



Office of
Risk Management

The University of Texas System

Risk Management Annual Report

Fiscal Year 2005



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

AT AUGUST 31, 2005

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

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

TERMS EXPIRE FEBRUARY 1, 2011

Robert B. Rowling

SYSTEM ADMINISTRATION

Mark G. Yudof, Chancellor
Scott C. Kelley, Executive Vice Chancellor for Business Affairs
Kenneth I. Shine, Executive Vice Chancellor for Health Affairs
Teresa A. Sullivan, Executive Vice Chancellor for Academic Affairs
Robert E. Barnhill, Vice Chancellor for Research and Technology Transfer
Tonya M. Brown, Vice Chancellor for Administration
Barry Burgdorf, Vice Chancellor and General Counsel
Randa Safady, Vice Chancellor for External Relations
William H. Shute, Vice Chancellor for Federal Relations
E. Ashley Smith, Vice Chancellor for Governmental Relations and Policy

TABLE OF CONTENTS

i	Executive Summary
v	Office of Risk Management Organizational Chart

Risk Management

1	Resource Allocation Program
1	Risk Automation Technology
2	Risk Management Conference
2	Disaster Mutual Aid Tabletop Exercises
2	Fund Administration

Risk Control and Insurance

3	Background
3	System-wide EH&S Activities
5	International SOS
5	Comprehensive Property Protection Plan
6	Rolling Owner Controlled Insurance Program
7	Traditional Insurance Purchases
8	Directors & Officers/Employment Practices Liability Self-Insurance Plan
8	Claims
9	Consultative Services

Unemployment Compensation Insurance

10	Background
10	Fund Balance, Premium Receipts, and Claims

Workers' Compensation Insurance

11	Background
12	Funding
12	Claims
13	Expenditures
13	Medical Cost Control

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 2005 and provides the financial status of the self-funded insurance programs.

At-a-Glance	By-the-Numbers
Environmental Health and Safety	\$19 billion Total Insured Values (TIVs) covered under the Comprehensive Property Protection Plan (CPPP)
Information Systems	\$2.6 billion Increase in TIVs from FY 2004 to FY 2005 covered under the CPPP
Property and Casualty Insurance	9% and 22% Reduction of total premium and rate of commercial property policy in CPPP
Risk Accounting	\$500,000 Estimated annual savings from consolidation and management of System-wide waste, response and management contracts
Rolling Owner Controlled Insurance	600 Estimated number of institution employees attending ORM sponsored training and professional development
Unemployment Compensation Insurance	139 Traditional insurance procurements and renewals
Workers' Compensation Insurance	\$300,000 Reduction (6%) in Workers' Compensation Insurance (WCI) benefit expenditures from FY 2004 to FY 2005
	\$2.4 million Reduction (32%) in WCI benefit expenditures since 2002
	90,000 Number of employees covered under the WCI program
	12% Reduction of lost time 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.

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 program budgets. Over \$17 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 Environmental Health and Safety projects.

Professional Development

On October 17-20, 2004, the UT System 10th Annual Risk Management Conference was held in Galveston. Over 280 professionals participated in the conference, which included tracks in Risk Management Insurance, Environmental Health & Safety, and Workers' Compensation Insurance. In 2005, attendance grew to over 350 with representatives from 28 universities outside of the UT System.

ORM sponsored training classes for National Fire Protection Association (NFPA) 101 2003 Life Safety Code, Hazardous Materials, Fire Extinguisher, H2S, Driver, First Aid, CPR/AED, and Hazardous Waste Compliance training. Approximately 330 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, chemical & radioactive) contracts safely disposed of almost four million pounds of waste.

Environmental Awards

This year, the Texas Commission on Environmental Quality named UTMB an environmental excellence award winner in recognition of the campus resource conservation and recycling programs.

Insurance Renewals

Approximately 140 insurance policies covering a variety of risks such as crime, wind, flood, ocean transit, and vehicle liability were purchased or renewed.

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 \$19 billion in building, content, and business income values. Although building values increased by almost \$2.6 billion, there was a 22% reduction in the premium rate which resulted in a 9% reduction in the commercial insurance premium. In addition, we successfully increased the policy limit from \$500 million to \$1 billion along with certain increases in the sublimits. The plan also provides broader coverage including some flood coverage (excluding named windstorm & flood in tier 1 & 2) and an enhanced period of indemnity for tuition and fees, and provides coverage for new construction and renovations.

Executive Summary

UNEMPLOYMENT COMPENSATION INSURANCE (UCI)

Total UCI claims from all sources of funds increased from \$4.68 million in 2003 to \$7.27 million in 2004, due to reduction of workforce at many institutions. From FY 2004-2005 total claims decreased to \$4.45 million.

WORKERS' COMPENSATION INSURANCE (WCI)

Decrease in Benefit Expenditures

For the third year in a row, the UT System workers' compensation benefit expenditures decreased by \$295,228, while the Texas workers' compensation industry continued to experience increasing costs. The total number of claims decreased by almost 3%. 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.

Preferred Provider Organization

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

House Bill 7 (HB 7)

The 79th Legislature of the State of Texas enacted Article 4 of House Bill 7 (HB 7), effective September 1, 2005, adding Chapter 1305 to the Texas Insurance Code, entitled the Workers' Compensation Health Care Networks Act (The Act). The Act provides the UT System the opportunity for the establishment of a comprehensive, full-service workers' compensation health care delivery network. As a self-insured insurance 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.

