



SAIF CORPORATION

BOARD OF DIRECTORS

**Wednesday
June 6, 2018
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 10:05 a.m.

Roll call:

Jennifer Ulum, Chair
Jeff Stone, Vice Chair
Krishna Balasubramani
John Mohlis
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
Chris Vrontakis, Vice President of Policyholder Services
Christy Witzke, Vice President of Marketing, Sales, and Communication
Bruce Hoffman, Vice President of Underwriting Services
Gina Manley, Vice President of Finance and Chief Financial Officer
Holly O'Dell, Vice President of Legal and Strategic Services
Jennifer Webster, Vice President of Human Resources
Kathy Gehring, Vice President of Claims
Bridgette Matthews, Assistant Vice President of Claims
Chuck Easterly, Director, Safe & Healthy Workplace Center
Marsha Malonson, Administrative Services Division Director
Cathy Pollino, Chief Internal Auditor
Olivia Keefer, Interim Chief Actuary Officer
Alison Olson, Budget Supervisor
Kelly Miller, Assistant to the Board

Approval of board minutes

Ms. Ulum welcomed Mr. Mohlis to the board.

Upon motion duly made and seconded, minutes from the March 14, 2018, meeting were unanimously approved.

Financial reports

2018 first-quarter financial report

Referring to materials provided in advance of the meeting, Ms. Manley reported surplus decreased \$11 million to \$1.88 billion. Net loss for the quarter was \$0.8 million compared to a \$2.3 million loss in the first quarter of 2017. Earned premium was \$131.1 million which is 2.8% higher than the first quarter of 2017. New sales are at \$5.7 million and retention by premium is 99.7%.

PricewaterhouseCoopers (PwC) reported on the reasonableness of SAIF's claims reserves at the March board meeting. At that time, their final report was not available. Ms. Manley indicated that in order to provide access for board members to the report, a link is being provided to the PwC Actuarial Report on Loss and Loss Adjustment Expense Reserves as of December 31, 2017.

First-quarter investments

Ms. Manley reported net investment income of \$44.7 million, which includes net realized investment gain of \$9.7 million. The value of SAIF's investment portfolio is down 1.6% with a \$5.3 million unrealized loss in equity holdings and a \$6.3 million unrealized loss in bond holdings. The portfolio is outperforming the benchmarks and is in compliance with the approved policy.

SAIF conducts an asset allocation study approximately every five years. Vendor selection for this study is underway. Once the study begins, we will keep SAIF board members informed of the progress and recommendations.

Budget Report

Ms. Manley reported that operating expenses were approximately \$2.4 million under budget as of March 31, 2018, largely due to timing. Early forecasts indicate 2018 total operating expenses will be approximately \$2.7 million under budget at year end. Drivers include employee cost savings, timing of projects, and savings in Guidewire license and support costs.

The capital budget has been higher than normal due to the Salem Campus renovation and the policy and billing replacement. We are forecasting to be over budget at year end by between \$1.5 million and \$2.4 million for additional work needed for the Guidewire project.

What if?

Mr. Barnett explained that SAIF needs to be focused on the future and understand what a recession could mean to our business and how we might respond. Ms. Manley presented mild, moderate, and severe 'what if' financial scenarios with graduated reductions in premium, reserve reductions, and investment results.

Mr. Barnett, Ms. Manley, and other members of the executive team responded to questions from the Directors regarding investment gains and losses, impacts to the claims reserve, and underwriting tiers. Ms. Ulum requested additional information and thanked staff for this useful conversation.

Capital modeling and analysis of policyholder surplus

Referring to materials provided in advance of the meeting, Ms. Keefer provided an analysis of policyholder surplus, based on the probability of surplus falling below Company Action Level (CAL) Risk Based Capital (RBC). At year-end 2017, surplus was at 6.0 times CAL RBC. SAIF's risk profile has not changed significantly over the past year.

Upon motion made by Ms. Ulum, seconded by Mr. Mohlis, the risk appetite and tolerance statement was adopted as presented.

