Office of
Risk Management

The University of Texas System

Risk Management Annual Report

Fiscal Year 2008

I am pleased to provide the FY 2008 Annual Report on the activities and financial results of The University of Texas System risk management programs and the Office of Risk Management (ORM).

The day to day activities associated with the risk management programs throughout the UT System are handled by an intricate network of highly qualified and dedicated individuals. This network includes professionals in business affairs, environmental, health and safety, facilities, human resources, security, business continuity, and many others. The scope of risk management activities continue to expand. In FY 2008, the total population of the UT System including student, faculty, and staff was approximately 300,000. Building and business income values were approximately $22 billion.

The Risk Management Executive Committee (RMEC) provides oversight, strategic direction, and serves in an advisory capacity for all risk management programs. The Risk Management Advisory Committee (RMAC), the Environmental, Health and Safety Advisory Committee (EHSAC), and the Disaster/Mutual Aid Advisory Committee (DMAC) are comprised of institution representatives appointed by Chief Business Officers. These groups support and facilitate cooperative efforts and make recommendations related to risk management activities that benefit all institutions.

The timing of this report is such that it reflects financial information and activities occurring in FY 2008. However, we must acknowledge the event occurring the second week of FY 2009. Hurricane Ike has or will impact almost every program administered or coordinated by the Office of Risk Management.

In April of 2008, the commercial property insurance policy was renewed and for the first time since Tropical Storm Allison (2001), the Comprehensive Property Protection Plan (CPPP) included significant commercial named windstorm and flood insurance. It is important to recognize that the financial statements reported here reflect the purchase of the commercial insurance policy but do not reflect any losses associated with Hurricanes Dolly or Ike.

Although the losses from these hurricanes are significant, the emergency and disaster plans, loss control programs, Systemwide contracts and agreements and innovative risk financing programs that have been put in place over the last several years, and enhanced in FY 2008, responded well and as envisioned. The work that has been done by the institutional professionals mentioned above and Office of Risk Management staff has paid huge dividends in mitigating losses. The efforts by institutional professionals throughout the system, before, during, and after these storms were heroic and they should all be commended.

The risk management programs in the UT System are broad and comprehensive. The activities and results are described and financial reports are included in the following report.

I trust the FY 2008 Risk Management Report will be informative and helpful.

Phillip B. Dendy, CRM
Director, Office of Risk Management
The University of Texas System

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*Each Regent's term expires when a successor has been appointed, qualified, and taken the oath of office. The Student Regent serves a one-year term.

Mission Statement

The mission of The University of Texas System is to provide high-quality educational opportunities for the enhancement of the human resources of Texas, the nation, and the world through intellectual and personal growth.

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.

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Overview of the Office of Risk Management (ORM)

Prudent risk control and risk financing activities have resulted in strong financial positions in The University of Texas System self-insurance programs. Financial statements (balance sheets and income statements) for all self-insurance programs administered by ORM are included in Appendices A-1 through A-8.

The Office of Risk Management is comprised of five sections with specific areas of responsibility including Risk Control, Risk Finance, Workers' Compensation Insurance, Risk Accounting, and Risk Information Systems. Each section plays an important role in the risk management process and actively coordinates with institutional professionals throughout The University of Texas System.

- Risk Control coordinates and supports Systemwide activities for loss prevention, environmental, health and safety, property conservation, and business resilience.
- Risk Finance administers Systemwide self-insurance, traditional insurance programs, and provides consultative risk identification, analyses, and claim coordination services.
- Workers' Compensation Insurance is responsible for all claim management and cost containment activities for this large self-insurance program.
- Risk Accounting supports actuarial and transactional functions for all programs administered by ORM, as well as the Professional Medical Liability and Directors & Officers/Employment Practices Liability programs administered by the Office of General Counsel.
- Risk Information Systems provides technology and support for claim management, accounting, and consolidated data tracking systems utilized by the Office of Risk Management.

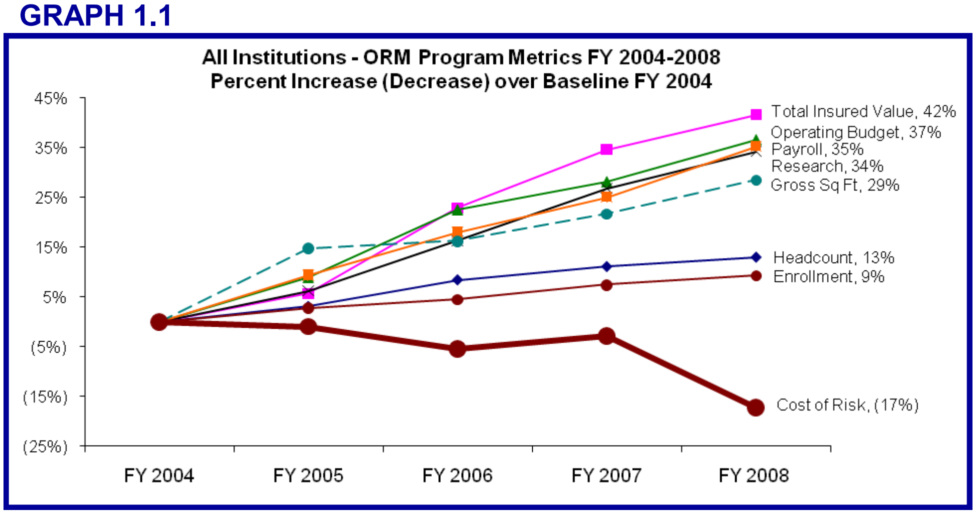
An organizational chart of the Office of Risk Management is attached as Appendix B-1.

Cost of Risk

Cost of risk is a method of measuring the financial performance of risk management programs. For the purpose of this report, cost of risk includes fixed costs such as commercial and self-insurance premiums, program administration, broker fees, and replenishment to the Comprehensive Property Protection Plan (CPPP). The cost of risk model also includes paid deductibles for the CPPP and automobile insurance programs. It does not include all costs such as retained losses and premiums paid for institution-specific policies.

In FY 2008, the cost of risk for Systemwide risk management programs managed by ORM was $24.2 million compared to $29.2 million in FY 2004. From a baseline year in FY 2004, Systemwide exposure metrics including headcount, payroll, square footage, total insured values, research expenditures, and others have increased significantly. Graph 1.1 illustrates the Systemwide cost of risk and applicable metrics as a percentage (increase/decrease) compared to a baseline of FY 2004.

GRAPH 1.1



Since FY 2004, in spite of increased exposure, cost of risk was reduced seventeen percent (17%) in FY 2008. Appendix C-1 provides the details by program for cost of risk. Cost of risk and data related to claim frequency and severity are mechanisms to benchmark the financial performance of a risk management program. However, these data points, while valid indicators, do not always highlight the important loss prevention, risk control, and cost containment activities that are implemented to achieve those results.

Risk Control

Risk Control provides consultative services including loss prevention, environmental, health and safety, property conservation, and business resilience and is responsible for administering a number of Systemwide service contracts that leverage the buying power of the UT System and provide general oversight and control of certain high risk activities.

The Risk Control staff coordinate and represent the UT System in dealing with State agencies and departments including the Governor's Division of Emergency Management with regard to emergency response and coordination of State-owned property for use during an emergency, and the Texas Commission on Environmental Quality regarding environmental issues. Risk Control works with the Offices of Real Estate; Facilities, Planning, and Construction; General Counsel; and other UT System offices to facilitate risk assessments for real property, control construction risks, as well as research and analyze legislation, regulations, and standards.

Risk Control supports and coordinates the Environmental, Health and Safety Advisory Committee (EHSAC) and associated working groups, as well as the efforts of the Systemwide Disaster Mutual Aid Committee. Each Environmental, Health & Safety (EH&S) department conducts a peer review of its institution's EH&S programs at least every three years. This process is monitored by the EHSAC chairperson and administered by the Risk Control.

In FY 2008, Risk Control sponsored twenty-eight (28) training sessions that were attended by over 445 personnel throughout UT System. Sessions included:

- 24 hour Hazardous Waste Operator;
- 8 hour Hazardous Waste Operator Refresher;
- Cardiac Pulmonary Resuscitation/First Aid/Automatic External Defibrillation;
- Resource Conservation and Recovery Act;
- Department of Transportation Hazardous Materials;
- Occupational Safety and Health Administration 501 Course for General Industry; and
- Accident Investigation.

