



Office of
Risk Management

The University of Texas System

Risk Management Annual Report

Fiscal Year 2006



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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 UT System by undertaking certain responsibilities that result in greater efficiency and/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 2006 and provides the financial status of the self-funded insurance programs.

By-the-Numbers	
\$19 billion	Total Insured Values (TIVs) covered under the Comprehensive Property Protection Plan (CPPP)
\$2.6 billion	Increase in TIVs from FY 2005 to FY 2006 covered under the CPPP
\$600,000	Estimated annual savings from consolidation and management of System-wide waste, response and management contracts
879	Number of institution employees attending ORM sponsored training and professional development
196	Traditional insurance procurements and renewals (a 40% increase in number of policies since FY 2005)
\$2.5 million	Reduction in WCI benefit expenditures since 2002
97,027	Number of employees covered under the WCI Program in 2006
6%	Reduction in WCI premiums from 2005
\$1 billion	Total Construction Values of Projects in Phase IV of the Rolling Owner Controlled Insurance Program

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 UT 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 to mitigate the risk of accidental and financial loss.

Resource Allocation Program (RAP)

The RAP program, which has been in place since 1998, provides funding to implement risk management initiatives that, while complementing existing efforts, are outside program budgets. Over \$20 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. The scope of this program has expanded to include a broad range of risk management projects.

Professional Development

In October 2005, the UT System 11th Annual Risk Management Conference was held in Galveston. Over 350 professionals participated in the conference, which included tracks in Risk Management, Insurance, Environmental Health & Safety, Construction and Workers' Compensation Insurance. In 2006, attendance grew to over 440 with representatives from 40 universities outside of the UT System.

ORM sponsored training classes for National Fire Protection Association (NFPA) 101 Life Safety Code; Hazardous Materials; Fire Extinguisher; Hydrogen Sulfide; Driver; First Aid; CPR/AED; EHS Academy, and Hazardous Waste Compliance. Over 439 people attended these training classes throughout the UT System, which also included representatives from the State Fire Marshal's Office.

RISK CONTROL AND INSURANCE

System-wide Contracts

This year the three System-wide waste disposal (medical, hazardous & radioactive) contracts safely disposed of over four million pounds of waste.

Environmental, Health and Safety Awards

This year, the Campus Safety Health and Environmental Management Association granted UT System its unique and innovative program award for the Disaster Response Mutual Aid Plan.

Insurance Renewals

Approximately 200 insurance policies and system-wide programs covering a variety of risks such as crime, wind, flood, property, and vehicle liability were administered, purchased or renewed.

Comprehensive Property Protection Plan (CPPP)

The CPPP provides all peril coverage for the UT System's \$19 billion in property and business income values. A \$1 billion limit is carried in commercial insurance with a \$7.5 million per occurrence deductible. With only 71 flood policies in FY 2005, ORM placed 56 additional flood policies during FY 2006. Staff has worked with the insurer to streamline the underwriting and placement process of the wind and flood policies. Coverage was broadened by the Texas Windstorm Insurance Association (TWIA) by increasing the available limits on commercial buildings to \$3 million.

Executive Summary

UNEMPLOYMENT COMPENSATION INSURANCE (UCI)

Total UCI claims from all sources of funds decreased from \$7.27 million in 2004 to \$4.45 million in 2005. From FY 2005-2006 total claims decreased to \$3.95 million. Approximately 25% of the claims are paid by the State.

In 2004, the funding mechanism for the UCI program was revised from a flat rate to a variable rate. One objective of the revised allocation was to provide equity and stability to the rating system and provide more predictability to institutional expenditures. Total annual premium for FY 2005 & FY 2006 was approximately \$4.1 million. In FY 2007 institutions will pay approximately \$3.5 million.

WORKERS' COMPENSATION INSURANCE (WCI)

Decrease in Benefit Expenditures

For the fourth year in a row, the UT System workers' compensation benefit expenditures decreased. In FY 2006, expenditures decreased by over \$69,000 even with a slight increase in claims, while the Texas workers' compensation industry continued to experience increasing costs. These exceptional results are attributed to the hard work of everyone involved in the process at the institutions and at UT System Administration. Claims management, loss control, safety, and management support have contributed to the decrease in number and severity of work-related injuries.

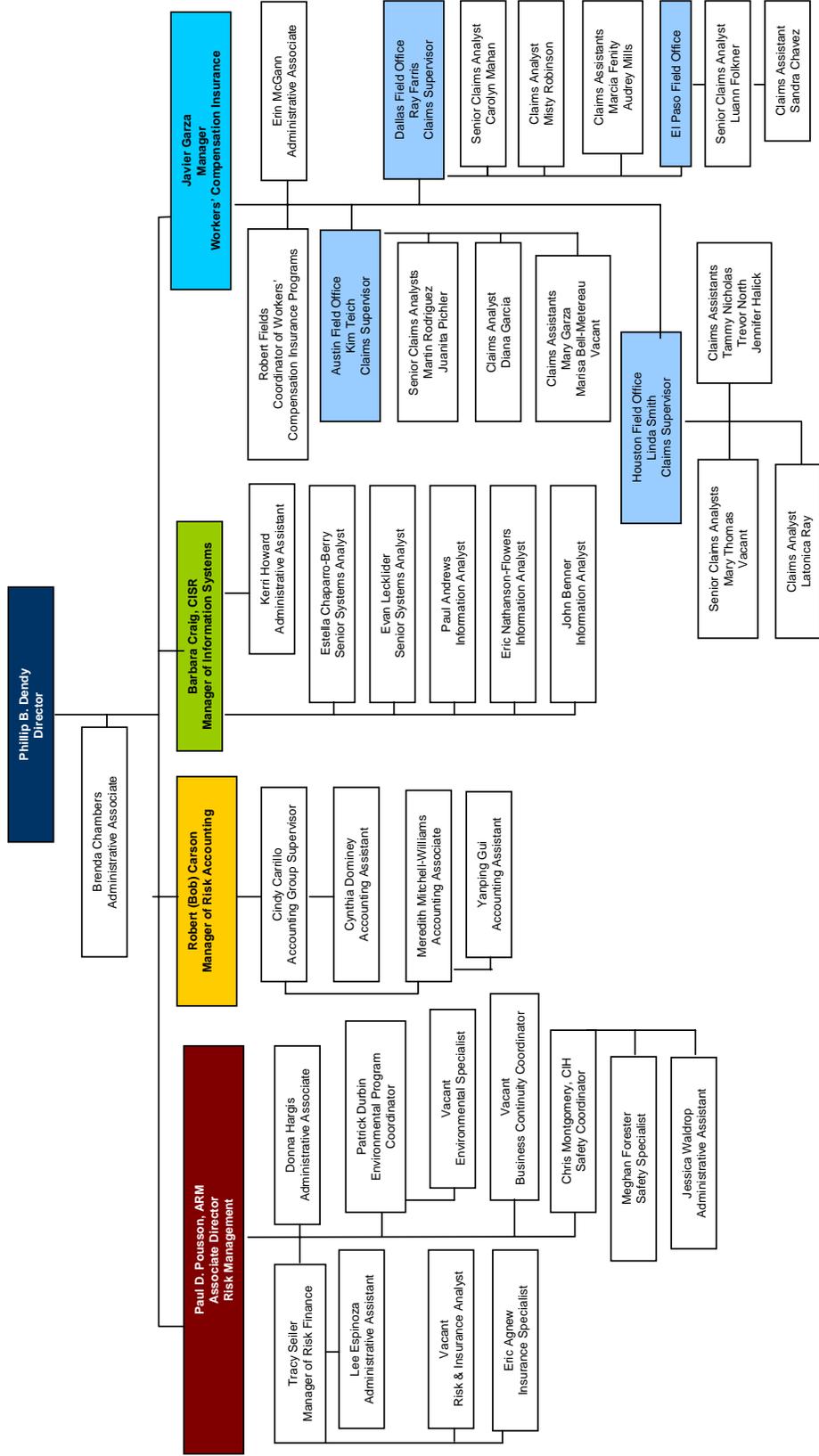
House Bill 7 (HB7)

