

UNIVERSITY OF MINNESOTA

Annual Report
of the
Office of Risk Management and Insurance
as of
Fiscal Year Ended
30 June 2015

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I. Overview

Mission of the Office of Risk Management and Insurance

The Office of Risk Management and Insurance ('Risk Management') accepts as principle that assuming some risk is integral to being productive. The University must take risks and Risk Management must find ways to minimize the financial impact of adverse outcomes.

The Risk Management Team:

- Consults with the University community regarding the risk naturally encountered in the course of Research, Teaching and Outreach;
- Minimizes the frequency and severity of physical injury and property damage through education and specific loss control measures; and
- Protects and preserves University human and financial resources.

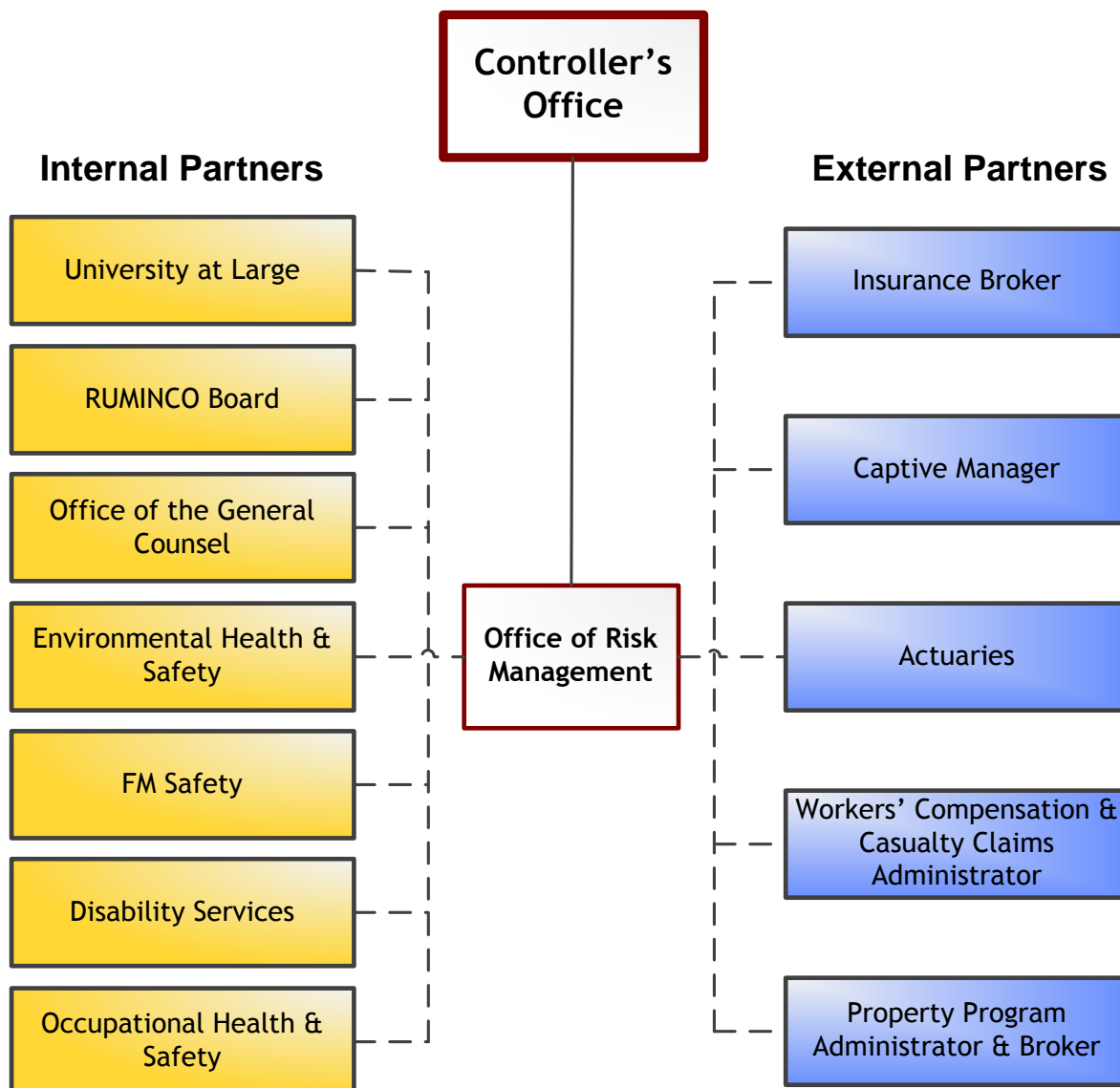
Risk Management uses commercial insurance, captive insurance, and self-insurance to transfer, or budget for, monetary loss arising from risk. It is responsible for the design, procurement, implementation, and maintenance of these programs. Risk Management routinely consults with the Office of General Counsel with respect to risk and insurance provisions of the contracts the University seeks to enter.

