



SAIF CORPORATION

BOARD OF DIRECTORS

**Wednesday
September 14, 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 10:17 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
Jerry Dykes, Chief Financial Officer
Ryan Fleming, Human Resources Director
Kathy Gehring, Vice President of Claims
Cyndi Gentry, Human Resources Operations Manager
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
Theresa McHugh, Vice President of Financial Services
Mike Mueller, Sr. Vice President of Claims
Cathy Pollino, Chief Internal Auditor
Shannon Rickard, Legal Services Director
Colleen Sealock, Vice President of Operations and Human Resources
Christy Witzke, Marketing and Groups Director
Pam Woods, Vice President of Claims
Shawn Wright, Chief Actuarial Officer
Sara Bayes, Executive Assistant

Pending litigation

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 board minutes

Motion Mr. Van Cleave, second Mr. Endicott, to approve the minutes of the meeting of June 15, 2011. The vote was unanimous, and the motion was carried.

Financial reports

Second quarter financial report

Theresa McHugh reported that earned premium for the second quarter of 2011 was lower than the second quarter of 2010, but remained slightly higher year-to-date compared to 2010. Claim counts increased slightly, and there was a small net unfavorable loss in reserve development. Excluding realized gains, investment income declined slightly. If the \$150 million dividend had not been declared, surplus would have increased by \$8.3 million. Including the dividend, surplus was \$855.8 million at the end of the second quarter. This is a decrease of \$141.7 million from the end of the prior quarter, but still above the target surplus range of \$690 to \$810 million, and is 2.9 times the projected Risk-Based Capital requirement for 2011.

Written premium continues to increase. There is strong growth in sales, and retention of business remains high.

Investment report

Jerry Dykes reported that the investment market was very volatile in the second quarter. The equity market was strong in April and then declined in May and June. The total investment return on SAIF's portfolio is still on the positive side year-to-date. SAIF's bond investments are performing fairly well, with a positive return of approximately two percent. Overall, SAIF's portfolio remains in compliance with investment policy.

Continuing concerns about the U.S. debt crisis and the Standard & Poor's downgrade have contributed to uncertainty in the third quarter. If there are additional downgrades, there is a possibility that SAIF could fall out of compliance with its policy for the overall quality rating of the portfolio. SAIF is working with the Oregon State Treasurer to assess how that would impact the company.

As of September 13, 2011, equities were down 15 percent for the quarter, which equates to approximately a \$70 million decrease to surplus.

Budget report

Because of strong sales, commission costs are projected to be over budget for the year. It is not yet clear whether total expenses will exceed the 2011 approved budget at year-end. An update will be provided to the board at the end of the third quarter. When commissions are excluded, projected operating expenses are expected to be within the approved budget. Favorable variances include savings on salaries, equipment, advertising, and travel.

The new budget system has been implemented and will be used for development of the 2012 budget.

CEO leave and expenses

The CEO leave and expense information for the second quarter was presented to the board. There were no questions.

Industry Benchmark Report

Ms. McHugh noted that the surplus measurement on charts 1 and 2 showed a downward trend in 2010, which is directly related to the \$200 million paid in dividends in that year.

In 2010, SAIF exceeded the NCCI threshold for calculation errors on indemnity losses (chart 5). The errors have been corrected and measures have been put into place that will make it less likely to happen in the future.

Mr. Van Cleave asked whether SAIF exceeded the NCCI error threshold because of more than one miscalculation. Shawn Wright explained that there are six different data calls. The threshold is an average of 2.08 errors per call for a total of slightly over 12 errors for all six data calls. SAIF had a total of 15 errors for all six calls based on a miscalculation in indemnity losses. The errors were found and corrected, but not soon enough for NCCI's 2010 reporting period.

Brenda Rocklin advised the board that she has asked Claims management to study the trend in the number of days SAIF takes to make a disabling claims decision (chart 7) and SAIF's timeliness in making its first payment to an injured worker (chart 8) to make certain that SAIF is responding in as timely a manner as possible.