Information Systems

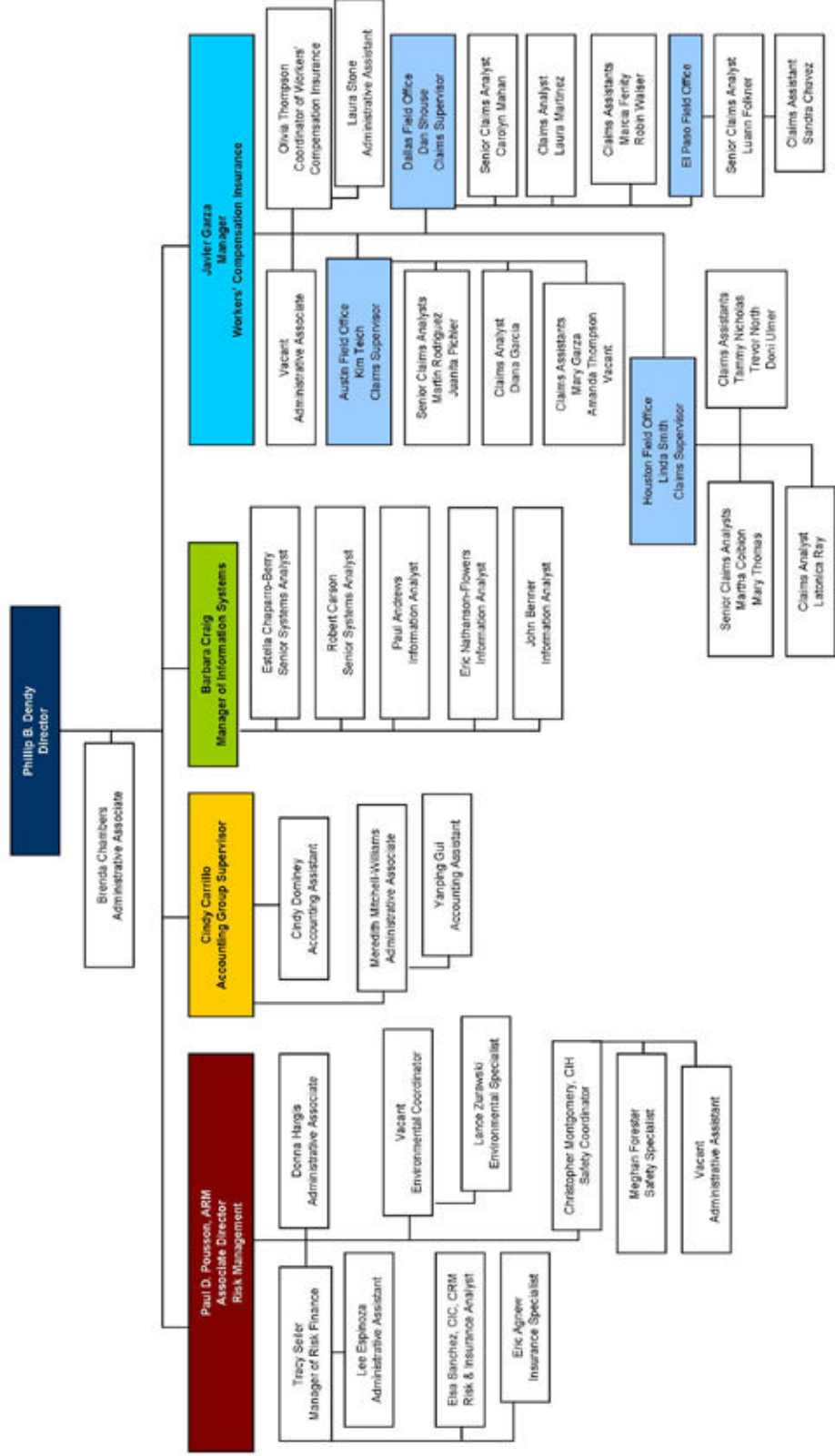
The Risk Automation Technology staff has enhanced WCMENU, our legacy claim information system for the UT System's WCI program. This system allows for electronic reporting of injuries, payment of medical and income benefits, and tracking of claim activity. Numerous changes were incorporated in order to accommodate new legislation, Division of Workers' Compensation mandates and the UT System business procedures.

(This page intentionally left blank)

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 budgets. The scope of this program has expanded to address the broad range of environmental, health and safety issues; rather than strictly 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 2005 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 2005:

- WCI case management initiatives – UT Austin \$35,000 for a physician's partial salary and \$20,000 for pre-employment physicals.
- Several injury prevention programs (\$191,400 total) – UT Austin \$12,000, UT El Paso \$11,500, UT Pan American \$9,500, UT Tyler \$1,000, and UTHSC-Houston \$15,000 for material handling improvements; UT Pan American \$5,000, UT San Antonio \$6,000, & UTHC-Tyler \$27,000 for office ergonomics; UTHC-Tyler \$32,500, and UTMB \$25,000 for patient handling related injury prevention; and, UT Dallas \$20,000, UT Permian Basin \$17,000, & UT Pan American \$9,900 for prevention of slips, trips, and falls.
- Department Safety Liaison programs (\$20,150 total): UT Arlington \$8,900, UTHSC-Houston \$6,000 & System Administration \$5,250.

- AED Programs (\$39,150 total): UT Arlington \$13,300, UT Brownsville \$1,400, UT El Paso \$9,200, UT Tyler \$13,000 & System Administration \$2,250.
- Continuation of Fire and Life Safety compliance (\$224,938): UT El Paso \$15,000, UTHSC-San Antonio \$50,000, UTSWMC \$100,000, UT Dallas \$50,938, and UT San Antonio \$9,000.
- Risk Management conference (System-wide).