This report summarizes the scope of operations of the University's Office of Risk Management and Insurance as of fiscal year end June 30, 2015.

Organizational Structure

The Office of Risk Management:

- Acts at the direction of the Controller's Office;
- Maintains dotted line relationships with many University entities and resources; and
- Controls the activities of several insurance vendors and suppliers.



FY15 Project Status

Transitional Light Duty Return to Work Program

Recognized best practice is to return injured workers to the workplace as soon as possible. This has been challenging at the University due to the siloed nature of the operations; departments that do the heavy, injury-producing work do not typically have light duty jobs available to facilitate re-entry.

We worked with Disability Services to fund a pilot program that would place injured workers outside of their department. To encourage recipient department participation, the program paid most or all of their hourly wage.

The program has been highly successful, saving tens of thousands of Work Comp claim dollars, re-gaining productivity that otherwise would have been lost, and speeding the return to the University work community of the injured workers.

Coordination of Evacuation Services

In the interest of efficiency, we evaluated whether evacuation of persons insured under different University health plans (Students, Faculty, Staff) for Natural Catastrophe or Political Reason arising while they are outside the US under separate programs makes sense, or if there might be gains from a consolidation. The plans serve unique populations, and their needs are specific enough that we concluded changes would not be useful.

Back Injuries from Trash Handling

We investigated the possibility of a mechanical solution to the frequent problem of back injuries arising from trash handling. FM Loss Control indicated that the injuries did not originate with any one particular storage arrangement (of which there are many). We concluded that the injuries are more a function of employees lifting hundreds of thousands of trash bags per year, rather than a fixable facilities deficiency.

II. Risk Finance Programs

General Approaches to Risk Finance

The financial consequences of risk may be ***Retained*** or ***Transferred***.

- ***Risk retention*** (often called “self-insurance”) is characterized by the assumption (retention) of financial risk consequences. This retention ranges from a deductible to carrying no insurance whatsoever. Optimally, risk retention is the result of pre-considered choice.
- ***Risk transfer*** is characterized by the passing of the financial consequences of risk to a third party (typically an insurer) via purchase of a contract (typically an insurance policy) that specifies the terms and conditions of the transfer.

Broadly, the University treats its risk as follows:

- Liability – ***Transferred*** to captive insurer (RUMINCO, Ltd.)
- Workers’ Compensation – ***Retained***; Self-insured
- Property and Miscellaneous Insurance – ***Transferred*** to commercial insurers

