



## **SAIF CORPORATION**

### **BOARD OF DIRECTORS**

**Wednesday  
November 16, 2011  
10:00 a.m.**

**SAIF Corporation  
400 High St SE  
Salem, Oregon**

After determining a quorum was present, the meeting was called to order at 10:12 a.m.

#### **Roll call:**

Catherine Travis, Chair  
Robb Van Cleave, Vice Chair  
John Endicott  
Jim Ford  
Ralph Martinez

#### **SAIF Corporation personnel present:**

Brenda JP Rocklin, President and CEO  
Ken Collins, Interim Vice President of Information Services  
Chris Davie, Vice President of Corporate Policy and External Affairs  
Jerry Dykes, Chief Financial Officer  
Kathy Gehring, Vice President of Claims  
John Gilkey, Sr. Vice President of Policyholder Services and Programs  
Michelle Graham, Vice President of Policyholder Services  
Rick Hanson, Strategy and Brand Director  
Michael Hartman, Vice President of Policyholder Programs  
Bruce Hoffman, Vice President of Underwriting Services  
Toni Keeton, Corporate Projects Coordinator  
Theresa McHugh, Vice President of Financial Services  
Mike Mueller, Sr. Vice President of Claims  
Cathy Pollino, Chief Internal Auditor  
Shannon Rickard, Legal Services Director  
Penny Robertson, Compensation Analyst  
Colleen Sealock, Vice President of Operations and Human Resources  
Christine Vrontakis, Regional Operations Director  
Paul Weddle, Assistant Counsel  
Christy Witzke, Marketing and Groups Director  
Pam Woods, Vice President of Claims  
Shawn Wright, Chief Actuarial Officer  
Stephanie Robinson, Assistant to the Board  
Ruth Lord, Information Services Assistant

#### **Other attendees**

Colette Evers, Director of Safety and Education, Associated General Contractors  
Eliot Lapidus, Safety and Loss Control Manager, Associated General Contractors  
Brent Pockrus, Safety and Loss Control Consultant, Associated General Contractors

## **EXECUTIVE SESSION**

### **Pending Litigation**

At 10:12 a.m., the Chair declared this portion of the meeting to be in Executive Session, pursuant to ORS 192.660(2)(f) and ORS 192.660(2)(h), to allow the board to discuss pending litigation.

### **End of Executive Session**

At approximately 10:18 a.m., the Chair announced the conclusion of Executive Session.

### **Approval of board minutes**

Motion Mr. Martinez, second Mr. Van Cleave, to approve the minutes of the meeting of September 14, 2011. The vote was unanimous, and the motion was carried.

### **Associated General Contractors (AGC) loss control presentation**

At the request of the board, a representative from AGC was asked to attend the board meeting to describe the loss control services provided by AGC personnel. Brent Pockrus, Safety and Loss Control Consultant for Associated General Contractors, reported to the board that AGC has six loss control consultants and one industrial hygienist who provide industry-specific loss control services for the AGC group members statewide. Mr. Pockrus indicated that he and the other loss control consultants target their efforts to those accounts that are having the highest losses or exposure to loss, but that each account is contacted at least once annually. He described the different sizes and types of construction accounts he services, some of the successful outcomes associated with this work, and the strong partnership with SAIF.

### **Financial reports**

#### Third-quarter financial report

Theresa McHugh reported that surplus was affected by the volatility in the investment markets during the third quarter. Surplus declined by \$78.7 million for the quarter, ending at \$777.1 million. However, surplus was still within the target range of \$690 to \$810 million. Premium, written and earned, continues to grow. Direct earned premium increased 4.4 percent, as compared to the third quarter of 2010. New sales totaled \$26.5 million as of November 1, 2011. Year-to-date investment income was \$124.1 million, a decrease of \$6.7 million as compared to the third quarter of 2010. Investment earnings have been affected by low interest rates, and it is possible that investment income may continue to decline for the foreseeable future. Claim counts have increased 2.3 percent as compared to the same period in the prior year. Total medical payments decreased 4.1 percent as compared to 2010.

Shawn Wright reported that, for the first nine months of 2011, an ultimate loss ratio of 108 percent and an ultimate loss expense ratio of 16 percent were selected. These are consistent with the ratios for accident years 2009 and 2010. Mr. Wright noted that for this early assessment of losses, he used a fairly high ultimate loss ratio for 2011, based on the loss ratios for 2009 and 2010.