The 79th Legislature of the State of Texas enacted Article 4 of House Bill 7 (HB7), effective September 1, 2005, adding Chapter 1305 to the Texas Insurance Code, entitled the Workers' Compensation Health Care Networks Act (The Act). The Act provided the UT System the opportunity for the establishment of a comprehensive, full-service workers' compensation health care delivery network. As a self-insured carrier, the UT System may establish its own certified network, or contract with an outside certified network. Once networks have been certified, the UT System will evaluate the best options for the establishment of a quality health care network for injured employees. The Texas Department of Insurance began accepting applications for certified networks beginning January 1, 2006. The UT System will issue a Request for Proposal (RFP) in FY 2007.

Information Systems

The Risk Information Systems staff has enhanced WCMENU, ORM's legacy 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. Numerous changes were incorporated in order to accommodate new legislation, Division of Workers' Compensation mandates and the UT System business procedures.

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 risk management initiatives that, while complementing existing efforts, are outside the scope of their budgets. The scope of this program has expanded to address the broad range of risk management issues; rather than strictly environmental, health and safety and WCI initiatives. 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 2006 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, and risk management.

For FY 2006, the institutions placed emphasis on the following innovative initiatives:

- Electrical safety and fall protection as these tend to result in the most serious injuries.
- Slips, trips, and falls and strains and sprains prevention programs as these are the most frequent types of injuries.

In addition, the initiatives reflected increased use of return to work and pre-employment physical examination programs. These programs are making significant progress towards reducing WCI costs.

Institutions continue to expand Automated External Defibrillator (AED) programs in recognition of the life saving potential of these devices.

Expenditures for Fire and Life Safety protection frequently have the additional benefit of property conservation.

Table 1.1 Resource Allocation Program

UT System Administration	\$	108,504.00
UT Arlington		95,375.00
UT Austin		432,609.00
UT Brownsville		65,312.00
UT Dallas		77,756.00
UT El Paso		61,514.00
UT Pan American		55,869.00
UT Permian Basin		44,295.00
UT San Antonio		95,993.00
UT Tyler		42,993.00
UT Southwestern Medical Center-Dallas		197,134.00
UT Medical Branch-Galveston		220,417.00
UT Health Science Center-Houston		378,358.00
UT Health Science Center-San Antonio		127,948.00
UT M.D. Anderson Cancer Center		631,609.00
UT Health Center-Tyler		64,316.00
System-wide use		300,000.00
TOTAL	\$	<u>3,000,002.00</u>

Risk Information Systems

The Risk Information Systems staff provides technology and programming services to all areas of ORM to ensure that automated systems are developed and maintained to effectively manage ORM business functions.

In FY 2006, ORM continued development of the Risk Management Information System (RMIS) that is used by both UT System Administration and the Institutions.

Risk Management

ORM refined the functionality to track, maintain and report on: policies, auto fleet, auto liability, auto physical damage, directors and officers, general liability, boiler and machinery as well as property inventory and property values. Phase II of the RMIS project included creation of a data warehouse that mirrors WCMENU, the legacy claims management system for workers' compensation, which will dramatically increase reporting capabilities.

The Risk Information Systems staff continues to enhance WCMENU to accommodate both legislative and Division of Workers' Compensation mandates. Additionally, ORM initiated a comprehensive remediation effort to enhance protection of both private and sensitive data.

Risk Management Conference

The UT System annual Risk Management Conference was held at the Moody Gardens Hotel in Galveston, Texas. Attendance increased from 350 in 2005 to over 440 in 2006. Professionals from many disciplines including Business Affairs, Environmental Health and Safety, Facilities, Human Resources, Risk Management, and Workers' Compensation Insurance participated in the conference. Conference participants attended five concurrent educational tracks with dynamic presentations given 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. Professionals from 40 universities outside of the UT System were in attendance.

Disaster Mutual Aid Tabletop Exercises

The UT System Disaster Response – Mutual Aid Agreement and Guidebook (“the Plan”) became effective on March 25, 2003. The Plan requires annual tabletop exercises in order 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 UT System Administration.
4. Identify training or resource needs, and deficiencies in “the Plan.”
5. Develop recommendations for improving “the Plan.”

The exercise for this year involved a discussion of the impacts from a major hurricane. The disaster mutual aid committee clarified the scope of the plan and its role in support of the business continuity function.

Fund Administration

ORM is responsible for the administration of the self-insurance funds on managed programs including WCI, CPPP, ROCIP, and UCI; as well as the Professional Medical Liability and Directors & Officers/ Employment Practices Liability (D&O/ EPL) self-insurance plans managed by the Office of General Counsel (OGC). The combined funds in these programs exceed \$265 million.

In FY 2006, approximately 45,000 indemnity, medical, claim, legal/liability expense, and income transactions were processed, scanned and reconciled by the Accounting section. In order to facilitate the payment process, approximately 150 vendors are set up each month.

The Accounting section bills, receives and records premiums for all the programs mentioned 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.