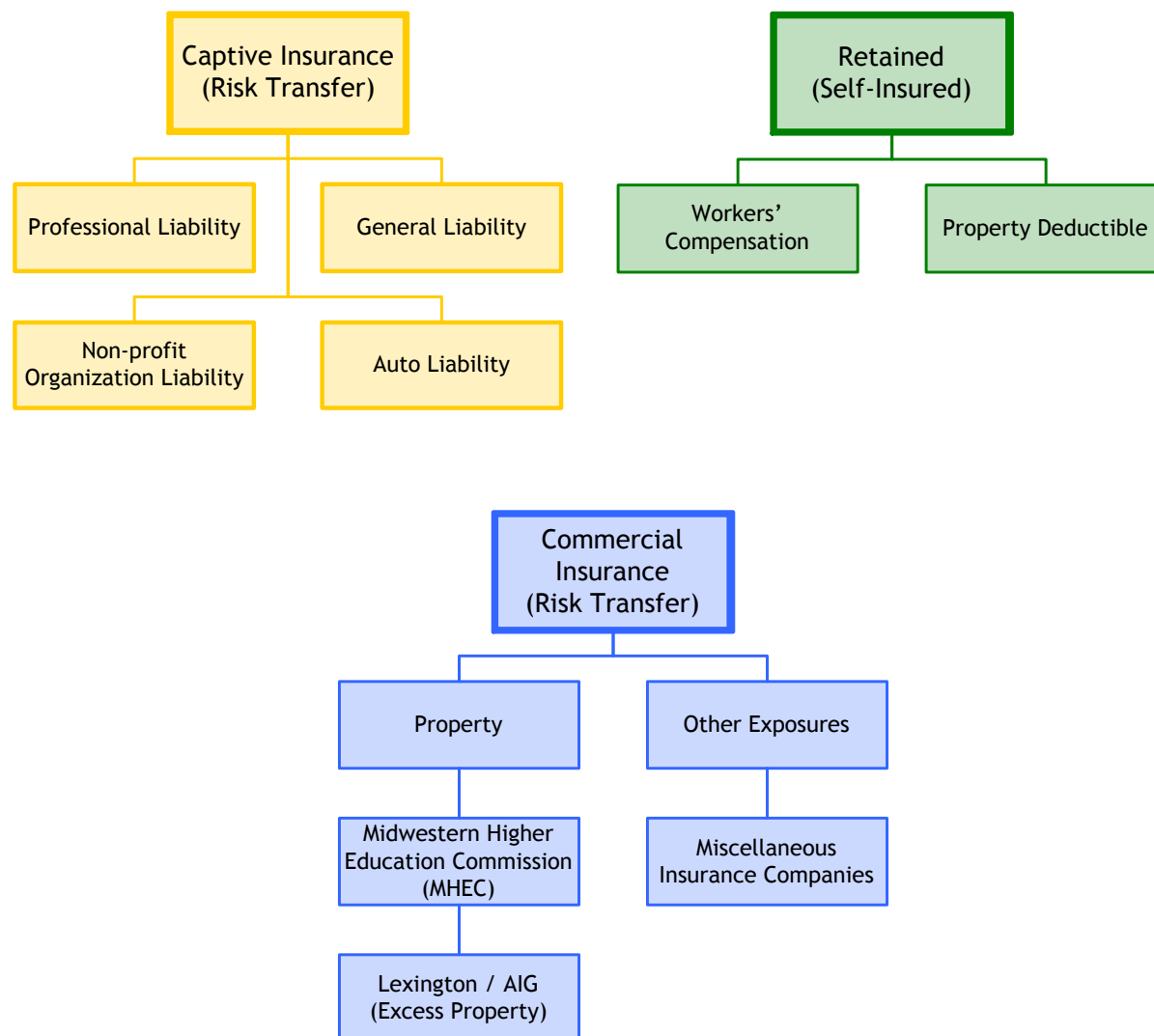
There are specific rationales behind the decision to transfer or retain a specific risk. Because retaining one’s own risk (within limits) tends to be more economical in the long run than paying a third party to assume it, the guiding principle has been for the University to retain risk, to the extent that it is financially possible and reasonable to do so.

