



Office of
Risk Management

The University of Texas System

Risk Management Annual Report

Fiscal Year 2004



**THE UNIVERSITY OF TEXAS SYSTEM
MEMBERS OF THE BOARD OF REGENTS
AND
PRINCIPAL ADMINISTRATIVE OFFICERS**

AT AUGUST 31, 2004

OFFICERS

James R. Huffines, Chairman
Rita C. Clements, Vice-Chairman
Woody L. Hunt, Vice-Chairman
Cyndi Taylor Krier, Vice-Chairman
Francie A. Frederick, Counsel and Secretary to the Board

MEMBERS

TERMS EXPIRE FEBRUARY 1, 2005

Robert A. Estrada
Woody L. Hunt
Robert B. Rowling

TERMS EXPIRE FEBRUARY 1, 2007

Rita C. Clements
Judith L. Craven, M.D.
Cyndi Taylor Krier

TERMS EXPIRE FEBRUARY 1, 2009

John W. Barnhill, Jr.
H. Scott Caven, Jr.
James R. Huffines

SYSTEM ADMINISTRATION

Mark G. Yudof, Chancellor
Scott C. Kelley, Executive Vice Chancellor for Business Affairs
Teresa A. Sullivan, Executive Vice Chancellor for Academic Affairs
Cullen M. Godfrey, Vice Chancellor and General Counsel
E. Ashley Smith, Vice Chancellor for Governmental Relations and Policy
Randa Safady, Vice Chancellor for External Relations
William H. Shute, Vice Chancellor for Federal Relations
John De La Garza, Jr., Vice Chancellor for Community Relations
Tonya M. Brown, Vice Chancellor for Administration
Kenneth I. Shine, Executive Vice Chancellor for Health Affairs
Bob Boldt, President, Chief Executive Officer, and Chief Investment Officer, UTIMCO

TABLE OF CONTENTS

i	Executive Summary
v	Office of Risk Management Organizational Chart
Risk Management	
1	Resource Allocation Program
2	Risk Management Information System
2	Risk Management Conference
2	Disaster Mutual Aid Tabletop Exercises
3	Fund Administration
Risk Control and Insurance	
4	Background
5	System-wide EH&S Activities
5	System Administration EH&S Activities
6	Comprehensive Property Protection Plan
6	Traditional Insurance Purchases
8	Rolling Owner Controlled Insurance Program
9	Directors & Officers/Employment Practices Liability Self-Insurance Plan
9	Camp Insurance Program
9	Claims
10	Consultative Services
Unemployment Compensation Insurance	
11	Background
12	Fund Balance, Premium Receipts, and Claims
Workers' Compensation Insurance	
13	Background
13	Funding
14	Claims
15	Expenditures
17	Medical Cost Control
17	Information Systems

Executive Summary

The Office of Risk Management (ORM) provides comprehensive risk management services to The University of Texas System (the UT System) and the institutions including risk identification, analysis, control, finance, and administration. The Office of Risk Management is a department in the Office of Business Affairs and reports to the Associate Vice Chancellor-Controller and Chief Budget Officer.

It is the mission of the Office of Risk Management:

To protect people, property, the community and the environment and to enhance the well being of students, faculty, and staff through the development and implementation of cost effective, efficient business operations and compliant risk control and risk financing techniques for the UT System and the fifteen institutions.

In that regard, ORM supports the mission of The University of Texas System by undertaking certain responsibilities that result in greater efficiency or higher quality than could be achieved by individual institutions. These include but are not limited to the administration of a variety of self-insurance programs, traditional insurance procurements, delivery of a risk management information system, outreach and collaboration with governmental agencies and other institutions of higher education, training sponsorship, and management of System-wide contracts.

The following annual report summarizes the major accomplishments of the Office of Risk Management in FY 2004 and provides the financial status of the self-funded insurance programs.

At-a-Glance
Environmental Health and Safety
Information Systems
Property & Casualty Insurance
Risk Accounting
Rolling Owner Controlled Insurance
Unemployment Compensation Insurance
Workers' Compensation Insurance

By-the-Numbers	
\$16.3 Billion	Total Insured Values (TIVs) covered under the Comprehensive Property Protection Plan (CPPP)
\$900 Million	Increase in TIVs from FY 2003 to FY 2004
\$1.06 Million	Reduction (17.37%) in Workers' Compensation Insurance (WCI) benefit expenditures from FY 2003 to FY 2004
\$500,000	Estimated annual savings from consolidation and management of System-wide waste, response and management contracts
\$115,989	Reduction of total CPPP program costs
89,454	Number of employees covered under the WCI Program
520	Estimated number of institution employees attending ORM sponsored training and professional development
133	Traditional insurance procurements and renewals
8.4%	Percentage reduction in number of reported WCI claims

Executive Summary

RISK MANAGEMENT

Risk Management Advisory Committee (RMAC)

The RMAC is a multi-disciplinary committee comprised of members from each of the 15 institutions and System Administration. The purpose of the committee is to provide advice and make recommendations on the structure, policies and operations of the UT System's risk management programs and to serve as the mechanism for the open exchange of information and ideas among institutions.

Risk Management Information System (RMIS)

In March 2004, ORM executed a contract to implement a comprehensive risk management information system. Historically, programs ran on various systems and the RMIS consolidates these systems onto a single platform. User testing is currently taking place and the conversion process for additional systems is ongoing. The RMIS helps identify cost drivers, benchmark standards and goals against best practices in the insurance industry, allocate costs according to the UT System's objectives, set priorities, and improve workflow management.

Resource Allocation Program (RAP)

The RAP program, which has been in place since 1998, provides funding to implement safety and WCI initiatives that, while complementing existing efforts, are outside existing program budgets. Over \$15 million has been returned to the institutions since the program's inception. It was designed to assist institutions with maintaining a safe physical work environment and to help reduce employee accidents/injuries and the overall frequency and severity of claims. The actual reduction in the frequency and severity of claims is a testament to the success of this award winning program.

Disaster Recovery-Mutual Aid Tabletop Exercises

ORM (Risk Control and Insurance) conducted tabletop exercises to meet requirements under the UT System Disaster Response - Mutual Aid Agreement and Guidebook. Exercises were conducted at UT M. D. Anderson Cancer Center, UT Health Science Center - Houston, UT Health Science Center - San Antonio, UT Arlington, and UT Pan American; with participation from all the remaining institutions.

Professional Development

In October 2003, the UT System 9th Annual Risk Management Conference was held in San Antonio. Over 270 professionals participated in the conference, which included tracks in Risk Management Insurance, Environmental Health & Safety, and Workers' Compensation Insurance.

ORM sponsored training classes for National Fire Protection Association (NFPA) Certified Fire Inspector, Plan Examiner and 2003 Life Safety Code Update; Hazardous Materials; and Hazardous Waste Compliance training. Over 250 people attended these training classes throughout the UT System and included representatives from the State Fire Marshal's Office.

Executive Summary

RISK CONTROL AND INSURANCE

Cooperation with the Environmental Protection Agency (EPA)

In 2004, the Campus Safety Health and Environmental Management Association, the National Association of College and University Business Officers, and the Environmental Protection Agency became partners. Representatives from ORM and UT M. D. Anderson Cancer Center actively participated in a nationwide workgroup with these associations to foster performance based regulatory reform and associated efforts. The UT System was a leader with efforts championed by UT M. D. Anderson Cancer Center and the EH&S Management System pilot program funded by System-wide RAP funds and hosted at UT Arlington and UT Health Science Center - Houston.

Cooperation with the U.S. Government Accounting Office (GAO)

The U.S. Government Accounting Office met with representatives from the UT System, and UT Health Science Centers at Houston and San Antonio to seek input on national policy for low level radioactive waste storage and disposal. Representatives from the U.S. GAO recently published and presented nationwide data collected by UT Health Science Center - Houston to Congress.

Partnerships with Faculty

A cooperative project with faculty at UT Permian Basin was developed to evaluate selected material handling activities associated with housekeeping, maintenance, and patient lifting at institutions participating in the project. This project builds on the success of a patient lifting injury reduction effort implemented by UT Health Center - Tyler. Deliverables include job hazard analyses and training programs designed with input from employees to reduce injuries and maintain productivity.

System-wide Contracts

A new non-exclusive System-wide medical waste disposal contract was executed that not only helps control risk and reduce liability, it also results in an estimated annual cost saving of \$350,000.

