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SAIF CORPORATION

BOARD OF DIRECTORS

Wednesday
September 4, 2019
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 10:00 a.m.

Roll call:
Jeff Stone, Chair
Krishna Balasubramani, Vice Chair
Jennifer Ulum
John Mohlis
Maurice Rahming

SAIF Corporation personnel present:
Kerry Barnett, President and CEO
Bill Barr, Chief Operating Officer
Ken Collins, Vice President of Information Services and Chief Information Officer
Chris Vrontakis, Vice President of Policyholder Services
Christy Witzke, Vice President of Marketing, Sales, and Communication
Laura Robison, Vice President of Actuarial, Audit, and Underwriting Services
Gina Manley, Vice President of Finance and Chief Financial Officer
Ian Williams, Vice President of Human Resources
Kathy Gehring, Vice President of Claims
Marsha Malonson, Administrative Services Director
Chuck Easterly, Director, Safe & Healthy Workplace Center
Cathy Pollino, Chief Internal Auditor
Olivia Keefer, Actuarial Director
David Barenberg, Government Relations Director
Todd Graneto, Controller
Alison Olson, Budget Supervisor
Kelly Carriger, Assistant to the Board

Approval of board minutes

Upon motion duly made and seconded, minutes from the June 5, 2019, meeting were unanimously approved.

Mr. Barnett welcomed the board and briefly outlined the meeting agenda. Many lessons were learned from the legislative session. There is the possibility of a difficult economic climate and substantial volatility in the market. SAIF's goal is to be as prepared as possible. SAIF's financial results are similar to the first six months of 2018. Much of this depends on our claims reserves. Across the country, we are seeing significant claims reserve takedowns.

Financial reports

2019 second-quarter financial report
Referring to materials provided in advance of the meeting, Mr. Graneto reported on financial results for the first half of 2019. Surplus increased $169.5 million to a balance of $2.175 billion as of June 30, 2019 and net income was $77.4 million. The current year results were driven primarily by a reduction in claim reserves and unrealized investment gains. Earned premium was $254.6 million; a decrease of 2.6 percent from the first six months of 2018. Total claims costs were $178.2 million compared to $166.6 million last year at this time. SAIF's investment income was $90.2 million compared to $82.4 million last year. Mr. Graneto and Ms. Manley responded to questions from the board regarding the reduction in forecasted permanent disabling claims.

Second-quarter investments
Mr. Graneto reported the market value of SAIF's investment portfolio was up 9.27 percent for the first half of 2019, outperforming the benchmark by 0.66 percentage points. 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 we continually reforecast our current year budget, and we are currently in the process of developing our 2020 budget. Operating expenses were $4.3 million under budget through June 30, and we are projecting to be $4.2 million under the 2019 annual budget of $222.1 million. Key year-to-date drivers include savings in employee costs, Other States Coverage program related commissions, taxes and fees, as well as independent medical examination expenses and consulting services.

SAIF's capital budget is under by $2.2 million due to timing of payments. SAIF is forecasting to be over the capital budget at year end by $800,00 primarily due to an anticipated increase in expenses for the digital quote and bind project.

Policyholder dividend recommendation

Ms. Witzke reviewed last year's dividend of $160 million paid to 47,485 policyholders. This was a two-part dividend: $120 million was based on premium alone and $40 million was based on safety performance. The safety portion required a loss ratio of 60 percent or less. Staff recommends the board declare the same dividend payment of $120 million, based on premium volume, to eligible policyholders. Staff further recommends the board declare an additional dividend of $40 million to be distributed based on safety performance with a 60 percent loss ratio maximum. 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 2019 after the dividend payments is consistent with the approved risk appetite and tolerance statements.

Throughout a lengthy discussion, Ms. Witzke and other members of management responded to numerous questions from the Directors regarding size of policyholders who do not receive the safety dividend, whether SAIF is looking closely at why policyholders have multiple safety incidents, the percentage of the safety dividend received by policyholders, and the level of follow up requests received from policyholders. Mr. Barnett stressed that the safety dividend is about recognition of good safety efforts, not punishment.