Generally, this principle is not useful when the University is exposed to truly catastrophic loss potential. A good example of this is the property associated with the University’s campuses. The University has over \$13 billion in property values, and carries a \$1.75 billion property insurance limit. We cannot fund \$1.75 billion internally, so the University purchases insurance to transfer the exposure to a third party.

University Structures

Much activity of the Office of Risk Management centers on the establishment, maintenance and continuing refinement of risk finance mechanisms.

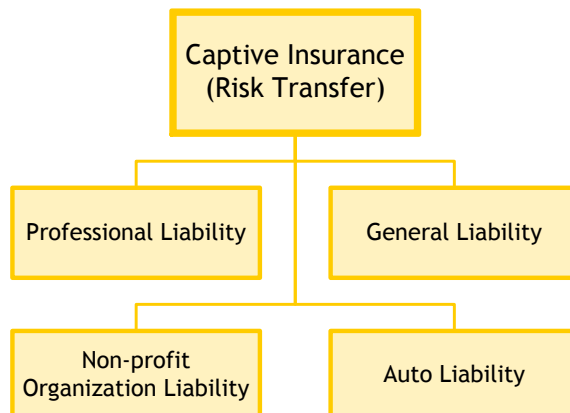
The University finances its Property and Casualty risk using three general strategies:



The Office of Risk Management monitors the University's loss trends and the insurance marketplace to determine the optimal risk financing strategy. This process includes ongoing reviews of the University's loss exposures, claim frequency and severity, and trends in each.

The following sections describe the University's **Captive**, **Retained**, and **Commercially Insured** risk financing programs.

CAPTIVE INSURANCE



RUMINCO, Ltd.

RUMINCO Ltd. (Regents of the University of Minnesota Insurance Company) is a captive insurance company, a wholly owned subsidiary of the University of Minnesota. It was incorporated in 1978 during a nationwide crisis in the medical malpractice insurance market. At that time, the University Hospitals and Clinics and the Medical School faced 400% increases in premiums. After exploring various risk financing options, the University decided to form RUMINCO Ltd. to fund its primary layer of protection for:

- **General Liability; and**
- **Professional Liability (Medical Malpractice)**

The University purchased excess limits from commercial insurance companies until 1986, when the Office of the General Counsel advised that the State of Minnesota's Tort Statute effectively and reliably limits the University's exposure to Tort Liabilities incurred within Minnesota jurisdiction.

As RUMINCO matured and its surplus (i.e., net worth) grew, the RUMINCO Board added other lines of coverage:

- **Automobile Liability; and**
- **Non-Profit Organization Liability (Employment Claims)**

Over one-third of a century, RUMINCO has proven itself to be a useful funding tool for the University. It is a formalized, disciplined way to finance risk, yet retains flexibility, and provides long-term stability.

RUMINCO, Ltd. Coverage Overview

A. General Liability insures the University's legal liability for third party bodily injury or property damage.

Principal Exposures:

Frequency: Premises injuries to third parties (slip-and-falls)

Severity: Population concentrations in dormitories, stadiums, and arenas exposed to fire, collapse, explosion, etc.

B. Professional Liability covers damages arising out of professional services, including:

- Medical, surgical, dental or nursing treatment
- Furnishing or dispensing of drugs or medical, dental, or surgical supplies or appliances
- Services by any person as a member of a formal accreditation or similar professional board or committee of the University, or as a person charged with the duty of executing directives of any such board or committee
- Service by accountants, architects, engineers, lawyers, and teachers acting within the scope of their duties as employees of the University

Principal Exposure:

Frequency and Severity: Medical Malpractice

C. Auto Liability covers legal liability for bodily injury and property damage arising out of the use of over 800 owned vehicles, as well as hired and non-owned autos operated on behalf of and with the permission of the University.