The evaluation team consisted of representatives from UT M. D. Anderson Cancer Center, UT Health Science Centers at Houston and San Antonio, UT Southwestern Medical Center - Dallas, UT Austin, UT Dallas, and System Administration. Along with the four other System-wide contracts, these efforts result in over \$500,000/year in cost savings and meet service needs for disaster recovery, spill and emergency response, hazardous waste management, and radioactive materials management.

Mercury Reduction Grant

The Mercury Reduction Grant carried out by the UT Health Science Centers at Houston and San Antonio, UT Medical Branch - Galveston, UT Pan American and ORM is being summarized to share with our strategic grant partners: the EPA, the Texas Commission on Environmental Quality, the EPA Region VI Pollution Prevention Resource Exchange at UT Austin, and the Kentucky Pollution Prevention Center. Through this project, we have identified, purchased and used viable mercury free alternatives to research clinical and physical plant devices.

Insurance Renewals

Over 130 insurance policies covering a variety of risks such as crime, wind, flood, ocean transit, and vehicle liability were purchased or renewed.

Executive Summary

Comprehensive Property Protection Plan (CPPP)

Staff worked with brokers and insurers to maximize coverage and maintain reasonable premium levels given the extreme market changes that occurred after 2001. The CPPP insures over \$16 billion in building, content, and business income values. Although building values increased by almost \$1 billion, the total cost of the plan decreased about \$100,000. In addition, we successfully enhanced the plan with reinstatement of blanket limits and increased sub-limits of certain coverages.

Fine Arts Coverage

ORM procured a policy that covers fine art at UT Austin valued at approximately \$1.5 billion. This insurance placement closed a significant gap in coverage that resulted from market restrictions following September 2001.

UNEMPLOYMENT COMPENSATION INSURANCE (UCI)

Program Consolidation

As a result of a comprehensive review of the UCI program with representatives from each institution, a recommendation was made and approved to consolidate duplicative programs. The enhanced program strengthens internal controls and provides for an experience rated premium structure which will provide financial incentive to control losses and provide a leveling effect for budgeting purposes.

WORKERS' COMPENSATION INSURANCE (WCI)

Decrease in Benefit Expenditures

For the second year in a row, the UT System workers' compensation benefit expenditures decreased by over \$1 million while the Texas workers' compensation industry continued to experience increasing costs. The total number of claims decreased by almost 9%.

These exceptional results are attributed to the hard work of everyone involved in the process at the institutions and at System Administration. Claims management, loss control, safety, and management support have contributed to the decrease in number and severity of work-related injuries.

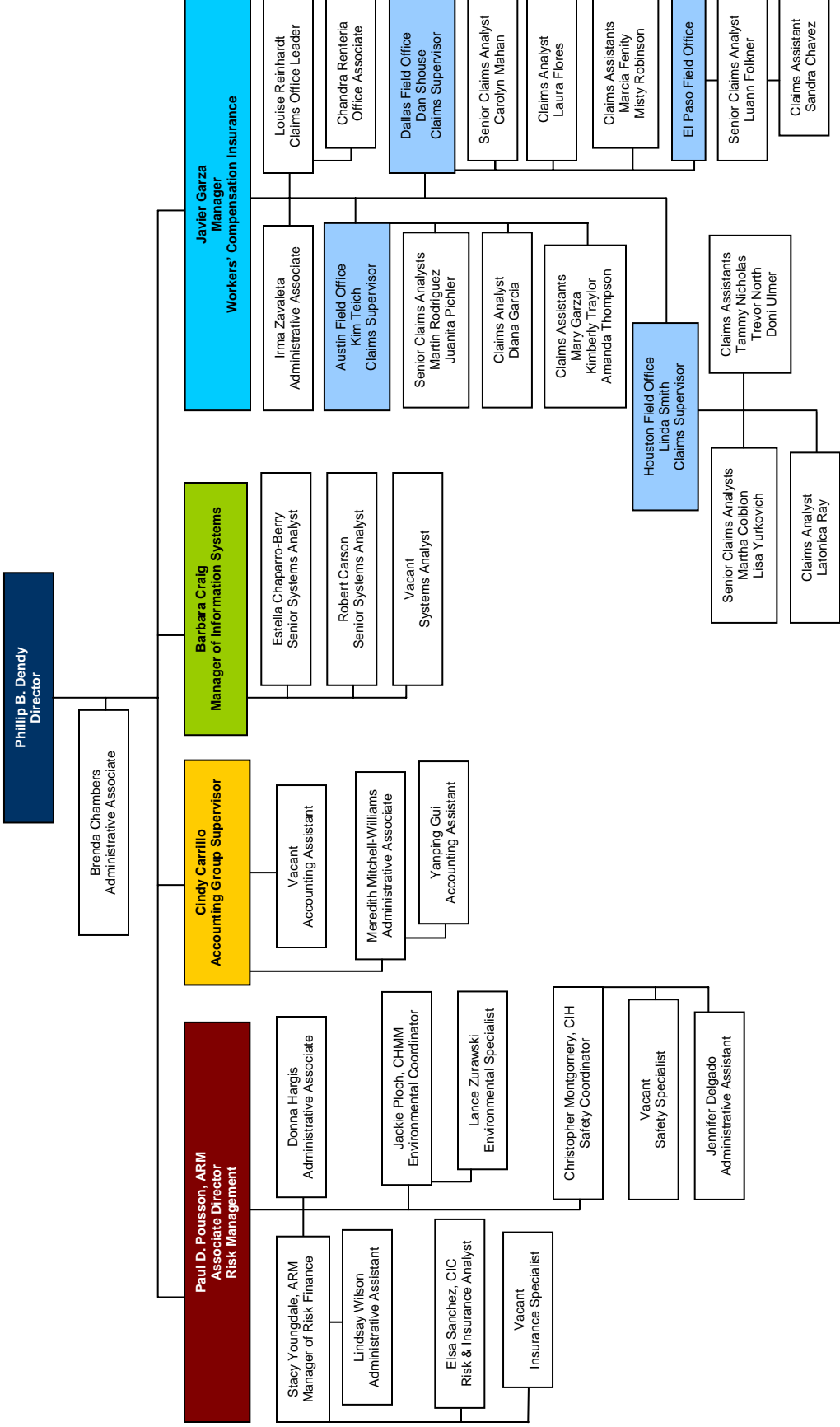
Provider Networks

ORM worked with a vendor to increase the preferred provider (PPO) network and develop an exclusive provider (EPO) network. As a result, injured employees can obtain immediate quality medical care from health providers facilitating a speedy recovery and return to work.

Legislative Update

The Texas Legislature conducted hearings throughout FY 2004 to examine the state's workers' compensation system and to develop legislation to control the increasing costs. The director of ORM testified before the Senate Select Interim Committee on Workers' Compensation and the House Committee on Business and Industry. The committees were particularly interested in the UT System's effectiveness and efficiency in comparison to other state agencies and its success in establishing medical care networks.

THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION OFFICE OF RISK MANAGEMENT ORGANIZATIONAL CHART



Risk Management

Resource Allocation Program

The Resource Allocation Program was implemented in 1998 with the goal to maintain a safe physical work environment and encourage reduction in the frequency and severity of employee accidents and injuries. The program provides institutions with funding that allows them to implement occupational safety and WCI initiatives that, while complementing existing efforts, are outside the scope of their existing budgets. The amount allocated to each institution is determined by an annual actuarial study. The program is administered by the Risk Control and Insurance section.

Each year, seventy percent (70%) of available funds are allocated based on each institution's 3-year loss ratio of premiums-to-expenditures and twenty percent (20%) distributed equally. The remaining ten percent (10%) is used for System-wide enhancements. The FY 2004 funding distribution is outlined in Table 1.1 to the right.

Program initiatives focus on reducing on-the-job injury and illness incident rates, correcting unsafe behaviors, enhancing existing employer WCI responsibilities, improving the physical work environment and other organizational issues affecting occupational safety and health.

The following are examples of innovative initiatives implemented by institutions during FY 2004:

- Mechanized lifts to decrease the need for tall ladders and scaffolding in maintenance operations (UT El Paso, UT Brownsville, UT M. D. Anderson, and UT Pan American).
- Fire and life safety compliance (UTHSC - San Antonio, UT Southwestern Medical Center - Dallas, UT Dallas, UT San Antonio, and UT El Paso).

