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**SAIF CORPORATION**

**BOARD OF DIRECTORS MEETING**

**Wednesday**
**September 8, 2021**
**10:00 a.m.**

**SAIF Corporation**
**400 High St. SE**
**Salem, Oregon**

After determining a quorum was present, the regular business meeting was called to order at 10:01 a.m.

**Roll call:**
Virtual:
John Mohlis, Chair
Maurice Rahming, Vice Chair
Krishna Balasubramani
Jenny Ulum
Jeff Stone

**SAIF Corporation personnel present virtually:**
Chip Terhune, President & CEO
Ian Williams, Chief Operating Officer
Gina Manley, Vice President of Finance and Chief Financial Officer
Kathy Gehring, Vice President of Claims
Laura Robison, Vice President of Actuarial, Audit, and Underwriting Services
Ken Collins, Vice President of Information Services and Chief Information Officer
Chris Vrontakis, Vice President of Policyholder Services
Kelly Carriger, Assistant to the Board

The meeting was webcast internally at SAIF.

## Approval of board minutes

Upon motion duly made and seconded, minutes from the June 2, 2021 meeting were unanimously approved.

## President's Report

Mr. Terhune reported on several items, including the recent colocation of SAIF's data center. The execution of this project was exceptional. SAIF's leadership team is the best Mr. Terhune declared that SAIF's leadership team is outstanding, noting that there is significant work needed to take SAIF's operational excellence to the next level.

The executive leadership team is extending SAIF's planning horizon to broaden our vision and improve strategic and operational effectiveness. These longer-term plans and roadmaps will become a foundational element of our operations and guide our internal investments.

In support of our mission, we are creating an enterprise-wide strategy focused on the customer experience that serves SAIF's policyholders and Oregon workers as well as agents. This strategy will connect to our technology roadmap.

SAIF continues to excel despite the ongoing pandemic. Employees who work onsite are now required to show proof of vaccination or pass a weekly COVID test to work onsite. SAIF's leadership team has intentionally focused on our culture during this time of change.

NCCI filed for a 5.8 percent average decrease in pure premium rates effective January 1, 2022. The Department of Consumer and Business Services (DCBS) has to approve the filing, which usually occurs in mid-September. The proposed decrease reflects continued favorable claim cost experience due to lower claim frequency and low medical escalation. It does not include the impact of COVID claims.

In March, the board declared a $210 million dividend to be distributed in July. Fifty thousand three hundred ninety-eight policyholders received a dividend in July or had the dividend (or a portion of it) offset a balance owed to SAIF.

SAIF signed the partnership agreement with CityCounty Insurance Services (CIS) in February with an effective date of July 1, 2021. SAIF applied for and received approval for a new OGSERP (discount) group with a nine percent discount. CIS and SAIF have had multiple workgroups on this project to ensure a smooth transition. One hundred seventy-nine accounts were quoted and written for a total of $7.8 million in new business.

SAIF announced a retro return for the AGC group product for the 2019/2020 year of $392,000 (1.17 percent of standard premium). In July, we distributed $1.3 million as part of this retro return which includes $392,000 for the return and $896,000 in non-disabling reimbursements and DCBS assessments.

SAIF is working with Karras Consulting to fill the open Vice President of Human Resources position. Updates will be provided at future board meetings.

Employees were not able to return to the office on September 13 as originally planned due to the Delta variant. The earliest a return to the office may take place is January 2022. We have announced our intention to expand flexible work permanently to some SAIF employees depending upon the role. Once safe, we hope employees will return to the office as it is a vibrant place to work.

Mr. Mohlis thanked Mr. Terhune for his report and expressed his appreciation for taking on new initiatives.

## Financial reports

2020 second quarter financial report

Referring to materials distributed before the meeting, Ms. Manley reported financial results through the second quarter of 2021 continue to reflect signs of a recovering economy. Year to date operating results through the second quarter of 2021 included a net loss of $169.0 million, which include the $210 million dividend approved in March, $80.2 million in unrealized investment gains, and $49.8 million in prior year claim reserve reductions.

SAIF's surplus to CAL RBC ratio was 6.0 at June 30, 2021. Year to date net earned premium was $254.6 million or 15.1 percent higher than the amount recorded during the first six months of 2020. The 2021 year to date premium retention rate through the second quarter was 99.0 percent.

SAIF recorded $194.0 million in total claims costs, 8.8 percent less than for the first half of 2020. Key drivers included prior-year reserve reductions due to lower medical escalation costs and fewer claims. Total investment income was $80.8 million, a 27.9 percent decrease, largely due to the low interest rate environment.