Principal Exposures:

Frequency: Collision damage to third parties' vehicles

Severity: Vehicle accidents involving multiple-passenger vehicles

D. Non-Profit Organization Liability covers liability claims not triggered by Bodily Injury or Property Damage, including:

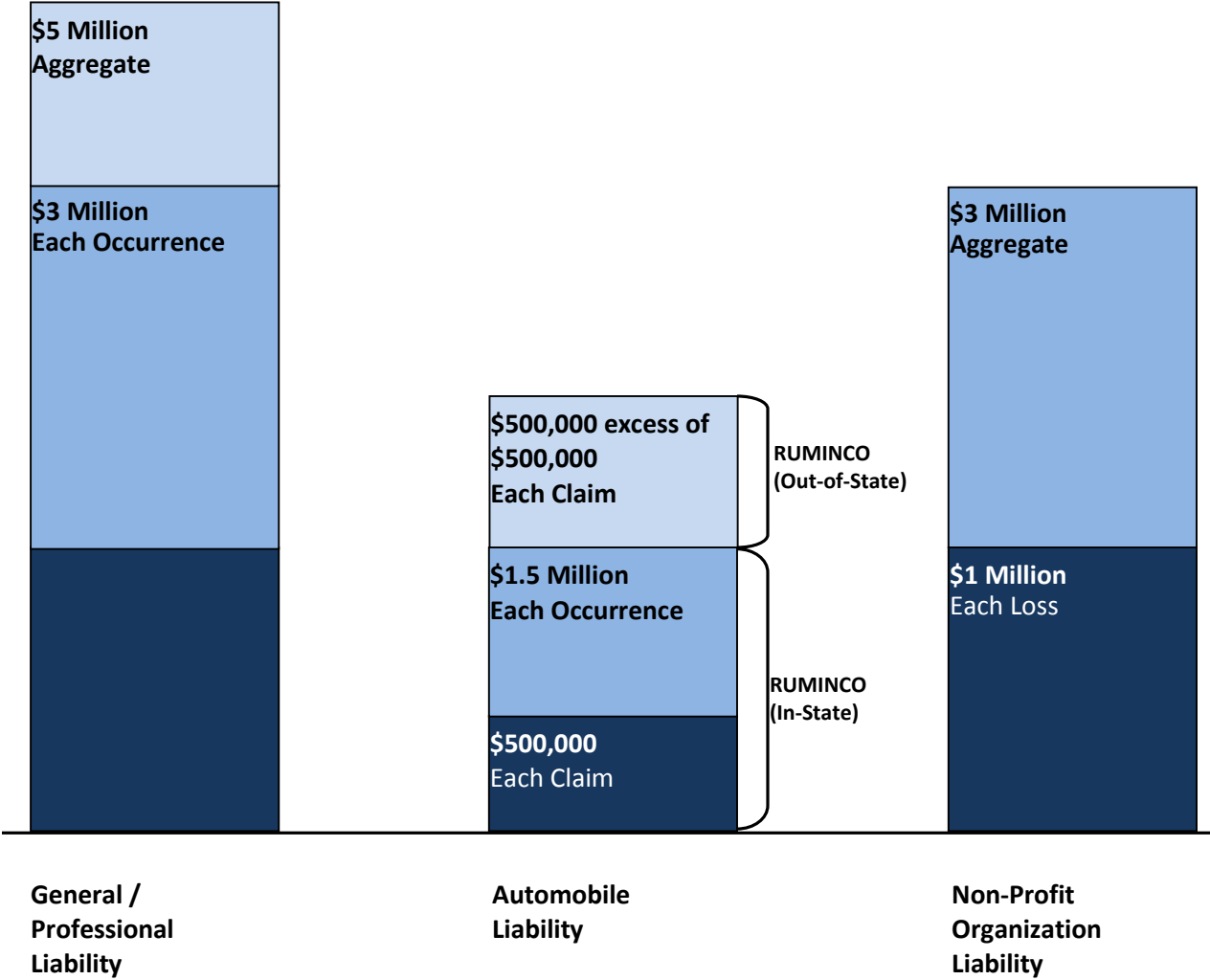
- Directors' and Officers' Liability
- Employment Practices Liability
- Personal Injury e.g., libel, slander, defamation, emotional distress

Principal Exposure:

Frequency and Severity: Employment-related claims such as allegations of sexual harassment, failure to grant tenure, discrimination, etc.