Table 1.1 Resource Allocation Program Distribution for All Institutions

System Administration	\$	66,513.00
UT Arlington		84,284.00
UT Austin		391,031.00
UT Brownsville		58,333.00
UT Dallas		68,522.00
UT El Paso		54,901.00
UT Pan American		50,164.00
UT Permian Basin		35,132.00
UT San Antonio		77,981.00
UT Tyler		35,105.00
UTSWMC		173,301.00
UTMB		212,814.00
UTHSC-Houston		270,815.00
UTHSC-San Antonio		142,409.00
UTMDACC		465,283.00
UTHC-Tyler		63,412.00
System-wide use		250,000.00
TOTAL	\$	2,500,000.00

Risk Automation Technology

The Risk Automation Technology 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 2005, we introduced a Risk Management Information System (RMIS) to consolidate all ORM data into a single source which provides a platform for reporting on all areas of risk management for both System Administration and the Institutions. The RMIS is currently being used to track and maintain policies, auto fleet, auto liability, auto physical damage, directors & officers,

Risk Management

general liability, boiler & machinery, as well as property inventory and property values. Additional functionality will include report writing, as well as roll up reporting across all lines of coverage.

Risk Management Conference

The UT System annual Risk Management Conference was held at the Moody Gardens Hotel in Galveston, Texas. Attendance increased from 281 in 2004 to over 350 in 2005. 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 three concurrent educational tracks with dynamic presentations given by industry and higher education experts who presented 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 28 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 System Administration.
4. Identify training or resource needs, and deficiencies in the Plan.
5. Develop recommendations for improving the Plan.

Real life responses to hurricanes Emily, Katrina, and Rita provided an excellent opportunity to test the Plan. Following these events, the Office of Risk Management conducted a "Lessons Learned" meeting in conjunction with the 2005 Risk Conference. This meeting reinforced that the Plan was sound and useful, as well as identifying areas for further improvement.

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 Directors & Officers/ Employment Practices Liability (D&O/EPL) Self-Insurance plans administered by the Office of General Counsel (OGC). The combined funds in these programs exceed \$250 million.

In FY 2005, approximately 23,000 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 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 8,700 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 perform monthly reconciliations on 45 risk management and System Administration budget groups.

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 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 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 and Casualty Insurance program is managed by six property and casualty insurance staff in the Risk Control and Insurance section.

These staff members 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.

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 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 EHSAC meetings and two of each of the advisory group meetings to facilitate the implementation of the committee and advisory groups' objectives.

Risk Control and Insurance

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 2005, 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.

System-wide Contracts

Almost 4 million pounds of waste (hazardous, medical & radioactive) at a cost of approximately \$1.5 million were disposed of via these contracts.

Medical Waste	Hazardous Waste	Radioactive Waste
3,005,046 lbs disposed	940,242 lbs disposed	917 lbs & 114 containers disposed
\$430,348	\$934,795	\$188,250

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 led a limited peer review for UT Dallas and were involved with several follow-up activities and visits.

The System Administration EH&S function received a peer review from representatives of UT Permian Basin, UT Health Science Center - Houston, and UT El Paso. The review resulted in no major findings. Minor findings are being addressed in conjunction with the annual site inspection.

OFPC/Institution Liaison

ORM has often served as a liaison between OFPC and the institutions regarding specific EH&S design and construction issues. All three parties are now meeting regularly to further foster these relationships.

State Fire Marshal's Natural Gas Directive

The State Fire Marshal's Office issued a directive in response to the tragic natural gas explosion at a Texas A&M housing unit. This directive affects all our institutions. ORM provided guidance to the institutions regarding compliance with this directive.

EH&S System-wide Training

Staff coordinated and provided 38 employees with First Aid training, 46 employees with CPR and Automated External Defibrillator training, and 10 employees with driver training.

Also, a total of 131 employees representing the following institutions received hazardous materials training:

- UT Arlington
- UT Austin
- UT Permian Basin
- UT Health Science Center - Houston
- UT Health Science Center - San Antonio
- UT Medical Branch - Galveston
- UT Southwestern Medical Center - Dallas

Safety Services

Staff conducted 127 ergonomic assessments and provided ergonomic equipment, as needed; resolved 28 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.

One hundred and twenty-six legislative bills with potential impact to UT operations and finances were reviewed and analyzed.

Safety staff also reviewed and made recommendations to the UT System Real Estate office concerning eighteen 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, identifying and coordinating necessary enhancements to the equipment in disaster preparedness cabinets, and a total of 30 DSLs took part in a hands-on disaster exercise.

Risk Control and Insurance

International SOS

Effective April 29, 2005, the UT System contracted with International SOS to provide worldwide assistance and evacuation services to all UT institutions. The program provides assistance and services to all employees and students traveling abroad on university business or programs. Examples of services included within the program are 24-hour access to International SOS physicians who provide emergency and routine medical advice, emergency medical and security evacuations, lost document assistance, and access to country-specific medical and security information.

SOS also allows access to up-to-date reports for more than 170 countries worldwide on health issues, medical care and vaccination requirements via the SOS website. The SOS website also contains an online Personal Travel Record form for inputting travel and destination information, which ORM encourages all travelers to complete. This is a valuable resource in the event that an institution needs to locate any employees or students in the event of a crisis or emergency. The International SOS program is not health insurance, but serves as an international travel contingency plan in the event that difficulties arise while UT employees or students are abroad.

Comprehensive Property Protection Plan (CPPP)

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 CPPP, which covers the UT System's \$15.2 billion in property values and \$3.7 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 \$15 million and \$35 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.

