



SAIF CORPORATION

BOARD OF DIRECTORS MEETING

**Wednesday
June 15, 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 10:00 a.m.

Roll call:

Catherine Travis, Chair (by phone)
Robb Van Cleave, Vice Chair
John Endicott
Ralph Martinez
Jim Ford

SAIF Corporation personnel present:

Brenda JP Rocklin, President and CEO
Bruce Hoffman, Vice President of Underwriting Services
Chris Davie, Vice President of Corporate Policy and External Affairs
Colleen Sealock, Vice President of Operations and Human Resources
John Gilkey, Sr. Vice President of Policyholder Services and Programs
Ken Collins, Interim Vice President of Information Services
Michael Hartman, Vice President of Policyholder Programs
Michelle Graham, Vice President of Policyholder Services
Mike Mueller, Sr. Vice President of Claims
Pam Woods, Vice President of Claims
Ryan Fleming, Human Resources Director
Shannon Rickard, Legal Services Director
Theresa McHugh, Vice President of Financial Services
Cathy Pollino, Chief Internal Auditor
Christy Witzke, Marketing and Groups Director
Jennifer Erdrich, Recruitment Manager
Jerry Dykes, Chief Financial Officer
Lyn Zielinski-Mills, Marketing Manager
Pat Morrill, Agency and Group Program Coordinator
Peter Merck, Research and Analysis Manager
Rick Hanson, Strategy and Brand Director
Shawn Wright, Chief Actuarial Officer
Sara Bayes, Executive Assistant

Other attendees:

Paul Abel, CEO, Blue Research
Rick Sherman, R.E. Sherman & Associates, Inc.
Stephanie Seubert, Evans, Elder & Brown, Inc.

Pending litigation

Shannon Rickard advised the board that there were no updates on pending litigation to discuss. The board did not have questions and elected not to enter into executive session.

Approval of minutes

Motion Mr. Martinez, second Mr. Endicott, to approve the minutes of the meeting of March 23, 2011. The vote was unanimous, and the motion was carried.

Financial report

Theresa McHugh reported that financial results for the first quarter of 2011 were positive. Surplus, primarily driven by positive investment results, is \$997.5 million, which is \$38.9 million over the prior year-end surplus. Significant events, in addition to investment income, that positively impacted SAIF's financial position in the first quarter were lower than anticipated incurred claims costs and improved direct written and earned premium. Retention and sales numbers also continued to be very strong.

Investment report

Jerry Dykes reported that world events and natural disasters created a great deal of volatility in the investment markets during the first quarter. However, SAIF's first quarter investment returns were positive at 1.37 percent, outperforming the portfolio benchmark by 37 basis points.

Mr. Dykes added that SAIF staff met with the Oregon Investment Council (OIC) at their June meeting. There were no recommendations to make any changes to SAIF's investment policy.

State Street reports were made available to the board.

Budget report

Direct operating expenses, as of the end of the first quarter, totaled \$29.2 million, which was \$0.9 million under budget. Year-end expenses are projected to be \$0.3 million under budget, with the majority of the savings in the categories of salaries and benefits, equipment, and supplies. An unexpected expenditure is for a financial examination of SAIF by the Department of Consumer and Business Services (DCBS), which began earlier this month. As of the end of the first quarter, there were 829.35 FTE positions, a net increase of 5.00 over the authorized level due to the hiring of 10 new claims trainees. However, at the end of the first quarter, 26.05 FTE were unfilled, leaving a total filled FTE count of 803.30.

Pam Woods reported that the new claims adjuster trainees were hired in March 2011 and graduated from the training program on June 14. Each trainee will be mentored by a claims adjuster for one year and will gradually be taking on a full claims caseload.

CEO's leave/expenses

The board reviewed a summary of Brenda Rocklin's leave and expenses for the first quarter of 2011.