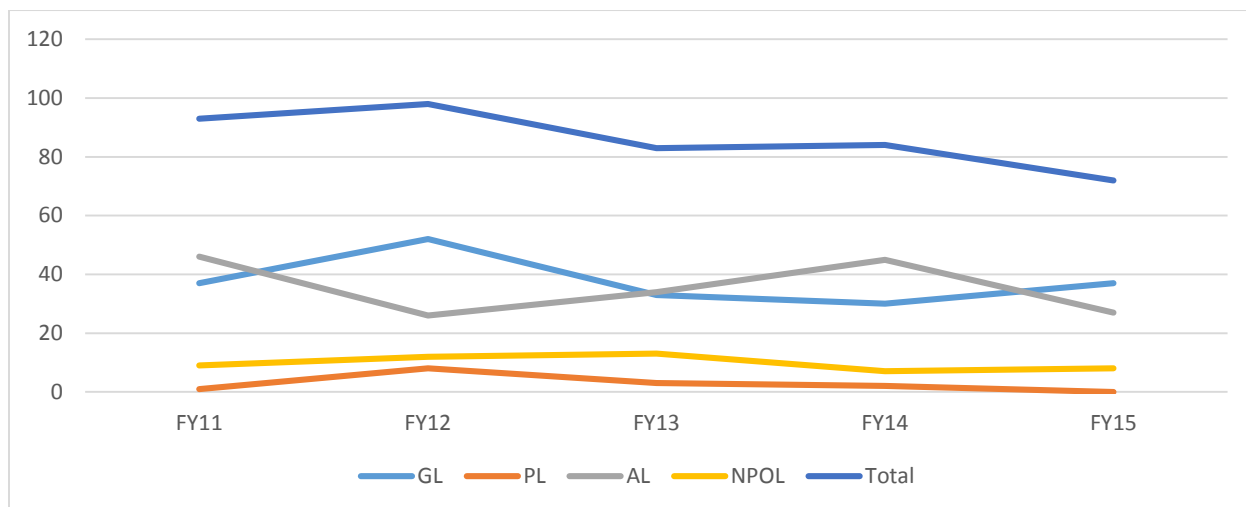
Summary of RUMINCO Ltd. Limits

RUMINCO limits are in the same range as the maximum payout prescribed by the Minnesota Tort Cap statutes; buying more limit than required effectively waives the Statute’s protection, with the new limit becoming the de facto tort cap.



RUMINCO Ltd. Claims Experience

Claim Count by Fiscal Year



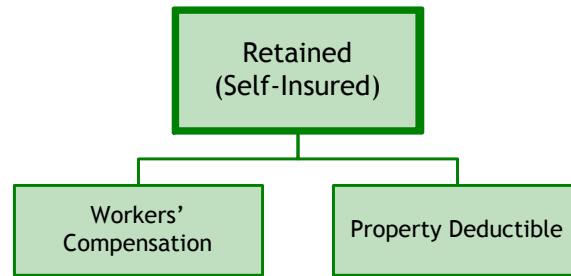
Claim frequency for the four RUMINCO lines of liability coverage over the past five years.

RUMINCO's Total Claim Count has averaged 86 claims per year over the past five years.

The Total FY15 Claim Count of 72 represents a five-year low.

No claim count for any single coverage lies farther than two Standard Deviations from the mean. Despite being low, the FY15 claim counts are well within the statically expected range.