**Table 2.1 Unaudited CPPP Balance
Fire and AOP Fund**

Beginning Fund Balance	\$10,208,168.94
IBNR 2004	(1,703,100.00)
IBNR 2004 Adjustment	975.49
Beginning AFR Balance	\$8,506,044.43
Income	
Premium Contributions	6,335,869.00
FEMA reimb for the TS Allison loss.	1,712,049.82
Interest Income	246,629.29
Mkt Value Adjustments	(40.93)
Expenses	
Premium and Other Expenses	(2,876,824.30)
UT Dallas Hail Damage Claim 2003	(269.44)
UT Arlington CUP Fire Loss	(1,781,900.45)
UTHSC - Houston TS Allison (final pymt)	(227,809.00)
Administrative Costs	(113,654.33)
Change in IBNR	1,674,406.00
Ending AFR Balance	\$13,474,500.09
Close out adjustments	(2,448.71)
IBNR 2005	28,694.00
Ending Fund Balance	\$13,500,745.38

Table 2.1, above, details the financial activity for the CPPP Fire and All Other Peril (AOP) fund for FY 2005. Table 2.2, below, details the financial activity for the CPPP Named Windstorm and Flood fund for FY 2005.

**Table 2.2 Unaudited CPPP Balance
Named Windstorm and Flood**

Beginning Fund Balance	\$5,430,896.66
Income	
Premium Contributions	2,946,482.00
Interest Income	132,676.67
Expenses	
Claim and Other Expenses	(508,957.25)
Administrative Costs	(113,654.33)
Ending Fund Balance	\$7,887,443.75

Risk Control and Insurance

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. 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 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.

Because claims reported under the ROCIP program last for several years beyond the close of the construction projects, it takes several years to

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	\$1.50
ROCIP II	23	\$298	\$2.60
ROCIP III	28	\$1,115	**
ROCIP IV (To Date)	24	\$575	**
*Includes Avoided Costs			
** To be determined			

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 2005.

Table 2.4 Unaudited ROCIP Balance

ROCIP	I	II	III	IV
Beginning Fund Balance	\$291,024.49	\$674,780.94	\$9,307,052.65	\$1,121,983.00
IBNR 2004	(347,869.00)	(325,219.00)	(6,647,569.00)	(44,204.00)
Beginning AFR Balance	\$(56,844.51)	\$349,561.94	\$2,659,483.65	\$1,077,779.00
Income				
Premium Contributions			(82,290.00)	7,842,960.00
Interest Income	6,445.82	15,255.59	169,533.73	*
Close out Adjustments	(3,211.27)			
Expenses				
Premium, Claims & Other Fees	(16,576.34)	(12,316.28)	(4,497,462.04)	(1,953,178.14)
Transfers/Adjustments				
Administrative Expenses			(160,077.33)	
Change in IBNR	24,180.00	89,701.00	2,002,244.00	(1,877,701.00)
Ending AFR Balance	\$(46,006.30)	\$442,202.25	\$91,432.01	\$5,089,859.86
IBNR 2005	323,689.00	235,518.00	4,645,325.00	1,921,905.00
Ending Fund Balance	\$277,682.70	\$677,720.25	\$4,736,757.01	\$7,011,764.86

*Interest not credited to account, but will be reflected in FY 2006. Interest earned in FY 2004 \$4,358.95, FY 2005 \$86,304.76.

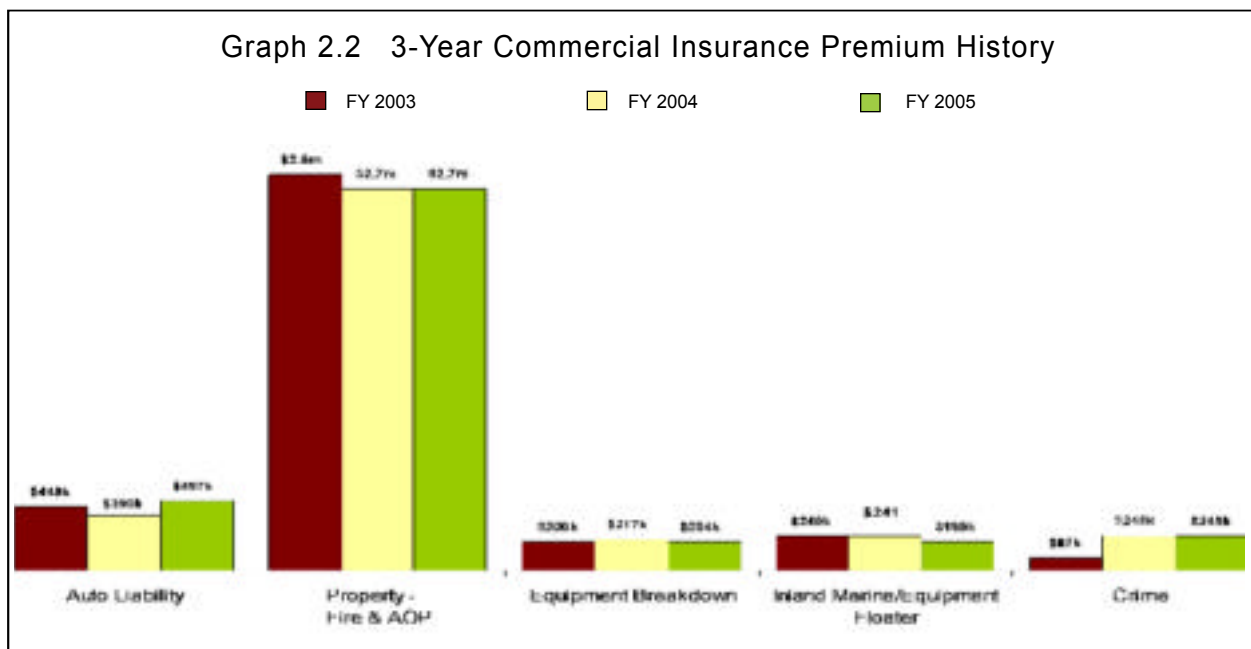
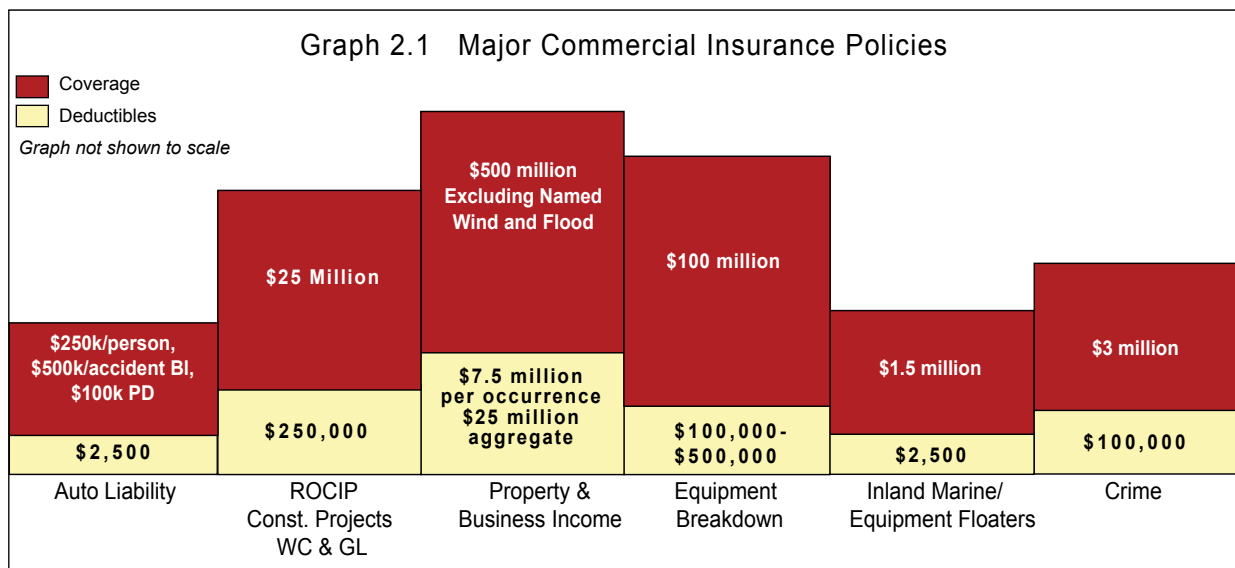
Risk Control and Insurance

