held on this 16th day of November, 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	Yes
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 November 16, 2018.



Hilda B. Padua
Assistant Corporate Secretary



Date



BOARD OF DIRECTORS

SCHEDULE OF EXEMPT LEADERSHIP 2018 AT-RISK COMPENSATION DIFFERENTIAL,
2019 EXEMPT LEADERSHIP COMPENSATION, AND 2018 LONG-TERM INCENTIVE

Position	2018 Annual Base Salary*	Recommended 2019 Base Salary*	Recommended Annual Retention for 2019*	Recommended At-Risk Compensation Differential for 2018	2018 LTIP Program**
President & CEO (Vern Steiner)	\$508,250	\$508,250	\$30,000	\$181,659	\$53,825
Chief Financial Officer (Peter Guastamachio)	\$338,750	\$338,750	\$55,000	\$118,125	\$39,375
Chief Operating Officer (Richard Law)	\$392,437	\$415,983	Not applicable	\$129,504	\$39,244
Chief Claims Operations Officer (Steve Hunckler)	\$393,750	\$393,750	Not applicable	\$129,938	\$39,375
General Counsel (Margie Lariviere)	\$393,750	\$393,750	Not applicable	\$118,125	\$39,375
Chief of Internal Affairs (Dante W. Robinson)	\$325,815	\$325,815	Not applicable	\$92,857	\$32,582
Chief Information Officer (Marj Hutchings)	\$357,739	\$375,625	\$61,646	\$125,816	\$41,939
Chief Risk Officer (Ken Van Laar)	\$328,600	\$328,600	\$40,000	\$113,345	\$36,860
EVP of Strategic Planning (Alvin K. Cheung) (Eff. 1/3/18)	\$275,532	\$284,073	Not applicable	\$53,729	\$27,553
Chief Investment Officer Stephanie Chan (Eff. 4/1/18) (Salary increase eff. 9/1/18 to \$175,000)	\$151,187	\$175,000	Not applicable	\$30,237	\$15,119
Chief Medical Officer (Dinesh Govindarao)	\$385,875	\$385,875	Not applicable	\$77,175	\$38,588

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BOARD OF DIRECTORS

SCHEDULE OF EXEMPT LEADERSHIP 2018 AT-RISK COMPENSATION DIFFERENTIAL,
2019 EXEMPT LEADERSHIP COMPENSATION, AND 2018 LONG-TERM INCENTIVE

Position	2018 Annual Base Salary*	Recommended 2019 Base Salary*	Recommended Annual Retention for 2019*	Recommended At-Risk Compensation Differential for 2018	2018 LTIP Program**
Chief Actuary (Kate Smith)	\$294,000	\$294,000	Not applicable	\$58,800	\$29,400
EVP of Corporate Claims (Robert M. Hamilton) (Eff. 1/3/18)	\$300,000	\$300,000	Not applicable	\$60,000	\$30,000
Chief Underwriting Officer (John M. Gagan) (Eff. 1/3/18)	\$220,500	\$227,160	Not applicable	\$44,100	\$22,050
Pricing Actuary (Melissa Wang) (Eff. 1/3/18)	\$192,504	\$200,400	Not applicable	\$38,501	\$19,250

***2019 Annual Base Salary and Annual Retention is effective January 1, 2019.**

****2018 LTIP Program is effective January 1, 2018 and paid out over 3 years.**



BOARD OF DIRECTORS

APPROVAL OF 2018 EXEMPT EMPLOYEE AND CEA LONG TERM INCENTIVE

WHEREAS, the Board has approved a Long Term Incentive Program ("LTIP") for State Fund exempt employees appointed pursuant to California Insurance Code section 11785 ("exempt employees") and certain Career Executive Assignment positions, with the annual targets and total size of the annual award pool subject to the Board's discretion, based on enterprise LTIP performance; and

WHEREAS, commencing in 2018 the Board has revised the annual Governance and Board agendas to move the annual review of the Exempt Employee and CEA Long-Term Incentive to the November Board meeting with approval contingent on State Fund meeting or exceeding its annual enterprise goals by year end; and

WHEREAS, the Board has considered State Fund's performance against the 2018 LTIP goals, which are projected to be met or exceeded by year end, and the performance evaluations for the exempt employees and certain Career Executive Assignment positions; and

WHEREAS, if State Fund does not meet or exceed its LTIP performance goals by year end based on the goal results presented at the November Board meeting, the Board may reconsider the 2018 LTIP target awards and annual award pool.

NOW, THEREFORE,

IT IS RESOLVED that the Board hereby finds that overall to date State Fund and the exempt employees and certain Career Executive Assignment positions met or exceeded the LTIP enterprise objectives and/or the LTIP performance measures; and hereby approves a 2018 Long Term Incentive award pool not to exceed \$779,088.60 to be administered by management and paid out over a three-year period in accordance with the terms of the LTIP Plan and Award Notice, subject to State Fund meeting or exceeding its LTIP performance goals by year end based on the goal results presented at the November Board meeting.

IT IS FURTHER RESOLVED that if State Fund does not meet or exceed its LTIP performance goals by year end based on the goal results presented at the November Board meeting, the Board may reconsider the 2018 annual LTIP award pool.

Approval of 2018 Exempt Employee and CEA Long Term Incentive
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PASSED AND ADOPTED at the meeting of the Board of Directors of the State Compensation Insurance Fund held on this 16th day of November, 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	Yes
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 November 16, 2018.



Hilda B. Padua
Assistant Corporate Secretary



Date