



SAIF CORPORATION

BOARD OF DIRECTORS MEETING

**Wednesday
September 1, 2010
10:00 a.m.**

**SAIF Corporation
1500 SW First Ave
Portland, Oregon**

After determining a quorum was present, the meeting was called to order at 10:00 a.m.

Roll Call:

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

SAIF Corporation Personnel Present:

Brenda JP Rocklin, President and CEO
Mike Mueller, Sr. Vice President of Claims and Legal Services
Chris Davie, Vice President of Corporate Policy and External Affairs
Colleen Sealock, Vice President of Operations and Human Resources
Garry Robinson, Vice President of Information Services
John Gilkey, Vice President of Policyholder Services
Michael Hartman, Vice President of Underwriting Services
Michelle Graham, Vice President of Claims
Theresa McHugh, Vice President of Financial Services
Bruce Hoffman, Underwriting Director
Casey Baumert, Corporate Internal Auditor
Cathy Pollino, Chief Internal Auditor
Cyndi Gentry, Compensation Manager
Jerry Dykes, Chief Financial Officer
Ken Van Osdol, Benefits Manager
Peter Merck, Research and Analysis Manager
Ryan Fleming, Human Resource Director
Shawn Wright, Chief Actuarial Officer (by phone)
Sara Bayes, Executive Assistant

Other Attendees:

Sarah Friend, Benefits Consultant, The Partners Group

EXECUTIVE SESSION

Pending Litigation

At 10:00 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 10:11 a.m., the Chair announced the conclusion of Executive Session.

Approval of Minutes

Motion Mr. Van Cleave, second Mr. Endicott, to approve the minutes of the meeting of June 9, 2010. The vote was unanimous, and the motion was carried.

Financial Update

Second Quarter 2010 Financials

Theresa McHugh reported that, overall, financial results for the second quarter remained positive. Despite declaring a \$100 million policyholder dividend in March of 2010, SAIF ended the quarter with a surplus of \$880.7 million. Ms. McHugh also noted that premium income had shown improvement, and claims-related payments had slowed.

In response to a question from Mr. Van Cleave regarding a \$1.16 million indemnity payment, Ms. McHugh reported that the payment was related to a federal workers' compensation claim that was expected to be paid in late 2009, but was not paid until the first quarter of 2010.

Investment Report

Jerry Dykes reported that investment markets for the second quarter have continued to be volatile with bond markets posting positive returns and equity markets posting declines. SAIF's total investment return for the quarter was 2.86 percent, 55 basis points below the portfolio performance benchmark.

Mr. Dykes noted that SAIF's investment allocation continues to be in compliance with policy. The reduction in SAIF's equity holdings was completed at the end of the first quarter. Changes to the fixed income portfolio will be implemented over the remainder of the year.

State Street reports were made available to the board.

Second Quarter 2010 Budget Report

Ms. McHugh reported that year-to-date direct operating expenses, as of the end of the second quarter, were \$56.0 million, and year-end expenses are projected to be \$115.0 million, or \$2.8 million under budget. Savings were primarily in the categories of commission expense, group fees, and salaries and benefits related to unfilled FTE. In addition, there were significant savings in the areas of equipment, supplies, and real estate expenses. On a positive note, commission expenses for July 2010 exceeded budget expectations, driven by higher than expected premiums.

At the end of the second quarter, there were 857.15 FTE positions, a net increase of 2.00 over the authorized 2010 level. Ms. McHugh noted that the increases are more than offset by vacant positions that have not been filled. At the end of the second quarter, 33.85 FTE were unfilled, leaving a total of 823.30 FTE filled positions.

CEO's Leave/Expenses

The board reviewed a summary of Ms. Rocklin's leave and expenses for the second quarter of 2010. There were no questions or comments.

Review and Approve Reinsurance Proposal

Shawn Wright recommended that SAIF purchase reinsurance coverage of \$60 million excess of \$35 million retention for the period of October 1, 2010 through September 30, 2011, at a cost of approximately \$1 million. This matches SAIF's current reinsurance coverage and would continue to provide adequate protection against unanticipated catastrophic losses while helping to keep SAIF's costs down. In the unlikely event that staff is not able to secure this coverage for approximately \$1 million, SAIF would purchase \$60 million of coverage excess of \$40 million retention. Mr. Wright recommended that SAIF not purchase nuclear, biological, chemical, and radiological (NBCR) terrorism reinsurance coverage.