Ms. McHugh noted that the Department of Consumer and Business Services (DCBS) financial audit of SAIF Corporation has been concluded with no findings. DCBS will provide a draft report in the near future. The report will be provided to the SAIF Board of Directors upon receipt. If the Board Audit Committee would like to meet with DCBS representatives to discuss the report, Ms. McHugh will make arrangements for that to happen. In an exit interview, the DCBS representatives advised that they will endeavor to provide more notice in advance of an audit, so that the cost of the audit could be **factored into SAIF's operating budget.**

#### Investment report

Jerry Dykes reported that equity markets were hit hard in the third quarter, with the domestic markets down approximately 15 percent. The index of the bond market increased 3.82 percent for the quarter. **SAIF's investments** did not perform as well as the overall index because **SAIF's allocation to treasuries** is much lower than the benchmark. The total return on **SAIF's investment portfolio** is 3.04 percent year-to-date. **SAIF's fixed income portfolio had a positive return of 2.01 percent for the quarter.** As bonds mature, they will be replaced with lower yielding securities. Overall, **SAIF's portfolio** is in compliance with investment policy. There was a downgrade of some **Bank of America securities, causing SAIF's bond portfolio to be slightly out of compliance with the allowed 1.5 percent of BBB securities for a single issuer.** **SAIF's investment managers** will work to get back into compliance before year-end.

Mr. Ford asked if the board needed to take any action on the issue of investments being out of compliance with the policy. Mr. Dykes advised that no action was necessary. It will be reported to the Oregon Investment Council. Each bond manager provides SAIF with a certification of compliance.

Ms. Travis noted that the board had expected volatility in the investment markets, and was appropriately conservative in establishing a surplus level.

#### Operating budget

Direct operating expenses are under budget by approximately \$1 million as of September 30, 2011. Direct operating expenses are projected to be over budget by \$0.2 million at year-end. The projected overage is due primarily to an anticipated overage in agent commissions of \$1.4 million as a result of an increase in premium that exceeds the projections used to develop the 2011 budget. If commissions were taken out of the equation, the projection is that direct operating expenses would be under budget by \$1.1 million at year-end.

Mr. Endicott asked how many part-time employees SAIF had, and whether part-time employees receive benefits. Ms. McHugh stated that the number of part-time employees is significant, although she did not have the exact number. Part-time employees receive benefits pro-rated to the percentage of time worked. Colleen Sealock explained that SAIF rarely hires part-time employees. Most employees who are currently working part-time are employees who, because of work/life balance issues, have requested reduced hours.

### **CEO's leave and expenses**

The board was provided with a report of the CEO's leave time and expense reimbursements for the third quarter. There were no questions.

### **Rate filing update**

Bruce Hoffman reported that the Department of Consumer and Business Services announced on September 29, that 2012 pure premium rates would increase by 1.9 percent. SAIF followed through on the recommendations made to the board at the September meeting to reduce the rates in two of SAIF's rate tiers and to add an additional tier closer to the assigned risk pool rate tier. DCBS has approved SAIF's 1/1/2012 rate filing.

### **Initial review of 2012-2014 Corporate Strategic Plan**

Rick Hanson reported that the new format of the 2012-2014 Corporate Strategic Plan document was designed to better facilitate understanding among employees. Three key strategies were identified:

- Protect – Make Oregon the safest place to work
- Connect – Make every interaction seamless and exceptional
- Lead – Be an industry innovator and a corporate role model

The plan contains 16 tactics. Eleven are new tactics, and five are carried over from the 2011-2013 plan.

The change in format and the focus on three key strategies should allow for increased efficiency as well as increased opportunities for employees to understand the company's direction, the plan for getting there, and how they can contribute.

Several of the board members commented that the direction and format of the new plan was very well done.

Chris Davie noted that if the board agreed with the direction of the 2012-2014 Corporate Strategic Plan, the elements of the plan will be reflected in the 2012 budget that will be proposed to the board at the December meeting.

Chair Travis stated that there was a clear consensus of the board that it was in agreement with the direction of the proposed plan.

### **Corporate Strategic Plan Total Compensation tactic**

Mr. Hanson reported that the objective of this tactic was to determine how SAIF's total compensation package compares to the market and to make recommendations to better align with the market. He introduced Christine Vrontakis and Penny Robertson, who served as co-leads for this tactic.

Ms. Robertson reported the tactic team was made up of 13 employees from most of the SAIF offices and with varying tenures and positions within the company. Ms. Vrontakis

reported that the team was able to agree on 17 recommendations related to health benefits, wellness, paid time off, retirement, and internal education and communication. Those recommendations were presented to the Executive Council (EC) for consideration. The EC supported 16 of the 17 committee recommendations.