- Automated External Defibrillators (UT Arlington, UT Brownsville, UT El Paso, UT Tyler, and System Administration)
- Material handling improvements (UT Austin, UT El Paso, UT Pan American, UT Tyler, and UTHSC - Houston)
- Department safety liaison program (UT Arlington, UTHSC - Houston, and System Administration)
- Case management and pre-employment physicals (UT Austin)
- Slip, trip, and fall prevention (UT Permian Basin, UT Pan American, and UT Dallas).
- Risk Management conference (System-wide)
- Professional development (System-wide).
- Risk Management Information System (System-wide).

Table 1.1 Resource Allocation Program Distribution for All Institutions	
System Administration	\$ 59,656.00
UT Arlington	78,046.00
UT Austin	376,612.00
UT Brownsville	62,657.00
UT Dallas	68,467.00
UT El Paso	55,591.00
UT Pan American	56,249.00
UT Permian Basin	34,262.00
UT San Antonio	80,732.00
UT Tyler	35,511.00
UTSWMC	202,613.00
UTMB Galveston	237,659.00
UTHSC-Houston	205,366.00
UTHSC-San Antonio	176,681.00
UTMDACC	460,446.00
UTHC-Tyler	59,452.00
System-wide use	250,000.00
TOTAL	\$ <u>2,500,000.00</u>

Risk Management

Risk Management Information System

The Risk Management Information System provides a consolidated platform for reporting on all areas of risk management that can be used by System Administration and the institutions for planning and budgeting purposes. Separate risk management and claims databases are currently managed as part of our self-insured plans for Workers' Compensation Insurance, Comprehensive Property Protection Plan, Directors & Officers/Employment Practices Liability, Professional Liability Insurance, Unemployment Compensation Insurance, and claims that fall under the tort claims act.

The RMIS allows us to identify cost drivers, benchmark our standards and goals against best practices in the insurance industry, allocate risk management costs according to the UT System's objectives, manage purchases of commercial insurance, track certificates of insurance provided by vendors working for the UT System, set risk management priorities and improve workflow management and processes.

In addition to the program administration benefits, the RMIS allows institutions to have immediate and more comprehensive access to their loss and exposure data, building and fleet inventories, and risk financing data.

In March 2004, we executed a contract and will soon begin real time use of the RMIS for all lines of coverage outlined in the base scope. ORM staff have dedicated considerable time and resources to ensure a successful conversion and implementation.

Risk Management Conference

The UT System annual Risk Management Conference was held on October 29-31, 2003 at the St. Anthony Hotel in San Antonio, Texas. Over 270 professionals from many disciplines including Business Affairs, Environmental Health and Safety, Facilities, Human Resources, Police, Risk Management, and WCI participated in the conference. Conference participants attended four concurrent educational tracks and dynamic presentations by industry and higher education experts who present the most up-to-date developments on the risk management challenges facing higher education. It is our goal to afford all attendees the opportunity to network with fellow higher education professionals and colleagues. With this goal in mind, we welcomed the Texas Campus Safety Association back to our conference.

Disaster Mutual Aid Tabletop Exercises

The UT System Disaster Response – Mutual Aid Agreement and Guidebook (“the Plan”) became effective on March 25, 2003. As required by “the Plan,” a tabletop exercise was conducted in each of the four regions with participation from all the institutions. The exercises were conducted to test the coordination of “the Plan” and its ability to:

1. Integrate resources from institutions within the region to aid the affected institution.
2. Coordinate disaster response team efforts and to work together effectively under a unified command system.
3. Improve communication within and between institutions and System Administration.
4. Identify training or resource needs, and deficiencies in “the Plan.”
5. Develop recommendations for improving “the Plan.”

Risk Management

Significant coordination and preparation was undertaken by the Risk Control and Insurance section to ensure these exercises were successful. The exercises were held at UT M. D. Anderson Cancer Center and UT Health Science Center - Houston (hurricane), UT Health Science Center - San Antonio (extensive power outage), UT Arlington (tornado) and UT Pan American (explosive device) during the first two weeks of September 2004. We worked with a contractor to develop the scenario packages and facilitate the exercises at each site with assistance from ORM.

Follow-up exercises will test specific improvements instituted as a result of these exercises and should include a focus on integration of "the Plan," other business continuity processes and each institution's response plan.

Communication and notification systems will continue to be tested in future exercises as these systems are often the most problematic in exercises and actual events. The UT System will consider exercising cross regionally to allow for a wider spectrum of available resources, personnel and equipment should the entire region be impacted by a large scale event. Alternating or rotating venues (impacted institutions) might also be a valuable method of exercising different site institutional internal response and recovery plans.

Fund Administration

ORM is responsible for the administration of the self-insurance funds on programs we manage including WCI, CPPP, ROCIP, and UCI as well as the Medical Liability and D&O/EPL plans administered by the Office of General Counsel (OGC). The combined funds in these programs exceed \$250 million.

In FY 2004, approximately 30,000 indemnity, medical, claim, legal/liability expense, and income transactions were processed and reconciled by the Accounting section. In order to facilitate the payment process, approximately 100 vendors are set up each month.

The Accounting staff consists of four members who bill, receive, and record premiums for all the programs monitored above. On a quarterly basis, this section receives and reviews fund source statements and submits reimbursements to the Texas Workforce Commission to reimburse them for UCI claims.

The section monitors licensure compliance of each participant enrolled in the Medical Liability Plan via the Texas State Board of Medical Examiners online database and notifies institutions of any expired license. Over 8,300 medical liability certificates and handbooks were printed and distributed for the Medical Liability Plan.

The Accounting section provides reports as needed to sections within the Office of Risk Management, actuary, and other departments and institutions at the UT System. In addition, the staff reconciled 115 risk management and System Administration budget groups on a monthly basis.

Risk Control and Insurance

Background

The EH&S aspects of the UT System's education, research, and patient care operations require constant review due to new and increasingly complex requirements and technological advances to best practices. The EH&S program is managed by the Risk Control and Insurance section. Five EH&S staff provide an array of value-added services that help the UT System: eliminate or reduce its exposure to accidental and financial loss; comply with applicable environmental, health and safety laws and regulations; protect against accidents which could cause injury to faculty, staff, students, patients, and visitors; or impede its ability to provide a safe and quality educational experience. The EH&S staff perform important services such as:

1. Conduct loss analyses to assess the UT System's EH&S effectiveness and to recommend appropriate action.
2. Research the latest technology to maintain a state-of-the-art EH&S program.
3. Develop, update, and disseminate standards, specifications, procedures, and guidelines to optimize risk control efforts.
4. Assist institutions in providing training and in resolving crucial or unusual EH&S problems as needed or upon request.
5. Develop activities to promote safe work habits and to increase employee involvement.
6. Perform technical review of proposed EH&S legislation and regulations.
7. Help assure compliance with applicable rules and regulations.

The Property & Casualty Insurance program is managed by six property and casualty insurance staff in the Risk Control & Insurance section. These staff incorporate the necessary functions and procedures utilized to protect the various assets of the UT System. These functions involve:

1. Use of insurance as a mechanism for transferring risks from certain property and casualty exposures. Insurance is purchased through pre-qualified brokers that have agreed to specific performance requirements and have been briefed regarding the UT Systems's risk management philosophy and insurance needs.
2. Use of self-insurance as an alternative to the purchase of insurance coverage when costs become prohibitive.
3. Evaluation of potential exposures created by daily operations, as well as those unique operations that could subject the UT System to increased liability exposures.
4. Creation of claims policies and procedures to promote efficient and effective operations in a self-insured or self-funded program.
5. Review of contracts and insurance certificates to ensure that contractors, vendors, and third parties utilizing the UT System facilities have provided proper coverage and limits.
6. Management of claims to ensure maximum recovery from accidental and financial losses.
7. Delivery of consultative services to System Administration departments and institutions regarding risk management and insurance issues.

Risk Control and Insurance

System-wide EH&S Activities

Environmental Advisory Committee (EAC) — Staff provide consultative and technical assistance to the UT System EAC and its workgroups which consist of a Radiation Safety Officer Advisory Group, Biological and Chemical Safety Advisory Group, Environmental Advisory Group, and a Fire Life and General Safety Advisory Group. Staff also participated in two EAC meetings and two of each of the advisory group meetings to facilitate the implementation of the committee and advisory groups' objectives. Staff chair two of these workgroups.

The UT System Police Academy Hazardous Materials Awareness Training — State and federal regulations require that the UT System police cadets be trained to understand their responsibility should a hazardous materials incident occur on their institutions. During FY 2004, EH&S staff conducted two eight-hour training sessions to educate 46 cadets on these responsibilities. This year's revised training was well received by the cadets.