In response to a question from Mr. Ford, Mr. Wright informed the board that SAIF's reinsurance broker, Aon Benfield, is confident that SAIF will be able to purchase this level of coverage for \$1 million as proposed.

Motion Mr. Ford, second Mr. Van Cleave, that SAIF staff make their best effort to purchase \$60 million of coverage excess of \$35 million retention and that SAIF not purchase NBCR terrorism reinsurance, as outlined by Mr. Wright. The vote was unanimous, and the motion was carried.

Pricing Update

Michael Hartman introduced Bruce Hoffman, Underwriting Director.

Mr. Hartman reported that SAIF will not make any final pricing decisions until the Department of Consumer and Business Services (DCBS) releases the 2011 pure premium rate in mid-September. However, it is expected that rates will decrease or remain flat for the 21st consecutive year. Recommendations on any changes to SAIF's pricing tiers for 2011 will be reported to the board at the November meeting. The board reviewed the National Council on Compensation Insurance (NCCI) charts on pure premium rate changes from 1990-2010, SAIF's premium rate multipliers, and Oregon's private carriers' weighted average expense load factors from 2000-2009.

Mr. Hartman informed the board that the pricing committee has recommended, and executive management has agreed, that SAIF accept credit card payments for premium and non-disabling claims reimbursements. The necessary programming of SAIF's online system will be implemented later this year or early in 2011. The auto-pricing program for small business customers is being evaluated and recommendations on changes to the model are expected later in the month, with implementation in the first quarter of 2011.

Chris Davie reported that, along with the release of the pure premium rate, DCBS will be announcing the assessment rate, a premium tax that policyholders pay through carriers to the Workers' Compensation Division that funds the regulatory function, the appeals process, and the Occupational Safety and Health Division (OR-OSHA). There is a strong expectation that the 2011 assessment rate will increase for policyholders. SAIF's policyholders will be advised of this increase in the next issue of CompNews.

Group Contracts

John Gilkey reported that SAIF's contract with Associated General Contractors (AGC) is up for renewal on October 1, 2010.

SAIF Corporation has contracted with AGC for 19 years, primarily for loss control and industrial hygiene services to AGC/SAIF group members. For the 2008-2009 year, SAIF returned \$3.3 million to AGC members based on their loss performance. Since the beginning of the program, retrospective returns to members have totaled approximately \$134 million.

Mr. Gilkey reported that the current contract with AGC is for \$1,508,000. He is recommending a one-year contract renewal with a decrease of 4.2 percent, or \$64,000, for a total new contracted amount of \$1,444,000. AGC will continue to assume responsibility for primary loss control and industrial hygiene services for its 708 group members. Actual expenses for the delivery of these services are included in the pricing of the AGC/SAIF program so that participating members fund the program directly through premium payments to SAIF.

Motion Mr. Van Cleave, second Mr. Ford, to approve a one-year contract for \$1,444,000, as outlined by Mr. Gilkey. The vote was unanimous, and the motion was carried.

Review 2011 Employee Benefits

Colleen Sealock introduced Ken Van Osdol, benefits manager, Cyndi Gentry, compensation manager, Ryan Fleming, HR director, and Sarah Friend, benefits consultant with The Partners Group.

Mr. Van Osdol highlighted key items in the 2011 benefits package proposal. The overall health benefit premium rate, including medical, dental, disability, and life insurance, will increase 11.5 percent in 2011. While there are no major changes to the proposed benefit plans, a few adjustments in co-pays and out-of-pocket maximums are recommended. In addition, beginning January 1, 2011, the new federal health care reform law will require that eligibility for benefits be extended to children of an employee, spouse, or domestic partner, to age 26, regardless of their marital status, or other health care coverage. The expected increase in dependents on the plans could increase premium costs by approximately \$95,000.

SAIF will continue to offer its two-tier medical plans for Kaiser Permanente and Providence. Ms. Rocklin noted that the Kaiser Added Choice plan option was being eliminated due to low participation.

Dental plans will remain largely the same, except for the addition of dental implant benefits.