Traditional Insurance Purchases

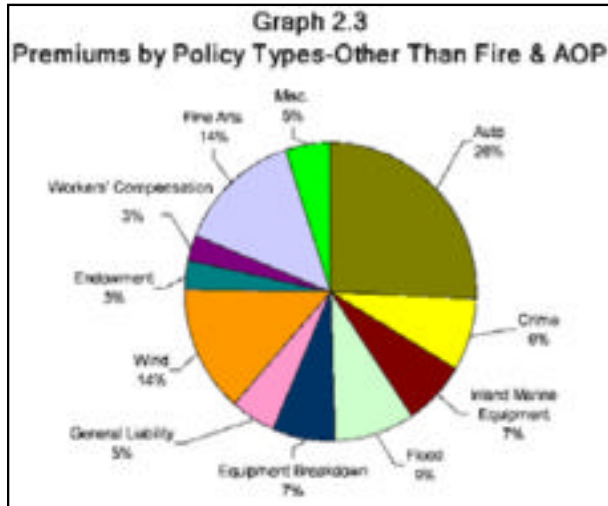
The Risk Control & Insurance section purchased 139 commercial insurance policies during FY 2005. Seventeen policies were purchased on behalf of multiple or all institutions and 122 were purchased for the benefit of an individual institution. Graph 2.1, below, summarizes the major commercial insurance policies purchased on a System-wide basis. The majority of policies purchased 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 139 policies in FY 2005. Graph 2.2, below, depicts the three-year premium for the major System-wide insurance policies.

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 \$2.7 million in FY 2005. Premiums for Fire and AOP accounted for 47% of all premiums in FY 2005. Graph 2.3, page 8, shows the distribution of premiums among all other 138 commercial insurance policies.



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 2005.

Table 2.5 Unaudited Directors & Officers Liability Fund Balance	
Beginning Fund Balance	\$5,744,008.51
IBNR 2004	(3,004,947.00)
Beginning AFR Balance	\$2,739,061.51
Income	
Premiums	1,469,125.00
Interest Income	154,919.28
Expenses	
Claim and Other Expenses	(8,342.50)
Administrative Costs	(75,375.42)
Change in IBNR	136,261.00
Ending AFR Balance	\$4,415,648.87
IBNR 2005	2,868,686.00
Ending Fund Balance	\$7,284,334.87

Claims

Property

There were no property losses reported in FY 2005 that exceeded the \$250,000 institutional CPPP deductible.

Boiler & Machinery

UT Southwestern Medical Center - Dallas reported a boiler and machinery claim that occurred in July 2005 where two capacitors exploded. The claim has been submitted to the insurer and is pending.

Crime

UT Southwestern Medical Center - Dallas reported an employee theft in FY 2005. The estimated value of the employee theft is \$157,000. The claim has been submitted to the insurer and is pending an ongoing investigation.

Claim Updates from Previous Fiscal Years

Claim activity develops over time and may not settle until the following fiscal years. The following is a brief overview of recent activity on the largest claims occurring in previous fiscal years.

- On October 24, 2003, a fire occurred at the Central Utility Plant at UT Arlington resulting in a total loss over \$2 million. The claim was settled under the CPPP in FY 2005 and a subrogation claim against the contractors performing demolition work at the location is being pursued with assistance from the Office of General Counsel.
- On August 12, 2004, a power outage occurred at UT Dallas resulting in a boiler and machinery claim due to damage to the electrical power distribution, business interruption loss, and other related expenses. The claim was settled with the insurance carrier in the amount of \$950,000 after application of the \$100,000 policy deductible.
- In FY 2004, UT San Antonio reported an employee theft which occurred between May of 1997 and October 2003. The former library employee was recently convicted of stealing over \$200,000 in library fines and other fees. The claim is still pending with the insurance company with anticipation of final settlement in the next few months.