Risk Control manages Systemwide non-exclusive contracts for the handling of hazardous, medical, and radioactive wastes, as well as services for spill control, emergency response, and disaster recovery. These contracts yield an estimated cost savings of at least $750,000 a year based on current market rates.

FY 2008 brought many changes to the Property Conservation Program. For the past two years, this program was administered by Risk Control with services provided by UT System's property insurer. This year, the program was unbundled from the insurer, using a dedicated property loss control professional. This new program allows UT System to focus on providing property conservation services for ORM and the institutions that are customized to the particular needs of each institution, while demonstrating due diligence for risk management and underwriting purposes. The Property Conservation Program is centered on campus loss prevention surveys that include not only a review of property protection components in buildings such as sprinkler systems and flood controls, but an analysis of each institution's management programs and how they are implemented to respond to various emergencies such as a fire, flood, or power outage. The campus loss prevention surveys and the management program ratings are compiled into a risk rating score, which is a factor in premium allocation.

Risk Control also coordinates the Systemwide efforts regarding emergency management, incident response, business continuity and resilience. Working through the Disaster Mutual Aid Committee (DMAC) and other institutional contacts, Risk Control works to foster communication of best practices for plan development, emergency response, recovery, crisis management, communication, and testing, as well as review and reporting procedures for business continuity.

In FY 2008, Risk Control and the DMAC conducted two Systemwide hurricane preparedness exercises, both of which involved a hurricane impacting UT institutions on the Gulf Coast. Both of these exercises helped to identify issues of academic, research, and patient-care continuity that could potentially be supported through mutual aid among the UT Institutions. For the first exercise in December 2007, the Governor's Division of Emergency Management (GDEM) participated, helping to identify areas for better coordination with GDEM in emergency response and preparedness. For the second exercise in April 2008, the UT System was an active participant in the State of Texas annual Hurricane Evacuation Exercise (HUREX). For this exercise, mutual support among UT institutions focused on patient-care continuity, and the need for academic continuity plans and agreements. Risk Control also worked with GDEM in planning for the potential use of UT facilities for state evacuations.

Resource Allocation Program (RAP)

The Resource Allocation Program (RAP) 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.

Funding from the Workers' Compensation fund is allocated to each institution as recommended by the actuary. Each year, eighty percent (80%) of the available funds are allocated based on the institution's 3-year loss ratio of premiums-to-expenditures and ten percent (10%) is distributed equally. The remaining ten percent (10%) is used for Systemwide projects and initiatives, which benefit all institutions.

Examples of initiatives at the institutions include but are not limited to emphasis on: material handling; patient lifting; electrical safety; prevention of slips, trips, and falls; wellness; CPR and first aid training; and automated external defibrillators. The program also supports Systemwide initiatives such as the 24-hour medical and security response services through International SOS. According to a Systemwide international travel survey, over 17,500 university students, faculty and staff make almost 7,500 international trips annually. The International SOS organization provides emergency medical care and security services to university students, faculty and staff traveling outside the United States.

Since inception, over $30.6 million has been distributed through the RAP and the exceptional loss experience in the workers' compensation program is clear evidence of its positive impact at the institutions. There are residual benefits in other program areas by promoting a safe work environment. The distribution of FY 2008 funds is outlined in Table 2.1.

TABLE 2.1
RAP Distribution for FY 2008

Institution	Allocation
UT System	$47,203
UT Arlington	$96,170
UT Austin	$430,500
UT Brownsville	$49,610
UT Dallas	$67,942
UT El Paso	$40,973
UT Pan American	$48,033
UT Permian Basin	$45,280
UT San Antonio	$92,180
UT Tyler	$27,218
UT SWMC Dallas	$330,241
UTMB Galveston	$270,176
UTHSC Houston	$282,220
UTHSC San Antonio	$115,420
UT MD Anderson	$720,708
UTHSC Tyler	$36,126
Systemwide	$300,000
TOTAL	**$3,000,000**

Risk Finance

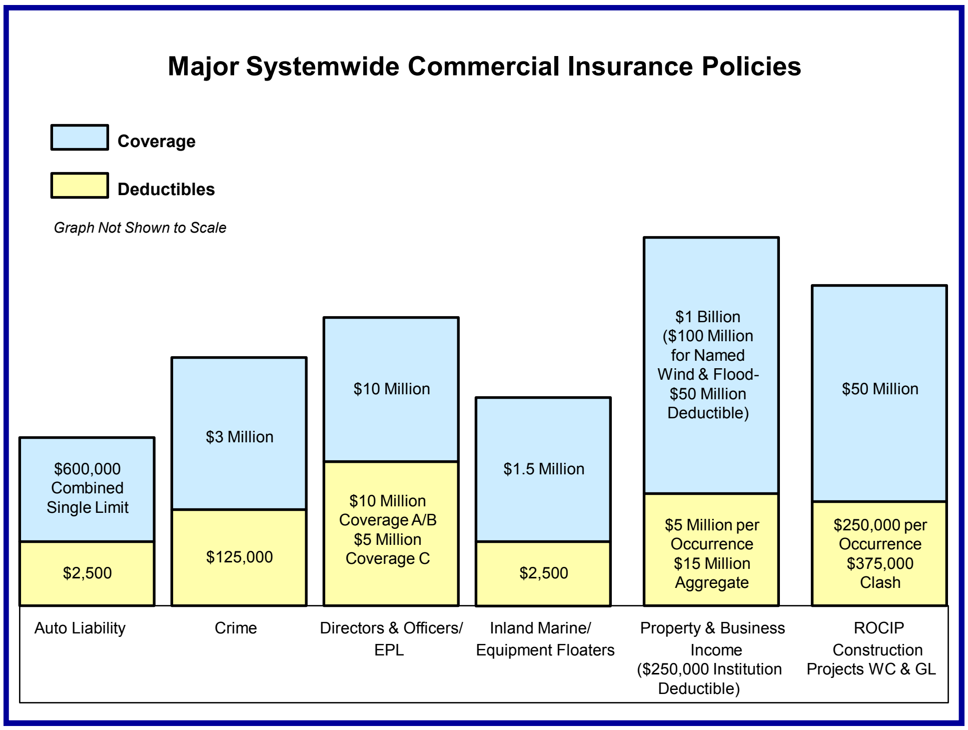
Risk Finance is responsible for placement and oversight of property/casualty policies, as well as administering the Comprehensive Property Protection Plan (CPPP) and the Rolling Owner Controlled Insurance Program (ROCIP). Risk Finance also provides consultative services including risk assessments, contract and lease reviews, issuance of certificates of insurance, and claims management.

As a result of performing risk assessments, it is sometimes determined that placement of specialty coverages to mitigate an institution's risk is necessary. In FY 2008, Risk Finance purchased two separate and unique coverages as a result of its risk consultations with institutions. One assessment and placement involved a program providing out-of-state pharmaceutical prescriptions which posed specific risks to the institution and the prescribing pharmacist, such as both products and professional liability.

Another example involved a contract with the federal government for a clinical study on Gulf War Veterans. During the assessment and analysis of the contract, Risk Finance determined that a key risk of these studies is the potential for the study to go wrong, resulting in the need for a re-trial, at the sole cost of the researcher (i.e. the institution). By identifying this exposure, Risk Finance was able to negotiate the inclusion of the cost of a re-trial, up to the policy limits, into the institution's policy. Specific policies were purchased in each case to address the general liability and professional liability exposures.

In FY 2008, 225 insurance policies were purchased and managed, representing a four percent (4%) increase from FY 2007. Twenty-six (26) policies were purchased on behalf of multiple institutions with 199 purchased for the benefit of an individual institution. Total commercial premiums for policies purchased was approximately $9.6 million, including commercial property insurance. Graph 3.1 below summarizes the Systemwide commercial insurance policies while Table 3.1 on the facing page represents a breakdown of the types of policies placed.

GRAPH 3.1



<u>Comprehensive Property Protection Plan</u>

UT System's Comprehensive Property Protection Plan (CPPP) covers the System's $18.4 billion in property values and $3.5 billion in business income values. This plan is a combination of traditional and self insurance and is comprised of two programs: one for fire and other perils and one for named windstorm and resulting flood.

