



## **SAIF CORPORATION**

### **BOARD OF DIRECTORS**

**Wednesday  
September 14, 2016  
10:00 a.m.**

**SAIF Corporation  
480 Church St.  
Salem, Oregon**

After determining a quorum was present, the meeting was called to order at 10:17 a.m.

#### **Roll call:**

Jennifer Ulum, Chair  
Kevin Jensen, Vice Chair  
Krishna Balasubramani  
Jeff Stone  
Maurice Rahming

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

Kerry Barnett, President and CEO  
Bill Barr, Chief Operating Officer  
Ken Collins, Chief Information Officer and Chief Technology Officer  
Michelle Graham, Vice President of Policyholder Services  
Bruce Hoffman, Vice President of Underwriting Services  
Kathy Gehring, Vice President of Claims  
Jennifer Webster, Vice President of Human Resources  
Gina Manley, Vice President of Finance and Chief Financial Officer  
Holly O'Dell, Vice President of Legal and Strategic Services  
Michael Hartman, Senior Director  
Marsha Malonson, ASD Director  
Cathy Pollino, Chief Internal Auditor  
Christy Witzke, Marketing and Groups Director  
Mike Waters, Communication & Design Manager  
Lauren Casler, Communications Strategist  
Joe Nhem, Actuarial Research Director  
Olivia Keefer, Associate Actuary  
Ricardo Becerril, Day CPM Consultant  
Kelly Miller, Assistant to the Board

#### **Approval of Board Minutes**

Motion Jeff Stone, second Maurice Rahming, to approve the minutes of the June 8, 2016 meeting. The vote was unanimous, and the motion was carried.

#### **Meeting Context**

Mr. Barnett provided a brief outline of today's meeting to include the financial report, requested approvals from the Board, and the dividend recommendation.

## **Financial Reports**

### **2016 second-quarter financial report**

Referring to materials provided in advance of the meeting, Ms. Manley reported strong financial results for the first half of 2016 with net income of \$146.3 million. These results were driven primarily by a reduction in reserves, as well as premium growth of 3.0 percent and positive investment results. Ms. Manley further reported that policyholder surplus totaled \$1.58 billion, an increase of 9.2 percent over the first quarter, last year.

### **Second-quarter investments**

Ms. Manley reported that the market value of SAIF's investment portfolio is up 6.3 percent since December 31, 2015. Equity holdings were up 1.53 percent and bond holdings were up 6.88 percent. As of July 31, the portfolio's market value was up 8.07 percent for the year. At the end of the second quarter, SAIF's investment portfolio was in compliance with the approved asset allocation policy.

### **Budget report**

Ms. Manley reported that direct operating expenses were approximately \$4.3 million under budget as of June 30, 2016 largely due to timing. Operating expenses are projected to be \$3.4 million under the 2016 annual budget of \$183.9 million for the year. This is related to a \$2.7 million employee cost savings due to vacancies and employee benefits as well as the alternative services projection being reduced from \$2.5 million to \$360,000 which will support the new Safe & Healthy Workplace Center.

Ms. Manley and other members of management responded to questions and comments from Board members.

## **Policyholder Dividend Recommendation**

Mr. Barnett provided the history of policyholder dividends, dating back to 1990. He noted that SAIF's goal is to pay dividends at a sustainable level, and recommended the Board declare a dividend payment of \$120 million, based on premium volume, to eligible policyholders. He further recommended the Board declare an additional dividend of \$20 million distributed according to loss ratio and premium volume. 95% of our customers will receive some or all of the additional dividend with the full \$20 million being divided among eligible policyholders. The dividends are payable during the week of October 10, 2016 and combined represent approximately 28.5 percent of prior year earned premium. This recommendation is in line with SAIF's strategic plan, including SAIF's commitment to significant strategic projects spanning the next several years. The forecasted ending surplus for 2016 after the dividend payments is in line with the approved risk appetite and tolerance statements.

Throughout the discussion, Mr. Barnett and other members of management responded to questions and comments from the Directors regarding the new loss ratio dividend, how it is structured, and how best to communicate this important safety message to employers.

