

**STATE COMPENSATION INSURANCE FUND  
BOARD OF DIRECTORS**

**MINUTES OF OPEN SESSION MEETING**

**November 17-18, 2016**

The Board of Directors of the State Compensation Insurance Fund met on November 17-18, 2016 at the State Fund Corporate Office, 333 Bush Street, San Francisco, CA.

**November 17, 2016**

**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.) (joined during item 4); Lawrence E. Mulryan; Jack L. Neureuter; Steven L. Rank; Thomas E. Rankin; Scott K. Reid; William M. Zachry; and Christine Baker (non-voting member).

There was a quorum.

Also present: President & CEO Vernon L. Steiner; General Counsel and Corporate Secretary Margie R. Lariviere; Chief Financial Officer Peter A. 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 July 27 and 29, 2016 Open Meeting Minutes**
- 3b. Board Member Educational Opportunities and Approval of Planned Board Member Education and Expense Reimbursement**
- 3c. Authorization to Secure a Renewal Workers' Compensation Program effective January 1, 2017**
- 3d. Approval of President's Employment Agreement**
- 3e. Approval of Retirement Resolutions**

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

MOTION: Mr. Kropke

SECOND: Mr. Curtin

To approve the Consent Calendar as presented.

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

YES: 10

NO: 0

Abstain: 0

Motion carried.

#### **AGENDA ITEM 4: STAFFING UPDATE**

Executive Vice President and Chief Administrative Officer Andreas Acker presented an update on staffing. Mr. Acker reported that State Fund ended the third quarter of 2016 with 4,351 employees, 214 separations, 197 new hires, and 322 promotions. Of the 214 separations, 94 were retirements, 59 were resignations, 35 were transfers to other agencies, and 26 were others (death or dismissal). The overall separation rate for the 3Q 2016 was 6.6% with the primary driver being retirements. Discussion ensued on the number of employees transferring to other agencies. Mr. Acker noted the number has decreased this year.

Mr. Acker reported as of September 30, 2016 there was a 0.5% decrease in the number of hours over the 640 hour cap. Employees typically take more vacation in the 2<sup>nd</sup> and 3<sup>rd</sup> quarters. However the decrease in hours has been lower than expected due to three factors: 1) hired three individuals with high leave balances; 2) employees working on key work within the organization took less vacation; and 3) a few of the top ten high leave balance employees are out on long term leave and still accruing hours.

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

#### **AGENDA ITEM 5: FINANCIAL UPDATE – 3<sup>rd</sup> Quarter 2016**

Chief Financial Officer Peter Guastamachio reported on the 3Q 2016 financial results. The net premiums earned of \$1.18 billion was 1.5% less than the prior year. State Fund continues to see a decline in new business and in renewals. The policy count for the year is down by 7.6% and Estimated Annual Premium dropped by 10.5%. The overall forecast for the California and U.S. Economy is for continued, though slightly slower growth and projects GDP growth at about 1.6% for the U.S. and 2.5% for California over the next year. The major growth is coming from real estate and construction markets as well as retail sales and technology.

State Fund combined Loss and Loss Adjustment Expenses (LAE) ratios of 106.3% was 0.1 point lower than the same period from prior year. The loss ratio improved by 4 points but was offset by higher salaries and benefits. Coupled with lower premiums, the result is an LAE ratio of 32.3%, up 3.9 points from the prior year. The Underwriting Expense Ratio of 22.9% was 0.1 point higher than the same period in the prior year.

State Fund combined ratio of 129.2% and an Underwriting Loss of \$350M were comparable to the prior year. Offsetting the underwriting loss, the net Investment Income was \$474M with realized gains of \$49M. This resulted in net income of \$154M through September 2016 which was \$27M less than the same period in the prior year. There was an increase in policyholders' surplus of \$101M since year-end 2015.