Report from board-appointed actuary

Rick Sherman reported that SAIF's carried loss and loss expense reserves in 2010 were \$3.02 billion. In his opinion, SAIF's reserves are adequate and close to the midpoint of a broad range of reasonable estimates. As always, there is a high level of uncertainty as to the total future payout for loss and loss reserve expenses, primarily due to the following factors:

- The very slow payout for permanently disabled claimants, extending over the next seven decades
- Inevitable uncertainty about future rates of medical cost escalation over the next seven decades
- The wide variation in how much will be paid out for each permanently disabled claimant (No one knows how long each claimant will live or how their medical condition will change as they age.)
- The currently unknown impact of recently enacted health care reform legislation on future workers' compensation payments for long-term claims
- The potential sweeping impact of various possible future developments (e.g., dramatic advances in medical science, wars, plagues, catastrophes, new environmental hazards, and legislation or court decisions with retroactive effects) on loss payments

Mr. Sherman reported that the uncertainty facing SAIF regarding its loss and loss expense reserves is offset by a slow future payout of losses, which should allow ample time for SAIF's management team to monitor future payouts and implement various options if adverse development occurs. This, in turn, puts SAIF in a financially strong position regarding loss and loss expense reserves. Mr. Sherman's independent analysis and opinions have also been provided to DCBS.

In response to a question from Mr. Ford, Mr. Sherman informed the board that SAIF's staff has provided all available data and information necessary for him to do his job.

Target surplus

Shawn Wright presented a report recommending that the board adopt a target surplus range of \$690 million to \$810 million. SAIF's surplus at the end of the first quarter of 2011 was \$997.5 million. The methods of determining surplus ranges are a modified risk-based capital (RBC) method and a dynamic financial analysis (DFA) model. The target range results were validated by testing them against SAIF's past surplus-to-RBC ratios, retroactively testing SAIF's surplus adequacy, benchmarking to other state funds, and reviewing specific scenarios that drive the need for surplus.

Motion Mr. Ford, second Mr. Martinez, to approve the recommended target surplus range of \$690 million to \$810 million. The vote was unanimous, and the motion was carried.

Dividend declaration

Ms. Rocklin recommended that SAIF's Board of Directors declare a dividend of approximately \$150 million, payable before July 31, 2011, to eligible policyholders with policy end dates during 2009 and/or 2010, in light of the fact that SAIF's current surplus exceeds the target surplus range.

Mr. Wright advised the board that, in his opinion, SAIF would remain in sound financial condition if the board declared a \$150 million dividend.

In response to questions raised by Chair Travis regarding the volatility of current financial markets, Ms. McHugh reported that SAIF carries its bonds at amortized cost. As a result, market fluctuations will have a minimal impact on bond values. In addition, the DFA model factors in a one-in-40-year stock market crash.

Mr. Endicott declared his conflict of interest as a SAIF policyholder.

Mr. Van Cleave declared his conflict of interest as a SAIF policyholder.

Mr. Ford declared his conflict of interest as a SAIF policyholder.

Mr. Martinez declared his conflict of interest as a SAIF policyholder.

Ms. Travis declared a potential conflict of interest as being associated with a SAIF policyholder.

Motion Mr. Ford, second Mr. Endicott, to declare a dividend of approximately \$150 million, payable before July 31, 2011, to eligible policyholders.

Mr. Martinez – aye
Mr. Endicott – aye
Mr. Ford – aye
Mr. Van Cleave – aye
Ms. Travis – aye

The motion was carried.

Chris Davie will provide a press release to the media. On July 8, 2011, policyholders will be able to view their dividend check amount online at saif.com.

Group contracts

Pat Morrill proposed five new group contracts for supplemental services. Two of the contracts are renewing for a one-year term at the request of the association, and three contracts are renewing for three-year terms in order to streamline SAIF's contracting process.

One-year term:

- Agri-Business Council of Oregon
- Oregon Association of Nurseries

Three-year term:

- Eugene Area Chamber of Commerce
- Oregon Concrete and Aggregate Producers Association
- Software Association of Oregon

There are 541 policyholder members in these five groups, representing approximately \$5.5 million in premium.

Motion Mr. Martinez, second Mr. Endicott, to approve the five group contracts as outlined by Ms. Morrill. The vote was unanimous, and the motion was carried.