Risk Management

The Accounting section facilitates actuarial reporting as needed to sections within the Office of Risk Management and other departments and institutions at the UT System. In addition, the staff perform monthly reconciliations on 19 risk management budget groups.

Professional Medical Liability Insurance (PMLI)

The PMLI plan and all reported claims are managed by the Office of General Counsel. The Office of Risk Management provides support for the funding and accounting aspects of the plan. Table 1.2, on the right details the financial activity for the PMLI fund for FY 2006.

The Accounting section monitors licensure compliance of each participant enrolled in the Professional Medical Liability Plan via the Texas State Board of Medical Examiners online database and notifies institutions of any expired license. Over 10,000 medical liability certificates and handbooks were electronically distributed for the Professional Medical Liability Insurance Plan.

In FY 2006, the Board of Regents approved an allocation of \$5 million from the PMLI fund to establish a Business Interruption (BI) program for BI losses not otherwise covered by other insurance programs. ORM is working with representatives from the Risk Management Advisory Committee (RMAC), Business Management Council (BMC) and the PMLI committee to develop the parameters for the BI fund.

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 1.3 on the right, details the financial activity for the D&O/EPL fund for FY 2006.

Table 1.2 Unaudited Professional Medical Liability Insurance Fund

	Beginning Fund Balance	\$ 150,422,882
IBNR 2005		(91,595,579)
	Beginning AFR Balance	58,827,303
Income		
	Premiums	20,555,289
	Interest Income	6,007,045
Expenses		
	Legal	(4,499,104)
	Liability	(6,082,513)
	Other Expenses	(240,274)
	Administrative Costs	(882,283)
	Medical Liability Premium Rebate	(17,000,000)
	Transfer to Special Projects	(8,000,000)
	Market Value Increase	6,265,585
	Change in IBNR	9,297,560
	Ending AFR Balance	\$ 64,248,608
IBNR 2006		82,298,018
	Ending Fund Balance	\$ 146,546,626

Table 1.3 Unaudited Director & Officers Liability Balance

	Beginning Fund Balance	\$ 7,284,334.87
IBNR 2005		(2,868,686.00)
	Beginning AFR Balance	\$ 4,415,648.87
Income		
	Premiums	1,458,649.00
	Interest Income	258,568.48
Expenses		
	Claim and Other Expenses	(5,522.50)
	Administrative Costs	(110,908.12)
	Change in IBNR	(500,692.00)
	Ending AFR Balance	\$ 5,515,743.73
IBNR 2006		3,369,378.00
	Ending Fund Balance	\$ 8,885,121.73

Unemployment Compensation Insurance

Background

Unemployment Compensation Insurance is an employer-paid insurance program to assist workers who became unemployed through no fault of their own. It provides temporary financial assistance to qualified individuals while they search for other work.

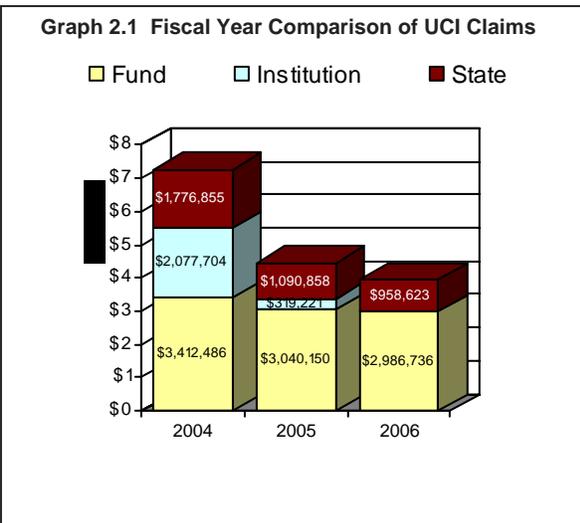
In 1971, the Texas Legislature passed legislation to provide unemployment compensation insurance coverage for all state employees. Following this legislation, the UT System UCI program was established.

Fund Balance, Premium Receipts, and Claims

The assessment rate is based on a variable rating process which factors the institutions full time employee count, claim payments, and claim counts. This assessment rate is applied against the first \$9,000 of compensation per employee on the payroll.

Total claims paid by the UT System fund was \$2.9 million. Claims paid by the state were an additional \$959 thousand. The total paid on UCI claims from all sources dropped from \$4.45 million to \$3.95 million. A decrease of 12% from the previous year. Table 2.1, to the right, provides the unaudited UCI fund balance. Graph 2.1, below, illustrates the premiums received and claims paid from all sources for FY 2004 through FY 2006.

Table 2.1 Unaudited UCI Fund Balance			
Beginning Fund Balance		\$ 2,521,760.06	
Institution	Gross Payroll *	Premiums	Claims Paid **
System Administration	6,528,826.89	28,580.00	24,373.24
UT Arlington	42,135,737.07	144,047.55	87,453.29
UT Austin	203,095,773.76	927,481.00	402,322.65
UT Brownsville	17,020,459.15	106,441.00	59,844.50
UT Dallas	25,712,908.45	86,688.00	64,690.57
UT El Paso	35,482,285.13	168,702.74	95,061.69
UT Pan American	17,158,141.27	107,236.00	75,013.85
UT Permian Basin	4,792,625.65	10,921.00	3,876.39
UT San Antonio	38,287,661.87	125,149.00	97,101.16
UT Tyler	7,608,686.85	18,275.00	3,192.98
UTSWMC	105,304,466.54	374,025.00	487,146.56
UTMB	133,881,745.71	777,199.00	539,246.64
UTHSC-Houston	52,993,161.97	472,699.00	267,466.77
UTHSC-San Antonio	52,407,770.84	211,202.11	143,915.08
UTMDACC	152,977,137.95	545,803.00	542,662.69
UTHC-Tyler	11,887,484.41	64,431.94	93,368.41
Total Payroll/Receipts	907,274,873.51	4,168,881.34	2,986,736.47
Investment Income		153,170.85	
Market Value Adjustment		47,456.18	
Expenditures		(2,988,611.43)	
Adjustment (a)		.74	
Adjustment (b)		(746,684.00)	
Adjustment (c)		.45	
Adjustment (d)		760,467.00	
Adjustment (e)		(3,018.00)	
Adjustment (f)		(105,611.00)	
Adjustment (g)		14,123.06	
Ending Fund Balance		\$ 3,821,935.25	



- a) Difference between actual premium receipts and estimated premiums used by AFR for August 2006
- b) Accrual for July and August 2006 TWC payments
- c) Reversal of FY 2005 difference between actual and estimated premiums for August 2005
- d) Reversal of FY 2005 TWC Payment accrual
- e) Transfer for portion of Office of Finance Budget
- f) Transfer Risk Management Budget
- g) Close out Budget Transfers

* Assessable wages as reported by institutions.