EH&S Peer Reviews — At the direction of the UT System Compliance Officer, each institution's EH&S Department has agreed to perform a peer review of high-risk areas at their institution every three years. EH&S staff participated in three peer reviews. In addition, staff performed a EH&S peer review for Texas State University with participation of representatives from UT Health Science Centers at Houston and San Antonio.

The UT System Administration EH&S Activities

Safety Training for the UT System Administration Employees — Staff coordinated and provided 45 employees with First Aid training; 49 employees with CPR and Automated External Defibrillator training, 38 employees with emergency evacuation chair training; 77 employees with driver training; and 28 new employees with general safety training as part of New Employee Orientation.

Safety Services — Staff conducted 111 ergonomic assessments and provided ergonomic equipment, as needed; resolved 51 requests from employees regarding topics ranging from indoor air quality to trip hazards; and numerous other issues were identified and corrected during routine inspections of the System Administration complex.

Department Safety Liaison (DSL) Program — Staff continued to coordinate the DSL program. Activities resulting from the program and topics discussed during quarterly meetings include: ergonomics, home safety, fire safety and our new fire systems, evacuation chairs, work area inspections, disaster preparedness, and wellness. Disaster preparedness topics included: discussing revisions to System Administration's Emergency Response and Evacuation Plan, identifying and coordinating necessary enhancements to the equipment in disaster preparedness cabinets, and taking part in a tabletop disaster exercise.

Risk Control and Insurance

Comprehensive Property Protection Plan

In some cases, it has been determined that the most cost effective means of managing certain financial exposures is through self-insurance or large deductible programs. The most prominent example of this is the UT System's Comprehensive Property Protection Plan, which covers the UT System's \$13.2 billion in property values and \$3.1 billion in business income.

The program's success depends upon a favorable loss history, therefore certain property conservation measures were undertaken by staff. Forty-one buildings with values between \$35 million and \$50 million were inspected, and the property conservation programs at each institution were reviewed. These inspections and reviews resulted in several recommendations to prevent and/or minimize property loss. The implementation of these recommendations is currently under review or in process at each institution. In addition, 157 plan reviews were performed for 61 construction projects managed by the Office of Facilities Planning and Construction or by the institutions for property conservation purposes.

Table 2.1 Unaudited CPPP Balance Fire and AOP Fund	
Beginning Fund Balance	\$ 7,300,669.72
IBNR 2003	(498,792.00)
Beginning AFR Balance	\$ 6,801,877.72
Income	
Premium Contributions	6,324,504.49
Loss Settlement	250,000.00
Interest Income	117,132.45
Expenses	
Premium and Other Expenses	(3,180,686.23)
UT Dallas Hail Damage Claim 2003	(543,392.00)
Administrative Costs	(59,084.00)
Change in IBNR	(1,204,308.00)
Ending AFR Balance	\$ 8,506,044.43
IBNR 2004	1,702,124.51
Ending Fund Balance	\$ 10,208,168.94

Table 2.2 Unaudited CPPP Balance Named Windstorm and Flood Fund

Beginning Fund Balance	\$ 3,060,447.84
Income	
Premium Contributions	3,012,619.00
Windstorm Refund	17,024.70
Interest Income	64,133.12
Expenses	
Premium and Other Expenses	(664,244.00)
Administrative Costs	(59,084.00)
Ending Fund Balance	\$ 5,430,896.66

Table 2.1, to the left, details the financial activity for the CPPP Fire and All Other Peril (AOP) fund for FY 2004. Table 2.2, above, details the financial activity for the CPPP Named Windstorm and Flood fund.

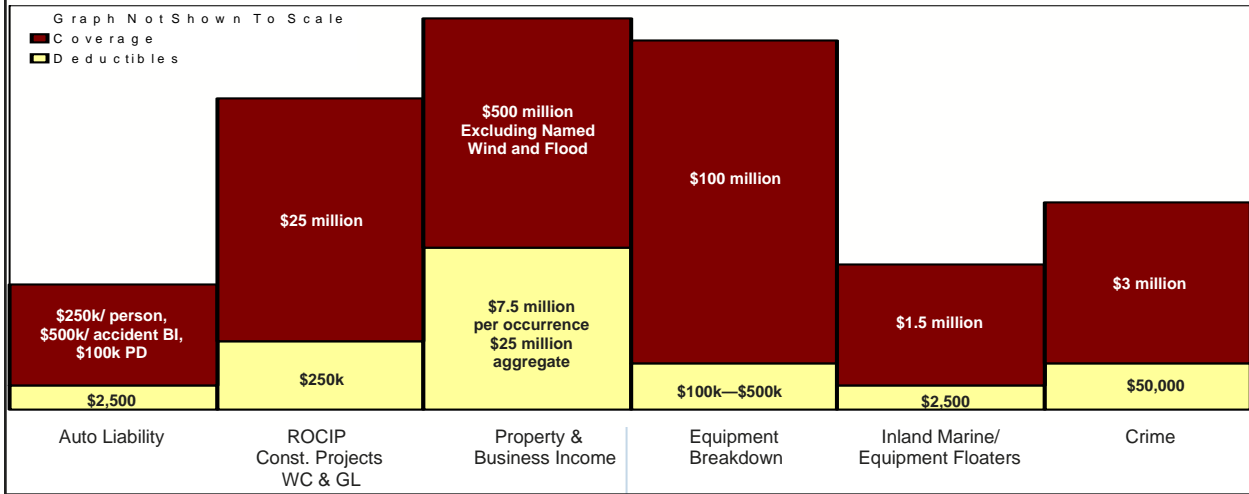
Traditional Insurance Purchases

The Risk Control & Insurance section purchased 133 commercial insurance policies during FY 2004. Nineteen policies were purchased on behalf of multiple or all institutions and 114 were purchased for the benefit of an individual institution. Graph 2.1, on page 7, summarizes the major commercial insurance policies purchased on a System-wide basis. The majority of policies purchased for individual institutions were National Flood Insurance Program and Texas Windstorm Insurance Association. These policies have low deductibles and provide underlying protection in the CPPP Wind and Flood program.

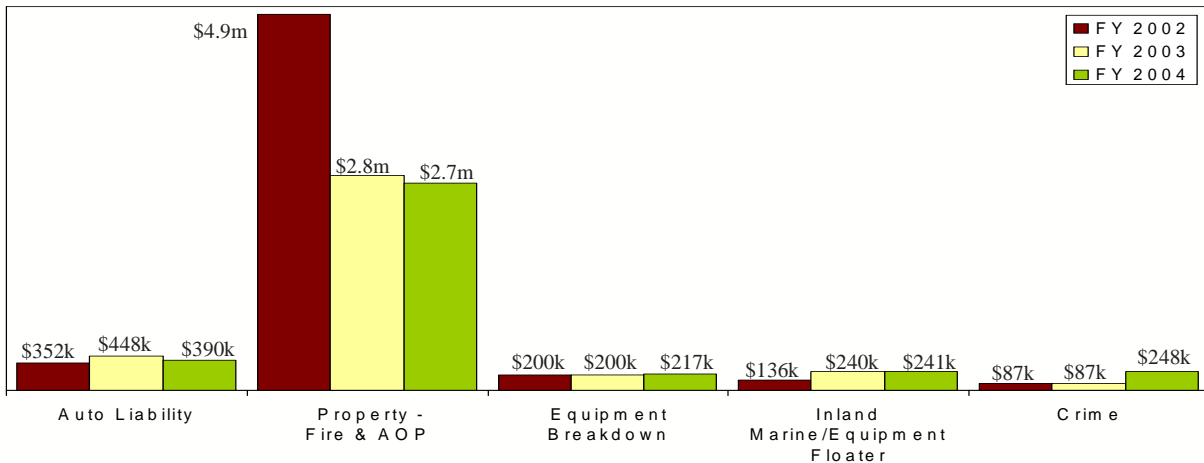
Approximately \$5 million was spent by the UT System and the institutions on commercial insurance premiums for the 133 policies in FY 2004. Graph 2.2, on page 7, depicts the three-year premium for the major System-wide insurance policies.