RETAINED (SELF-INSURED)



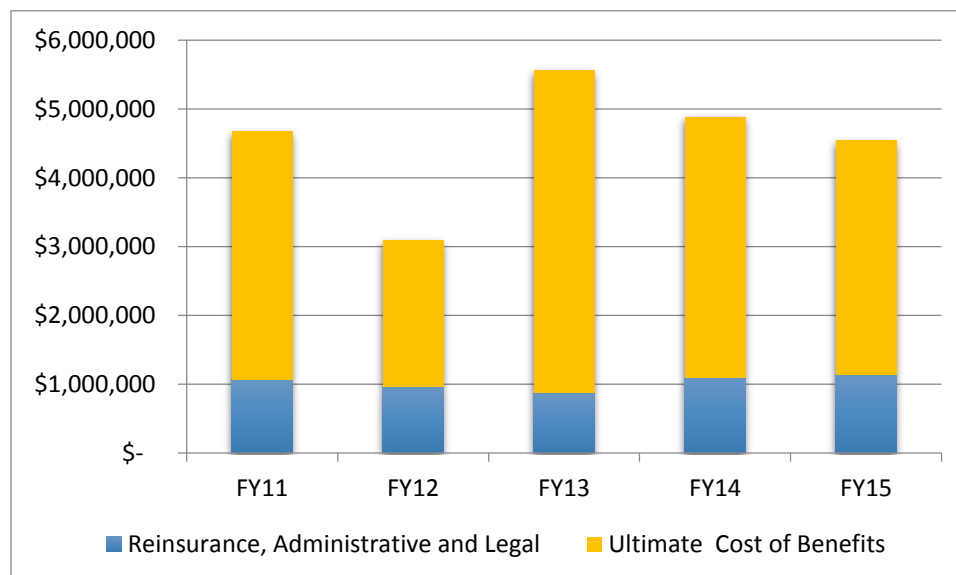
Workers' Compensation Overview

Workers' Compensation benefits are mandated and governed by Minnesota statute. Benefits include medical costs, wage loss and retraining costs for University employees who are injured while acting in the scope of their duties.

The University is a qualified self-insurer under Minnesota law, assuming liability up to \$1,880,000 in any one Workers' Compensation occurrence. The Workers' Compensation Reinsurance Association (WCRA), an excess insurer for catastrophic claims created by the State of Minnesota, provides excess protection.

Beginning in FY09, Risk Management began a continuing initiative to make the statutory Workers' Compensation benefit system more transparent, accessible, and easy to use for all parties. That initiative formed the basis for positive trends that continue today.

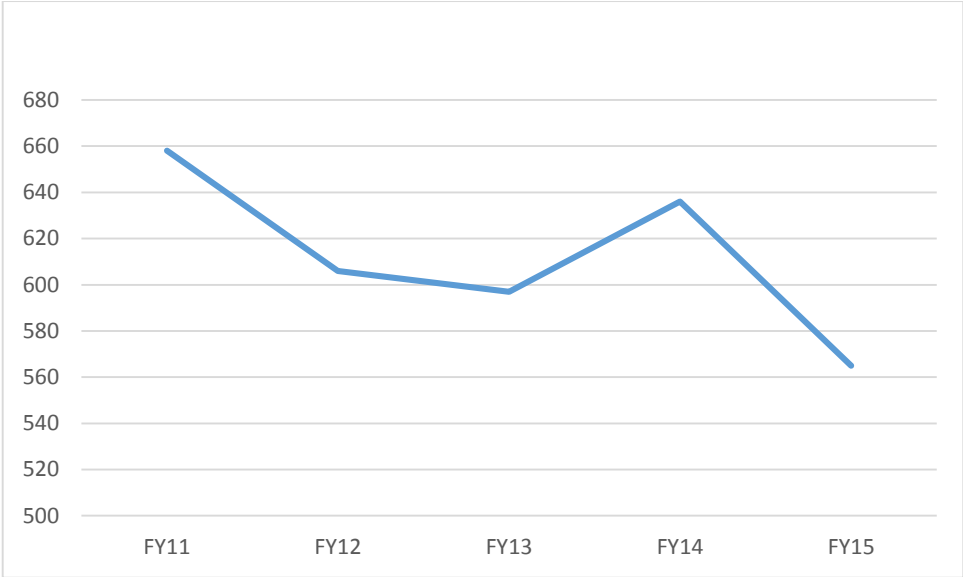
Workers' Compensation Program Costs



Annual claim cost is moderately volatile. Administrative costs have remained steady.