** 3rd quarter 2005 through 2nd quarter 2006

Risk Control and Insurance

Background

The Risk Control and Insurance section is responsible for administering a variety of self-insurance programs, placement of insurance coverages, environmental, health and safety, and consultative services. Made up of 12 staff, including the Associate Director, the section is split into the Environmental Health & Safety, and Property & Casualty Insurance units.

Environmental Health & Safety Overview

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. Six EH&S staff provide an array of value-added services that help the UT System to eliminate or reduce 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 the ability to provide a safe and quality educational experience. The EH&S staff perform important services such as:

1. Conduct risk assessments to identify and mitigate major risks and those risks which are common to multiple institutions.
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.

System-wide EH&S Activities

Environmental Health and Safety Advisory Committee (EHSAC)

Staff provide consultative and technical assistance to the UT System EHSAC and its workgroups which consist of a Radiation Safety 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 EHSAC meetings and two of each of the advisory group meetings to facilitate the implementation of the committee and advisory groups' objectives.

In FY 2006, staff coordinated an effort to revise the operational guidelines for the committee and advisory groups, as well as the peer review guidelines.

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 at their institution. During FY 2006, EH&S staff conducted two eight-hour training sessions to educate 40 cadets on these responsibilities. In FY 2006, the training curriculum was revised. Course evaluations indicated the revised training was well received by the cadets.

System-wide Contracts

The staff manages five System-wide contracts (medical, hazardous and radioactive waste, emergency response and disaster recovery) with a total value over \$2,000,000 yielding a cost savings of more than \$600,000 to the UT System's institutions. In FY 2006, a new contract for service of biological safety cabinets was executed with a projected savings of approximately \$36,000 based on a \$300,000 contract value.

The staff partners with these vendors to proactively manage any issues to ensure uninterrupted and seamless service to the institutions. The staff proactively reached an agreement to maintain current levels of service at current contract prices

Risk Control and Insurance

when the hazardous waste vendor was purchased by a competitor. In addition, staff resolved logistical concerns with the medical waste vendor regarding transportation, service, and disposal thereby avoiding any negative impact to the institutions. Proactively managing these contracts and activities allows the institutions to focus on their individual goals that ultimately contribute to the success of UT System.

Well over 4 million pounds of waste (medical, hazardous and radioactive) at a cost of approximately \$2 million were disposed of via these contracts.

Medical Waste	Hazardous Waste	Radioactive Waste
3,141,174 lbs disposed	1,443,877 lbs disposed	130,331 lbs disposed
\$497,728	\$1,073,575	\$188,250

EH&S Peer Reviews

The EHSAC agrees that each institution's EH&S Department will perform a peer review of high-risk areas at all institutions every three years. Staff continued to follow up on the UT Dallas peer review findings to assure that the EH&S function continues to improve.

Staff participated in peer reviews for UT Arlington, San Antonio and UTHSC - San Antonio.

OFPC/Institution Liaison

Risk Control and Insurance staff has often served as a liaison between OFPC and the institutions regarding specific EH&S design and construction issues. All three parties continue to meet regularly to further foster these relationships.

EH&S Training

Staff coordinated and provided 31 employees with First Aid training; 42 employees with CPR and Automated External Defibrillator training, and 21 employees with driver training.

Staff coordinated training for 271 employees on a variety of fire, life safety, hazardous material and EH&S topics.

Safety Services

Staff conducted 49 ergonomic assessments for UT System Administration employees and provided ergonomic equipment as needed. Staff resolved 72 requests from employees regarding topics ranging from indoor air quality to trip hazards. Numerous other issues were identified and corrected during routine inspections of the UT System Administration complex.

Staff also reviewed and made recommendations to the UT System Real Estate Office concerning twenty eight Environmental Site Assessments for potential property acquisitions.

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, work area inspections, wellness and disaster preparedness. Disaster preparedness topics included: discussing revisions to System Administration's Emergency Response and Evacuation Plan and identifying and coordinating necessary enhancements to the equipment in disaster preparedness cabinets.

Thirty four DSL's participated in hands-on fire extinguisher training.

Property & Casualty Insurance Overview

Four Property & Casualty Insurance 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 System's risk management philosophy and insurance needs.

Risk Control and Insurance

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.

International Risk Management

UT System faces a wide array of risks due to international travel operations and activities abroad. Staff are developing programs and measures to mitigate these risks and exposures abroad. UT System continued to implement the International SOS program to provide medical and security evacuation services for travelers. This program's services have been utilized numerous times, including during the recent evacuations of faculty and their families from Lebanon.

Staff has begun to explore the availability of a variety of other insurance coverages to transfer risks related to international activities undertaken System-wide. In August 2006, a new insurance policy was placed to comply with the requirements of the Defense Base Act (DBA) which is a federal mandatory coverage applicable to many contracts with the federal government that involves work outside of the United States. Staff also began pursuing an international package policy that would provide foreign coverage for auto exposures, commercial

general liability, voluntary workers' compensation, special crime and travel accident and sickness coverage.

A survey will be conducted in FY 2007 by staff to obtain data and information pertaining to government contracts overseas, as well as foreign travel undertaken by faculty, staff and students at each institution.

Comprehensive Property Protection Plan (CPPP)

The CPPP covers the System's \$15.2 billion in property values and \$3.7 billion in business income exposure.

In FY 2006, a new insurer was selected for the Fire and all other perils (AOP) program and negotiations resulted in a 9% reduction in premium and 22% reduction in rate per \$100 insured value. The following is a summary of coverage enhancements as compared to the expired Fire and AOP policy.

1. Increased Policy Limit from \$500 million to \$1 billion
2. Enhanced Policy Form as compared to Expiring Form
3. Terrorism Coverage (Certified \$1 billion and Non-Certified \$500 million)
4. Enhanced Commercial Flood Coverage (Excluding Named-storm Wind and/or Flood in Tier I and II Counties)
5. Increased Limits on Accounts Receivable, Adjustment Fees, Automatic Coverage, Boiler & Machinery, Brands & Labels, Debris Removal, Decontamination Costs, Demolition & Increased Cost of Construction, Dependent Time Element, Operational Testing, Spoilage & Consequential Loss, Valuable Papers, etc.
6. Enhanced Period of Indemnity on Tuition and Fees
7. New Construction and Renovations Included in Policy Limit
8. Automatic 6 month extension until April 2007 to move renewal dates out of Hurricane/Storm season.