Risk Control and Insurance

Graph 2.1 Major Commercial Insurance Policies



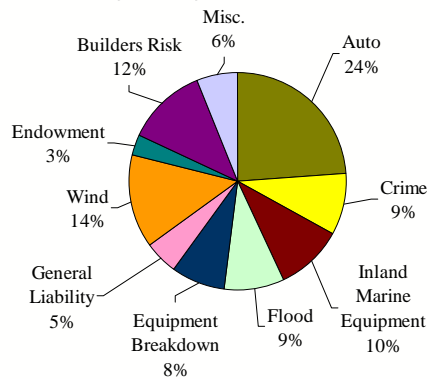
Graph 2.2 3-Year Commercial Insurance Premium History



The largest policy in terms of limits, covered values and premium continues to be the CPPP Fire and AOP policy, which cost approximately \$2.7 million in FY 2004.

Premiums for Fire and AOP accounted for 49% of all premiums in FY 2004. Graph 2.3, to the right, shows the distribution of premiums among all other 132 commercial insurance policies.

Graph 2.3 Premiums by Policy - Other Than Fire & AOP



Risk Control and Insurance

Rolling Owner Controlled Insurance Program (ROCIP)

The ROCIP program is administered jointly by the Risk Control & Insurance section and the Office of Facilities Planning and Construction. The ROCIP program provides Workers' Compensation and General Liability insurance coverage for all contractors working at designated construction projects. The benefits include lower insurance premiums due to bulk purchasing, consistency of insurance provided on each project, enhanced safety and loss control, and cost savings.

To date, the UT System has implemented four separate ROCIP programs. ROCIP Phase I was in effect from June 1997 to June 2000, and ROCIP Phase II was in effect from April 1990 to June 2002. ROCIP Phase III began in July 2000 and continued until July 2004. ROCIP IV began in January 2004 and will continue until December 2008.

Table 2.3 Schedule of ROCIP Construction Values and Projected Savings

ROCIP Phase	Construction Projects (#)	Construction Values (in the millions)	*Projected Net Savings (in the millions)
ROCIP I	19	\$ 205	\$ 1.64
ROCIP II	23	\$ 298	\$ 2.60
ROCIP III	28	\$ 1,160	To be determined
ROCIP IV	18	\$ 386	To be determined

*Includes Avoided Costs

Because claims reported under the ROCIP program last for several years beyond the close of the construction projects, it takes several years to finalize the actual savings figures. A schedule of ROCIP construction values and projected savings figures is provided in Table 2.3, above. Since ROCIP Phase III was recently closed and Phase IV construction is still in progress, projecting savings figures at this time would be premature. Table 2.4, below, provides details on financial activity for all phases of the ROCIP program for FY 2004.

Table 2.4 Unaudited ROCIP Balance

ROCIP	I	II	III	IV
Beginning Fund Balance	\$ 17,520.10	\$ 985,962.25	\$ 15,076,378.61	\$ 0.00
IBNR 2003	(595,231.00)	(551,238.00)	(2,682,710.00)	0.00
Beginning AFR Balance	\$ (577,710.90)	\$ 434,724.25	\$ 12,393,668.61	\$ 0.00
Income				
Premium Contributions			1,655,082.00	282,050.00
Interest Income	4,122.35	9,407.38	177,492.62	
Close out Adjustments			3,777.81	
Expenses				
Premiums, Claims, & Other Fees	(30,617.96)	(20,588.69)	(4,409,094.39)	(2,160,067.00)
Transfers/Adjustments				
Administrative Expenses			(196,584.00)	
Transfer within ROCIP	300,000.00	(300,000.00)	(3,000,000.00)	3,000,000.00
Change in IBNR	247,362.00	226,019.00	(3,964,859.00)	(44,204.00)
Ending AFR Balance	\$ (56,844.51)	\$ 349,561.94	\$ 2,659,483.65	\$ 1,077,779.00
IBNR 2004	347,869.00	325,219.00	6,647,569.00	44,204.00
Ending Fund Balance	<u>\$ 291,024.49</u>	<u>\$ 674,780.94</u>	<u>\$ 9,307,052.65</u>	<u>\$ 1,121,983.00</u>

Risk Control and Insurance

Directors & Officers / Employment Practices Liability Self-Insurance Plan (D&O/EPL)

The D&O/EPL plan and all reported claims are managed by the Office of General Counsel. The Risk Control and Insurance section provides support for the funding and accounting aspects of the plan. Table 2.5, below, details the financial activity for the D&O/EPL fund for FY 2004.

Table 2.5 Unaudited Director & Officers Liability Balance	
Beginning Fund Balance	\$ 4,254,193.29
IBNR 2003	(2,704,053.00)
Beginning AFR Balance	\$ 1,550,140.29
Income	
Premiums	1,516,119.00
Interest Income	72,369.62
Close Out Adjustment	4,472.10
Expenses	
Claim and Other Expenses	(17,549.50)
Administrative Costs	(85,596.00)
Change in IBNR	(300,894.00)
Ending AFR Balance	\$ 2,739,061.51
IBNR 2004	3,004,947.00
Ending Fund Balance	\$ 5,744,008.51

Camp Insurance Program

The Camp Insurance Program was made available in April 2003 to institutions interested in participating. This program provides a combination of general liability and accident coverage to any of the UT System owned and operated academic and sports camps. By combining most institution camps under one policy, we are able to lower premiums and waive minimum premium requirements. Nine institutions enrolled 47 camps in the first year of introduction. That number has nearly doubled to 93 enrolled camps for the policy period of April 2004 to April 2005.

Claims

Property — The largest loss occurring in FY 2004 was caused by a fire at UT Arlington on October 24, 2003. The Central Utility Plant and the switchgear supplying power to the entire institution were destroyed. The total value of the loss was over \$2 million. Funds in the amount of \$1.78 million were recently advanced from the CPPP to UT Arlington in anticipation of a final settlement in the next few months. A subrogation claim against the contractors performing the demolition work is being pursued with assistance from the Office of General Counsel.

Boiler & Machinery — UT Dallas reported a Boiler & Machinery claim due to a power outage that occurred in August 2004. The total estimated value of this loss is \$2.1 million. The claim has been submitted to the insurer and is pending.

Crime — UT Austin reported an employee theft claim in FY 2004. An employee in the Athletics Dining Hall was not making appropriate deposits and allegedly stole \$81,700 between October 2001 and May 2003. This claim was settled with the insurer for \$81,000. The net payment to UT Austin was \$31,000 after application of the \$50,000 deductible.

UT San Antonio reported an employee theft in FY 2004. A library employee allegedly stole over \$200,000 in library fines between May of 1997 and October 2003. The claim is currently pending with the insurance company.

Risk Control and Insurance

Updated from Previous Fiscal Years — Because claim activity develops over time, below is a brief overview of recent activity on claims occurring in previous fiscal years.

- The Tropical Storm Allison property claim was settled in FY 2004. The total of all insurance proceeds exceeds \$77 million.
- A Boiler & Machinery claim was settled from FY 2001 for UT Arlington. UT Arlington's total loss was approximately \$139,000. With the assistance of OGC, the claim was settled for \$76,880, which represented a total insured loss of \$101,880 less the \$25,000 deductible.
- The UT Dallas hail claim from April 2003 is pending. Funds were advanced from the CPPP account in the amount of \$543,392 to UT Dallas in December 2003. This represented a total loss estimate of \$793,392 less the institution's \$250,000 deductible. Repairs are complete and the settlement is being finalized.

The UT System reported 131 automobile accidents to its auto liability insurance company in FY 2004. Table 2.6, to the top right, provides a summary of the cost of vehicle accidents paid by year. The significant increase in the 2002-2003 year is largely due to a severe vehicle accident that occurred during a UT Austin field trip.

Table 2.6 Vehicle Accidents by Year

Policy Period	Total Accidents (#)	Deductible Paid by UT System	Amount Paid by Carriers	Incurred Amount
2001/2002	114	\$ 94,056.00	\$ 96,035.00	\$ 190,091.00
2002/2003	114	107,560.00	610,230.00	717,790.00
2003/2004	131	103,319.00	101,141.00	204,460.00

Notes: 1. Incurred (\$) amount— anticipated dollar amount set by insurance company for all costs associated with accidents.
2. Data is valued as of 8-31-04.

Consultative Services

The Risk Control and Insurance section consults with the UT System institutions and System Administration departments on a regular basis regarding risk management and insurance issues. In FY 2004, staff reviewed insurance requirements in more than 100 contracts and leases and provided numerous coverage assessments for institutions.

The Associate Director for Risk Management made presentations at several national and regional conferences in FY 2004, including the University Risk Management and Insurance Association's regional and national conferences, the Construction Owners Association of America annual conference, the Texas Higher Education Coordinating Board Facilities conference, and the Southern Association of College and University Business Officers annual conference.

