



SAIF CORPORATION

BOARD OF DIRECTORS MEETING

**Wednesday
March 16, 2016
9 a.m.**

**SAIF Corporation
400 High Street SE
Salem, Oregon**

After determining a quorum was present, the meeting was called to order at 9:03 a.m.

Roll call:

Jenny 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
Jaye Fraser, Assistant Counsel
Michelle Graham, Vice President of Policyholder Services
Michael Hartman, Senior Director
Bruce Hoffman, Vice President of Underwriting Services
Jennifer Webster, Vice President of Human Resources
Marsha Malonson, ASD Director
Gina Manley, Chief Financial Officer
Holly O'Dell, Vice President of Legal and Strategic Services
Alison Olsen, Budget Supervisor
Cathy Pollino, Chief Internal Auditor
Christy Witzke, Marketing and Groups Director
Heather Cottings, Enterprise Software Program Manager
Brian Nims, IT Project Manager
Joe Nhem, Actuarial – Research Director
Brandy Dewar, Assistant to the Board

The meeting was webcast internally at SAIF.

REGULAR BUSINESS MEETING

Approval of board minutes

Upon motion duly made and seconded, the minutes from the December 16, 2015, meeting were unanimously approved.

EXECUTIVE SESSION

Review and Evaluate the Performance of the CEO

At 9:05 a.m., Holly O'Dell declared this portion of the meeting to be in Executive Session, pursuant to ORS 192.660(2)(i), to allow the board to review and evaluate the performance of the CEO.

End of Executive Session

At 9:45 a.m., the Chair announced the conclusion of Executive Session.

RECESS FOR COMMITTEE MEETINGS

At 9:45 a.m., the regular business meeting was recessed for committee meetings.

REGULAR BUSINESS MEETING

At 10:33 a.m., the regular business meeting resumed.

CEO Performance Evaluation and Compensation

Mr. Balasubramani reported on the board's evaluation of the performance of the CEO and praised the thorough process that SAIF has in place for conducting performance reviews. He thanked the executive team for their very useful feedback on Mr. Barnett's performance. He shared that the overall theme was that Mr. Barnett's performance was exceptional.

Chair Ulum thanked Mr. Barnett for his service and accomplishments in the last year. She remarked that he has provided leadership, vision and stability and that he has accomplished important work.

Mr. Stone expressed his appreciation for the strong relationship Mr. Barnett has built with the board and the stability he has brought to SAIF. He also thanked the SAIF executive team for their feedback during the process.

Mr. Balasubramani then reported regarding the board compensation committee meeting. The committee reviewed salary benchmarks from similar organizations, including other state funds. The objective is to ensure that CEO compensation is true to the overall purpose and character of compensation at SAIF. He asked the board to keep in mind that during the hiring process it was noted that CEO compensation at SAIF was significantly lower than industry benchmarks. The compensation committee recommended that Mr. Barnett's base compensation be increased by 7% to \$423,900 and that his incentive pay for 2015 be set at 18%, \$71,310.

Motion by Mr. Balasubramani, second Mr. Jensen that the CEO's base compensation be adjusted to \$423,900 effective March 1, 2016 and that the 2015 incentive pay amount be \$71,310. The vote was unanimous and the motion carried.

Policy and Billing Platform Project

Mr. Barr presented an "enterprise portfolio scorecard snapshot" showing the status of major technology projects with respect to scope, schedule and budget.

Mr. Hoffman elaborated on the "what and why" of the policy and billing platform project. The current system is over twenty years old and is becoming less reliable for SAIF's day to day operations. SAIF has modified the system to meet its needs but it is no longer supported and on the verge of becoming obsolete. Moving forward with this project would allow SAIF to limit

the amount of customization, therefore spending less time developing and maintaining software functions.

Mr. Collins discussed SAIF's approaches for ensuring the success of the project. Since 2014 SAIF has been evaluating potential solutions, comparing products, and performing reference checks. SAIF is recommending Guidewire because of its leading position in the market and its flexible platform. SAIF is also recommending Price Waterhouse Cooper as the system integrator. Mr. Collins also shared SAIF's plan for governance and leadership within the project, with himself and Mr. Hoffman serving as executive sponsors and the creation of dedicated roles specifically to lead the project over the course of the next two years. Internal Audit will work with a quality assurance vendor to independently verify that the project is on track and that any concerns are addressed throughout the process.

Mr. Collins shared the expected timeline of the project with development and testing starting in September 2016 and continuing for 18 – 24 months. At that point SAIF would begin writing new business and continue to convert as policies renew. The entire conversion will take approximately 15 months.

Mr. Collins shared the budget for the project and answered questions from the board about system integration costs, the possible need to increase underwriting staff, and the length of time this new system was anticipated to fulfill SAIF's needs.

Motion by Mr. Rahming, second Mr. Balasubramani to approve the project. The vote was unanimous and the motion carried.

2015 Financial Report

Ms. Manley reported on the 2015 financial results. Surplus increased \$108.3 million for the year; net income was \$116.3 million. SAIF saw a 3.5% increase in premiums and a favorable reserve development of \$234 million. Ms. Manley cautioned that favorable reserve development likely will not continue indefinitely.

Regarding SAIF's investments, Ms. Manley reported that although 2015 was an unstable year in the capital markets, SAIF's portfolio finished almost flat. Losses were mostly in the energy sector and that will be monitored.

Ms. Manley also reported that 2015 expenses were within the budget.

Loss-sensitive Dividend Policy

Mr. Hoffman presented the broad concept of a loss-sensitive dividend policy. In recent years SAIF has paid dividends based solely on premium and has not used the dividend to incentivize employers to focus on safety. A loss sensitive dividend could do that but should be constructed as a bonus for good performance rather than a penalty for bad performance. There was discussion about the possible unintended consequences of a loss sensitive dividend, such as claims suppression and the possible perception that the policy was a penalty for employers, even for claims that are beyond their control. The board was interested in continuing work on the structure of such a dividend, and it was decided that SAIF would bring forward a more detailed analysis and recommendation at the June board meeting.

Salem Campus Renovation Update

Mr. Barr provided an update on the Salem campus renovation project, including some renderings of the planned collaboration spaces inside the building. Project scope, budget, and schedule are all on track. Chair Ulum stated that occasional email updates to the board related to the Salem Campus project and the Policy and Billing Platform projects would be welcome as those projects move forward.

President's report

Mr. Barnett introduced Jennifer Webster, the new VP of Human Resources and shared that Holly O'Dell has been promoted to VP of Legal and Strategic Services. A new executive assistant has been hired and there will be an announcement soon.

There will be a ground-breaking ceremony March 17 to celebrate the formal kickoff of the Salem renovation project, as the last group moved from the High Street building to the Broadway building in preparation for the renovation.

SAIF representatives recently visited the Oregon Investment Council to discuss SAIF's financial position.

DCBS recently completed an audit of PTD/fatal benefits paid and found just one error in 6,285 payments reviewed. SAIF's year-end performance measures as reported by WCD are as follows: 97% timely response, 95% timely first payment, 94% timely decision, and 99% timely claim closures. Those are remarkable numbers and all should be proud.

The contract report was included in the board packet and includes the Association of Oregon Loggers contract. At the June meeting the board will review SAIF's association book of business.

The June board meeting will be held in Eugene.

Board Audit Committee report

Mr. Jensen reported on the board's audit committee meeting, which included the entrance meeting with Moss Adams, and a review of internal audits completed, and internal audits planned for 2016.

Adjournment

There being no further business, the meeting was adjourned at 12:28 p.m.

Brandy Dewar, Executive Assistant to the Board