Reinsurance proposal

Shawn Wright reported that SAIF continues to be guided by three reinsurance principles:

- Limit the adverse financial consequences of a catastrophic event
- Align reinsurance protection with SAIF's financial strength and risk tolerance
- Avoid buying coverage at levels where losses can be routinely expected

SAIF is in a strong financial position, and can afford to absorb the loss costs resulting from injuries to one person. Mr. Wright recommended purchasing standard reinsurance coverage of \$60 million excess of \$35 million retention, which is the same reinsurance coverage SAIF purchased last year. This will provide protection against an earthquake or other catastrophic event. This coverage can be purchased for slightly less than \$1.0 million, which is a slight decrease from last year. It is believed that SAIF would not achieve additional cost savings by selecting a retention of \$40 million.

Motion Mr. Ford, second Mr. Martinez, to purchase reinsurance coverage of \$60 million excess of \$35 million for approximately \$1.0 million. The vote was unanimous, and the motion was carried.

Group contract with Associated General Contractors (AGC)

Christy Witzke reported that SAIF continues to have a very successful partnership with AGC. SAIF contracts with AGC to provide primary loss control and industrial hygiene services for group members. These services are outsourced due to the association's specialization in the prevention of injuries in the construction industry. There are 651 participating members and approximately \$26 million in premium.

The proposed contract is for one year, effective October 1, 2011, in the amount of \$1.5 million. This represents a \$56,000 increase from the previous year's contract. Due to the impact of the economy, particularly in construction, AGC froze pay and benefits for its staff who were directly involved in the AGC/SAIF product. The increase in the contract amount would allow AGC to better align its staff salaries with the market. Additionally, AGC's premiums for 2012 are estimated to be \$27 million, a \$5 million increase over the previous year's estimate.

Expenses associated with service delivery are included in the pricing of the product. Participating members of the association fund the entire cost of AGC's services through premium payments to SAIF.

Mr. Endicott stated that he would like to hear from an AGC safety services person to understand what they do and how it contributes to the success of their program. At Ms. Rocklin's request, Ms. Witzke will arrange to have an AGC representative at the board meeting in November.

Motion Mr. Endicott, second Mr. Van Cleave, to approve the proposed contract with Associated General Contractors. The vote was unanimous, and the motion was carried.

2012 employee benefits

Cyndi Gentry reported that it is anticipated that there will be a slight decrease in SAIF's overall benefits budget in 2012. Medical renewals came in relatively flat due to a significant improvement in SAIF's large claims experience. Dental renewals came in with a slight increase for Kaiser and an 8.5 percent increase for ODS.

In response to a question from Mr. Van Cleave, Ms. Gentry explained that the improvement in large claims experience was fortunate, but unpredictable. Ryan Fleming reported that there was also an increase in wellness and preventative measures that may have contributed to the improvement.

Mr. Endicott inquired whether SAIF purchases stop loss insurance on its medical plans. Ms. Gentry reported that SAIF has stop loss insurance that is directly through the plans and calculated into the premium.

An RFP was conducted for all of SAIF's ancillary benefits, both voluntary (employee-paid) and SAIF-paid. As part of that process, all of the plans have been enhanced, while SAIF rates have decreased and employee voluntary rates have remained comparable.

When the board considers the 2012 operating budget in December, the health plan expenditures will be part of the proposed budget. No formal action is required at this time.

Eugene office lease

Colleen Sealock reported that, after several years of working with a real estate broker to identify suitable office space to purchase in the Eugene area, it is believed that the best option is to enter into a six-year, three-month agreement with the *Register-Guard* to lease 8,587 square feet of vacant office space in the *Register-Guard* building. Built into the lease would be an early termination clause in order to exit from that lease should suitable space for purchase become available.

Rick Hanson reported that the proposed space is for slightly more square footage, at a lower cost, than the current Eugene regional office. The monthly lease includes utilities, janitorial service, and security, for which SAIF is paying extra at the current location. The additional square footage will allow a number of claims employees to work in the Eugene office.

