



SAIF CORPORATION

BOARD OF DIRECTORS MEETING

**Wednesday
June 5, 2019
10:00 a.m.**

**SAIF Corporation
2 Centerpointe Drive
Lake Oswego, Oregon**

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

Roll call:

Jeff Stone, Chair
Krishna Balasubramani, Vice Chair
Jenny Ulum
Maurice Rahming
John Mohlis

SAIF Corporation personnel present:

Kerry Barnett, President & CEO
Bill Barr, Chief Operating Officer
Ken Collins, Vice President of Information Services and Chief Information Officer
Chris Vrontakis, Vice President of Policyholder Services
Laura Robison, Vice President of Actuarial, Audit, and Underwriting Services
Ian Williams, Vice President of Human Resources
Christy Witzke, Vice President of Marketing, Sales, and Communications
Gina Manley, Vice President of Finance and Chief Financial Officer
Holly O'Dell, Vice President of Legal and Strategic Services
Kathy Gehring, Vice President of Claims
Bridgett Matthews, Assistant Vice President of Claims
David Barenberg, Government Relations Director
Todd Graneto, Controller
Cathy Pollino, Chief Internal Auditor
Kelly Carriger, Assistant to the Board

The meeting was webcast internally at SAIF.

Approval of Board Minutes

Upon motion duly made and seconded, minutes from the March 13, 2019, meeting were unanimously approved.

Mr. Barnett welcomed the board to the new Portland office and briefly outlined the meeting agenda.

Election of board

Upon motion duly made and seconded, Mr. Stone and Mr. Mohlis were elected Board Chair and Vice Chair respectively, effective July 1, 2019, for a period of one year.

Financial reports

2019 first-quarter financial report

Referring to materials provided in advance of the meeting, Ms. Manley reported on first quarter results. Premiums decreased \$4.2 million or 3.2%. Surplus increased \$68.0 million from \$2.006 billion at December 31, 2018 to \$2.074 billion at March 31, 2019 largely due to a \$72.6 million increase in unrealized investment gains. Retention is strong at 99.0%.

First-quarter investments

Ms. Manley reported total investment revenue was \$41.7 million for the first quarter of 2019. The value of SAIF's investment portfolio is up 5.31% for first quarter with a 12.36% increase in equity holdings and a 4.45% increase in bond holdings. The portfolio outperformed the benchmark and is in compliance with the approved policy.

At our March board meeting, RVK, Inc. presented the results and recommendations from an asset allocation study. SAIF's board approved seeking approval from the Oregon Investment Council for the related recommendations. In April, SAIF and RVK presented to the Oregon Investment Council, and the Council approved the recommendations. Next, an implementation plan will be developed with Oregon State Treasury. SAIF's management will keep the directors informed as the implementation plan evolves.

Budget report

Ms. Manley reported through March 31, 2019 we are under budget by \$2.8 million and are forecasting to be \$2.2 million under the annual budget of \$222.1 million. Key drivers include employee costs savings of \$1.3 million, as well as the timing of projects and consulting services. SAIF's capital budget is \$14.7 million. We are forecasting to be over budget at year-end due to an anticipated \$1.6 million increase in expenses for the digital quote and bind project.

Renewal of board appointed actuary

Mr. Kevin Wick with PricewaterhouseCoopers (PwC) is our board-appointed actuary. Ms. Robison reported that SAIF recommends extending PwC's contract for one additional year and continuing appointment of Mr. Wick for the December 31, 2019 reserve opinion.

Mr. Balasubramani inquired if a one-year renewal is the normal extension. Ms. Robison responded by saying our last extension was three years. SAIF is recommending a one-year extension due to timing of projects and recent changes in actuarial staff.

Upon motion duly made and seconded, the board unanimously approved an extension of PwC's contract for one additional year and the continued appointment of Mr. Wick for the December 31, 2019 reserve opinion.

PwC's final 2018 actuarial report is available for the Directors.

Legislative report

Mr. Barenberg provided a legislative update to the Directors including bills that have passed and bills that are pending. To date, the session has been generally successful for the Governor and democratic leadership.

SAIF's strategy around the PERS issue was to build partnerships with business, labor, the Workers' Compensation Division, and the Management Labor Advisory Committee and to provide education.

Mr. Barenberg responded to questions from the Directors regarding particular bills. Mr. Mohlis commented on the importance of continuing to educate legislators. Mr. Stone agreed this is an opportunity for SAIF to be seen as a valuable source of information.

Mr. Barnett informed the board that SAIF believes the risk of a "taking of capital" is greatly diminished relative to earlier this year. This is largely due to the work of SAIF's stakeholder coalition groups who provided tremendous support. SAIF engaged heavily with the Governor's staff to tell our story and provide education on SAIF's financial model. SAIF put new ideas on the table that created options. There is a clear understanding that SAIF is strong, credible, and transparent. Mr. Barnett reviewed lessons learned during this process, said there is a strong possibility that SAIF will go through this process again and as such, we are taking steps to prepare.