Ms. Sealock highlighted the executive council's recommendations to the board:

1. Fund the full employee premium cost for the Providence and Kaiser Core HMO medical plans.
2. Fund the full employee premium cost for the ODS and Kaiser PPO dental plans. Kaiser DHMO members will pay an additional premium charge equal to the difference between the ODS premium and the Kaiser DHMO premium.
3. Continue to offer the VSP and Standard Insurance plans with no premium charge to employees.
4. Hire an outside benefits consultant in the fall of 2010 to evaluate SAIF's total compensation package and compare it with other public and private sector employers.
5. Once the report is received, begin work on the 2012 benefit renewal, including employee focus groups

Board members voiced their support for the 2011 benefits package, as recommended by staff. The board will formally approve the 2011 benefits package when it approves the operating budget in December 2010.

Industry Benchmark and Market Share Reports

Peter Merck reported that the Industry Benchmark Report, which compares SAIF's performance against other state funds, private insurers, and self-insured employers, shows improvements in financial measurements.

Mr. Merck reported on highlights regarding SAIF's financial solvency, return on investment, and operations, and on SAIF's share of the Oregon workers' compensation market. The board also reviewed a chart that compared SAIF to other state funds in 2009 in terms of surplus to Risk-Based Capital ratios.

Ms. McHugh asked board members to let her know if they have any suggestions or would like a report on any other areas of the company for the 2011 report.

President's Report

Forward-Looking Calendar

Ms. Rocklin reminded the board that the next two meetings will be held in the Salem office. She noted that in November the board will be briefed on 3rd quarter financials, the NCCI pure premium rate, and SAIF's 2011 rate filings, and will be asked to review and approve the 2011-2013 Corporate Strategic Plan, target surplus recommendation, and 2011 board calendar dates. In addition, there will be an initial discussion on the 2011 budget, focusing on projected FTE.

Ms. Rocklin presented the board with a draft calendar of six proposed board meeting dates and four proposed audit committee dates that coincide with business needs for 2011. The board will approve the calendar at the November meeting.

Mr. Van Cleave reported that, earlier this year, the Compensation Committee recommended to the board that Ms. Rocklin's salary be reevaluated for an additional lump sum award in November 2010. However, due to the continuing economic hardship Oregon is facing, he recommended that the board remove this item from the November agenda. The board and Ms. Rocklin agreed with Mr. Van Cleave's recommendation.

Contracts List

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

Miscellaneous

The board reviewed the Corporate Strategic Plan (CSP) offsite agenda. There were no questions.

Ms. Rocklin informed the board that SAIF has received multiple awards of recognition for its contributions to the community and support for employees serving in the military and their families. The awards were on display for the board to view.

Mr. Van Cleave inquired about the possibility of SAIF assisting the Wounded Warriors program by educating and providing employers with information to modify work stations for injured soldiers. Michelle Graham informed the board that policyholders have access to work station modification assistance through SAIF's Loss Control program. SAIF assists employers in hiring and returning injured workers, and employees with non-work related injuries, back to the workforce.

Mr. Davie will provide the board with the video link to Office Ergonomics: Simple Solutions, from SAIF's external website.

Mr. Gilkey shared the Portland Business Journal's list of top 25 property and casualty insurers based on direct premiums written in Oregon in 2009. He noted that SAIF earned the third spot on the list primarily due to the first and second place companies holding 80-90 percent of their premiums in lines of insurance that have not been significantly impacted by the current economy.

At the request of Mr. Ford, the board reviewed a current organizational chart.

Report from Board Audit Committee

Mr. Endicott reported that the board Audit Committee met prior to the board meeting and received a final report on audits completed by Moss Adams, who conducted the audits under contract with the Secretary of State Audits Division. The auditors issued SAIF a clean, unqualified opinion with no material misstatements. Internal Audit also reported on a claims settlement audit and a business continuity audit, and provided an update on the status of Model Audit Rule internal control testing. The committee was also updated on the status of all pending audit recommendations.

Mr. Endicott also reported that he and Mr. Ford met with Moss Adams and the Secretary of State auditors without SAIF management present. They also met privately with the Chief Financial Officer and the Financial Reporting Manager, and then met with the internal audit team. Audit Committee members are satisfied that there has been no undue pressure put upon the auditors or other managers by executive management.

The Audit Committee members also suggested to the board that the Chair write a letter to Secretary of State Kate Brown expressing their gratitude for the professionalism and timeliness of Moss Adams' audit work. The board and management agreed.

Adjournment

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

There being no further business, the meeting was adjourned at 11:36 a.m.

Sara Bayes, Executive Assistant to the Board