Highlights include:

Premium share – If it becomes necessary in the future for employees to bear a portion of the cost for health insurance, the team recommended premium share rather than other changes, such as an increase in deductibles or co-pays, or a decrease in benefits. This is consistent with the market and best shares the cost among employees.

Wellness – The team recommended ongoing support, both financially and culturally, for a comprehensive wellness strategy, including a requirement for employee participation in wellness programs to qualify for lower-cost health plans in 2013.

Paid time off – **The tactic team recommended that SAIF's** vacation accrual policy be enhanced with additional days in order to place SAIF closer to the 75<sup>th</sup> percentile of the market.

Mr. Van Cleave stated that this is consistent with what he has seen at the national level in that flex schedules, time off, and a work/life balance are things that workforces consider most important.

Mr. Martinez asked how much of a premium share would be passed along to employees. Ms. Sealock advised that will likely be dependent on the amount of premium increase in a given year.

### **Initial 2012 budget discussion**

Ms. McHugh reported that the preliminary 2012 employee budget is based on 843.25 FTE. While this number is greater than 2011, it is lower than all other prior years since 2004. During the course of 2011, 8.45 positions have been added. It is anticipated that 19 new positions will be created in 2012, and 10.8 positions will be eliminated. A claims adjuster trainee class is proposed for 2012. The proposed class would begin during the first quarter and consist of ten trainees. Two will fill current vacancies, and it is anticipated that the other eight will be absorbed by attrition. While it would be a temporary increase in FTE, by the end of the year there should not be an overall increase.

A detailed accounting of recommended FTE will be included in the board packet for the December meeting.

### **Marketing and sales update**

John Gilkey reported that year-to-date new business sales are \$26.7 million, the best year since 2005. Adjusting for all the NCCI pure premium decreases that have taken place in Oregon since 1990, 2011 would be SAIF's second best year in that 21-year period. Approximately 3,700 new accounts have been written year-to-date. Retention is 99.2 percent in terms of premium volume, and 99.7 percent in terms of policy count. One hundred and nineteen accounts have been lost to competition this year.

The Other States Coverage sales are not included in the previous numbers. Sales of Other States Coverage have exceeded \$4 million year-to-date, with 240 policies being written. SAIF is active in 48 states and the District of Columbia.

### **2012 board calendar**

The proposed 2012 board calendar was included in the board packet. Ms. Rocklin proposed that the June meeting be held in Eugene at SAIF's new office location.

### **President's report**

#### Forward-looking calendar

There were no questions.

#### Contracts list

Chair Travis inquired about the DHX advertising contract and why the amount had increased from \$100,000 to \$200,000. Mr. Davie explained that the initial contract with DHX was for 18 months. The proposed contract is for a three-year period. The contract **is related to SAIF's wellness tactic to encourage SAIF policyholders to keep their workers safe, and to improve the overall level of their health.** SAIF is anticipating some kind of advertising or publicity related to that.

Mr. Martinez asked if participation in wellness programs could or should affect a **policyholder's rates.** Mr. Hoffman stated that one reason that SAIF does not do that is because schedule rating is not currently approved by DCBS. In addition, it would be a difficult program to administer. Mr. Gilkey advised **that one of the tactics in SAIF's Corporate Strategic Plan** is to look at the relationship between loss prevention, safety, and wellness, by building a broader consulting model with its loss control consultants and getting that message out into the policyholder base. **To the extent SAIF's customers see positive results, they will become eligible for lower pricing.**

#### Approve employee award days

Ms. Rocklin requested **the board's approval for** two additional leave days for employees in recognition of their contributions to a very successful year. Sales and retention are **very strong. SAIF's Other States Coverage program has exceeded expectations.** SAIF's reserves and surplus remain strong, despite a \$150 million dividend declaration earlier in the year. There have been no adverse external audit findings for the year. Improvements in employee wellness resulted in there being no increase in **SAIF's** health benefit premium costs for 2012.

Motion Mr. Van Cleave, second Mr. Endicott, to grant employees two additional leave days to be taken between November 17, 2011 and December 31, 2012. The vote was unanimous, and the motion was carried.

**Other business**

Mr. Endicott had additional questions about the specific services provided by the AGC loss control consultants to association members. Vice presidents Gilkey, Hartman, and **Hoffman provided further detail regarding services offered, the program's cost structure** and oversight, and the benefits of specialized safety services in the construction industry.

**Adjournment**

Motion Mr. Ford, second Mr. Endicott, to adjourn the meeting. The vote was unanimous, and the motion was carried.

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

---

Stephanie Robinson, Assistant to the Board