Second quarter investment results

Ms. Manley reported SAIF's investment portfolio was up 1.0 percent for the first half of 2021 with bonds down 0.6 percent and stocks up 12.8 percent. The portfolio performed better than the benchmark by 0.6 percentage points and was in compliance with the approved policy.

Budget report

Ms. Manley reported SAIF's operating budget was $775,000 over budget as of June 30, 2021. We are forecasting to be $3.0 million over the 2021 annual budget of $233.9 million. Key drivers of year-to-date overages included higher than anticipated independent medical examination expenses ($2.2 million), increased salaries due to the unbudgeted vacation buyback program and vacation payouts for retirees ($1.4 million), software license renewals budgeted in 2020 but paid in 2021 ($306,000), and higher than anticipated credit card fees ($105,000).

Ms. Manley and Ms. Gerhing responded to a question from Mr. Balasubramani regarding independent medical examination expenses.

Year-to-date operating budget savings included $1.2 million for self-funded medical claims and retirement expenses, $922,000 for consulting services, $394,000 for travel and training, and $289,000 in rent and real estate expenses.

SAIF's capital budget is forecasted to be $3.8 million under the 2021 annual budget of $13.2 million. Year-to-date savings are due to payments for capitalized software projects that are lower than anticipated or will be spent later in the year.

Mr. Stone expressed his appreciation of Ms. Manley for being well engaged in the board's understanding of the budget and true to SAIF's mission.

**Risk Appetite Statement**

Ms. Robison reported that each year, SAIF analyzes the impact of various risks that could affect capital levels and, in turn, SAIF's financial solvency and stability. The risk appetite statement is typically discussed with the board in June, however we chose to delay until September to allow more time to evaluate the trajectory of the pandemic and economic conditions.

Uncertainty regarding the COVID-19 pandemic and the economy remain, but financial results to date have been better than expected, and SAIF's capital position remains strong. However, the ratio of surplus to company action level (CAL) risk-based capital (RBC) declined from 6.6 to 6.2 due to planned changes in our investment portfolio.

Ms. Robison responded to a question from Mr. Balasubramani regarding what components are involved in calculating CAL RBC.

SAIF's risk appetite and tolerance statement states we will seek to maintain a capital level such that the probability of falling below CAL RBC in the next three years is less than 0.5 percent. In addition, it is important SAIF maintains a minimum surplus of 5.0 times CAL RBC. This enables SAIF to maintain a reasonable cushion in the event of multiple adverse events.

We varied key assumptions in our forecast to estimate the likelihood of surplus falling below different multiples of CAL RBC. The model indicates lower probabilities of surplus falling below various CAL RBC levels versus last year, but somewhat higher than in 2019. SAIF recommends maintaining the current risk appetite and tolerance statement.

Upon motion made by Ms. Ulum, seconded by Mr. Balasubramani, the board approved the proposed Risk Appetite and Tolerance Statement as presented, maintaining 5.0 CAL RBC.

**Board decision on appointed actuary**

SAIF contracts with an actuarial consulting firm to analyze SAIF's unpaid claim cost liabilities and opine on the adequacy of our reserves. SAIF has contracted with PricewaterhouseCoopers (PwC) for these services since 2013, and Mr. Kevin L. Wick of PwC has served as the Appointed Actuary since 2017.

After extending the contract with PwC several times, we issued a competitive RFP for the upcoming contract period. Based on our evaluation of 14 vendors and their proposals, we recommend that SAIF award a 3-year contract to Deloitte Consulting, LLP and appoint Mr. Rod Morris, FCAS, FSA, MAAA as SAIF's appointed actuary.

If the board approves the recommendation, SAIF will notify Deloitte and PwC of the decision and finalize contract negotiations with Deloitte. SAIF must also notify DCBS of the change in Appointed Actuary and of any disagreements with the prior Appointed Actuary.

Ms. Ulum expressed her appreciation for the overview and agreed it is wise to do an RFP every few years. She also acknowledged the good work PwC has done during their years of service with SAIF.
Motion Mr. Stone, second Mr. Rahming to award a 3-year contract to Deloitte Consulting, LLP and appoint Mr. Rod Morris, FCAS, FSA, MAAA as SAIF's appointed actuary. The motion passed unanimously.

