

GOVERNANCE COMMITTEE MEETING (OPEN)

AGENDA ITEM 8

ATTACHMENT 8-I

MINUTES OF JANUARY 21, 2010 OPEN GOVERNANCE
COMMITTEE MEETING

PRESENTED BY: Jeanne Cain

March 18, 2010

**STATE COMPENSATION INSURANCE FUND
GOVERNANCE COMMITTEE**

MINUTES OF OPEN SESSION MEETING

JANUARY 21, 2010

The Governance Committee met on January 21, 2010 in the Auditorium of the Milton Marks Conference Center, State Building, 455 Golden Gate Avenue, San Francisco, California.

AGENDA ITEM 1: ROLL CALL

The meeting was called to order at 10:00 a.m. and the following Members were present: Jeanne Cain, Chair; Sheryl Chalupa; Daniel Curtin and Alternate Sen. Michael Machado. (Ret.).

Also present: Interim President and CEO Doug Stewart; General Counsel and Corporate Secretary Carol Newman; Chief Counsel and Assistant Corporate Secretary Suzanne Ah-Tye and Randall Keen of Manatt, Phelps & Phillips LLP.

There was a quorum.

PUBLIC COMMENT ON APPROPRIATENESS OF CLOSED SESSION
AGENDA ITEMS 2 AND 3.

Ms. Cain requested public comment of which there was none.
The Governance Committee immediately convened into Closed Session.

**AGENDA ITEM 2: APPROVAL OF NOVEMBER 12 AND DECEMBER 29, 2009
AND JANUARY 8, 2010 CLOSED MEETING MINUTES Closed Session.**

**AGENDA ITEM 3: CEO AND EXEMPT EMPLOYEES 2009 PERFORMANCE
Closed Session.**

AGENDA ITEM 4: ROLL CALL

The meeting was called to order at 10:10 a.m. and the following Members were present: Jeanne Cain, Chair; Sheryl Chalupa; Daniel Curtin and Alternate Sen. Michael Machado. (Ret.).

Also present: Interim President and CEO Doug Stewart; General Counsel and Corporate Secretary Carol Newman; Chief Counsel and Assistant Corporate Secretary Suzanne Ah-Tye and Randall Keen of Manatt, Phelps & Phillips LLP.

There was a quorum.

AGENDA ITEM 5: APPROVAL OF NOVEMBER 12, 2009, DECEMBER 29, 2009 and JANUARY 8, 2010 OPEN GOVERNANCE COMMITTEE MINUTES

MOTION: Ms. Chalupa

SECOND: Ms. Cain

To approve the minutes of the November 12, 2009, December 29, 2009 and January 8, 2010 Open Governance Committee Meeting minutes as presented.

Ms. Cain requested public comment of which there was none. Ms. Cain called for the vote.

AYES: 3

NOES: 0

Motion carried

AGENDA ITEM 6: BOARD EVALUATION PROCESS

Ms. Cain stated it is a best practice for a Board to conduct periodic evaluation of its effectiveness. In November 2009, the Governance Committee directed staff to select a vendor from the two finalists. Ms. Judith Sapper, Assistant Chief Counsel, provided an update on the selection of a vendor to conduct the Board evaluation. A vendor will be selected to conduct Board evaluations through written questionnaires and personal interviews of Board members. The evaluation information will be confidential. The selection and contracting should be completed in first quarter, 2010 and interviews started shortly thereafter. The estimated cost is \$25,000 plus travel expenses. The Governance Committee concurred with moving forward with the Board evaluations.

AGENDA ITEM 7: RECOMMENDATION ON NATIONAL SEARCH FOR PRESIDENT AND CEO

Chairperson Cain reported that there were fifteen search firms contacted with four responses to the RFP for an executive search firm to conduct a national search for the new President and CEO of State Fund. The Governance Committee selected the IR Group Companies to conduct the search. The IR Group is based in California and has had considerable experience doing candidate searches for insurance companies and is already familiar with State Fund.

MOTION: Sen. Machado

SECOND: Ms. Chalupa

To recommend to the full Board that the IR Group Companies be approved as the executive search firm to do a nationwide search for a new President and CEO of State Fund.

Ms. Cain requested public comment of which there was none. Ms. Cain called for the vote.

AYES: 3

NOES: 0

Motion carried.