Unemployment Compensation Insurance

Background

Unemployment Compensation Insurance is an employer-paid insurance program to assist workers who are unemployed through no fault of their own. It provides temporary financial assistance to qualified individuals while they search for other work. Table 3.1, to the right, provides the unaudited UCI fund balance.

The U.S. Congress passed legislation in 1970 requiring states to cover employees of state hospitals and state institutions of higher education under their respective unemployment insurance acts. In 1971, the Texas Legislature passed legislation to provide unemployment compensation insurance coverage for all state employees. Following this legislation, the UT System UCI program was established.

In September of 2003, the responsibility for administration of the UCI program for the UT System was transferred to ORM.

Claims on employees entitled to benefits that were paid from institutional funds were reimbursed to the Texas Workforce Commission from the UT System UCI self-insurance fund. Claims on employees entitled to benefits that were paid from General Revenue or General Revenue dedicated funds were reimbursed to the TWC by the institution. This dual process led to confusion, inefficiencies, and duplication of some of the activities.

As a result of a comprehensive review of the UCI program conducted by the Director of ORM and representatives of each institution, a recommendation was made and approved which consolidates the programs that were duplicative in the manner in which claims are funded and reimbursed.

Table 3.1 Unaudited UCI Fund Balance

Beginning Fund Balance		\$ 3,533,946.14
UT System Institutions	Gross Payroll*	Receipts
System Administration	5,498,501.68	32,441.16
UT Arlington	11,228,388.74	66,249.90
UT Austin	119,957,523.74	707,749.39
UT Brownsville	6,054,426.43	35,721.12
UT Dallas	10,446,905.08	61,636.74
UT El Paso	14,108,326.05	83,241.26
UT Pan American	6,505,851.62	38,385.84
UT Permian Basin	808,853.91	4,772.83
UT San Antonio	13,351,106.09	78,771.52
UT Tyler	1,421,702.84	8,389.27
UTSWMC	55,816,407.08	329,513.47
UTMB Galveston	37,583,606.28	221,746.58
UTHSC-Houston	34,867,664.40	205,719.22
UTHSC-San Antonio	32,249,789.07	190,139.20
UTMDACC	30,837,355.94	181,946.43
UTHC-Tyler	12,845,236.25	75,786.88
TOTAL Payroll/Receipts	393,581,645.20	2,322,210.81
Investment Income		40,390.47
Expenditures		(2,930,839.65)
Adjustment (a)		533.70
Adjustment (b)		(699,721.12)
Adjustment (c)		895.37
Adjustment (d)		692,697.00
Adjustment (e)		7,024.12
Adjustment (f)		(1,819.00)
Adjustment (g)		(22,549.10)
Adjustment (h)		(374,323.20)
Ending Fund Balance		<u>\$ 2,568,445.54</u>

* Assessable wages as reported by institutions.
 (a) Difference between actual premium receipts and estimated premiums used by AFR for August 2004.
 (b) Accrual for July and August 2004 TWC payment.
 (c) Reversal of FY 2003 difference between actual and estimated premiums for August 2003.
 (d) Reversal of FY 2003 TWC Payment Accrual.
 (e) Difference between 2003 and 2004 TWC Accrual.
 (f) Transfer for portion of wages for Office of Finance.
 (g) Transfer for portion of wages for Office of Risk Management.
 (h) Refund MDACC for UCI premiums overpayment in FY 2003.

Unemployment Compensation Insurance

The enhanced program accomplishes the following objectives:

- Eliminates potential discrepancies in payroll fund source information.
- Experience rates the premium to provide incentive for institutions to reduce and control losses.
- Gives institutions a leveling effect for budgeting purposes on all funds.
- Eliminates duplication of efforts and the need for institutions to make payments directly to the TWC.
- Strengthens administrative controls for monitoring activities.

Fund Balance, Premium Receipts, and Claims

In FY 2004, the assessment rate was \$0.59 per \$100 of assessable wages (the first \$9,000 of compensation per employee) for each institution. This assessment rate was applied to the payroll of employees paid from funds other than General Revenue.

Claim activity increased significantly in 2003 and 2004 primarily due to a reduction of force at many institutions in late 2003. Premium income in the System-wide program was \$2.3 million while \$3.4 million was paid in claims.

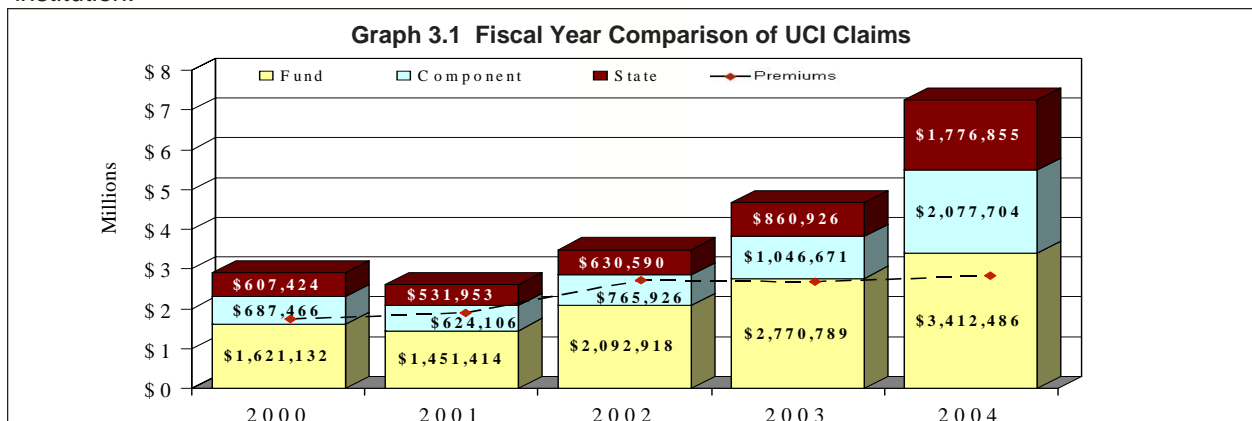
Table 3.2, top right, illustrates the locally funded payroll, premium, and claims by institution.

Table 3.2 UCI Fiscal Year 2004

UT System Institutions	Gross Payroll	Premiums	Claims Paid (Local Funds)*
System Administration	\$ 5,498,501.68	\$ 32,441.16	\$ 30,389.72
UT Arlington	11,228,388.74	66,249.90	82,657.15
UT Austin	119,957,523.74	707,749.39	906,155.48
UT Brownsville	6,054,426.43	35,721.12	143,428.88
UT Dallas	10,446,905.08	61,636.74	33,140.99
UT El Paso	14,108,326.05	83,241.26	147,389.67
UT Pan American	6,505,851.62	38,385.84	48,113.20
UT Permian Basin	808,853.91	4,772.83	5,927.65
UT San Antonio	13,351,106.09	78,771.52	26,014.73
UT Tyler	1,421,702.84	8,389.27	580.05
UTSWMC	55,816,407.08	329,513.47	425,624.61
UTMB Galveston	37,583,606.28	221,746.58	332,153.35
UTHSC-Houston	34,867,664.40	205,719.22	640,351.00
UTHSC-San Antonio	32,249,789.07	190,139.20	212,288.39
UTMDACC	30,837,355.94	181,946.43	345,888.85
UTHC-Tyler	12,845,236.25	75,786.88	32,382.42
TOTAL	\$393,581,645.20	\$ 2,322,210.81	\$ 3,412,486.14

* 3rd Quarter 2003 thru 2nd Quarter 2004

Graph 3.1, below, illustrates the premiums received and claims paid from all sources for FY 2000 through FY 2004. Institutions paid \$2 million in General Revenue and General Revenue dedicated claims for a total by the UT System of almost \$5.5 million. Claims paid by the state were an additional \$1.7 million. The total paid on UCI claims from all sources was over \$7.2 million.



Workers' Compensation Insurance

Background

The UT System self-insured workers' compensation program is administered by the Workers' Compensation Insurance section. Twenty-five staff administer the program from offices located in Austin, Dallas, Houston, and El Paso. The adjusters (12 employees) are charged with the responsibility of investigating claims submitted by the UT System's institutions. The investigation determines the compensability of the claim, and depending on the outcome of that determination, the program either pays benefits as outlined by current statute or challenges the claim through the proper dispute resolution process.