**Project updates**

Mr. Collins and Ms. Gehring reported on the two-year claims system implementation project, which will replace our legacy claims management systems with Guidewire ClaimCenter. As part of the project's guiding principles, we will aim for conformance to Guidewire ClaimCenter and prioritize best claim outcomes for our policyholders and injured workers. PricewaterhouseCoopers is our main system integrator, however the project will require partnerships with many other external businesses. Deployment is scheduled for late 2022.

Mr. Balasubramani commended the team for being diligent in their planning efforts and understanding of the enterprise impact of this project.

Ms. Vrontakis and Mr. Collins reported on the purpose and vision of the billing and invoicing improvements project. Two teams are partnering to create a transparent and streamlined billing process, specifically for our large policyholders. Short-term solutions will continue to be rolled out as we move forward on a longer-term system and process changes. SAIF will continue to engage with policyholders and agents to collect feedback.

Mr. Mohlis expressed his thanks for the team's efforts.

**Enterprise Project Portfolio**

Of the six active projects, three are new to the portfolio since the June board meeting; the colocation of the data center project, the information architecture project, and the registration and profile management project. All of the projects are currently in green status, however we are tracking two issues and one risk. There is competing demand for the two billing and invoice initiatives, which impacted plans on three other projects. We also see delays in the hiring of key information technology positions.

The claims system implementation project and the HR system implementation project report green for scope, schedule, and budget. The colocation of the data center occurred with seamless execution.

The information architecture project objective is to create a high-level design schema for the new digital portal frameworks, including user flows, site map, and content hierarchy. The project team is partnering with consultants to complete user research and develop the project deliverables.

The registration and profile management project is scheduled for twenty months, including a hyper care support period for each milestone release. As also noted at the portfolio level, the project team reports an issue regarding recruiting. Recruiting new team members has been a challenge since the first of the year, which has impacted the team's capacity. Currently, the project reports green for scope, schedule, and budget.

The second phase of the project regarding the Ansbro Safety Culture Spectrum tool aims to develop a shorter survey, reducing the number of questions from 30 to a target of 8-10 questions. The survey deployed to policyholders in a pilot program, and the team is working on data collection and reporting tools.

The finance and procurement system implementation project is now complete. A project retrospective is being conducted to analyze project performance and identify areas of strength and opportunities for improvement. Findings pertinent to the implementation of Workday will be applied to the HR system implementation project. While the project delivered on scope (green), the schedule is reported as red due to multiple extensions.

**Company Scorecard**

Of the 17 measures on the scorecard, 14 ended the quarter 'green' and three ended in 'yellow'. In the financial section, *earned premium to forecast* exceeded expectations this quarter at 106.3 percent, *new business sales* were well within our green target range, and *total operating expense to budget* moved into the 'yellow' range, increasing from the first quarter 'green' result of 99.9 percent to 100.7 percent, primarily driven by independent medical examination expenses and the vacation buyback program.

In the customer perspective, all goals have been met or exceeded, with all measures in 'green'. Similarly, all internal business practice measures remained strong this quarter.

The *wellness engagement* measure improved from last quarter's 'red' result to a 'yellow' result, largely due to increased employee engagement in a broader range of programming, including virtual fitness and a new mental health resiliency tool. The *employee retention turnover* ratio increased from 4.5 percent in the first quarter to 7.0 percent this quarter. We will be monitoring this trend closely. Our *ethnic and racial diversity* remains at just under 18 percent. Due to an increased number of recruitments currently in progress, we expect this result to improve in the second half of the year.

**Audit Committee meeting report**

Mr. Rahming informed the board that our external auditor, Moss Adams, presented an unqualified opinion regarding the 2020 financials. They identified no material misstatements or significant deficiencies in the course of the audit. There was a virtual 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.

Internal audit presented on six audits, a review on internal control over financial reporting, and an internal audit update.

Mr. Stone commended SAIF for their thorough work with Moss Adams. He is proud of the SAIF team and its efforts to minimize cyber security risks.

**President's closing remarks**

Mr. Terhune closed by saying he is impressed with the level of detail that goes into the planning of SAIF's projects. There is a bedrock of excellence at SAIF and we will continue to drive a culture of innovation.

Mr. Mohlis said he appreciates this full disclosure and thanked Mr. Terhune and the executive team for their hard work and leadership. He also expressed his thanks for the diligence and hard work of every SAIF employee.

**Adjournment**

There being no further business, the meeting was adjourned at 11:50

Kelly Carriger

Kelly Carriger, Executive Assistant to the Board