Risk Control and Insurance

The UT System reported 138 automobile claims to its auto liability insurance company in FY 2005. Table 2.6, below, provides a summary of the cost of vehicle claims paid by policy period. The large amount paid in the 2002-2003 policy period 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
2002/2003	132	\$107,560	\$654,730	\$950,329
2003/2004	136	\$112,364	\$137,404	\$268,686
2004/2005	138	\$69,582	\$86,273	\$234,074

Notes: 1. Incurred (\$) amount— anticipated dollar amount set by insurance company for all costs associated with accidents.
2. Data is valued as of 8-31-05.

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 2005, staff reviewed insurance requirements in more than 100 contracts and leases and provided numerous coverage assessments for institutions.

Staff made presentations at several national and regional conferences in FY 2005, including the University Risk Management and Insurance Association's regional and national conferences, the Campus Safety Health and Environmental Management Association's annual conference, the Construction Owners Association of America national conference, and the Environmental Health and Safety Academy conference.

Staff collaborated with UT Health Science Center's Southwest Center for Occupational and Environmental Health (SWCOEH) to provide a 40 hour environmental health and safety training course to EH&S professionals of The University of California and California State University Systems.

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, 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.

Fund Balance, Premium Receipts, and Claims

In FY 2005, the assessment rate was based on a variable rating process which factors the institutions full time employee count, claim payments, and claim count. This assessment rate is applied against the first \$9,000 of compensation per employee on the payroll.

Claim activity increased significantly in 2003 and 2004 primarily due to a reduction of force at many institutions. Claim activity and costs decreased significantly in 2005, as the 2004 activity paid out.

Graph 3.1, below, illustrates the premiums received and claims paid from all sources for FY 2003 through FY 2005. Institutions paid \$319,000 in General Revenue and General Revenue dedicated claims for a total by the UT System of almost \$3.4 million. Claims paid by the state were an additional \$1.1 million. The total paid on UCI claims from all sources was over \$4.45 million.

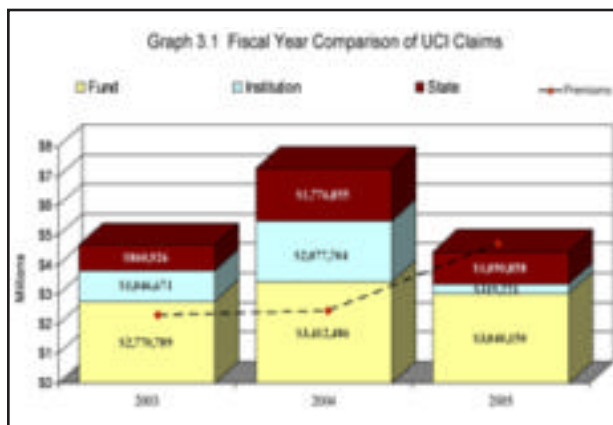


Table 3.1 Unaudited UCI Fund Balance

Beginning Fund Balance		\$2,568,445.54	
Institution	Gross Payroll *	Premiums	Claims Paid **
System Administration	6,309,479.31	29,240.78	15,037.66
UT Arlington	50,411,223.47	142,974.73	73,132.19
UT Austin	197,813,436.26	882,176.19	634,000.87
UT Brownsville	14,526,821.14	95,133.85	74,534.85
UT Dallas	20,892,386.19	96,141.28	35,999.98
UT El Paso	33,381,163.36	155,309.00	124,647.92
UT Pan American	24,685,749.69	108,407.12	79,307.51
UT Permian Basin	3,588,575.46	11,463.10	9,619.96
UT San Antonio	36,289,959.16	146,687.00	72,130.33
UT Tyler	7,165,683.33	19,954.43	6,151.11
UTSWMC	98,764,865.21	380,784.78	352,502.20
UTMB	133,098,566.96	811,170.20	372,294.55
UTHSC-Houston	48,391,452.28	391,478.64	416,792.04
UTHSC-San Antonio	48,857,571.34	198,847.24	183,993.03
UTMDACC	141,631,489.84	538,123.73	467,324.15
UTHC-Tyler	16,581,582.77	79,392.62	122,682.00
Total Payroll/Claims/Receipts	882,390,005.77	4,087,284.69	3,040,150.32
Investment Income		85,461.46	
Expenditures		(3,719,503.44)	
Adjustment (a)		-	
Adjustment (b)		(760,467.00)	
Adjustment (c)		(533.70)	
Adjustment (d)		699,721.12	
Adjustment (e)		60,745.88	
Adjustment (f)		(2,793.00)	
Adjustment (g)		(72,567.67)	
Adjustment (h)		(424,033.82)	
Ending Fund Balance		\$2,521,760.06	

- a) Difference between actual premium receipts & estimated premiums used by AFR for August 2005
- b) Accrual for July & August 2005 TWC payments
- c) Reversal of FY 2004 difference between actual and estimated premiums for August 2004
- d) Reversal of FY 2004 TWC Payment accrual
- e) Difference between 2004 & 2005 TWC accrual
- f) Transfer to Office of Finance
- g) Transfer to Office of Risk Management
- h) Refund UTMDACC for UCI premiums overpayment in FY 2002 (capped at \$9,000)

*Assessable wages as reported by institutions.

**3rd quarter 2004 through 2nd quarter 2005

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.