Risk Control and Insurance

In addition, approximately \$2.7 million was recovered from FEMA for a portion of losses paid by the CPPP for Tropical Storm Allison. As a result, UTHSC - Houston received a \$1.4 million credit and the remaining \$1.3 million credit was allocated to all other institutions.

A commitment to property loss prevention and control is a key component of this large deductible program. In FY 2006, staff finalized development of the Premium Allocation Model (PAM) with assistance from the RMAC. The PAM uses information gathered during the annual loss prevention inspections to formulate an overall property risk rating for each Institution. At the request of the Chief Business Officers, this rating will now impact a portion of each Institution's property insurance premium allocation. This risk-based system provides both incentive for, and recognition of the ongoing efforts and financial investment in property loss prevention and control programs.

Table 3.1, top right, details the financial activity for the CPPP Fire and AOP fund for FY 2006. Table 3.2, below details the financial activity for the CPPP Named Windstorm and Flood fund for FY 2006.

**Table 3.1 Unaudited CPPP Balance
Fire and AOP Fund**

Beginning Fund Balance	\$ 13,500,745.38
IBNR 2005	(28,694.00)
Close Out Adjustment	2,448.71
Beginning AFR Balance	\$ 13,474,500.09
Income	
Premium Contributions	4,649,679.49
Premium Accrual	(42,100.09)
Return of Overpayment	1,930.50
Interest Income	438,742.95
Mkt Value Adjustments	(5.04)
Expenses	
Premium and Other Expenses	(2,760,424.79)
UT Arlington CUP Fire Loss (final Pymt.)	(28,694.00)
UTHSC-San Antonio (water damage)	(650,000.00)
Administrative Costs	(134,612.47)
Change in IBNR	(1,707,722.00)
Ending AFR Balance	\$ 13,241,294.64
Close out adjustments	42,100.09
IBNR 2006	1,736,416.00
Ending Fund Balance	\$ 15,019,801.73

Rolling Owner Controlled Insurance Program (ROCIP)

The ROCIP program is administered jointly by the Office of Risk Management and the Office of Facilities Planning and Construction. This program provides Workers' Compensation and General Liability insurance coverage for all contractors working on designated UT System 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 1999 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 3.2 Unaudited CPPP Balance
Named Windstorm and Flood**

Beginning Fund Balance	\$ 7,887,443.75
Income	
Premium Contributions	3,003,686.51
Premium Accrual	(7,212.69)
Canceled Policies	7,989.00
Interest Income	293,263.72
Expenses	
Claim and Other Expenses	(895,746.44)
UTMB (Rita Claim)	(892,723.00)
Administrative Costs	(134,612.47)
Ending Fund Balance	\$ 9,262,088.38

Risk Control and Insurance

Table 3.3 Unaudited ROCIP Balance

ROCIP		I	II	III	IV
Beginning Fund Balance	\$	277,682.70	\$ 677,720.25	\$ 4,736,757.01	\$ 7,011,764.86
IBNR 2005		(323,689.00)	(235,518.00)	(4,645,325.00)	(1,921,905.00)
Beginning AFR Balance	\$	(46,006.30)	\$ 442,202.25	\$ 91,432.01	\$ 5,089,859.86
Income					
Premium Contributions					7,861,710.00
Interest Income		5,909.31	22,004.65	104,641.98	538,123.58
Close out Adjustments					
Expenses					
Premiums, Claims, & Other Fees		(186,510.45)	29,915.36	(1,951,606.79)	(2,377,679.39)
Transfers/Adjustments					
Administrative Expenses			20.00	(652,806.00)	464,852.53
Change in IBNR		84,455.00	25,158.00	1,051,246.00	(541,076.00)
Ending AFR Balance	\$	(142,152.44)	\$ 519,300.26	\$ (1,357,092.80)	\$ 11,035,790.58
Accrued Expenses					180,232.00
IBNR 2006		239,234.00	210,360.00	3,594,079.00	2,462,981.00
Ending Fund Balance	<u>\$</u>	<u>97,081.56</u>	<u>\$ 729,660.26</u>	<u>\$ 2,236,986.20</u>	<u>\$ 13,679,003.58</u>

Table 3.3, above, provides details on financial activity for all phases of the ROCIP program for FY 2006. Because many claims remain open and active beyond the close of the construction projects, it takes several years to finalize the actual savings figures for each ROCIP phase. A schedule of ROCIP construction values and projected savings figures is provided in Table 3.4, below. Because Phase IV construction is still in progress, projecting savings figures at this time would be premature.

Traditional Insurance Purchases

Staff purchased 196 commercial insurance policies during FY 2006. Twenty-two policies were purchased on behalf of multiple or all institutions and 174 were purchased for the benefit of an individual institution. Graph 3.1, on page 10, summarizes the major commercial insurance policies purchased on a System-wide basis.

The majority of policies purchased (127 policies) for individual institutions were through the National Flood Insurance Program and Texas Windstorm Insurance Association. These policies have low deductibles and provide underlying protection for the CPPP Named Windstorm and Flood self-insurance program.

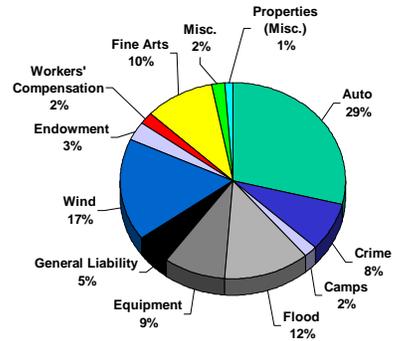
Approximately \$5.8 million was spent by the UT System and the institutions on commercial insurance premiums for the 196 policies in FY 2006. Graph 3.2, on page 10, depicts the three-year premium history for the major System-wide insurance policies.