Each program includes an institutional deductible within a funded reserve and a process for replenishment of the fund when claims are paid. The CPPP structure can be seen in Graph 3.2 on the facing page. Financial statements can be found in Appendices A-1 and A-2.

For the renewal period beginning April 1, 2008, Risk Finance enhanced the CPPP's commercial insurance policy. In order to obtain broader coverage, Risk Finance accessed the worldwide marketplace to put in place a shared and layered program made up of nine different insurance carriers. While per occurrence limits remain at $1 billion, the deductible for fire and all other perils was reduced from $7.5 million to $5 million per occurrence. In addition, the annual aggregate retention was reduced from $20 million to $15 million.

TABLE 3.1 Policies Placed

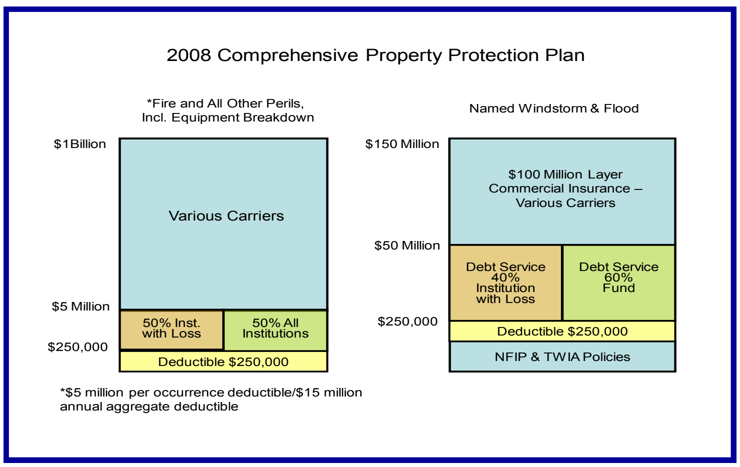
Policy Type	Policy Count	Premium
Accident	14	$53,932.36
Aircraft	2	$65,202.00
Auto Liability	5	$728,609.00
Auto Physical Damage	1	$110,790.00
Crime	1	$262,901.00
Directors & Officers	1	$187,532.00
Event Cancellation	2	$4,079.91
Fine Arts	2	$282,062.00
Flood	147	$418,255.00
General Liability	23	$169,282.51
Inland Marine	4	$316,259.13
International	1	$155,143.00
Miscellaneous*	4	$62,095.00
Professional Liability	5	$64,544.86
Property	4	$6,066,604.84
Wind	5	$515,008.00
Workers' Compensation	4	$163,646.73
TOTAL	**225**	**$9,625,947.34**

*Includes Property & Liability Endowment Policy, UT Golf Training Center, UT Tyler Subway, and Property & Liability Washington DC Package

In 2008, the commercial insurance marketplace softened, and as a result timing was right to pursue the highest named windstorm and resulting flood limit possible at reasonably competitive pricing. The worldwide marketplace was canvassed including US, European and Bermudian markets.

Because of the significant total insured values between campuses in Galveston and Houston, the named windstorm deductible was a large issue during this placement. In negotiations, a balance had to be found between gaining carriers' interest in participating in the commercial insurance program and finding a deductible suitable for UT System.

GRAPH 3.2



Many other entities with significant values in wind-exposed areas have named windstorm deductibles calculated on a percentage basis. This normally ranges from 2%-5% depending on the distance from the coast. The deductibles can apply per the total insured value by location or on an affected building basis. Because UT System has such massive values located at UT Medical Branch-Galveston, a more creative named windstorm deductible was necessary to obtain the highest available limits at the most reasonably competitive pricing.

UT System's primary carriers were willing to put up capacity including named windstorm at reasonable pricing, but needed extra protection from attritional losses. These carriers were interested in providing protection from worst case scenario events, such as Ike, but they didn't want to use up their premium base on small, Category 1 hurricanes. Using a $50 million named windstorm deductible allowed UT System to attract primary carriers at reasonable pricing levels.

In the end, UT System was able to obtain $100 million of named windstorm and resulting flood coverage (highest available limit) for approximately $3 million premium (reasonably competitive pricing).

In September, after placement of this new program, and after the end of FY 2008, Ike swept through Galveston and the surrounding areas as a category two Hurricane. Ike caused both property damage and business income losses at UT Health Science Center-Houston and UT M.D. Anderson Cancer

Center while causing massive damage to Galveston Island and UT Medical Branch-Galveston. The physical damage and business interruption losses will exceed the $50 million retention and commercial insurance limits purchased. The availability and cost of coverage for named windstorm and resulting perils in future years is not predictable.

Risk Finance completed Phase I of the Business Interruption (BI) project which includes an agreed methodology for calculating BI values. Phase II will focus on development of a comprehensive risk finance plan.

Rolling Owner Controlled Insurance Program
The Rolling Owner Controlled Insurance Program (ROCIP) began its fifth phase in January 2008. The fourth phase of the program will be in its final stages during calendar year 2009. The ROCIP provides workers' compensation, general liability and excess liability coverage for all contractors working on designated UT System construction projects. Benefits include consistency of insurance, enhanced safety and loss control, and cost savings.

The new phase was put in place with enhanced coverages such as a per project limit of $50 million in excess coverage which represents an increase from Phase IV's $25 million limit. In addition, completed operations coverage was increased to ten (10) years as opposed to three (3) years to align with the statute of repose in Texas. Since the program's inception, approximately $3.7 billion in construction and over 4,200 contracts have been enrolled into the program through Phase IV. Table 3.2 provides a summary of financial performance for phases I-IV of the program. Because Phase V of the ROCIP is still in its early stages, financial projections are premature. Financial statements for the ROCIP program can be found in Appendix A-3.

TABLE 3.2 ROCIP Financial Performance (Phases I-IV)

	ROCIP I	ROCIP II	ROCIP III	ROCIP IV[2]	Total
Construction Value	$205,146,369	$297,504,000	$1,115,936,997	$2,078,027,626	$3,696,614,992
Contractor's Insurance Cost	$5,729,883	$6,859,240	$23,347,113	$43,476,494[3]	$79,412,730
Contributions to ROCIP Fund	$3,497,490	$5,278,496	$19,304,490	$42,053,235	$70,133,711
Total ROCIP Cost[1]	$4,073,844	$3,908,778	$16,895,128	$34,872,305[4]	$59,750,055
Cost Avoided by Projects	$2,232,393	$1,580,744	$4,042,623	$1,423,259	$9,279,019
Savings to the ROCIP Fund	**-$576,534**	**$1,369,718**	**$2,409,362**	**$7,180,930**	**$10,383,656**
Impact of the ROCIP Program	$1,656,039	$2,950,462	$6,451,985	$8,604,189	$19,662,675

[1]Based on actuarial projections of 8/2008
[2]ROCIP IV is still in progress so many figures are preliminary estimates.
[3]Contractor's Insurance Cost assumes ROCIP III rate of Contractor's Insurance Cost to Construction Value.
[4]Total ROCIP Cost assumes ROCIP III rate of payroll to Construction Value.

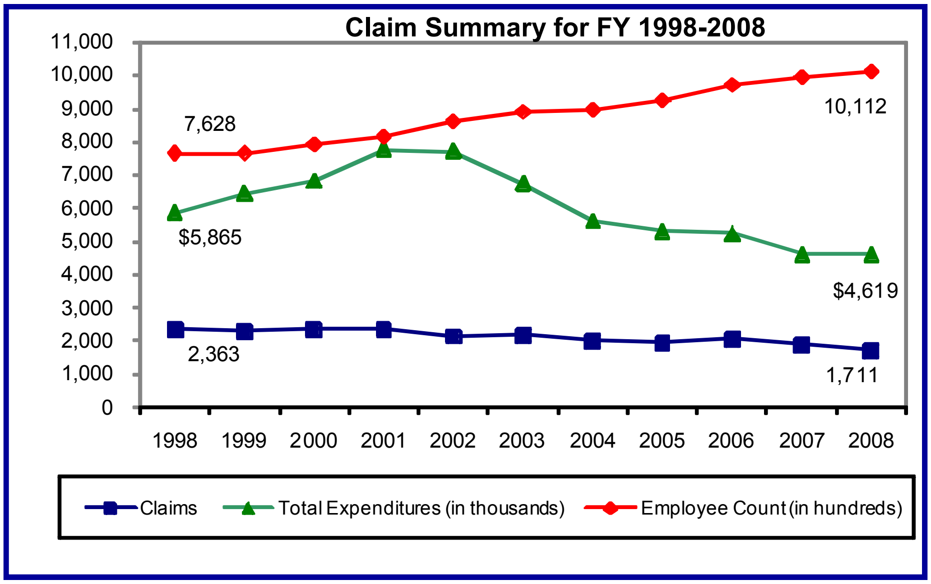
Workers' Compensation Insurance
Workers' Compensation Insurance (WCI) provides payment of reasonable and necessary medical benefits as well as a portion of recovery for lost wages incurred by an employee injured on the job. In FY 2008, 101,112 employees were covered by the program, an increase of almost thirteen percent (13%) since FY 2004. Over the same period, the total number of claims activity (lost time and medical only) decreased by nine percent (9%) and total expenditures increased by less than one percent (.03%).