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

#### **AGENDA ITEM 6: PRESIDENT'S REPORT**

President and CEO Vern Steiner provided some insights on the organization's efforts to improve State Fund's image and customer experience. Mr. Steiner noted that through the years the perception has not been positive. The organization has been focusing on doing things to provide customers a positive experience and to improve State Fund's image. As part of this endeavor, a series of videos have been

produced to help injured workers understand the claims process and how to navigate the workers' compensation system. The videos cover key aspects of workers' compensation claims and processes and are available in English and Spanish. Claims adjusters will email links to the videos to injured workers when necessary and the videos are also accessible on statefundca.com. The new claims video series was played for the Board and the public.

Mr. Steiner also read a thank you letter from a severely injured worker who wrote to inform him of the extraordinary service and individual attention he received from his new claims adjuster. Mr. Steiner attributed this success to the rollout of Claims "One Process."

## **AGENDA ITEM 7: REPORTS BY THE CHAIRS OF COMMITTEE ACTIVITIES**

### **7a: GOVERNANCE COMMITTEE**

#### **7ai: GOVERNANCE, COMPLIANCE AND PRIVACY UPDATE**

Mr. Mulryan reported on the following activities:

#### **New Privacy and Public Records Laws Effective January 1, 2017**

- AB 228 – The bill amended the California Civil Code to add a privacy incident notification requirement when encrypted personal information may have been acquired by unauthorized persons and the encryption key or security credentials are disclosed which allows data access.
- AB 1671 – The bill amended the California Penal Code to add fines per instance for violating call recording consent requirements.
- AB 2843 – The bill amended the California Government Code to exempt from public records employee personal cell phone numbers and birthdates and limit access to emergency contact information.

#### **State Fund Charter – Regulatory Compliance Overview**

The State Fund Charter is annually reviewed and it was expanded to include California statutes in addition to the Insurance Code which specifically include or exclude, or mention State Fund.

#### **Material Revisions to Policies Supporting Code of Conduct**

- Complaint Reporting and Anti-Retaliation – The policy was revised to clarify the definition of "Use of Official Authority or Influence" to include promising or giving benefits and/or taking, threatening or directing personnel actions.
- Business Ethics – The policy's purpose statement was re-defined to reflect State Fund's values and ethical culture honesty, legal compliance and responsibility.
- Statement of Economic Interests – The policy was revised to add a public accountability requirement for transparency, and clarified the Financial Interest gift provision.

The Governance Committee recommends the Board approve the proposed changes to these policies as presented.

Ms. Chalupa called for a Motion.

MOTION: Mr. Mulryan

SECOND: Mr. Rankin

To approve the proposed changes to the Complaint Reporting and Anti-Retaliation, Business Ethics, and Statement of Economic Interests policies, which support the Code of Conduct, 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.

### **Compliance**

- New contingent worker compliance training – The on-boarding compliance training requirement for new contingent workers is in place with oversight by Enterprise Procurement. Non-compliant contingent worker access is disabled if training is not completed within the required time frame.
- Ethics/Privacy Hotline – The contact volume has declined by 31% from 2015 to 2016 in 2Q and 3Q. The decrease can be attributed to messaging and the quality assurance work of business units to prevent privacy incidents. Management referral reports have increased by 42% from 2015 to 2016 for the same two quarters. Ms. Simmons noted that periodic awareness messaging about the availability of State Fund's hotlines will be sent to the organization.

### **7b: AUDIT COMMITTEE**

#### **7bi: UPDATE ON COMPLETED CLOSED AUDITS**

Ms. Chalupa reported on the following activities:

#### **Completed Closed Audits**

There were no projects reported in the July 2016 Closed Session that were non-proprietary. Internal Audit has no closed audit projects that can be discussed in the Open Session.

#### **Whistleblower Hotline**

All reports made through the Ethics Hotline are investigated. During 3Q 2016 there were 136 cases reported through the following sources: 9 from Ethics Hotline; 36 from Direct Report; 60 from Human Resources Content Management System (CMS); and 31 referrals from the Privacy Office. There were 46 investigations completed, of which 14 were found to be unsubstantiated allegations, and 32 substantiated. The 32 substantiated allegations were referred to Manager Services for possible disciplinary action.