Ms. Zielinski-Mills also proposed a one-year, \$50,400 reimbursable services contract with Gossard and Associates, Inc. (G&A). This is a secondary services contract that supplements SAIF's services with G&A's specialization in high hazard exposures in the wood products industry. There are 30 policyholder members, representing approximately \$3.5 million in premium, currently in the group.

The final two contracts are agency agreements with BW Insurance Agency, Inc. and Home Builders Insurance, Inc. These contracts have no fixed expiration date, but include a three-year fixed-term addendum for group services. The addenda are expiring on June 30, 2011, and will be extended to June 30, 2014.

Motion Mr. Martinez, second Mr. Ford, to approve the three contracts as outlined by Ms. Zielinski-Mills. The vote was unanimous, and the motion was carried.

Corporate Performance Report

Peter Merck highlighted the key financial performance indicators for the past year and the trends over the past five years.

For accident year 2010, the ratio of direct paid losses to earned premium is above the breakeven level by less than half a percent, at 27.7 percent. Management will continue to watch this category closely.

The claims frequency rate held steady at 1.39 claims per \$10 million in payroll, after 27 consecutive years of declining rates. Policyholder retention has exceeded 99 percent for the past five years. SAIF's greenhouse gas emissions are down 3.9 percent from 2009. Employee turnover, mainly due to retirements, is up, but within SAIF's historic average of six-to-eight percent per year.

2011-2013 Corporate Strategic Plan (CSP)

Rick Hanson reported on a few key midyear accomplishments from the CSP tactic groups. He reported that currently 24 corporate tactics are in progress; half of the tactics will be completed by year-end. In addition, there is a CSP planning meeting in September, and he will provide more information to the board as it becomes available.

The board was shown layouts for a new ad campaign that will be running for 15 months in public broadcasting outlets and business trade publications.

John Gilkey reported that the Other States Coverage program has been implemented and sales have been exceeding expectations.

Mr. Davie proposed that a different tactic team attend and report on their work at each future board meeting. The board agreed with Mr. Davie's proposal.

Legislative update

Mr. Davie reported that the legislature is still scheduled to complete its session by June 30, 2011. There are no controversial bills associated with SAIF in this legislative session. A bill discussed at the March board meeting that proposed extending nurse practitioners' authority to treat injured workers has been added by the Senate as an amendment to an unrelated bill. The House refused to accept the amendments on the ground that the Management-Labor Advisory Committee (MLAC) did not support the nurse practitioners' amendments.

There are 29+ bills associated with PERS, and House Bill 2456 appears to be the only bill that will pass the House and Senate. The passage of this bill would remove the Oregon state tax benefit supplement for those retirees who move out of state. In addition, there are discussions on amending the six percent "pickup" law to authorize public bodies to elect to "pickup" anywhere from zero to six percent of the employees' contributions to PERS.

Senate Bill 41 concerning public records, proposed by the Oregon Attorney General, was amended to address all of SAIF's concerns. However, there is considerable opposition to the bill, and it may be sent back for more work in the interim.

Mr. Davie will continue to keep the board informed about the progress of key bills as the legislative session wraps up.

Eugene office

Colleen Sealock reported that negotiations are underway for leasing 7,600 to 8,600 square feet of office space in the building that houses the *Eugene Register-Guard* newspaper. The building is in a desirable location near the junction of I-5 and Beltline Road with excellent visibility and easy access.

The board had a lengthy discussion about owning versus leasing. Ms. Sealock reported that there are few buildings for sale and most of those were not good matches for SAIF's needs. In response to a question from Mr. Martinez regarding building to suit SAIF's needs, Mr. Hanson introduced Stephanie Seubert with Evans, Elder & Brown, Inc., the Eugene commercial real estate firm working with SAIF staff to relocate the Eugene office. She reported that, due to strict building codes in the Eugene area, it is not feasible for SAIF to build a suitable office building in the desired area. Mr. Hanson informed the board that the *Eugene Register-Guard* building is a good fit for employees and consistent with SAIF's brand.