WCI staff administers the program from offices located in Austin, Dallas, Houston, and El Paso. The success of the program is attributed to the efforts of ORM staff and the professionals throughout the institutions who are dedicated to seeing that an injured worker receives all benefits to which they are entitled and returns to gainful employment as soon as possible.

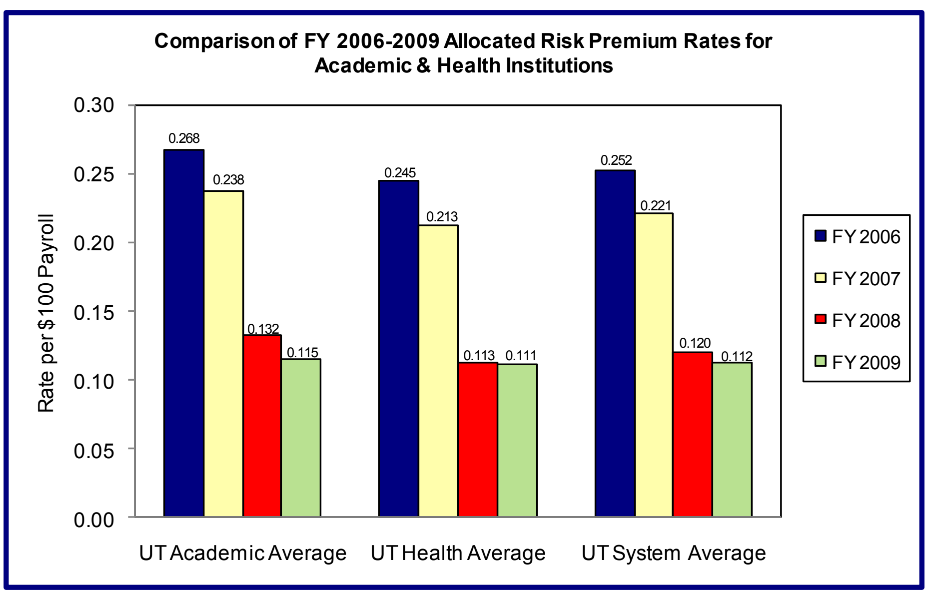
Funding for the WCI Program comes from the collection of premiums from each institution based on a variable rating process, which factors the institution's loss history, payroll, and claims frequency into the rate calculation. In FY 2008, the average premium rate was $.12 per $100 of payroll. The average rate decreased to $.11 per $100 of payroll for FY 2009. This compares very favorably to the FY 2009 average rate assessed by the State Office of Risk Management (SORM) of $.74 per $100 payroll. The average SORM rate for higher education institutions was $.34 per $100 payroll.*

Even though the UT System's WCI program covered more employees in FY 2008 than at any time in its history, the total number of claims (lost time and medical only) and benefit expenditures (indemnity and medical) were one of the lowest in the last ten years. Graph 4.1 summarizes the total employee count, expenditures, and claims each year from FY 1998-2008.

GRAPH 4.1



Graph 4.2 shows the average premium rate for academic and health institutions. Based on a gross payroll of $5,363,195,005 in FY 2008, the WCI fund valued at $52,674,887 is within the statutory limit of two percent (2%) of gross payroll. Financial statements can be found in Appendix A-4.



*State Office of Risk Management FY 2009 Assessments

In FY 2008, medical and income benefit payments totaled $4,618,939, a nominal increase of $12,692 from FY 2007. Due to the stability of benefit payments and an increase of employees, the cost per covered employee was $45.68, a $.66 decrease from FY 2007. Table 4.1 provides detailed information on medical and income payments in FY 2008. Graph 4.3 illustrates WCI benefit payments per employed person.

TABLE 4.1 Detail of Benefit Expenditures for FY 2008

Institution	Settlements*	Indemnity Benefits**	Medical Benefits***	Total Benefits
UT System		$12,228.00	$18,386.12	$30,614.12
UT Arlington		$44,591.17	$106,275.94	$150,867.11
UT Austin	$65,377.80	$243,386.59	$445,663.15	$754,427.54
UT Brownsville		$11,007.58	$48,004.06	$59,011.64
UT Dallas		$3,825.36	$59,774.87	$63,600.23
UT El Paso		$44,921.79	$223,028.07	$267,949.86
UT Pan American		$12,231.07	$59,343.28	$71,574.35
UT Permian Basin		$18,454.63	$8,408.94	$26,863.57
UT San Antonio		$49,858.50	$130,931.78	$180,790.28
UT Tyler		$3,863.64	$24,083.46	$27,947.10
UT SWMC Dallas		$360,843.75	$523,763.97	$884,607.72
UTMB Galveston	$40,798.65	$504,166.85	$506,150.92	$1,051,116.42
UTHSC Houston		$83,976.24	$119,943.58	$203,919.82
UTHSC San Antonio		$113,252.99	$130,120.85	$243,373.84
UT MD Anderson		$61,268.81	$127,094.04	$188,362.85
UTHSC Tyler		$20,631.50	$15,661.55	$36,293.05
Totals	**$106,176.45**	**$1,588,508.47**	**$2,546,634.58**	**$4,241,319.50**
			MCM Fees	**$377,620.21**
			Total Benefits	**$4,618,939.71**

*Judgments/Compromise Settlement Agreements

**Includes temporary total disability benefits, partial permanent disability benefits, temporary income benefits, supplemental income benefits, death benefits, and attorney fees

***Does not includes medical audit or cost management fees

GRAPH 4.3

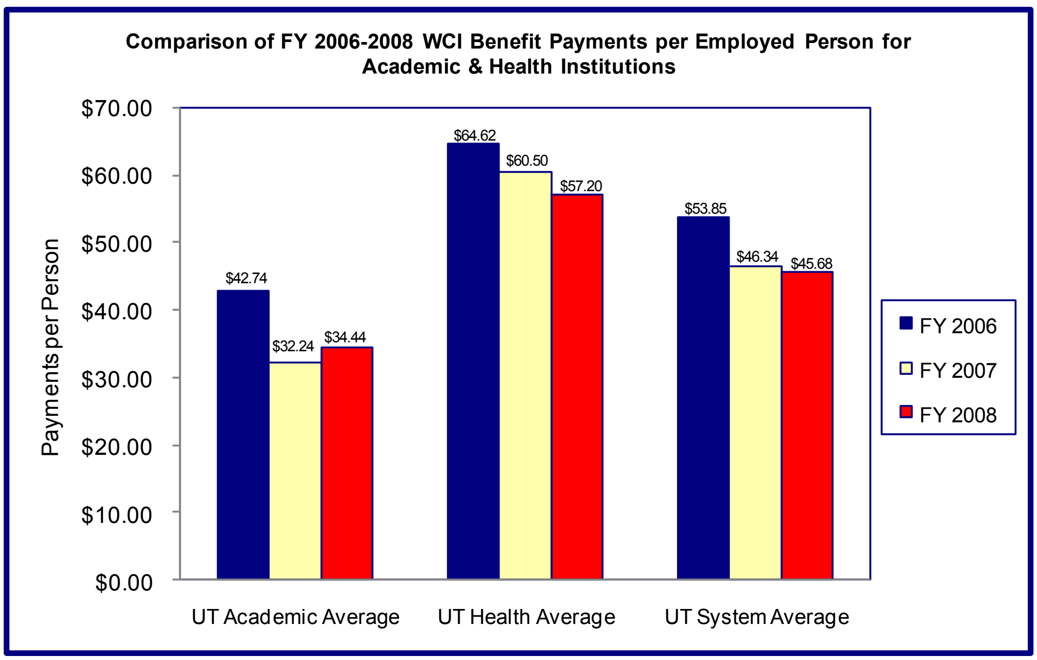


Table 4.2 shows the allocated premium rate and benefit payments per employee for each institution since FY 2006.