Mr. Van Cleave asked whether future plans were taken into consideration with regard to SAIF's square footage needs. Ms. Rocklin assured Mr. Van Cleave that that analysis had been done.

Ms. Travis asked if there would be a penalty if SAIF exercised the early termination clause. Ms. Sealock advised that SAIF would be required to give six months' notice, pay six months' rent which would be reduced to three months' rent if a replacement tenant was found, and pay the unamortized tenant improvement costs and brokerage fees.

Mr. Endicott asked if there was an out-clause included in the contract in the event the *Register-Guard* did not fulfill its obligations. Ms. Sealock advised that she would confer with SAIF's contract attorney and ask that an out-clause be included if one is not already present.

Motion Mr. Ford, second Mr. Martinez, to approve the lease of the 8,587 square feet of office space at 3500 Chad Drive, Eugene, Oregon. The vote was unanimous, and the motion was carried.

Pricing Committee report

Bruce Hoffman reported that SAIF's pricing committee has been meeting for several months to monitor and analyze the 2011 performance of SAIF's current pricing structure. The committee recommends that SAIF's lowest and highest tiers be modified, which is in line with SAIF's fair-share pricing principle. The lowest tier would be reduced from 1.06 to 1.04 and the highest tier from 1.54 to 1.50. A new tier, at 1.70, would be inserted closer to the assigned risk pool tier.

The Department of Consumer and Business Services will release the 2012 pure premium rates in mid- to-late September. SAIF will not make any final pricing decisions until the pure premium rates have been reviewed.

SAIF made some changes to auto-pricing in the Service Center earlier in the year. Following those changes, the renewal retention has remained very strong.

As of August 25, 2011, SAIF is receiving premium payments by credit cards, at an average of \$20,000 per day.

Mr. Martinez inquired whether the proposed new rates would affect any future dividend declaration. Mr. Wright responded that the recommended changes to the pricing structure may have an impact on reduction of premium of approximately \$2 million per year.

John Gilkey noted that during a seminar in the spring that offers agents continuing education credits, Mr. Hoffman and Mr. Wright addressed the issue of potential new products and a change in pricing. The preference of the agents was the addition of a higher tier, and they believed there was a market for that tier.

Agent commissions

Mr. Gilkey reported that SAIF's philosophy on agent commissions is to be competitive, but not to be leading or lagging the rates paid by other carriers in the market. SAIF evaluates its position annually through an analysis of data purchased from the National Association of Insurance Commissioners (NAIC).

An analysis of the NAIC data for 2010 was undertaken by SAIF's marketing staff. Their analysis showed that SAIF's position is consistent with its business objectives, with four competitors paying lower commission rates and three paying higher commission rates than SAIF.

The year-to-date total for new sales is \$18.1 million, which is approximately 66 percent higher than at this time last year, and \$800,000 higher than at year-end 2010.

Since the Other States Coverage program began in February of this year, SAIF has written more than 170 accounts. Coverage has been issued in 45 states and the District of Columbia. The results are far beyond the initial expectations for this program.

Mr. Van Cleave stated that he believes SAIF could raise agent commissions a percentage point, considering the amount of dividends SAIF has paid, and that 72 percent of SAIF's business is written by agents. Ms. Travis pointed out that SAIF provides added value in other ways, such as training. Mr. Martinez inquired about leaving premium rates as they currently are, but increasing commission rates, to see if that would stimulate growth in sales. Mr. Gilkey stated that SAIF's agents have a good sense about the types of business SAIF is interested in and that's what they bring. Accordingly, the rejection rates are fairly low and non-renewal rates are virtually non-existent.

SAIF is considering engaging in an agent satisfaction survey with appointed agents early in 2012.

Mr. Ford stated that he believed there was a benefit to the agents knowing that there is an inherent stability in SAIF's structure, and that a lesser percentage of business will be rejected.

Mr. Martinez stated that there may be a scenario where there is a tiered system for commissions, or where the amount of premium sold by an agent would provide eligibility for a small percentage of any potential dividend declaration.