Table 4.1 Reconciliation of the WCI Account to the Preliminary Unaudited AFR (FY 2005)

Beginning Fund Balance	\$49,860,253.62
IBNR 2004	(19,356,000.00)
AFR Adjusted Beginning Balance	\$30,504,253.62
Additions	
Premiums	12,286,027.33
Interest Income	1,257,219.00
Difference between IBNR FY 2004 & IBNR FY 2005	2,219,000.00
Deductions	
Claims Expenditures	(5,317,098.96)
Out of State Insurance	(84,307.95)
Administrative Expenditures	(1,861,328.88)
Other Transfers and Adjustments	
Transfer to Risk Management	(438,714.00)
Transfer to Environmental Health & Safety	(453,612.00)
Transfer to Office of Finance	(8,369.00)
Transfer to Office of General Counsel	(46,594.00)
Transfer to Resource Allocation Program	(2,500,000.00)
Close out Budget Remaining	125,473.16
Market Value Adjustment	(47,889.39)
Difference between actual premium receipt and estimated premium used by AFR for August 2004	1,680.31
Adjustment for Close Out	(7.00)
AFR Ending Balance	\$35,635,732.24
IBNR 2005	17,137,000.00
Ending Fund Balance	\$52,772,732.24

Table 4.2 Unaudited WCI Fund Balance

	Beginning Fund Balance	\$49,860,253.62
	Adjustment for Close Out	1,673.31
Institution	Gross Payroll	Premiums
System Administration	41,251,421.13	55,441.91
UT Arlington	145,179,877.23	433,211.64
UT Austin	798,444,234.60	2,164,582.32
UT Brownsville	47,118,674.54	115,534.99
UT Dallas	111,023,639.32	245,584.29
UT El Paso	111,529,162.04	464,523.30
UT Pan American	79,646,772.99	417,986.46
UT Permian Basin	15,025,172.37	55,156.90
UT San Antonio	130,936,323.06	352,742.45
UT Tyler	26,205,793.79	37,841.17
UTSWMC	513,517,514.04	1,510,751.88
UTMB	7,513,418,481.97	3,129,753.71
UTHSC-Houston	325,664,549.33	769,219.67
UTHSC-San Antonio	267,927,583.21	684,542.02
UTMDACC	954,289,964.08	1,592,806.98
UTHC-Tyler	60,020,524.51	256,347.64
Total Payroll/Receipts	4,341,199,688.21	12,286,027.33
Investment & Interest Income		1,209,329.61
Claims Expenditures		(5,317,098.96)
Out of State Insurance		(84,307.95)
WCI Administrative Expenses		(1,861,328.88)
Funds Transferred to RAP		(2,500,000.00)
Other Administrative Budget Transfers		(821,815.84)
	Ending Fund Balance	\$52,772,732.24

There are currently more than 90,000 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.

Workers' Compensation Insurance

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 \$4,341,199,688.21 in FY 2005, the WCI fund valued at \$52,772,732.24 is within the statutory limit. Tables 4.1 and 4.2, page 11, provide an analysis of the fund.

In FY 2005, the average premium rate was \$0.29 per \$100 of payroll. The average rate will drop to \$0.25 per \$100 of payroll for FY 2006. The average premium rate charged to our institutions is far below the state average of \$2.98.

Claims

In FY 2005, the WCI program experienced a 2.4% 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, below, depicts the number of claims reported for the past five years. Table 4.3, top right, provides an analysis of WCI claims filed by the UT System institutions for the 2005 fiscal year. The UT System adjusters attended a total of 263 administrative and settlement conferences before the Texas Workers' Compensation Commission (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.

Table 4.3 Analysis of WCI Claims Filed in FY 2005

	*Open Claims	New Claims	**Lost Time Claims
System Administration	17	6	3
UT Arlington	96	56	17
UT Austin	1,301	394	128
UT Brownsville	119	35	4
UT Dallas	66	36	7
UT El Paso	68	78	42
UT Pan American	90	55	19
UT Permian Basin	13	9	2
UT San Antonio	158	71	14
UT Tyler	17	9	1
UTSWMC	435	265	104
UTMB	1,369	454	213
UTHSC-Houston	352	120	57
UTHSC-San Antonio	617	184	44
UTMDACC	563	135	77
UTHC-Tyler	98	36	8
TOTAL	5,379	1,943	740

* 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.

Graph 4.1 Claims Filed for Fiscal Years 2001-2005



Workers' Compensation Insurance

Expenditures

Expenditures continued to decrease in comparison to those in previous years. Medical and income benefit payments totaled \$4,890,770.43 or \$53.00 per covered employee for the fiscal year. This represents a \$3.57 decrease per covered employee from FY 2004. Table 4.4, right, provides detailed information on medical and income payments in FY 2005.

Total benefit expenditures decreased \$295,227.61 from FY 2004. This represents a 3.4% reduction in total expenditures made in FY 2005. The major WCI expenditures for FY 2005 are illustrated in Graph 4.2, below. WCI benefit payments per employed person are illustrated in Graphs 4.3 and 4.4, on page 14.