TABLE 4.2 Institution Premium Rate & Benefit Payments FY 2006-2009								
Institution	Allocated Premium Rate*					Benefit Payments per Employee		
	2006	2007	2008	2009		2006	2007	2008
UT System	.110	.101	.125	.116		$57.47	$37.42	$46.91
UT Arlington	.278	.204	.124	.122		$32.51	$28.48	$31.19
UT Austin	.228	.212	.120	.106		$36.69	$26.74	$33.93
UT Brownsville	.227	.223	.155	.142		$21.55	$19.89	$29.00
UT Dallas	.238	.230	.114	.081		$17.15	$43.62	$17.26
UT El Paso	.474	.430	.239	.159		$120.57	$61.29	$61.55
UT Pan American	.513	.389	.198	.151		$65.29	$19.32	$22.88
UT Permian Basin	.206	.151	.079	.183		$3.48	$102.60	$39.68
UT San Antonio	.259	.224	.114	.119		$26.71	$32.54	$38.72
UT Tyler	.123	.113	.055	.070		$38.49	$21.78	$25.33
UT SWMC Dallas	.243	.199	.132	.157		$68.38	$99.55	$103.62
UTMB Galveston	.384	.346	.160	.155		$95.33	$86.67	$89.19
UTHSC Houston	.174	.162	.091	.091		$44.24	$43.91	$46.97
UTHSC San Antonio	.266	.248	.126	.122		$72.60	$67.87	$51.98
UT MD Anderson	.136	.114	.070	.059		$35.20	$18.41	$12.80
UTHSC Tyler	.406	.452	.170	.132		$102.90	$74.30	$45.32
System Average	**.252**	**.221**	**.120**	**.112**		**$53.85**	**$46.34**	**$45.68**

*Rate per $100 payroll

In FY 2008, UT System experienced a nine percent (9%) decrease in the total number of reported claims from FY 2007. This continues a general trend of decreasing frequency since FY 2000. Table 4.3 highlights WCI claims for the last three years.

TABLE 4.3 Analysis of WCI Claims			
	FY 2006	FY 2007	FY 2008
Medical Only	1286	1148	1007
Lost Time	797	732	704
TOTAL	**2083**	**1880**	**1711**

Risk Accounting

Risk Accounting manages all the transactional and financial reporting responsibilities for the risk financing programs administered by ORM and the Office of General Counsel (OGC). In FY 2008, over 18,000 indemnity, medical, claim, legal, and income transactions were processed on these programs.

Balance sheets and income statements are prepared for the Director of Risk Management, the Risk Management Executive Committee, and the Professional Medical Liability Committee. The financial statements, along with a brief synopsis of plan details for the self-insurance programs administered by ORM and OGC, are included as Appendix A-1 through A-8.

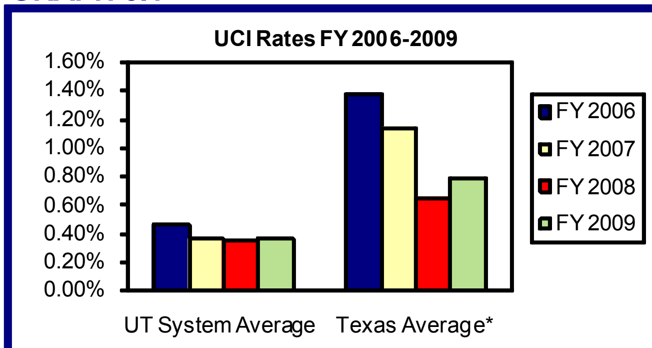
Accounting staff deal directly with actuaries providing historical loss data for reviews and recommendations of ultimate losses, rates and rating strategies, and capitalization targets. Accounting staff also maintain a relevant set of risk exposure metrics to calculate the cost of risk.

Unemployment Compensation Insurance (UCI)

The UT System reimburses the State Unemployment Trust Fund for claims paid by the Texas Workforce Commission (TWC). ORM is responsible for the accounting and financial aspects. Human resource professionals at each institution manage claims that are filed with the TWC.

The UCI plan collected $3.3 million in premium during 2008, a one percent (1%) decrease from 2007. UCI claim expenses decreased six percent (6%) from the previous year. In FY 2008, UT institutions paid an average rate of $.35 per $100 of payroll, compared to a statewide average of $.65 per $100 of payroll for experience rated Texas employers. Graph 5.1 summarizes the UCI rates for FY 2006-2009. Financial statements of the UCI plan are found in Appendix A-5.

GRAPH 5.1



*Texas Workforce Commission average for experience rated Texas employers.

Risk Information Systems

The Risk Information Systems staff supports technology and programming services for all areas of ORM to ensure that automated systems are developed and maintained to effectively manage business functions. They provide software application support to risk management professionals at System Administration and the Campuses. ORM technology needs are managed through software applications developed and maintained on site and a Risk Management Information System (RMIS) hosted off site. The Risk Information Systems staff also manage data exchanged with contracted third parties to ensure that it is accurate, timely and secure.

ORM continued upgrades of two legacy software applications. The Professional Liability Financial application, SFPLIG has been replaced by the new Professional Liability Action Network (PLANet) system. This year, Phase II of PLANet was completed to include enhanced financial processing and tracking of risk management continuing education credentials for physicians.

The transition of the WCMENU workers' compensation claims management system to the web continues. The requirements that were established by the joint application development group are now being implemented. The WCMENU upgrade includes a complete change of infrastructure, security, data files, and business flow, while maintaining current business functionality and incorporating new statutory requirements.

On the Horizon - FY 2009

The Office of Risk Management is committed to continuing to provide value added services to the UT System and all institutions. In FY 2009, ORM will be focusing on recovery of programs following the substantial losses resulting from Hurricane Ike.

Work will be ongoing to renew the property insurance programs and evaluate the lessons learned from response and recovery activities including enhancing academic, research, and clinical resilience programs. Activities in FY 2009 will also include risk assessment and business process mapping, development of a risk management e-manual, enhancement of programs for property conservation and valuations, calculating and reporting cost of risk, and further development of the risk management activities associated with the ever expanding global footprint.

These important initiatives and the ongoing activity and interaction with the institutions are critical to maintaining and enhancing the effective risk management programs throughout the UT System.

APPENDICES

COMPREHENSIVE PROPERTY PROTECTION PLAN (CPPP) FIRE AND AOP

DESCRIPTION OF COVERAGE	The CPPP Fire and All Other Perils Program (Fire and AOP) is a commercial insurance program with a high retention that insures the institutions against property claims including fire and other perils. A funded reserve is in place to cover the policy deductible.
DATE OF INCEPTION	The CPPP Fire & AOP Program was established in 1995.
PREMIUM ALLOCATION METHODOLOGY	80% - Institution's Total Insured Values (TIV) 20% - Institution's Premium Allocation Model (PAM) score

CPPP Fire & AOP

Balance Sheet

	at 8-31-2008	at 8-31-2007
Assets		
Operating Cash	$ 17,826,503	$ 17,744,882
Interest Receivable	40,615	46,071
Prepaid Expenses	1,372,290	-
Accounts Receivable	6,471	3,219
Total Assets	19,245,880	17,794,172
Liabilities		
Accrued Expenses	527,736	639,631
IBNR	850,000	967,000
Total Liabilities	1,377,736	1,606,631
Net Assets	17,868,143	16,187,541
Total Liabilities and Net Assets	$ 19,245,880	$ 17,794,172