Upon motion duly made and seconded, the policyholder dividend of \$120 million based on premium volume and an additional dividend of \$20 million based on loss ratio and premium volume was unanimously approved.

### **Reinsurance Recommendation**

Referring to a memorandum provided to the Board members in advance of the meeting, Mr. Nhem recommended SAIF stay at the current level of catastrophe reinsurance of \$160 million excess of \$35 million, at a cost of \$1.95 million. The coverage aligns with the enterprise risk management plan and the corporate strategic plan. If a catastrophic event were to occur, it would protect policyholder's surplus, SAIF's book of business, and the enterprise would continue with minimal financial disruption.

SAIF's expected losses for a 1-in-250 year earthquake occurring during peak time is \$176 million. The current coverage provides adequate protection against such an event or other major catastrophe.

Upon motion duly made and seconded, the purchase of \$160 million of reinsurance coverage excess of \$35 million retention was unanimously approved.

### **Sale of Roseburg Office Building**

Mr. Barr updated the Board on the Roseburg office. The building was purchased in 2007 for \$510,000. In 2008, eight employees reported to this office; today there is only two staff. These two employees can be relocated to home offices. The annual building operating expense runs approximately \$60,000.

Upon motion duly made and seconded, the Board approved the sale of the Roseburg office.

(A short break was taken at 11:30 a.m. and the meeting reconvened at 11:41 a.m. Due to a prior commitment, Mr. Rahming excused himself from the Board meeting and was not present for the remainder of the meeting.)

### **Project Portfolio Update**

Mr. Barr updated the Board on the status of the portfolio projects with respect to scope, schedule and budget, including the Salem campus renovation, policy and billing system replacement, document management system replacement, loss control system, dividend project, and claims business process improvement initiatives. While acknowledging some schedule and budget pressures, Mr. Barr reported he is generally pleased with the status of these projects. We are learning to better manage schedule by moving more thoroughly through the planning process before identifying a completion date.

### **Services to Injured Workers**

Ms. Gehring presented a report to the Board regarding some of the services SAIF provides to injured workers, highlighting three actual, injured worker cases. She spoke of the challenges for injured workers and how their satisfaction with SAIF is tightly coupled with their satisfaction with their claims adjuster.

### **President's Report**

Mr. Barnett reported that budget work is well underway and the Board can expect more detailed information at the November Board meeting. The 2017 strategic plan will also be on the November agenda although we do not anticipate many changes. Pure premium levels will be reduced 6.6% for 2017. Our pricing committee is currently analyzing whether any adjustments are warranted.

A request for proposal was recently completed with Providence allowing us to improve pricing slightly and increase support of our wellness activities. The decision was made to stay with Providence along with Kaiser Permanente and Delta for dental services.

We continue to make progress on the corporate scorecard in regards to how we translate our operational objectives. Mr. Barnett continues to reach out to key stakeholders and legislators throughout the state.

For the third year in a row, SAIF won first place as Oregon's Healthiest Employer, for companies with 500-1499 employees, from the Portland Business Journal.

Michelle Graham has chosen to retire the first week of April, after 37 years of service.

Mr. Barnett spoke of new accounts and from whom those accounts were taken. Some of these accounts were taken from the assigned risk pool. SAIF currently has 52% market share.

Mr. Barr discussed the structure of the rebranded loss control division into the Safe and Healthy Workplace Center led by Chuck Easterly. Michael Hartman will shift his role to work with Ms. Graham in business development.

### **Report from Board Audit Committee**

Mr. Jensen informed the board that the Audit Committee met prior to the Board meeting. At the meeting, Internal Audit reported on five completed audits.

There was a closed-door session during which Audit Committee members asked about any undue pressures put on Internal Audit. None was reported.

Our external auditor, Moss Adams, presented an unmodified opinion. They identified no material misstatements or significant deficiencies in the course of the audit.

### **Adjournment**

There being no further business, the meeting was adjourned at 12:45 p.m.

  
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Kelly Miller, Assistant to the Board