Upon motion made by Mr. Stone, seconded by Mr. Rahming, the attached policyholder dividend operating resolution of $120 million based on premium volume and an additional safety performance dividend of $40 million based on loss ratio and premium volume was unanimously approved.

President's report

Mr. Barnett provided an update on the creation of a PERS side account, which the board approved at the June board meeting. SAIF has made a request of the Department of Justice for advice, but we have yet to receive a response. Next steps include requesting a formal estimate from PERS, determining the amount to be funded and the amortization period, and working with Treasury to ensure liquidity.

NCCI has proposed an 8.4 percent pure premium reduction for 2020. SAIF's 2020 strategy and planning process is well underway. Tier one budget meetings have been completed. Key themes of a recent executive team retreat include completing the key initiatives currently underway, addressing opportunities to increase our independence and reduce constraints, and a possible recession.

SAIF management has key decisions coming up regarding a new claims system, pricing in response to the pure premium reduction, automatic assignment of policies to pricing tiers, retired employees who may wish to continue working on a full-time basis, and renovations to the Medford and North Bend offices.

The Oregon Trucking Association (OTA) has had a reimbursable services agreement with SAIF for the past five years in which we are the association's endorsed carrier of choice. They approached us regarding the development of an OGSERP (discount) program earlier this year. We already have a transportation OGSERP group through Oregon Business and Industry (OBI). We are working on brokering a different arrangement to combine OTA with the OBI program.

Mr. Barnett answered several questions from the directors regarding the diversification of group membership programs and whether SAIF collects data on group demographics. Mr. Barnett stressed that these programs allow for businesses of all sizes and types to participate if they qualify, creating greater diversity. Most of the restrictions in place are based on statute and not SAIF policy.

Mr. Barnett briefly mentioned the ORSA report which will be emailed to the board after the meeting concludes, SAIF's Stellar Affiliate award from NIOSH Total Worker Health, SAIF's second place win in the Portland Business Journal's Healthiest Employer Awards, and SAIF's new advertising campaign.

Enterprise Project Portfolio update

Referring to materials provided in advance of the meeting, Mr. Barr reported on the projects currently in the enterprise project portfolio. Three key projects have been completed; claims segmentation analytics, the Salem Campus Renovation, and the Portland office relocation. The Salem Campus Renovation came in $4 million under budget, while meeting schedule requirements with an enlarged scope.
The Portland office relocation is complete and met requirements of scope, schedule, and budget. Phase two of the policy and billing project is going well. We have converted 25 percent of our policies. Mr. Barr also commented on the analytics tiering model project. This is important work that allows the leadership team to apply learnings from pricing strategies.

Company scorecard

Mr. Barr reminded the board that the scorecard helps provide a balanced look at performance on key company-wide metrics.

The five measures in the finance section performed well through June 30. Metrics in the customer section are also performing well. Mr. Barr spoke briefly about data received from the total competitive retention measure and how it is utilized to drive diagnostics and apply resources.

The change in "claims inventory with reserves" measure in the internal business process section helps track the flow of claims coming in and out of the organization. A large change to incoming claims could suggest the need to adjust reserves or staffing.

At the end of the second quarter, all five company incentive targets are being met.

Reducing injuries and claims costs

Ms. Vrontakis informed the board that SAIF is continually exploring and implementing new tools, resources, and practices to reduce both injuries and claims costs. She shared some of the interventions SAIF believes will continue to drive down costs, and examples of how we manage costs without sacrificing the care of injured workers.

Lowering the frequency of workplace injuries will require SAIF to continue our safety innovation work, which includes the tools and strategies used to communicate with policyholders and injured workers.

Board Audit Committee report

Mr. Mohlis informed the board that our external auditor, Moss Adams, presented an unqualified opinion regarding the 2018 financials. They identified no material misstatements or significant deficiencies in the course of the audit. There was a closed-door session during which audit committee members met with Moss Adams and asked about any undue pressures put on them and whether there was anything else the auditors would like to report directly to the committee. No issues were reported. Similarly, the audit committee members met with the financial reporting staff and with internal audit without management present.

Internal audit reported on six completed audits.

Adjournment

There being no further business, the meeting was adjourned at 12:13 p.m.

Kelly Carriger

Kelly Carriger, Assistant to the Board