Table 3.4 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	\$ 1.60
ROCIP II	23	\$ 298	\$ 2.60
ROCIP III	28	\$ 1,116	**
ROCIP IV (To Date)	42	\$ 1,010	**
*Includes Avoided Costs			
** To be determined			

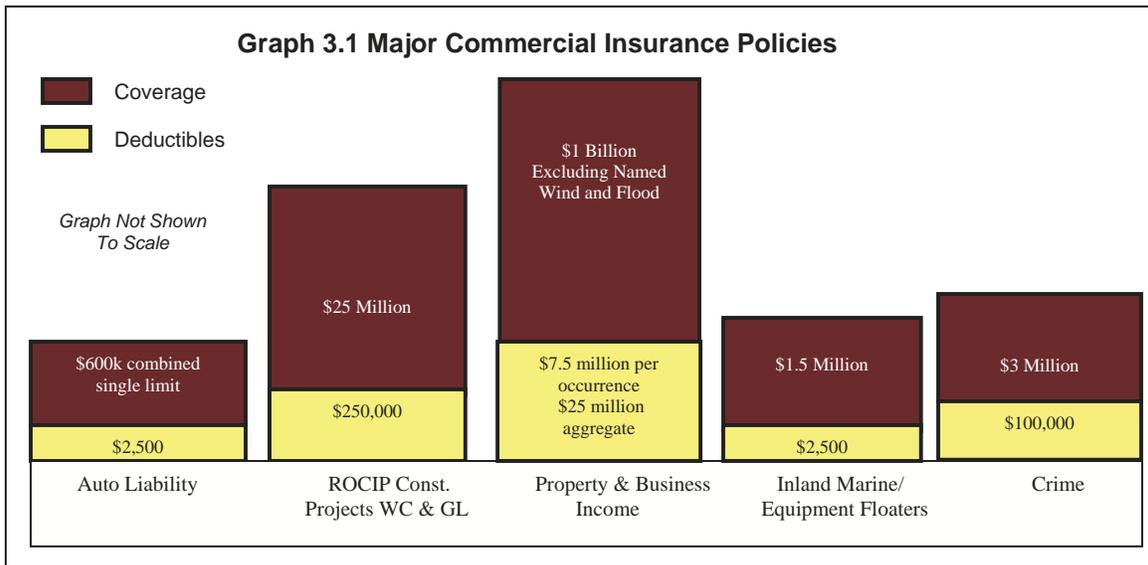
Risk Control and Insurance

The largest policy in terms of limits, covered values and commercial insurance premium continues to be the CPPP Fire and AOP policy, which cost approximately \$2.6 million in FY 2006 (9% decrease from FY 2005). Premiums for Fire and AOP accounted for 26% of all premiums in FY 2006. Graph 3.3 to the right, shows the distribution of premiums among all other 195 commercial insurance policies.

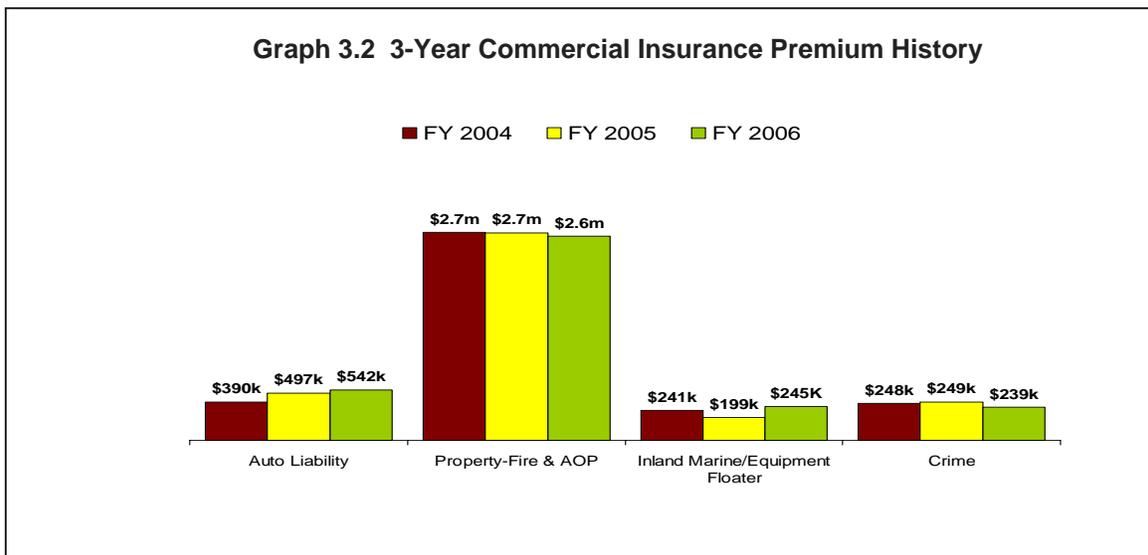
Graph 3.3 Premiums by Policy Types - Other than Fire and AOP



Graph 3.1 Major Commercial Insurance Policies



Graph 3.2 3-Year Commercial Insurance Premium History



Risk Control and Insurance

Claims

Property

There were several new claims for FY 2006 that exceeded the institutional deductible of \$250,000.

- ◆ In September of 2005, Hurricane Rita impacted Galveston Island. UT Medical Branch Galveston experienced physical damages of approximately \$1.14 million. Partial coverage was provided by a wind policy placed through the Texas Windstorm Insurance Association, with the remaining coverage provided by the CPPP Named Storm Wind and Flood Fund, excess of the institutions' \$250,000 deductible. The total payment from CPPP was approximately \$890,000.

- ◆ In May 2006, a roof drain line broke at UTHSC San Antonio near the fourth floor of the Dental School Building during a rain storm causing water to affect approximately 8,000 square feet of the buildings interior. The loss is estimated at approximately \$1.7 million at this time, prior to consideration of the \$250,000 institutional deductible. The loss is still being adjusted, however, a partial payment of \$650,000 was made to the institution in early August.

- ◆ In August 2006 rains in the El Paso area caused flash flooding which impacted various properties on the UT El Paso campus. This claim is pending and estimated at approximately \$1.5 million dollars.

Claim Updates from Previous Fiscal Years

Claim activity develops over time and may not settle until future fiscal years. The following is a brief overview of claims activity on larger claims that occurred prior to FY 2006:

- ◆ UT Arlington settled the subrogation claim relative to the Central Utility Plant fire which occurred in October of 2003 for \$1.9 million. Proceeds will be used to offset fund replenishment in 2007. The claim was finally settled in November 2006 and recovery is not reflected in year end financials.

- ◆ In 2004, a claim was made by UT San Antonio regarding an employee theft of library fines in excess of \$200,000. At this time, determinations are being made regarding the exact amount of

funds stolen. This claim is still pending further investigation.

- ◆ In FY 2005, an employee theft claim was filed by UT Southwestern Medical Center at Dallas. The estimated value of the loss is \$157,731. This claim is still pending.

The UT System reported 134 automobile claims to its auto liability insurance company in FY 2006. Table 3.5, below, provides a summary of the cost of vehicle claims paid by policy year. The large amount paid in 2002-2003 policy period is largely due to a severe vehicle accident that occurred during a UT Austin field trip.