There are currently more than 89,000¹ employees covered under the UT System's WCI program. The WCI program receives about 2,000 new claims annually and is funded by premiums charged to each of the UT System's institutions. The success of the WCI program is attributed to the efforts of a skillful staff at the UT System and its institutions, who are dedicated to seeing that an injured worker receives all benefits due to him or her, to the creation of innovative cost containment programs, and to reducing the frequency and severity of accidents.

Funding

The WCI program is funded through the collection of premiums based on a variable rating process which factors the institutions loss history, payroll, and claim frequency into the rate calculation. These rates are recommended based on an annual actuarial study. Based on a gross payroll of \$3,966,128,285.09² in FY 2004, the WCI fund valued at \$49,860,253.62 is within the statutory limit. Table 4.1, to the top right, and 4.2, on page 14, provide an analysis of the fund.

Table 4.1 Reconciliation of the WCI Account to the Preliminary Unaudited AFR (FY2004)

Beginning Fund Balance	\$ 47,249,961.07
Incurred But Not Reported (IBNR) FY 2003	(20,154,000.00)
Reversal of FY 2002 adjustment	(2,603.26)
AFR Adjusted Beginning Balance	27,093,357.81
Additions	
Premiums	12,255,597.22
Interest Income	967,003.01
Difference between IBNR FY 2003 and IBNR FY 2004	798,000.00
Deductions	
Benefit Expenditures	(5,612,326.57)
Out of State Insurance	(35,262.66)
Administrative Expenditures	(2,080,323.45)
Other Transfers and Adjustments	
Transferred to Environmental Health & Safety	(369,755.44)
Transferred to Office of Finance	(5,459.00)
Transferred to Office of General Counsel	(42,301.00)
Transferred to Resource Allocation Program (RAP)	(2,500,000.00)
Returned from RAP	896.14
Market Value Adjustment	34,827.56
AFR Ending Balance	30,504,253.62
IBNR 2004	19,356,000.00
Ending Fund Balance	<u>\$ 49,860,253.62</u>

In FY 2004, the average premium rate was \$0.32 per \$100 of payroll. The average rate will drop to \$0.29 per \$100 of payroll for FY 2005. The average premium rate charged to our institutions is far below the state average of \$2.98³.

¹ UT System Office of Human Resources personnel inventory for April 2004. Total headcount as reported by institutions totaled 89,454.

² Unaudited gross payroll as reported by all UT System institutions, FY 2004.

³ Texas Department of Insurance.

Workers' Compensation Insurance

Table 4.2 Unaudited WCI Fund Balance

Beginning Fund Balance	\$	47,249,961.07
Adjustment for Close Out		(39,426.31)
UT System Institutions	Gross Payroll*	Receipts
System Administration	\$35,175,832.84	60,185.85
UT Arlington	132,320,735.81	499,643.62
UT Austin	745,152,101.76	2,343,503.36
UT Brownsville	44,188,725.31	108,881.01
UT Dallas	100,806,224.86	270,765.52
UT El Paso	101,705,341.53	436,222.11
UT Pan American	73,204,218.19	313,606.92
UT Permian Basin	13,547,958.83	69,326.08
UT San Antonio	115,697,155.26	321,985.21
UT Tyler	22,731,283.24	33,459.84
UTSWMC	401,107,693.99	1,221,773.60
UTMB Galveston	675,939,009.73	3,045,105.09
UTHSC-Houston	334,425,511.90	927,696.37
UTHSC-San Antonio	253,016,653.66	642,285.22
UTMDACC	857,258,735.00	1,714,517.47
UTHC-Tyler	59,851,103.18	248,200.34
TOTAL Payroll/Receipts	\$3,966,128,285.09	12,257,157.61
Investment and Interest Income		1,001,830.57
Expenditures		(7,692,650.02)
Funds transferred to the Resource Allocation Program (RAP)		(2,500,000.00)
Administrative Costs		(417,515.64)
Funds Returned from RAP		896.14
Ending Fund Balance	\$	49,860,253.62

* Unaudited gross payroll as reported by each institution on Form WC-3 for FY 2004.

Claims

In FY 2004, the WCI program experienced an 8.4% decrease in the overall number of reported claims when compared to the previous fiscal year. This continues a general trend of a reduction of claims since FY 2000. Graph 4.1, to the top right, depicts the number of claims reported for the past five years. Table 4.3, to the right, provides an analysis of WCI claims filed by the UT System institutions for the 2004 fiscal year.

Graph 4.1 Reduction in Claims Filed

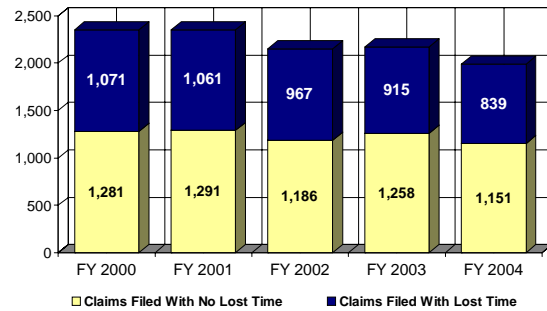


Table 4.3 Analysis of WCI Claims Filed in FY 2004

UT System Institutions	*Open Claims	New Claims	**Lost Time Claims
System Administration	13	6	1
UT Arlington	123	84	21
UT Austin	1,074	403	158
UT Brownsville	83	43	5
UT Dallas	87	50	21
UT El Paso	126	79	43
UT Pan American	119	59	14
UT Permian Basin	12	9	2
UT San Antonio	190	64	32
UT Tyler	19	5	1
UTSWMC	406	150	67
UTMB Galveston	1,557	489	237
UTHSC-Houston	411	134	80
UTHSC-San Antonio	451	178	59
UTMDACC	656	171	84
UTHC-Tyler	163	66	14
TOTAL	5,490	1,990	839

* Open claims from previous fiscal years.

**Claims reported as lost time on the Employer's First Report of Injury and/or with a severity code of 4.

Workers' Compensation Insurance

The UT System adjusters attended a total of 252 administrative and settlement conferences before TWCC. Issues addressed included compensability of claims, entitlement to income or medical benefits, time off work due to injury, and average weekly wage paid to the injured employee during the length of injury.

Expenditures

Expenditures continued to decrease in comparison to those in previous years. Medical and income benefit payments totaled \$5,060,651.05 or \$56.57 per covered employee for the fiscal year. This represents a \$12.39 decrease per covered employee from FY 2003. Table 4.4, to the right, provides detailed information on medical and income payments in FY 2004.

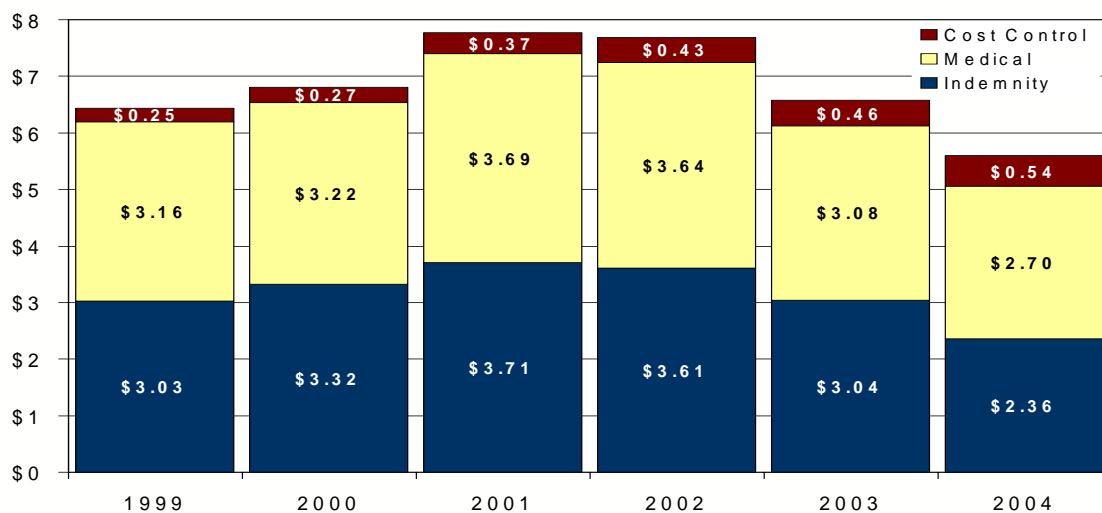
Total benefit expenditures decreased \$1,058,924.79 from FY 2003. This represents a 17.37% reduction in total expenditures made in FY 2004. The major WCI expenditures for FY 2004 are illustrated in Graph 4.2, below. WCI benefit payments per employed person are illustrated in Graphs 4.3 and 4.4, on page 16.