Mr. Gilkey stated that SAIF does have a tiered system for commissions. SAIF has a premier appointment that accrues to agents who meet volume requirements. The bulk of SAIF's agents have full appointment designations that provide just slightly less in terms of what it offers for the premier appointment designation. There is also an appointment that allows agents to submit business to the Service Center only. SAIF also has the ability to negotiate commissions.

Mr. Van Cleave stated that he believes SAIF's agent commissions are too low and should be raised. He requested that the results of the proposed agent satisfaction survey be presented to the board when the results become available.

President's report

Forward-looking calendar

The Executive Council will meet on September 16 to discuss the 2012-14 Corporate Strategic Plan. The agenda for the meeting was included in the board's packet of materials. Board members were invited to attend the meeting. Mr. Van Cleave will be unable to attend, but staff will meet with him individually for input and discussion.

The November board meeting will be held in Salem. Agenda items will include the Corporate Strategic Plan and an initial budget discussion. Mr. Van Cleave will be unable to attend the November board meeting.

Contracts list

Ms. Rocklin provided the board with the pending contracts list. Three contracts on the list relate to SAIF's health benefits. There were no questions.

Legislative report

Ms. Rocklin reported that SB 242 appears to give the Oregon University System the authority to buy workers' compensation insurance from an entity other than SAIF.

HB 2743 will give podiatrists full "attending physician" status.

The Rural Medical Liability Reinsurance Program has been administered by SAIF since 2005. A new program takes effect on January 1, 2012, and SAIF's involvement will end after the final accounting is completed.

SB 43 will allow an increase in the percentage of certain benefits that are subject to an order of the Department of Justice to enforce a child support obligation.

SB 440 provides that if a board or a board member participates in a board meeting by telephone or other electronic means, those board members are not entitled to compensation or reimbursement of expenses, unless the board authorizes that payment.

HB 2020 requires state agencies to review the ratio of employees to supervisors and develop a plan to attain a ratio of 11 to 1. Although SAIF will not be affected by this requirement, the Executive Council will be reviewing this issue.

Mr. Hoffman, in addressing a question from Mr. Endicott, explained that SB 961 voids the provision of a contract that requires a waiver of subrogation be included in the contract. This does not preclude the injured worker from taking action against the third party. SAIF will continue to make waivers of subrogation available to policyholders, if requested.

Audit Committee report

Mr. Endicott reported that Cathy Pollino and Casey Baumert recently completed work on five internal audits: Recording of Fraud and Third-Party Collection Transactions, Dividend Issuance, Business Decision System Premium Data, Premium Audit Quality Review Process, and Claims Reserving Audit.

Mr. Endicott and Mr. Ford met privately with Ms. Pollino and Mr. Baumert to ascertain whether they had been experiencing any undue pressure from management.

Representatives from Moss Adams LLP were in attendance at the Audit Committee meeting to review the financial audit conducted for the year ending December 31, 2010. The audit process was deemed to have worked well by all parties. The audit results disclosed no instances of noncompliance or other matters that would be required to be reported under Government Auditing Standards.

The Audit Committee received a written report from Oliver Wyman that summarized the findings of an actuarial study of SAIF's financial viability.

A separate financial examination conducted by the Department of Consumer and Business Services for the years ended 2008, 2009, and 2010 began in June 2011.

Audit Committee members met with representatives from Moss Adams and the Oregon Secretary of State's office to ascertain whether there was any undue pressure from SAIF management during their audit process.

Ms. McHugh reported that the cost of the Moss Adams audit was \$250,000. The cost of the audit from Oliver Wyman was approximately \$100,000. Costs for the Secretary of State totaled approximately \$5,000. The total annual cost of the financial audits was approximately \$350,000.

Motion Mr. Ford, second Mr. Martinez, that the Board of Directors accept the annual financial audit as presented. The vote was unanimous, and the motion was carried.

Adjournment

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

There being no further business, the meeting was adjourned at 12:00 p.m.

Stephanie Robinson, Assistant to the Board