



SAIF CORPORATION

BOARD OF DIRECTORS

**Wednesday
September 12, 2018
10:00 a.m.**

**SAIF Corporation
1500 SW 1st Ave.
Portland, 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, 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
Cathy Pollino, Chief Internal Auditor
Laura Robison, Chief Actuarial Officer
Olivia Keefer, Interim Chief Actuary Officer
Darlene Morris, Regional Operations Director
Christina Lincicome, Diversity Inclusion Director
David Barenberg, Government Relations Director
Paul Sonnenschein, Consultant
Kelly Carriger, Assistant to the Board

Other attendees:

MaryMichelle Sosne, PERS
Alexandra Jones, Hays Group
Jeff DeHaan, Hays Group

Mr. Barnett introduced Laura Robison, SAIF's new Chief Actuary Officer and also welcomed Alexandra Jones and Jeff DeHaan from Hays Company.

Approval of board minutes

Upon motion duly made and seconded, minutes from the June 6, 2018, meeting were unanimously approved.

Welcome to the Northern Region

Ms. Morris welcomed the board to the northern region office and provided an overview of the staff, premium volume, claim volume, and the variety of industries served. The future home of the Northern region office is 2 Centerpointe Drive in Lake Oswego.

Financial reports

2018 second-quarter financial report

Referring to materials provided in advance of the meeting, Ms. Manley reported on financial results for the first half of 2018. Surplus increased \$65.7 million to a balance of \$1.96 billion as of June 30, 2018. Net Income is \$71.2 million. The current year results were driven primarily by a reduction in claim reserves. Ms. Manley further reported premium growth of 0.8 percent and total claims costs of \$166.6 million compared to \$142.6 million last year at this time. SAIF's investment income is stable at \$73.7 million compared to \$71.5 million last year. Ms. Manley responded to questions from the board regarding the increase in claims costs.

Second-quarter investments

Ms. Manley reported the market value of SAIF's investment portfolio is down 2.03 percent for the first half of 2018, underperforming the benchmark by 0.08 percent. At the end of the second quarter, SAIF's investment portfolio was in compliance with the approved asset allocation policy.

Ms. Manley further reported SAIF is conducting an asset allocation study, and we have chosen RVK Inc. as the consulting firm. As the study progresses, SAIF board members will be informed of progress and recommendations.

Budget Report

Ms. Manley reported operating expenses were \$1 million under budget as of June 30 and we are projecting to be \$3.1 million under by year-end. Key drivers include savings in employee costs, consulting services, reinsurance activity, lower rent expenses, and Guidewire depreciation.

SAIF is forecasting to be close to the 2018 capital budget of \$40.9 million.

Policyholder dividend recommendation

Ms. Witzke reviewed last year's dividend of \$160 million paid to 46,951 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 2018 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 questions and comments from the Directors regarding dividend consistency, the size and type of businesses that will not receive the safety portion, and SAIF's efforts to engage these businesses.

Upon motion made by Mr. Stone, seconded by Ms. Ulum, the policyholder dividend 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 informed the board of NCCI's proposal to reduce 2019 pure premium by 9.7%. The primary driver for the reduction is fewer claims and a reduction in severity of claims which speaks to the efforts of our safety programs. Our pricing committee is analyzing whether any adjustments are warranted.

SAIF is the servicing carrier for 45% of the assigned risk pool. SAIF actively works to depopulate the pool and uses the voluntary coverage assistance program to provide coverage to businesses that would otherwise be assigned to the pool. We are developing plans that will allow us to make coverage more available to select pool participants in 2018 and beyond.

The lease has been signed for the new Portland office location in Lake Oswego. SAIF is moving forward on space planning, permitting, and construction to meet a March 1, 2019 move in date.

Mr. Barnett introduced Laura Robison, SAIF's new Chief Actuarial Officer. He also briefly mentioned the ORSA report in the board's packet, the contract report, and SAIF's first place win in the Portland Business Journal's Healthiest Employer Awards for our division.

Oregon PERS

Ms. MaryMichelle Sosne from PERS gave a presentation on PERS plan basics, funding, side accounts, and recent legislation. Through a lengthy discussion, Ms. Sosne answered questions from the Directors on side account specifics, overall benefits, the employer incentive fund, and how the funds are managed. Mr. Barnett stressed that this presentation is informational only and that as the employer incentive fund becomes operational or other issues arise, a recommendation will be presented to the board.

Digital direct strategy

Mr. Collins provided a report to the board on SAIF's digital direct strategy. For SAIF, digital is an important capability that we need to build to stay competitive. He reviewed the project timeline, preliminary product roadmap, and next steps with the Directors. Mr. Collins and Ms. Witzke answered questions from the Directors on the size and type of business SAIF is targeting.

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. The Portland office will move onto the project list. The Salem Campus Renovation continues to go well with Parkway construction on schedule.

The policy and billing systems replacement continues to be behind schedule due to longer than expected testing cycles and complications from several programming requirements that serve to differentiate us in the marketplace. User acceptance testing will begin on Monday, September 17. Claims segmentation analytics, claims system evaluation, and the finance system evaluation are each going well. With the completion of the self-service business intelligence project, Ms. Manley provided a final summary of this project.

Mr. Barr and other members of management answered questions from Directors regarding the policy and billing systems replacement project.

Company scorecard

Mr. Barr addressed the performance of five key metrics and noted an improvement in the customer section due to a redirection of resources. Metrics in the financial section are doing well. SAIF has an aggressive goal for our ethnic and racial diversity hiring which we are not meeting. Application rates are ideal; however, diversity applicants are not moving all the way through the hiring process. We are analyzing the data in detail. First to second quarter company incentive trends are seeing improved performance.

Board Audit Committee report

Mr. Rahming informed the board that our external auditor, Moss Adams, presented an unqualified opinion. 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 three completed audits.

Dispute resolution processes


Ms. O'Dell provided a report to the board on Oregon's claim dispute resolution process which consists of several components. While this process is infrequent, it is important for the injured worker. Ms. O'Dell answered questions from the Directors regarding how SAIF's decisions during this process compares to our competitors.

Public comment

Mr. DeHaan commented that SAIF is doing an outstanding job. SAIF does not receive near enough credit for the dividend. It is a tribute to SAIF's financial stability.

Adjournment

There being no further business, the meeting was adjourned at 12:30 p.m.



Kelly Carriger, Assistant to the Board