Mr. Ford stated he was comfortable with staff's recommendation to lease. Vice Chair Van Cleave pointed out that the board agreed to pursue leasing options in Eugene at the March meeting. The board agreed that SAIF staff should pursue negotiations with the *Register-Guard*, but with an eye on locating a parcel of land on which to build in the future.

President's report

Forward-looking calendar

Ms. Rocklin reminded the board that the next meeting will be on September 14, 2011. The board unanimously agreed to hold the board meeting at the Salem office. Ms. Rocklin noted that the board will be updated on SAIF's second-quarter financials, will be asked to approve a reinsurance renewal proposal and 2012 employee benefits, and will be updated on 2012 pricing.

Contracts list

Ms. Rocklin provided the board with the pending contracts list. There were no questions.

Northeastern Oregon office

Ms. Rocklin informed the board that a Corporate Strategic Plan tactic team has studied how and where SAIF should provide customer service in rural areas. Based on their report, management has decided to terminate the lease at the Pendleton office and move the office to Hermiston. The Pendleton lease is scheduled to expire on November 30, 2011. The U.S. Census Office has reported that Hermiston has surpassed Pendleton in population and is now the largest city in eastern Oregon. The Hermiston lease will be a three-year sublease of 551 square feet in a professional building, beginning June 1, 2011. The Hermiston office will also showcase a new approach for SAIF as a working office suite only. The office will not be open to the public, but rather will provide office space for local SAIF employees.

Audit Committee

Mr. Endicott informed the board that the Audit Committee met prior to the board meeting. At the meeting, Internal Audit reported on several audits, including a follow-up audit on retrospective rating plans, an audit of the accuracy of payroll report entry, an audit on specially handled claims costs, and an audit of SAIF's processes to manage and control access to SAIF's computer systems and data. The committee was also updated on the progress of two external audits, a financial statement opinion audit by Moss Adams and a financial examination by the Department of Consumer and Business Services. Finally, the committee approved a modification to the 2011 Internal Audit plan to remove the mail services review and replace it with a review of SAIF's bulk printing practices.

The Audit Committee members had an opportunity to speak with the internal auditors without management present. The Audit Committee will meet again in September.

2011 employee survey

Mr. Gilkey reported that all employees were invited to participate in a web-based Employee Satisfaction Survey in April 2011. A total of 582 employees completed the survey. The survey assessed employee perceptions of executive leadership, compensation, work-life balance, and career development. Mr. Gilkey introduced Dr. Paul Abel, CEO of Blue Research. Dr. Abel referenced the survey results within the board packet, and reported that overall results were very positive.

Mr. Gilkey informed the board that, while employees consider SAIF a great place to work with competitive benefits, and good work-life balance, pay, and retirement plans, management will be taking steps to address employee concerns around advancement opportunities, internal communication, and leadership visibility.

Employment messaging report

Mr. Hanson introduced Jennifer Erdrich, SAIF's Recruitment Manager, who presented a report describing the results of research into employee perceptions of SAIF as an employer. The research was conducted as part of a project to develop an employment messaging strategy that will guide SAIF communications related to recruitment and retention. Ms. Erdrich reported that interviews were completed with 21 employees with different lengths of tenure with SAIF. The board reviewed the results from the interviews.

Election of officers

The board elected officers in compliance with the State Accident Insurance Fund Corporation Bylaws.

Mr. Endicott nominated Ms. Travis to serve as Chair. There were no other nominations. Motion Mr. Endicott, second Mr. Van Cleave, to appoint Ms. Travis as Chair for a one-year term beginning July 1, 2011. The vote was unanimous, and the motion was carried.

Mr. Endicott nominated Mr. Van Cleave to serve as Vice Chair. There were no other nominations. Motion Mr. Endicott, second Mr. Ford, to appoint Mr. Van Cleave as Vice Chair for a one-year term beginning July 1, 2011. The vote was unanimous, and the motion was carried.

Other business

Ms. Rocklin introduced Ken Collins, SAIF's Interim Vice President of Information Services.

Adjournment

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

There being no further business, the meeting was adjourned at 12:38 p.m.

Sara Bayes, Executive Assistant to the Board