AGENDA ITEM 8: RECOMMENDATION ON CEO AND EXEMPT 2009 PERFORMANCE BONUSES

Chairperson Cain reported that the Governance Committee had a special meeting on January 8, 2010 to discuss the CEO and Exempt 2009 performance bonuses. Based on the Governance Committee's review of the performance metrics accomplished by Janet Frank, the Governance Committee recommends that Ms. Frank receive 95% of her potential bonus percentage of 40% of her base annual salary, prorated over 10 months. The Governance Committee is also recommending that Doug Stewart, the Interim President, receive 15% of his annual based salary as Chief Risk Officer. The Governance Committee recommends that the Chief Financial Officer, the General Counsel and the Chief Operations Officer receive 15% of their annual base salary. The Governance Committee recommends that Chief Investment Officer, Peter Guastamachio receive 15% of his base salary, even though he joined State Fund in February 2009 because he handled both his job as Chief Investment Officer, as well as Interim Chief Information Officer, which exceeded performance expectations. The Chief Information Officer, Shaun Coyne joined State Fund in September 2009, and the Governance Committee is recommending that he receive 15% of annual base salary prorated over six months as he exceeded performance expectations.

Ms. Cain also reported that the Board plans to develop performance measures and goals for the Interim President for 2010. Those measurements and goals will be measured from the date he assumed the role as interim President until a permanent President begins and will be based on the Interim President salary level.

MOTION: Ms. Chalupa

SECOND: Sen. Machado

To recommend to the full Board the following bonuses for the President and Exempt positions for 2009 performance:

<u>Position</u>	<u>Bonus</u>
President and CEO (Janet Frank)	95% of 40% of annual base salary, prorated over 10 months.
Interim President and CEO (Doug Stewart)	15% of the Chief Risk Officer's annual base salary
Chief Financial Officer (Jay Stewart)	15% of annual base salary
General Counsel (Carol Newman)	15% of annual base salary
Chief Operating Officer (Harrison Jerome)	15% of annual base salary
Chief Investment Officer (Peter Guastamachio)	15% of annual base salary
Chief Information Officer (Shaun Coyne)	15% of annual base salary prorated over six months

Ms. Cain requested public comment of which there was none. Ms. Cain called for the vote.

AYES: 3

NOES: 0

Motion carried.

AGENDA ITEM 9: UPDATE ON GOVERNANCE, COMPLIANCE, AND ETHICS INITIATIVES

James Neary, Executive Vice President presented an update on Governance, Compliance and Ethics initiatives at State Fund. A draft summary of the Governance Framework has been completed. Barbara Simmons, State Fund's Governance Manager is developing a summary of management responsibilities, entitled "Governance Guide." Ms. Simmons is also coordinating a comprehensive review and update of all corporate policies. State Fund will also be subject to the Model Audit Rule (MAR) a new NAIC requirement applicable to all insurance companies. This will require State Fund to file an annual management report on internal controls over financial reporting. The first report will be due in 2011 for reporting on 2010 internal controls. There will be some IT software challenges as new protocols will be implemented.

There are new developments regarding Medicare reporting. Workers' Compensation carriers must report details of claims to Medicare where the claimant is likely to be a Medicare client. Failure to report is subject to penalties of \$1000 per day per claim. State Fund has completed an extensive data clean up to make sure reporting is accurate. Medicare reporting is a high priority for the IT Department.

A Privacy initiative, which is part of State Fund's Ethics and Compliance Department, was launched at State Fund in 2009. The impact of the privacy initiative is significant and will impact IT systems.

Conflict of interest limitations and disclosure requirements (Form 700) are being extended to a broader group of State Fund employees. Previously, 2,754 employees were subject to disclosure requirements, and under the new policy, 6,000 employees will be subject to disclosure requirements. Also, a new Employee Code of Conduct is going through the approval process and it is expected to become effective the first quarter of 2010.

Ms. Cain requested public comment of which there was none. Sen. Machado left the meeting

AGENDA ITEM 10: COMMITTEE MEMBER PRESENTATIONS

There was no presentation for this standing agenda item and no public comment

AGENDA ITEM 11: PROPOSALS AND SUGGESTIONS FOR MARCH 2010 AGENDA

The following proposals were made for the next Governance meeting:

1. Staff to evaluate and report back the process for updating the Board Reference Manual.
2. Staff to recommend a policy and process to ensure speeches and articles by Board members allow the freedom to express opinions without creating public misperceptions that the written or oral statements reflect State Fund policy.
3. Establish 2010 Interim President and CEO's performance goals
4. Evaluate the respective roles of the Governance and Audit Committees as they relate to risk analysis.
5. Update the educational opportunities for Board members.

Ms. Cain requested public comment of which there was none.

AGENDA ITEM 12: PUBLIC COMMENT

Ms. Cain requested public comment of which there was none.

The next Governance Committee meeting is scheduled for March 18, 2010 at 2:00 p.m. in San Francisco, California.

ADJOURNMENT

There being no further business before the Governance Committee, the meeting adjourned at 11:10 a.m.

Respectfully submitted,

Suzanne Ah-Tye
Assistant Corporate Secretary