Mr. Barnett answered questions from the Directors regarding surveys including injured workers and about future issues involving trial lawyers.

SAIF's capital position

Ms. Robison reported on recommended changes to SAIF's Risk Appetite and Tolerance Statement. SAIF proposes raising the minimum surplus from 4.0 to 5.0 times Company Action Level Risk Based Capital. While many factors remain the same, there is an increased risk of a fund sweep. Ms. Robison reviewed results of several risk modeling scenarios.

Ms. Robison and other members of management answered several questions from the Directors regarding value in having a maximum amount, the perception of surplus, policies of other similar state funds, and details of the risk modeling scenarios.

Upon motion made and seconded, the board unanimously approved the proposed Risk Appetite and Tolerance Statement as presented, raising SAIF's minimum surplus to 5.0 times Company Action Level Risk Based Capital.

PERS side account

Mr. Barnett and Ms. Manley presented a recommendation to the board on the creation of a PERS side account. This is a lump-sum payment to PERS and provides future PERS contribution rate relief. SAIF's PERS account is pooled with state agencies making an allocation of the unfunded actuarial liability necessary. A SAIF side account would not affect employee retirement benefits. SAIF is seeking legal advice to confirm a SAIF funded side account will solely benefit SAIF. SAIF recommends funding 90% of its unfunded actuarial liability, not to exceed \$100 million. This is contingent upon legal advice sufficient to conclude that the benefits of the PERS side account will likely inure solely to SAIF.

In a lengthy discussion, Mr. Barnett and Ms. Manley answered several questions from the Directors on the details of this recommendation including the overall investment rate of PERS, how often SAIF can add to the side account, and if there are other side accounts.

Upon motion made and seconded, the board unanimously approved the creation of a PERS side account, targeting 90% of SAIF's unfunded actuarial liability, not to exceed \$100 million, and contingent upon legal advice sufficient to conclude that the benefits of the PERS side account will likely inure solely to SAIF. The side account amortization period and other implementation requirements shall be at the discretion of SAIF's management.

Dividend discussion

Ms. Witzke provided an overview of SAIF's dividend methodology. No changes are recommended at this time. The loss-sensitive portion of the dividend is intended as an opportunity for a positive message around the importance of safety and the connection between safety and financial reward. If the board chooses to declare a dividend and the same methodology as last year is applied, 49,005 policyholders are potentially eligible. Of those, 46,053 would qualify for the safety portion, which is in line with prior years.

President's Report

Mr. Barnett welcomed Ian Williams, SAIF's new vice president of human resources. Mr. Williams has 30 years of human resources experience in the clothing manufacture and high-tech brand fields.

Mr. Barnett reported pulse survey result engagement scores are positive and similar to prior surveys. The Department of Consumer and Business Services completed its examination of SAIF and there were no findings. Results of the Moss Adams GAAP audit will be presented at the September board meeting. SAIF's internal audit department was evaluated by the International Standards for the Professional Practice of Internal Auditing and was found in conformance with all applicable standards.

SAIF received the Port of Portland PDX Airport Terminal construction project. This is a six-year, \$4 million project. SAIF's headquarters building won "Top Project" for the "New Commercial Building" category at the annual Daily Journal of Commerce construction award.

Bridgette Matthews, assistant vice president of claims, is leaving SAIF in August after 15 years of service, to move to South Carolina and be close to family. Greg Willhite, desktop engineer, is retiring after 28 years of service. Management appreciates all the great work both of them have done for SAIF.

Project Portfolio

Mr. Barr reported the Salem campus renovation project will close at the end of June meeting scope, schedule, and budget. The Portland office relocation project will also close at the end of the June. The project remains on scope, schedule, and budget. As scheduled, employees moved into the space on March 4. The policy and billing system replacement is in phase 2 which includes completing the configuration for retrospective rated policies, policy maintenance, and conversion of all eligible policies to Guidewire. Claims segmentation analytics, which is a key element of our claims transformation work, will close on May 31 on scope and within budget. The analytics tiering model and digital quote and bind projects continue to go well.

Scorecard

Mr. Barr reported the five measures in the financial perspective performed well through March 31. The five customer measures are also off to an excellent first quarter start. The Timely First Benefit Payment to Injured Workers measure ended the first quarter at 93.5%, which is slightly higher than year-end. The internal business process measures are all going well. In the learning and growth section, the Employee Retention and Wellness Engagement measures are both performing in 'green'. Our Ethnic and Racial Diversity measure is 'red'. We are digging into hiring data to better understand where we are losing potential candidates in the hiring cycle.

We are currently on target for four of the five company incentive measures. Additional resources have been allocated for the Safety Optimization measure and we have confidence the measure can improve to green.

Adjournment

There being no further business, the meeting was adjourned at 12:21 p.m.



Kelly Carriger, Executive Assistant to the Board