Table 4.4 Detail of Benefit Expenditures

UT System Institutions	Settlements*	Indemnity Benefits**	Medical Benefits***	Total Benefits
System Administration	\$ -	\$ 0.00	\$ 4,433.10	\$ 4,433.10
UT Arlington	-	68,324.33	103,675.14	171,999.47
UT Austin	-	205,103.18	510,987.39	716,090.57
UT Brownsville	-	4,423.20	26,735.11	31,158.31
UT Dallas	-	35,981.09	124,511.10	160,492.19
UT El Paso	-	198,042.08	302,071.70	500,113.78
UT Pan American	-	58,339.24	147,923.36	206,262.60
UT Permian Basin	-	0.00	7,456.76	7,456.76
UT San Antonio	-	31,213.52	85,608.75	116,822.27
UT Tyler	-	5,120.36	12,364.39	17,484.75
UTSWMC	-	165,281.72	153,174.28	318,456.00
UTMB Galveston	412.50	1,167,185.34	704,945.54	1,872,543.38
UTHSC-Houston	-	26,737.77	74,700.96	101,438.73
UTHSC- San Antonio	-	163,465.46	169,864.78	333,330.24
UTMDACC	-	161,412.55	189,150.46	350,563.01
UTHC-Tyler	-	74,223.92	77,781.97	152,005.89
TOTALS	\$ 412.50	\$ 2,364,853.76	\$ 2,695,384.79	\$ 5,060,651.05

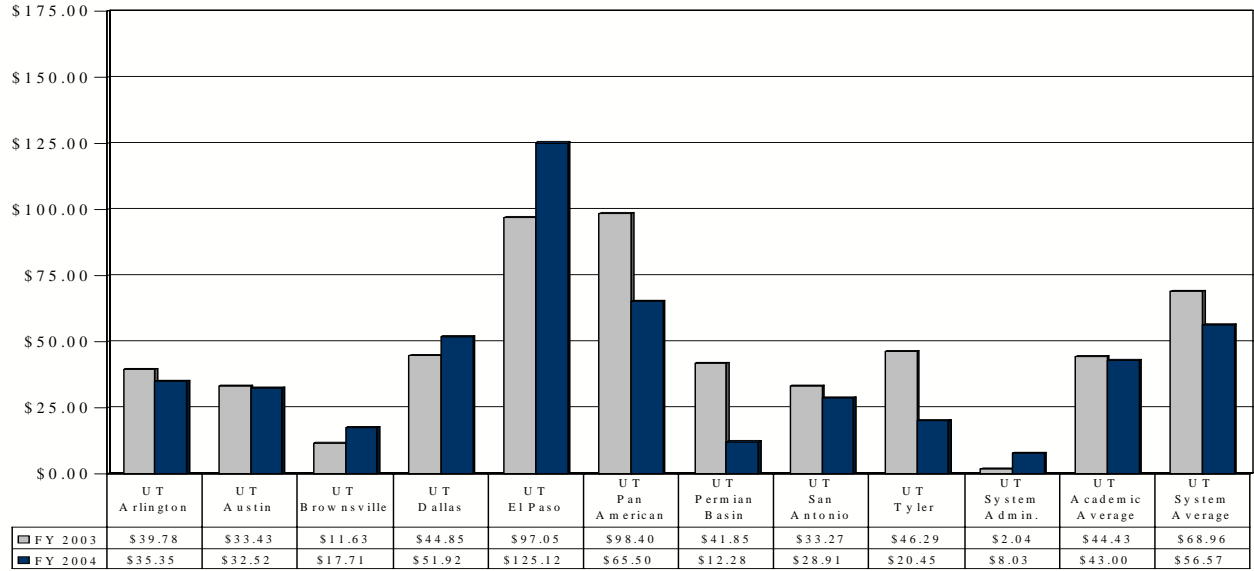
* Judgment/Compromise Settlement Agreement.
 ** Includes temporary total disability benefits, partial permanent disability benefits, temporary income benefits, impairment income benefits, supplemental income benefits, death benefits, and attorney fees.
 *** Does not include medical audit or cost management fees.

Graph 4.2 Comparison of Major WCI Expenditures for Fiscal Years 1999 – 2004 (in Millions)

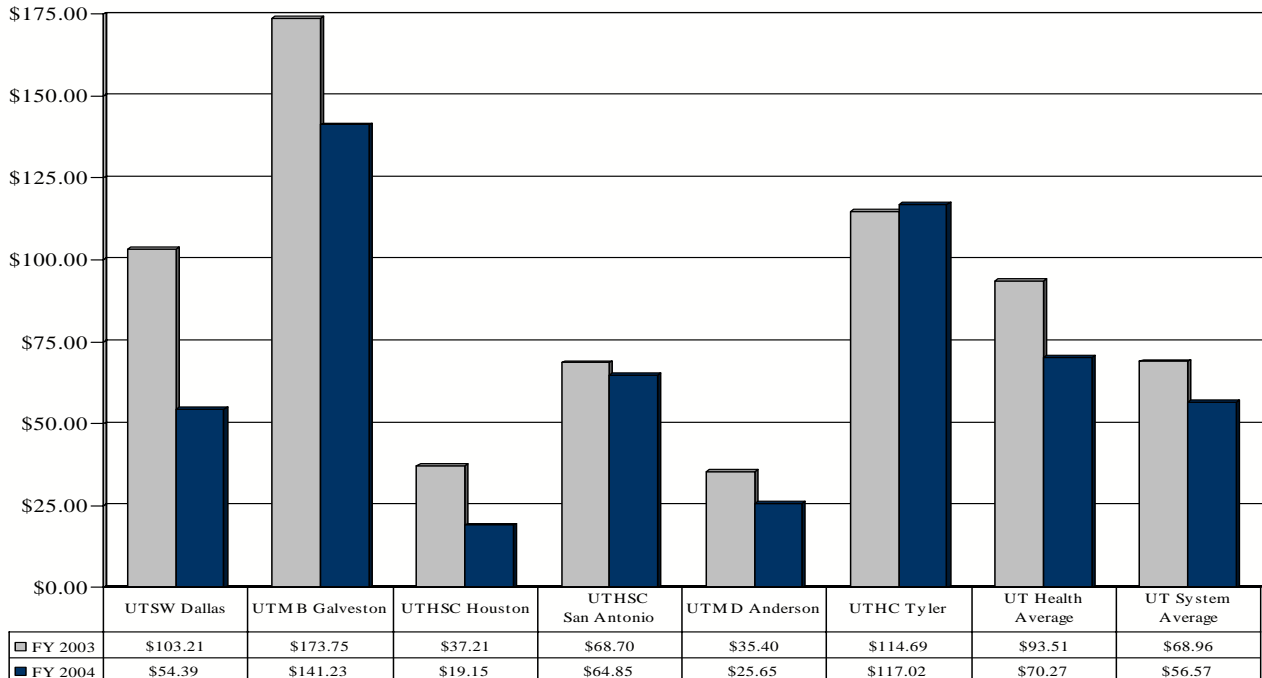


Workers' Compensation Insurance

**Graph 4.3 WCI Benefit Payments per Employed Person
Academic Institutions**



**Graph 4.4 WCI Benefit Payments per Employed Person
Medical Institutions**



Workers' Compensation Insurance

Medical Cost Control

Cost containment services are outsourced and include a complete review and audit of each health care bill to ensure that the charges are in compliance with reimbursement schedules as established by the Texas Workers' Compensation Commission or usual and customary fees. Our vendor also provides medical case management, utilization review, and pre-authorization services.

In FY 2004, a total of 25,646 invoices were received from health care providers. This resulted in charges for services totaling \$8,987,136.41. After auditing those invoices for compliance with TWCC Rules, fee, and treatment guidelines, and contracted rates, a total of \$2,704,889.23 was recommended for payment, a 70% reduction.

Information Systems

Staff in the Information Systems section of ORM enhanced WCMENU, the claim information system for the UT System's WCI program. This system allows for electronic reporting of injuries, payment of medical and income benefits, and tracking of claim activity. WCMENU was upgraded to include an automated program to track and pay attorney fees approved by the TWCC. We also introduced new procedures for the electronic data interchange and implemented new guidelines for correcting errors associated with the electronic filing of the First Report of Injury with the TWCC. These additions and changes help streamline our system and ensure compliance with TWCC mandates.