Income Statement

	Year Ended 8-31-2008	Year Ended 8-31-2007
Revenue		
Premium Income	$ 4,041,727	$ 5,835,460
Interest Income	523,449	443,767
Claim Settlement	333	1,620,954
Total Revenue	4,565,508	7,900,181
Expenses		
Claim Expenses	558,231	1,127,364
Premium Expenses	2,109,944	4,447,009
Administrative Expenses	333,731	148,979
Total Expenses	3,001,907	5,723,352
Change in IBNR	(117,000)	(769,416)
Net Expenses	2,884,907	4,953,936
Change in Net Assets	1,680,602	2,946,245
Beginning Net Assets	16,187,541	13,241,296
Ending Net Assets	$ 17,868,143	$ 16,187,541

COMPREHENSIVE PROPERTY PROTECTION PLAN (CPPP) WIND AND FLOOD

DESCRIPTION OF COVERAGE	The CPPP Named Windstorm and Flood Program (Wind and Flood) is a partially self-insured plan that insures the institutions against direct physical loss and damage resulting from named-windstorm and/or resulting flood. A $100 million commercial insurance limit is in place above a funded reserve which is supported by capacity to issue debt up to $50 million. Underlying National Flood Insurance Program (NFIP) and Texas Windstorm Insurance Association (TWIA) policies are purchased as the first layer of coverage.
DATE OF INCEPTION	The CPPP Wind & Flood Program was established in 2003.
PREMIUM ALLOCATION METHODOLOGY	20% - Institution’s total insured values reported 40% - Values in Tier 1 & 2 based on loss estimates 40% - Values in Tier 1 & 2 & 100 Yr. Flood Zone

CPPP Wind & Flood
Balance Sheet

	at 8-31-2008	at 8-31-2007
Assets		
Operating Cash	$ 14,803,264	$ 12,075,416
Interest Receivable	33,709	31,307
Prepaid Expenses	1,727,597	676,297
Accounts Receivable	6,471	3,219
Total Assets	16,571,041	12,786,239
Liabilities		
Accrued Expenses	232,053	83,008
IBNR	150,000	-
Total Liabilities	382,053	83,008
Net Assets	16,188,988	12,703,231
Total Liabilities and Net Assets	$ 16,571,041	$ 12,786,239

Income Statement

	Year Ended 8-31-2008	Year Ended 8-31-2007
Revenue		
Premium Income	$ 5,606,492	$ 3,598,621
Interest Income	387,572	292,101
Claim Settlement	492,770	-
Total Revenue	6,486,835	3,890,722
Expenses		
Claim Expenses	-	-
Premium Expenses	2,565,947	300,600
Administration Expenses	285,131	148,979
Total Expenses	2,851,078	449,579
Change in IBNR	150,000	-
Net Expenses	3,001,078	449,579
Change in Net Assets	3,485,756	3,441,143
Beginning Net Assets	12,703,231	9,262,088
Ending Net Assets	$ 16,188,988	$ 12,703,231

ROLLING OWNER CONTROLLED INSURANCE PROGRAM

DESCRIPTION OF COVERAGE	The ROCIP provides Workers' Compensation, General Liability, and Excess Liability insurance coverage for all enrolled 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.
VALUES ENROLLED ALL PHASES	$4,006,536,520 at August 31, 2008
PROJECT FUND CONTRIBUTION RATE	Actuarially determined rate per $100 construction value

ROCIP
Balance Sheet

	at 8-31-2008	at 8-31-2007
Assets		
Operating Cash	$ 30,961,695	$ 27,050,043
Interest Receivable	69,043	67,823
Accounts Receivable	1,617,696	335,826
Total Assets	32,648,434	27,453,692
Liabilities		
Accrued Expenses	1,268,185	17,684
IBNR	6,745,724	7,136,948
Total Liabilities	8,013,909	7,154,632
Net Assets	24,634,525	20,299,060
Total Liabilities and Net Assets	$ 32,648,434	$ 27,453,692

Income Statement

	Year Ended 8-31-2008	Year Ended 8-31-2007
Revenue		
Premium Income IV	$ 8,286,697	$ 13,687,627
Premium Income V	4,516,310	-
Loss Settlement	598	-
Interest Income	793,809	658,544
Total Revenue	13,597,413	14,346,171
Expenses		
ROCIP I Expenses	-	347
ROCIP II Expenses	-	-
ROCIP III Expenses	51,481	559,240
ROCIP IV Expenses	6,896,411	2,693,728
ROCIP V Expenses	2,517,351	-
Administrative Expenses	187,930	201,644
Total Expenses	9,653,173	3,454,959
Change in IBNR	(391,224)	630,294
Net Expenses	9,261,949	4,085,253
Excess Revenue Over Expenses	4,335,465	10,260,918
Other Transfers & Adjustments	-	(17,704)
Change in Net Assets	4,335,465	10,243,214
Beginning Net Assets	20,299,060	10,055,846
Ending Net Assets	$ 24,634,525	$ 20,299,060

WORKERS' COMPENSATION INSURANCE (WCI)

DESCRIPTION OF COVERAGE	WCI is a self-administered/self-insurance plan that provides necessary and reasonable medical coverage and income benefit payments to UT System employees who sustain injuries or occupational disease while in the course and scope of employment. An all-states policy is purchased for employees who work in states outside of Texas. In addition, commercial workers' compensation coverage is provided for employees who work under federal contracts and in foreign countries.
DATE OF INCEPTION	Statutory authority embodied in Chapter 503 of the Texas Labor Code on September 1, 1952
PREMIUM ALLOCATION METHODOLOGY	50% - Loss History (3 years), capped at $100,000 per claim 30% - Payroll (3 years) 20% - Claim Frequency (3 years)

Workers' Compensation Insurance
Balance Sheet

	at 8-31-2008	at 8-31-2007
Assets		
Operating Cash	$ 51,895,032	$ 139,283
Investments	(22)	58,284,170
August Premiums Receivable	498,004	913,755
Accounts Receivable	281,873	394,915
Total Assets	52,674,887	59,732,123
Liabilities		
Accrued Expenses	202,210	234,413
IBNR	10,208,000	13,296,000
Total Liabilities	10,410,210	13,530,413
Net Assets	42,264,677	46,201,710
Total Liabilities and Net Assets	$ 52,674,887	$ 59,732,124

Income Statement

	Year Ended 8-31-2008	Year Ended 8-31-2007
Revenue		
Premium Income	$ 6,310,559	$ 10,734,661
Investment Income	1,656,785	1,809,945
Total Revenue	7,967,383	12,544,606
Less RAP Funds Transfer	(3,000,000)	(4,000,000)
Net Revenue	4,967,383	8,544,606
Expenses		
Claim Expenses	4,618,940	4,606,248
Claim Management Expenses	1,870,173	1,888,806
Out of State Insurance	212,047	145,122
Administrative Expenses	1,050,813	1,060,255
Total Expenses	7,751,973	7,700,431
Change in IBNR	(3,088,000)	(2,605,000)
Net Expenses	4,663,973	5,095,431
Excess Revenue Over Expenses	303,410	3,449,175
Other Transfers & Adjustments	(4,240,444)	3,355,955
Change in Net Assets	(3,937,033)	6,805,130
Beginning Net Assets	46,201,710	39,396,580
Ending Net Assets	$ 42,264,677	$ 46,201,710

UNEMPLOYMENT COMPENSATION INSURANCE (UCI)

DESCRIPTION OF COVERAGE	UCI is a self-insurance plan that assists workers who become unemployed through no fault of their own. It provides temporary financial assistance to qualified individuals while they search for other work.
DATE OF INCEPTION	1971
PREMIUM ALLOCATION METHODOLOGY	60% - Loss History (3 years) 20% - Claim Frequency (3 years) 20% - FTEs

Unemployment Compensation Insurance
Balance Sheet

	at 8-31-2008	at 8-31-2007
Assets		
Operating Cash	$ 4,675,548	$ 7,500
Investments	(488)	4,776,193
August Premiums Receivable	67,531	43,563
Accounts Receivable	25,512	24,034
Total Assets	4,768,104	4,851,290
Liabilities		
Claims Accrued	799,849	852,545
Total Liabilities	799,849	852,545
Net Assets	3,968,255	3,998,745
Total Liabilities and Net Assets	$ 4,768,104	$ 4,851,290

