



SAIF CORPORATION

BOARD OF DIRECTORS

**Wednesday
September 13, 2017
10:00 a.m.**

**SAIF Corporation
999 SW Disk Dr.
Bend, Oregon**

After determining a quorum was present, the meeting was called to order at 10:03 a.m.

Roll call:

Jennifer Ulum, Chair
Kevin Jensen, Vice Chair - absent
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
Bruce Hoffman, Vice President of Underwriting Services
Kathy Gehring, Vice President of Claims
Gina Manley, Vice President of Finance and Chief Financial Officer
Christy Witzke, Vice President of Marketing, Sales, and Communications
Bridgette Matthews, Assistant Vice President of Claims
Mike Elliot, Regional Operations Director
Cathy Pollino, Chief Internal Auditor
Joe Nhem, Actuarial Research Director
Olivia Keefer, Associate Actuary
Kelly Miller, Assistant to the Board

The meeting was webcast internally at SAIF.

Welcome to Bend and the Eastern Oregon Region

Mr. Elliot welcomed the board to the Bend office and provided an overview of the staff, their book of business, and the areas they service. The Bend office serves a large portion of the state with diverse industries in construction, farming, brewing, and education. Mr. Elliot spoke highly of the people and communities they serve.

Chair Ulum thanked Mr. Elliot for his presentation and for hosting the meeting.

Approval of Board Minutes

Motion Jeff Stone, second Maurice Rahming, to approve the minutes of the June 7, 2017 meeting. The vote was unanimous, and the motion was carried.

Financial Reports

2017 second-quarter financial report

Referring to materials provided in advance of the meeting, Ms. Manley reported positive results for the first half of 2017. Surplus increased \$158.9 million to \$1.8 billion due to net income of \$106.4 million and \$56.1 million investment value appreciation. The current year results were driven primarily by a reduction in reserves, as well as premium growth of 5.0 percent. Ms. Manley further reported total claims costs of \$142.6 million compared to \$105.4 million last year at this time.

Second-quarter investments

Ms. Manley reported the market value of SAIF's investment portfolio is up 4.4 percent since December 31, 2016. Equity holdings were up 11.5 percent and bond holdings were up 3.6 percent. As of July 31, the portfolio's market value was up 5.4 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 operating expenses were \$5.8 million under budget as of June 30, 2017 largely due to timing of expenses. Key drivers include employee cost savings due to increased vacancies and employee benefits, lower commissions, and timing of projects and maintenance. Mr. Barnett and Ms. Manley responded to questions from the board regarding the increased vacancies.

Management is in the process of developing the 2018 budget which will include some significant, out of the ordinary budget items.

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. In addition, we recommend a 15-month treaty rather than a 12-month treaty. The estimated cost of reinsurance would change from \$2.0 million to \$2.4 million, solely due to the three-month policy extension. 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 \$119 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 and extending the treaty to 15 months was unanimously approved.

Policyholder Dividend Recommendation

Mr. Barnett prefaced the dividend discussion by informing the board that the activities of the Governor's Task Force on PERS were considered in preparing the dividend recommendation. However, SAIF's view is to make a recommendation based on how we normally operate the company, regardless of what the Task Force may or may not do in the future.

Mr. Hoffman reviewed last year's dividend of \$140 million paid to over 46,000 customers. This was the first time in recent years that SAIF declared a 2-part dividend: one based on premium alone, the other based on safety performance. Customers with a paid loss ratio greater than 80% did not qualify for the safety portion. He noted 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 \$40 million to be distributed with a 60% loss ratio maximum, also based on premium volume. 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 2017 after the dividend payments is in line with the approved risk appetite and tolerance statements.

Throughout a lengthy discussion, Mr. Barnett and other members of management responded to questions and comments from the Directors regarding dividend levels, the suggested loss ratio percentage, and SAIF's efforts to help small business employers with their workplace safety records.

Upon motion made by Mr. Stone, seconded by Mr. Balasubramani, the policyholder dividend of \$120 million based on premium volume and an additional dividend of \$40 million based on loss ratio and premium volume was unanimously approved.

Task Force Update

Mr. Barnett presented an update to the board on the Governor's Task Force on the PERS Unfunded Actuarial Liability. The purpose of the Task Force is to identify government assets which can be sold, bonded against, or otherwise leveraged. SAIF has been asked to supply background information and work with the Department of Consumer and Business Services on a common understanding of the "facts". Mr. Barnett outlined the key challenges facing the Task Force and SAIF. The Task Force's report to the Governor is due November 1.

Mr. Barnett responded to questions and comments from the Directors who expressed strong concerns about the potential Task Force recommendations.

Referring to a document provided in advance of the meeting, Mr. Barnett and the board reviewed a list of principles that would guide management and the board in responding to Task Force recommendations. The board will discuss these principles further at the November board meeting.

Scorecard Review

Mr. Barr addressed the performance of five key metrics and noted an adjustment to the employee retention metric, which will ensure greater accuracy. Ms. Witzke provided additional detail around the new business sales metric. We expect sales to be in line with last year, which will exceed this year's sales goal.

Enterprise Project Portfolio Update

Referring to materials provided in advance of the meeting, Mr. Barr reported on the five projects currently in our enterprise project portfolio. The Salem Campus Renovation remains on schedule. Roadwork is being completed on Church street and a neighborhood community meeting is scheduled for the end of September. Unfortunately, a large limb broke off of the oak tree, removing approximately one third of the tree canopy. This was not caused by the construction but rather by the dry weather and the age of the tree. The policy and billing

project continues to do well; however, as previously reported some of the complex business requirements are taking longer than anticipated. As a result, two sprints have been added from our planned contingency.

In addition to the previously reported projects, the leadership team has expanded resource capacity which has led to the initiation of three additional, smaller projects.

President's Report

Mr. Barnett informed the board of NCCI's proposal to reduce 2018 pure premium by 14%. In only one other year since 1990 has there been a larger decrease. The primary driver is fewer claims and a reduction in severity of claims which speaks to the efforts of our safety programs. Our pricing committee is currently analyzing whether any adjustments are warranted.

Mr. Barnett responded to a question from Mr. Balasubramani on how this reduction in pure premium may be perceived by the Governor's Task Force on PERS.

Mr. Balasubramani is eligible for reappointment to the SAIF Board of Directors. This goes before the legislature on September 18 and 19. SAIF submitted our first Own Risk Solvency Assessment to the Department of Consumer and Business Services. This report is an annual requirement for insurance companies that exceed \$500 million in premium, and it was sent to the board members. Mr. Barnett will be presenting at an upcoming series of policyholder meetings in Klamath Falls, Medford, and Roseburg. SAIF's annual employee engagement survey launched on September 11.

SAIF won second place at the Oregon's Healthiest Employer awards, for companies with 500-1499 employees, from the Portland Business Journal. The new compensation system will begin at the start of 2018.

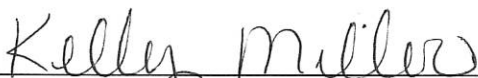
Report from Board Audit Committee

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. The Audit Committee met privately with Moss Adams.

At the meeting, internal audit reported on 12 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.

Adjournment

There being no further business, the meeting was adjourned at 12:33 p.m.



Kelly Miller, Assistant to the Board