Dividend discussion

Ms. Witzke led a dividend discussion, recapping distribution of the 2017 dividend and our efforts to support policyholders who did not receive the loss-sensitive portion. Although there will be more discussion at the September board meeting, staff is currently recommending maintaining the primary dividend at 75% of the total dividend and the loss sensitive dividend at 25%. Staff also recommends maintaining the maximum loss ratio of 60%.

Ms. Witzke and other members of management responded to questions from the Directors regarding these recommendations, as well as the support provided to policyholders who did not receive the loss-sensitive portion of the dividend.

SAIF real estate planning

Mr. Barr made a presentation to the board regarding SAIF's real estate planning, reviewing our current offices, staff count, leases, and facility improvements.

The Portland office lease expires April 1, 2019. A work group has considered several locations as well as a possible renewal of our space at Crown Plaza in downtown Portland.

Mr. Barr and Mr. Barnett responded to questions from the Directors regarding lease versus build options, overall costs, and parking considerations. A decision will likely be made by the end of June.

President's report

Mr. Barnett reported on several issues, beginning with the selection of a chief actuarial officer, Laura Robison, who begins in September. Ms. Robison is a fellow of the Casualty Actuarial Society and has a background in the private and public sector. Mr. Barnett acknowledged Ms. Keefer who has done an excellent job in the interim.

The Workers' Compensation Division is beginning a major technology project to rebuild its data system. SAIF will likely pay for half of this new system through assessments. The amount SAIF pays in credit card fees is rapidly increasing each year. We are considering surcharging credit card payments once Guidewire is in place.

SAIF is planning to address primary market challenges of payroll integration, digital online purchasing of workers' compensation coverage, and packaging workers' compensation with other lines of insurance. SAIF is putting together a technology and marketing plan. One of our employees had her email password compromised via a phishing attack. This was not a virus or intrusion into our central systems. Notice will be provided to those affected and to the department of justice.

The learning management center, which launched in April, has 125 policyholders signed up. SAIF's market share for 2017 is 53.2% compared to 53.7% in 2016.

Mr. Barnett acknowledged the hard work of the Salem Campus renovation steering committee, Ms. Malonson, and Mr. Barr for their efforts during this large project.

Project Portfolio Update

Referring to materials provided in advance of the meeting, Mr. Barr reported on the five projects currently in the enterprise project portfolio. The largest portion of the Salem Campus Renovation has been completed and we are now moving on to demolition and renovation of the Parkway and Church Street buildings. The policy and billing system replacement is projected to be over budget by six to nine percent and the launch date has been extended. Implementation of the software phase has been completed for the self-service business intelligence project. Phase two of the document management system replacement has been completed and the project is on scope, schedule, and under budget. We have partnered with an outside vendor for the claims segmentation analytics.

Mr. Barr and Mr. Collins answered questions from the directors regarding the policy and billing system replacement.

Company scorecard

Mr. Barr addressed current performance in each of the four scorecard sections. In the financial section, we are doing well, with new business sales at \$5.7 million. In the customer section, teams are addressing the measures showing yellow and are seeing improvement in each. Adjustments have been made to our internal safety engagement measure. Based on April's performance, we are again meeting our goal.

Election of board officers

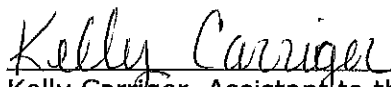
Ms. Ulum stated it has been an honor to serve as board chair during an interesting and productive time at SAIF. She looks forward to continuing to serve on the board.

Upon motion duly made and seconded, Mr. Stone and Mr. Balasubramani were elected Board Chair and Vice Chair respectively, effective July 1, 2018, for a period of one year.

Mr. Stone thanked Ms. Ulum for her leadership. He added that she has been resolute in upholding SAIF's mission and she has an inclusive style that balances the strengths of each board member.

Adjournment

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


Kelly Carriger, Assistant to the Board