Income Statement

	Year Ended 8-31-2008	Year Ended 8-31-2007
Revenue		
Premium Income	$ 3,347,313	$ 3,396,743
Investment Income	166,626	193,339
Total Revenue	3,513,939	3,590,082
Expenses		
Claim Expenses	3,199,392	3,410,180
Actuary Expenses	2,875	2,500
Administrative Expenses	60,848	123,389
Total Expenses	3,263,115	3,536,069
Change in Prior Year Accrual	(52,696)	105,861
Net Expenses	3,210,419	3,641,930
Excess Revenue over Expenses	303,520	(51,848)
Other Transfers and Adjustments	(334,011)	228,658
Change in Net Assets	(30,490)	176,810
Beginning Net Assets	3,998,745	3,821,935
Ending Net Assets	$ 3,968,255	$ 3,998,745

DIRECTORS & OFFICERS / EMPLOYMENT PRACTICES LIABILITY (D&O/EPL)

DESCRIPTION OF COVERAGE	D&O/EPL is a self-insurance plan that provides coverage to board members, employees, faculty, and other covered individuals, as well as each of the UT System entities for claims arising from actual or alleged wrongful acts performed by the Plan beneficiaries. The Plan also provides coverage for Employment Practices Liability claims, such as wrongful termination, failure to promote, and wrongful discipline.
DATE OF INCEPTION	September 1, 1991 – Coverage A and B September 1, 1996 – Coverage C
PREMIUM ALLOCATION METHODOLOGY	80% - Employee headcount (6 years) 20% - Loss History (6 years); capped at $250,000 per claim

Directors & Officers
Balance Sheet

	at 8-31-2008	at 8-31-2007
Assets		
Operating Cash	$ 11,647,447	$ 10,201,656
Interest Receivable	26,537	26,466
Prepaid Expenses	19,674	52,420
Total Assets	11,693,658	10,280,542
Liabilities		
Deferred Income	12,296	13,327
IBNR	3,410,789	3,069,532
Total Liabilities	3,423,085	3,082,859
Net Assets	8,270,574	7,197,683
Total Liabilities and Net Assets	$ 11,693,658	$ 10,280,542

Income Statement

	Year Ended 8-31-2008	Year Ended 8-31-2007
Revenue		
Premium Income	$ 1,419,061	$ 1,444,673
Interest Income	320,689	273,372
Total Revenue	1,739,750	1,718,045
Expenses		
Excess Insurance Policy Expense	220,560	208,958
Actuary Expenses	6,188	1,625
Administrative Expenses	98,855	125,369
Total Expenses	325,603	335,952
Change in IBNR	341,257	(299,846)
Net Expenses	666,860	36,106
Excess Revenue Over Expenses	1,072,891	1,681,939
Other Transfers & Adjustments		
Change in Net Assets	1,072,891	1,681,939
Beginning Net Assets	7,197,683	5,515,744
Ending Net Assets	$ 8,270,574	$ 7,197,683

PROFESSIONAL MEDICAL LIABILITY PLAN (PMLI)

DESCRIPTION OF COVERAGE	PMLI is a self-insurance plan that covers all of the UT System staff physicians, dentists, residents, fellows, and medical students who have been enrolled for claims and lawsuits relating to events that occurred while enrolled in the Plan.
DATE OF INCEPTION	Statutory authority was granted to the Board of Regents by the Texas Education Code Section 59.01 on March 10, 1977 and the plan was approved by the Board of Regents on April 15, 1977.
PREMIUM ALLOCATION METHODOLOGY	50% - Institution Weighted Loss History (20 yrs) 50% - Overall Plan Rate (20 yrs)

Professional Medical Liability Plan
Balance Sheet

	at 8-31-2008	at 8-31-2007
Assets		
Operating Cash	$ 6,081,106	$ 13,669,420
Investments	107,950,428	132,039,289
Accounts Receivable	331,808	-
Total Assets	114,363,342	145,708,709
Liabilities		
Accounts Payable	141,770	27,075
IBNR	29,867,984	35,678,697
Total Liabilities	30,009,754	35,705,772
Net Assets	84,353,588	110,002,937
Total Liabilities and Net Assets	$ 114,363,342	$ 145,708,709

Income Statement

	Year Ended 8-31-2008	Year Ended 8-31-2007
Revenue		
Premium Income	$ 12,805,029	$ 20,691,975
Investment Income	4,308,023	5,125,218
Total Revenue	17,113,052	25,817,193
Less Premium Refund	(35,000,000)	(25,000,000)
Net Revenue	(17,886,948)	817,193
Expenses		
Legal Expenses	2,093,812	2,529,933
Claim Liability Expenses	2,178,579	2,232,303
Medical Examiner Expenses	370,820	146,523
Administrative Expenses	1,272,895	1,243,850
Other Expenses	61,404	56,400
Total Expenses	5,977,510	6,209,009
Change in IBNR	(5,810,713)	(46,619,322)
Net Expenses	166,797	(40,410,313)
Excess Revenue Over Expenses	(18,053,745)	41,227,506
Other Changes in Net Assets		
Investments Market Value Increase	(3,908,684)	9,526,825
Transfer to Special Funds	(3,686,920)	(5,000,000)
Total Other Changes	(7,595,604)	4,526,825
Change in Net Assets	(25,649,349)	45,754,331
Beginning Net Assets	110,002,937	64,248,606
Ending Net Assets	$ 84,353,588	$ 110,002,937

BUSINESS INTERRUPTION (BI)

DESCRIPTION OF COVERAGE	Business Interruption covers BI losses not otherwise covered by commercial or self-insurance plans.
DATE OF INCEPTION	August 2006 by a $5 million Board of Regents allocation from PLI fund.