Table 3.5 Vehicle Accidents by Year

Policy Period	Total Accidents (#)	Deductible Paid by UT System	Amount Paid by Carriers	Incurred Amount
2002/2003	132	\$ 107,560	\$ 754,535	\$ 946,897
2003/2004	136	\$ 112,364	\$ 267,733	\$ 281,397
2004/2005	138	\$ 88,302	\$ 230,816	\$ 246,383
2005/2006	134	\$ 82,067	\$ 174,941	\$ 300,943

Notes: 1. Incurred (\$) amount— anticipated dollar amount set by insurance company for all costs associated with accidents.
2. Data is valued as of 8-31-06.

Consultative Services

The Risk Control and Insurance section consults with the UT System institutions and UT System Administration departments on a regular basis regarding risk management and insurance issues. Staff reviews the insurance requirements in countless contracts and leases and provides numerous coverage assessments for institutions annually.

Outreach

Staff made presentations at the following conferences in FY 2006: University Risk Management & Insurance Association's regional, the Chartered Property Casualty Underwriters (CPCU) Industry Day, the College & University Hazardous Waste conference, and the Construction Owners Association of America national. Staff also participated on AIG's National Higher Education Advisory Board and FM Global's Engineering & Loss Prevention Focus Group.

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 97,000 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 \$4,681,720,700.38 in FY 2006, the WCI fund valued at \$55,297,580.36 is within the statutory limit. Table 4.1, top right, and 4.2, on page 13, provide an analysis of the fund.

In FY 2006, the average premium rate was \$0.25 per \$100 of payroll. The average rate will drop to \$0.22 per \$100 of payroll for FY 2007. The average premium rate charged to our institutions is far below the state average of \$2.36.

Table 4.1 Reconciliation of the WCI Account to the Preliminary Unaudited AFR (FY2006)

Beginning Fund Balance	\$52,772,732.24
IBNR 2005	(17,137,000.00)
AFR Adjusted Beginning Balance	\$35,635,732.24
Additions	
Premiums	11,593,314.42
Interest Income	1,706,178.79
Difference between IBNR FY 2005 and IBNR FY 2006	1,236,000.00
Deductions	
Claims Expenditures	(5,225,047.74)
Out of State Insurance	(119,159.13)
Administrative Expenditures	(1,949,819.37)
Other Transfers and Adjustments	
Transfer to Risk Management	(528,057.00)
Transferred to Environmental Health & Safety	(496,290.00)
Transferred to Office of Finance	(9,042.00)
Transferred to Office of General Counsel	(47,641.00)
Transferred to Resource Allocation Program (RAP)	(3,000,000.00)
Transfer RAP funds back to WCI	33,972.23
Close out Budget Remaining	142,305.44
Market Value Adjustment Sale of STIF to buy ITF	749,953.71 (321,402.45)
Difference between actual premium receipt and estimated premium used by AFR for August 2005	2,483.34
Adjustment for Close Out	(6,901.12)
AFR Ending Balance	\$39,396,580.36
IBNR 2006	15,901,000.00
Ending Fund Balance	\$ 55,297,580.36

Claims

In FY 2006, the WCI program experienced a 7.2% increase in the overall number of reported claims when compared to the previous fiscal year. Graph 4.1, on page 13, depicts the number of claims reported for the past five years. Table 4.3, on page 13, provides an analysis of WCI claims filed by the UT System institutions for the 2006 fiscal year. The increase in the overall number of reported claims is primarily due to the acquisition of two hospitals by UT Southwestern and the associated increase in employees and exposure.

Workers' Compensation Insurance

Table 4.2 Unaudited WCI Fund Balance

Beginning Fund Balance	\$52,772,732.24	
Adjustment for Close Out	(4,417.78)	
UT System Institutions	Gross Payroll*	
UT System Administration	43,502,272.74	47,852.50
UT Arlington	154,941,891.08	430,743.27
UT Austin	847,549,745.62	1,932,413.42
UT Brownsville	54,208,947.14	123,054.31
UT Dallas	124,873,604.99	297,199.18
UT El Paso	121,179,019.18	574,390.13
UT Pan American	87,719,831.11	450,002.78
UT Permian Basin	16,250,446.29	33,474.43
UT San Antonio	147,547,230.90	382,147.34
UT Tyler	29,335,469.60	36,084.59
UTSWMC	590,012,053.23	1,433,719.75
UTMB	743,930,107.87	2,856,691.62
UTHSC—Houston	325,504,137.95	566,377.20
UTHSC—San Antonio	288,372,341.99	766,975.15
UTMDACC	1,048,664,176.47	1,426,183.28
UTHC—Tyler	58,129,424.22	236,005.47
TOTAL Payroll/Receipts	4,681,720,700.38	11,593,314.42
Investment and Interest Income		2,134,730.05
Claim Expenditures		(5,225,047.74)
Out of State Insurance		(119,159.13)
WCI Administrative Expenses		(1,949,819.37)
Funds transferred to (RAP)		(3,000,000.00)
Other Administrative Budget Transfers		(938,724.56)
Funds Returned from RAP		33,972.23
Ending Fund Balance	\$55,297,580.36	

*Unaudited gross payroll as reported by each institution on form WC-3 for FY2006

Graph 4.1 Claims Filed for Fiscal Year 2002-2006

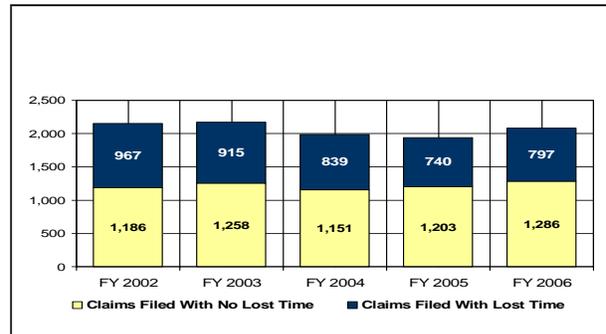


Table 4.3 Analysis of WCI Claims Filed in FY 2006

UT System Institutions	*Open Claims	New Claims	**Lost Time Claims
UT System Administration	17	21	7
UT Arlington	98	56	19
UT Austin	873	359	121
UT Brownsville	72	54	4
UT Dallas	39	28	3
UT El Paso	69	88	41
UT Pan American	81	30	13
UT Permian Basin	12	7	2
UT San Antonio	166	68	10
UT Tyler	9	4	0
UTSWMC	616	436	123
UTMB	1343	421	207
UTHSC-Houston	363	114	58
UTHSC-San Antonio	479	175	50
UTMDACC	644	171	132
UTHC-Tyler	51	51	7
TOTAL	4932	2083	797

* 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.