Medical Cost Control

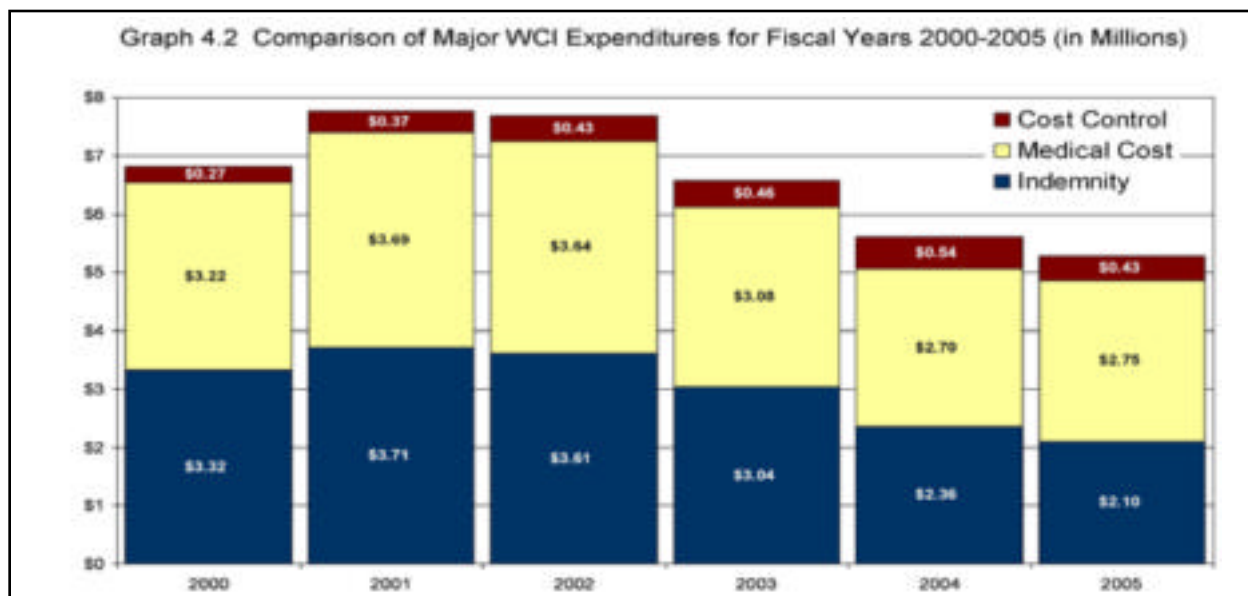
Cost containment services are outsourced and include a complete review and audit of each health care bill to ensure that the charges are in compliance with reimbursement schedules as established by the Division of Workers' Compensation or usual and customary fees. Our vendor also provides medical case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

In FY 2005, a total of 20,597 invoices were received from health care providers. This resulted in charges for services totaling \$7,826,023.39. After auditing those invoices for compliance with TWCC Rules, fee and treatment guidelines, and contracted rates, a total of \$2,840,472.52 was recommended for payment, a 61% reduction.

Table 4.4 Detail of Benefit Expenditures

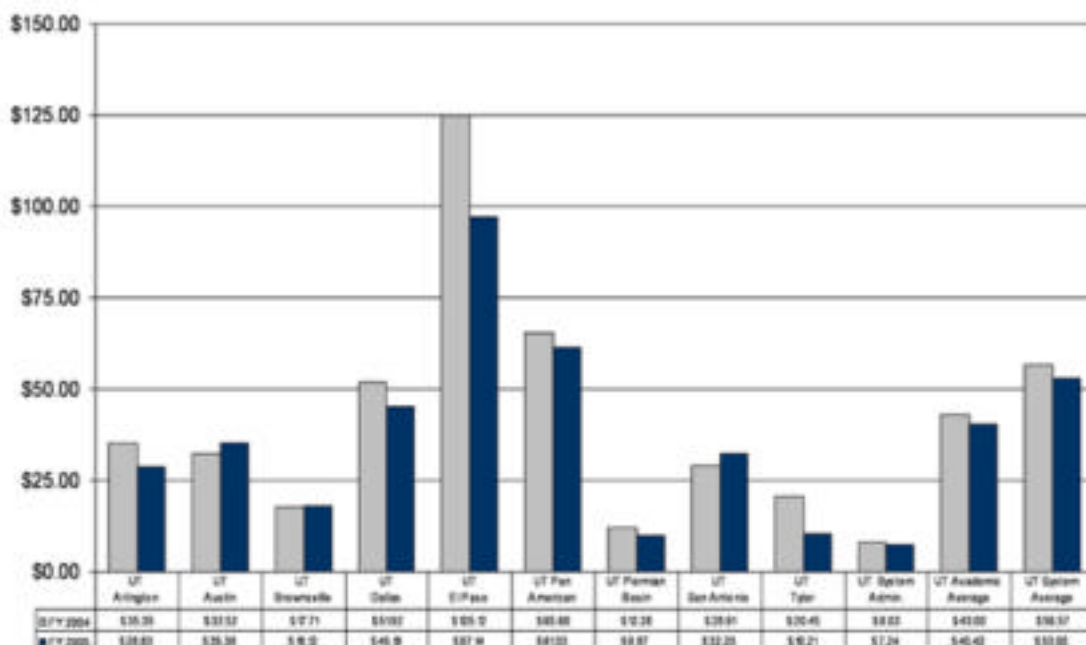
	Settlements*	Indemnity Benefits**	Medical Benefits***	Total Benefits
System Administration		\$0.00	\$4,449.93	\$4,449.93
UT Arlington		24,368.34	122,085.11	146,453.45
UT Austin		310,753.47	477,567.94	788,321.41
UT Brownsville	1,989.00	246.24	30,362.19	32,597.43
UT Dallas		34,252.70	112,799.54	147,052.24
UT El Paso		108,332.25	303,155.25	411,487.50
UT Pan American		61,561.45	118,453.31	180,014.76
UT Permian Basin		0.00	6,699.46	6,699.46
UT San Antonio		28,748.68	107,134.22	135,882.90
UT Tyler		0.00	10,213.89	10,213.89
UTSWMC	5,575.75	234,387.46	249,893.13	489,856.34
UTMB	6,150.71	831,064.62	624,168.15	1,461,383.48
UTHSC-Houston	23,075.00	70,343.85	90,744.84	184,163.69
UTHSC-San Antonio		153,320.46	209,479.62	362,800.08
UTMDACC		170,485.50	202,712.09	373,197.59
UTHC-Tyler		72,586.78	83,609.50	156,196.28
TOTALS	\$36,790.46	\$2,100,451.80	\$2,753,528.17	\$4,890,770.43

*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.



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