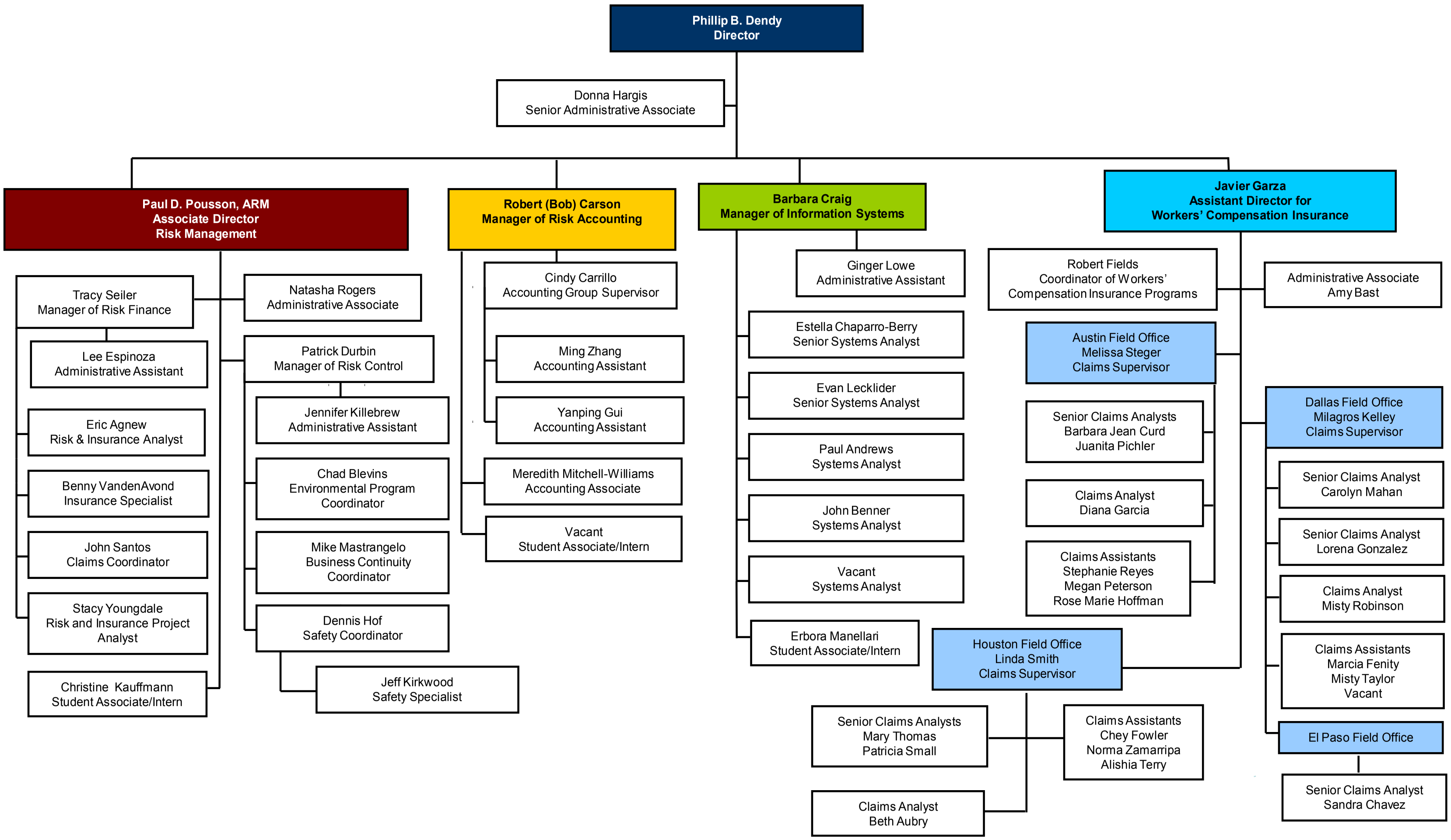
Business Interruption
Balance Sheet

		at 8-31-2008		at 8-31-2007
Assets				
Operating Cash	$	47,450	$	-
Investments		5,387,664		5,249,367
Interest Receivable		12,243		23,546
Accounts Receivable		-		-
Total Assets		5,447,357		5,272,913
Liabilities				
IBNR		-		-
Total Liabilities		-		-
Net Assets		5,447,357		5,272,913
Total Liabilities and Net Assets	$	5,447,357	$	5,272,913

Income Statement

		Year Ended 8-31-2008		Year Ended 8-31-2007
Revenue				
Premium Income	$	-	$	-
Interest Income		206,994		269,995
Total Revenue		206,994		269,995
Expenses				
Plan Administration Expense		32,550		-
Total Expenses		32,550		-
Excess Revenue Over Expenses		174,444		269,995
Change in Net Assets		174,444		269,995
Beginning Net Assets		5,272,913		5,002,917
Ending Net Assets	$	5,447,357	$	5,272,913

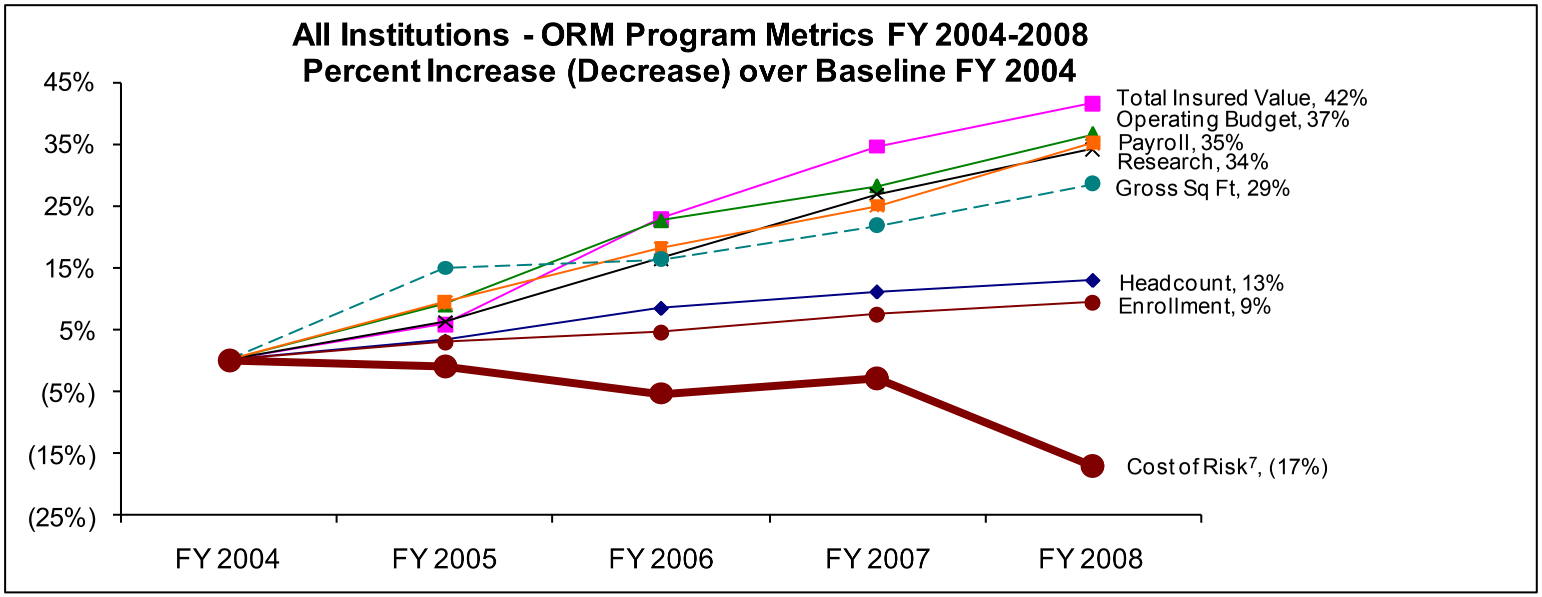
The University of Texas System Administration
Office of Risk Management
Organizational Chart



Cost of Risk - Systemwide Programs Managed by the Office of Risk Management
University of Texas System - All Institutions

FISCAL YEAR	TOTAL[1]	WCI	UCI [2]	CPPP AOP [11]	CPPP W&F [11]	Crime	Fine Arts [8]	Equip	D&O	Auto [11]	Int [9]
2008	**$ 24,247,255**	$ 6,371,604	$ 3,303,750	$ 4,626,496	$ 6,442,018	$262,900	$18,118	$388,301	$1,418,030	$930,661	$ 485,377
2007 [10]	**$ 28,450,232**	$ 10,742,224	$ 3,396,743	$ 7,233,992	$ 3,578,545	$239,000	$11,871	$392,667	$1,458,000	$909,725	$ 487,466
2006	**$ 27,699,673**	$ 11,593,314	$ 4,168,881	$ 5,619,251	$ 3,293,086	$239,000	$10,427	$338,761	$1,458,649	$872,521	$ 105,782
2005	**$ 29,011,130**	$ 12,286,028	$ 4,406,008	$ 6,415,748	$ 2,946,482	$239,000	$11,355	$275,895	$1,469,125	$879,505	$ 81,984
2004	**$ 29,290,175**	$ 12,257,158	$ 4,399,915	$ 6,875,407	$ 3,012,619	$248,669	$13,764	$287,660	$1,380,125	$814,858	$ -

ALL	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Headcount [3]	89,454	92,282	97,027	99,404	101,071
TIV [4]	$15,504,375,771	$16,400,963,179	$19,058,243,487	$20,868,571,383	$ 21,948,698,072
Gross Sq Ft [5]	59,801,861	61,688,646	66,936,218	72,430,784	72,430,784
Operating Budget [6]	$ 7,799,000,000	$ 8,500,700,000	$ 9,558,900,000	$ 9,997,500,000	$ 10,653,949,717
Enrollment [5]	177,676	182,752	185,816	190,903	194,199
Research Expenditures [6]	$ 1,450,368,399	$ 1,541,503,481	$ 1,687,014,239	$ 1,840,364,140	$ 1,946,217,293
Payroll [4]	$ 3,966,128,285	$ 4,341,199,688	$ 4,681,720,700	$ 4,959,329,866	$ 5,363,195,005
Premium - Cost of Risk [7]	$ 29,290,175	$ 29,011,130	$ 27,699,673	$ 28,450,232	$ 24,247,255



1 Total does not include PLI.
2 Includes UCI premium paid to Systemwide program in 2004 and 2005 plus claims reimbursed directly to the TWC by the Institution.
3 Statistical Handbook, Texas Higher Education Board.
4 Values reported to ORM by Institutions for CPPP and WCI programs.
5 UT System Accountability & Performance Report 2004-2008.
6 UT System Fast Facts, 2004-2008.
7 Does not include retained losses or individual policies purchased for Institutions.
8 Does not include individual Fine Arts policy for UT Austin.
9 International includes the International package, SOS, Special Crime and DBA policies and are paid by UT System funds and not allocated to Institutions.
10 CPPP-AOP for FY 2007 includes an additional 6 months commercial premium.
11 CPPP-AOP, CPPP-W&F, and Auto include premium and deductibles paid on reported losses by Institutions.