The UT System adjusters attended a total of 155 administrative and settlement conferences before the Texas Department of Insurance Division of Workers' Compensation. 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

Workers' Compensation Insurance

and income benefit payments totaled \$4,821,636.25 or \$49.69 per covered employee for the fiscal year. This represents a \$3.31 decrease per covered employee from FY 2005. Table 4.4, to the right, provides detailed information on medical and income payments in FY 2006.

Total benefit expenditures decreased \$69,134.18 from FY 2005. This represents a 1.4% reduction in total expenditures made in FY 2006. The major WCI expenditures for FY 2006 are illustrated in Graph 4.2, below. WCI benefit payments per employed person are illustrated in Graphs 4.3 and 4.4, on page 15.

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 Division of Workers' Compensation or usual and customary fees. Our vendor also provides medical case management, utilization review, and pre-authorization services.

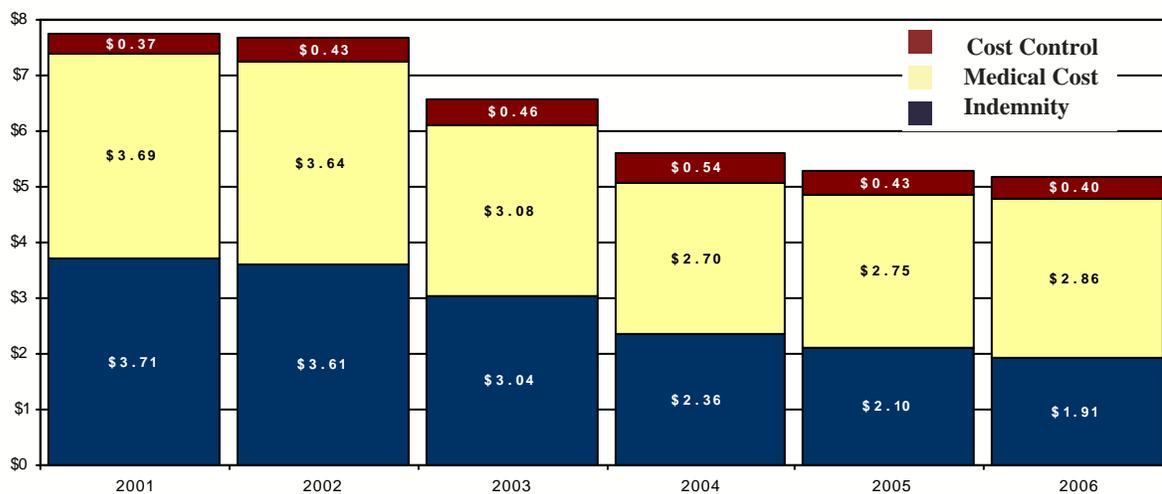
In FY 2006, a total of 19,737 invoices were received from health care providers. This resulted in charges for services totaling \$8,134,069.58. After auditing those invoices for compliance with TDI/DWC Rules, fee and treatment guidelines, and contracted rates, a total of \$2,854,197.05 was recommended for payment.

Table 4.4 Detail of Benefit Expenditures

	Settlements*	Indemnity Benefits**	Medical Benefits***	Total Benefits
UT System Administration		\$6,751.56	\$28,146.99	\$34,898.55
UT Arlington	550.00	21,938.26	136,227.93	158,716.19
UT Austin		276,706.31	504,888.09	781,594.40
UT Brownsville		294.71	37,574.83	37,869.54
UT Dallas		22,353.54	30,398.13	52,751.67
UT El Paso		120,048.15	396,395.10	516,443.25
UT Pan American		66,256.35	103,150.72	169,407.07
UT Permian Basin		-	1,959.39	1,959.39
UT San Antonio		47,096.68	63,324.37	110,421.05
UT Tyler		-	39,752.86	39,752.86
UTSWMC		250,681.61	304,761.06	555,442.67
UTMB	5,900.00	658,314.32	548,014.24	1,212,228.56
UTHSC-Houston		67,326.69	121,309.23	188,635.92
UTHSC - San Antonio		102,441.45	244,604.49	347,045.94
UTMDACC	44,854.31	208,668.17	246,673.15	500,195.63
UTHC-Tyler		62,081.08	52,192.48	114,273.56
TOTALS	\$ 51,304.31	\$1,910,958.88	\$2,859,373.06 MCM FEES 403,411.49	\$4,821,636.25 403,411.49
			Total Benefits	\$5,225,047.74

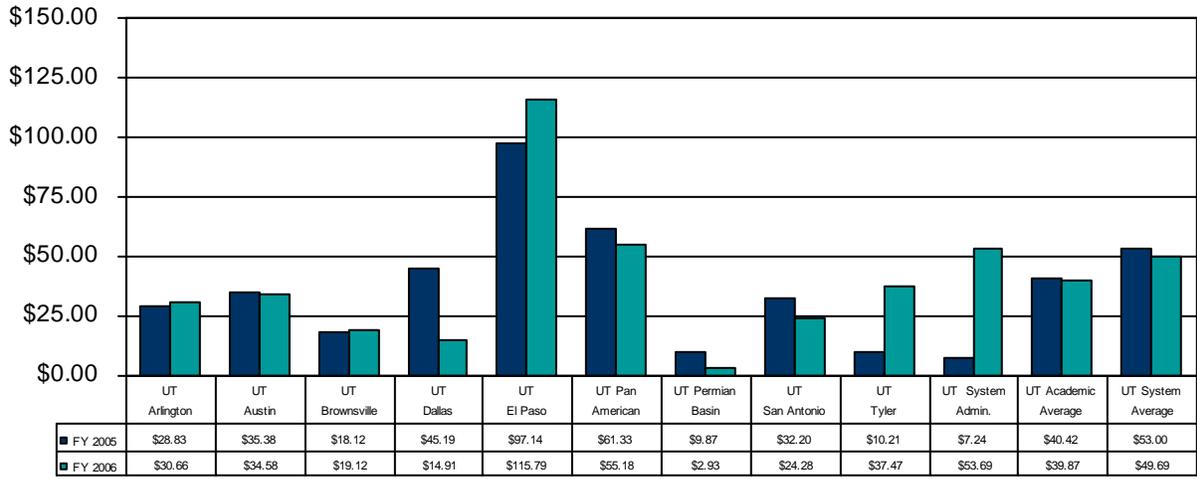
* Judgment/Compromise Settlement Agreement.
 ** Includes temporary total disability benefits, partial permanent disability benefits, temporary income benefits, impairment income benefits, supplemental income benefits, death benefits, and attorney fees.
 *** Does not include medical audit or cost management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

Graph 4.2 Comparison of Major WCI Expenditures for Fiscal Years 2001 – 2006 (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**