Every instance of observed misconduct and privacy violations represents a risk to the organization. Human Resources and the Privacy Office will work with management on identifying and implementing risk mitigation measures, implementing corrective actions and taking disciplinary measures where necessary, and to seek out opportunities to raise awareness and educate the State Fund workforce of their responsibility to prevent the improper disclosure or use of private/confidential information.

## **7c: INVESTMENT COMMITTEE**

### **7ci: BOND TRANSACTIONS AND COMPLIANCE REPORT**

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

The investment transactions and compliance reports for the periods of April 1, 2016 to May 31, 2016 and June 1, 2016 to September 30, 2016 were approved by the Investment Committee pursuant to its delegated authority. Sen. Machado also reported the Investment Committee heard a report from Investment Manager Deutsche Bank on the market and economic outlook and State Fund's portfolio performance results.

### **AGENDA ITEM 8: CHAIRWOMAN'S REPORT**

Ms. Chalupa noted that in September 2016, several members of the Board (Sheryl Chalupa, Scott Reid, Steve Rank, Larry Mulryan, Mike Machado, and Bill Zachry) and the Executive team (Vern Steiner, Peter Guastamachio, Margie Lariviere, Marj Hutchings, and Hilda Padua) attended the National Association for Corporate Directors (NACD) Global Summit. The NACD's mission is to equip board members to be prepared for the future by promoting leading practices. The agenda for the conference included important topics such as: megatrends, business disruption, innovation, economic uncertainty, governing complexity, succession planning, and IT governance. The conference also provided lengthy committee forums and the attendees split up to attend Audit, Governance, and Strategy and Risk sessions. Ms. Chalupa provided a high level summary of takeaways as follows:

Cybersecurity – This is a major area of concern for every organization. Areas to explore for Board members in future meetings include overall State Fund security posture, governance framework specifics, response preparedness, and cyber insurance.

Investments – The session highlighted the fact that the low-return investment environment is likely going to continue for an extended time.

Megatrends – The session revolved around innovation, especially rethinking the idea of innovation as a series of gradual changes, rather than big breakthroughs.

Lastly, Ms. Chalupa noted that some members of the Board (Robin Baker, Scott Reid, and Jack Neureuter) were able to attend Townhall meetings and Business Review meetings. Ms. Chalupa acknowledged that State Fund employees had the opportunity to share their insights with Board members throughout the state at these meetings.

### **AGENDA ITEM 9: BOARD MEMBER REPORTS**

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

### **AGENDA ITEM 10: PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION FOR ITEMS 13 through 25**

Ms. Chalupa requested public comment on the appropriateness of Closed Session for agenda items 13 through 25, 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 2:15 p.m. to immediately reconvene in Closed Session.

**November 18, 2016**

## **AGENDA ITEM 26: CALL TO ORDER AND ROLL CALL**

The meeting reconvened at 12:10 p.m. at the State Fund Corporate Office, 333 Bush Street, San Francisco, CA 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) by prior arrangement.

There was a quorum.

Also present: President & CEO Vernon L. Steiner; General Counsel and Corporate Secretary Margie R. Lariviere; Chief Financial Officer Peter A. Guastamachio; Board Liaison and Assistant Corporate Secretary Hilda B. Padua; and Counsel and Assistant Corporate Secretary Judith D. Sapper.

## **AGENDA ITEM 27: APPROVAL OF 2017 BOARD AND COMMITTEE MEETING SCHEDULE AND LOCATION**

Ms. Chalupa noted that copies of the 2017 Board and Committee Meeting Schedule and Location for the public are available in the front. Ms. Chalupa requested a Motion and Second.

MOTION: Mr. Mulryan

SECOND: Mr. Rankin

To approve the 2017 Board and Committee Meeting Schedule and Location 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

Motion carried.

## **AGENDA ITEM 28: APPROVAL OF 2017 BOARD AND COMMITTEE AGENDA ITEMS**

Ms. Chalupa noted that copies of the 2017 Board and Committee Agenda Items for the public are available in the front. Ms. Chalupa requested a Motion and Second.

MOTION: Mr. Mulryan

SECOND: Mr. Kropke

To approve the 2017 Board and Committee Agenda Items 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

Motion carried.

**AGENDA ITEM 29: APPROVAL OF 2017 BOARD COMMITTEE ASSIGNMENTS**

Ms. Chalupa noted that State Fund has a strong Board with diverse experience and background. The Board has been doing an excellent job in its strategic oversight of the State Fund to ensure fair pricing for California employers, best outcomes for injured workers and their employers, and bringing safe work practice to California businesses. The Board Committee appointments have been evaluated for Board member experience and interest. The continuity of the committee membership supports the Board’s effectiveness; therefore, minimal changes are proposed.

Ms. Chalupa further noted that the current By-Laws permit formation of Ad Hoc Committees of the Board. Since 2014, the Board members have discussed forming a committee to address safety and loss prevention issues. The Board proposes an Ad Hoc Safety and Loss Prevention Committee that will make recommendations for an overarching long term safety strategy to the full Board and then terminate no later than the 2018 Strategic Planning retreat. The membership would include three to five Board members, and State Fund’s senior Loss Prevention Officer and Chief Operating Officer as representatives from management. The Committee would have the discretion to invite other members of management and/or other Directors to attend meetings where necessary to further the business of the Committee. Copies of the proposed Ad Hoc Safety and Loss Prevention Committee Charter for the public were available in the front. Ms. Chalupa requested a Motion and Second.

MOTION: Mr. Kropke

SECOND: Mr. Neureuter

To approve the 2017 Board Committee Assignments 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

Motion carried.

**AGENDA ITEM 30: APPROVAL OF COMMITTEE CHARTERS AND STATE FUND BY-LAWS**

Ms. Chalupa noted that the Board Effectiveness survey feedback included the extent to which committees utilize the capabilities of Directors and the need to prepare Directors to succeed current Chairs with expired or expiring terms. Part of the proposed Committee assignment process will be to rotate Committee Chairs after two years, and nominate Vice Chairs to each committee to overlap with the final year of the Chair’s term for succession planning. Ms. Chalupa noted that adopting this process will require amendment to the By-Laws and Committee Charters. The Governance Committee proposed some changes to the Audit and Governance Charters. Hence, the approval on these charters will be deferred for the March 2017 meeting. The Board will only take action on the Investment and Ad Hoc Safety Committee Charters.

Ms. Chalupa noted that copies for the public of the proposed Seventh Amended State Fund By-Laws are available in the front. Ms. Chalupa requested a Motion and Second.

MOTION: Mr. Kropke

SECOND: Mr. Zachry

To approve the proposed Seventh Amended State Fund By-Laws 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

Motion carried.

Ms. Chalupa noted that copies for the public of the proposed amended Investment Charter and Ad Hoc Safety and Loss Prevention Committee Charter are available in the front. Ms. Chalupa requested a Motion and Second.

MOTION: Mr. Zachry

SECOND: Mr. Neureuter

To approve the proposed amended Investment Charter and Ad Hoc Safety and Loss Prevention Committee Charter 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

Motion carried.

**AGENDA ITEM 31: PROPOSALS AND SUGGESTIONS FOR MARCH 2-3, 2017 AGENDA**

Ms. Chalupa requested other agenda items, of which there were none.

Ms. Chalupa requested public comment, of which there was none, and she noted that the next Board meeting is scheduled for March 2, 2017 at the State Fund Vacaville, California Office unless noticed for a new date and time.

Ms. Chalupa adjourned the meeting at 12:15 p.m.

Respectfully submitted,

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Hilda B. Padua  
Board Liaison and Assistant Corporate Secretary