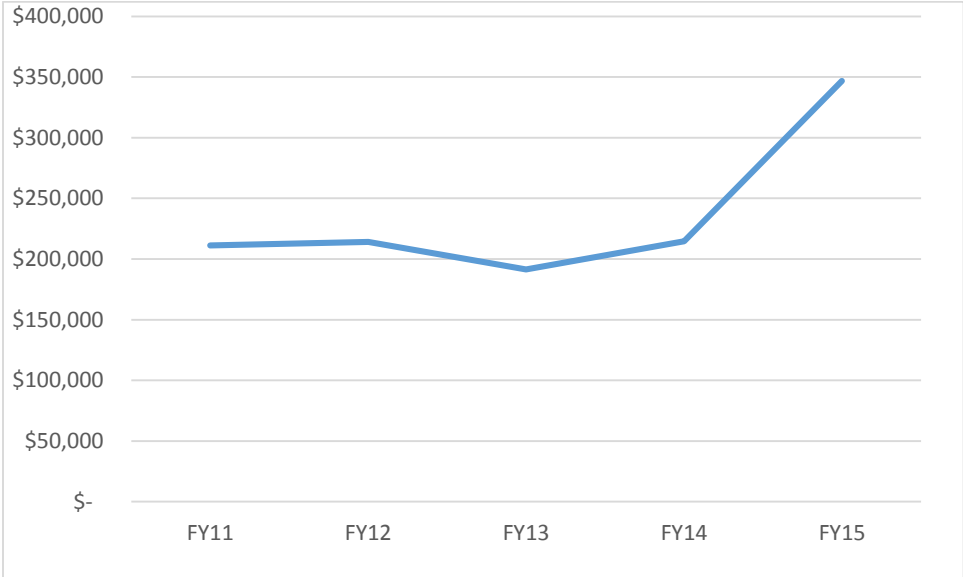
Workers' Compensation

Workers' Compensation Claim Count



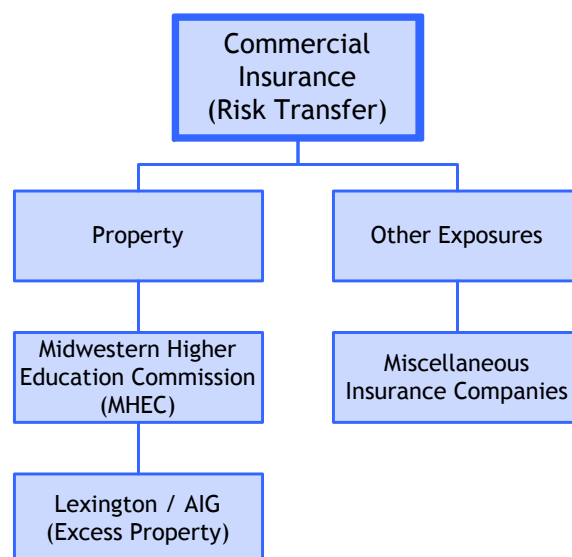
Aggregate claim count is down 14% from the FY11 level.

Workers' Compensation Legal Expense



Legal expense is up this year, largely as a result of our pursuing precedent on a specific claim scenario.

COMMERCIAL INSURANCE



Through the purchase of commercial insurance, the University transfers certain loss exposures to commercial insurance companies.

Reasons to commercially transfer risk include:

- high limits it would be difficult, or impossible, to self-fund (\$40 million Extra MN General/Auto Liability; \$10 million Extra MN Clinical Trial Liability; \$1.75 billion Property Insurance) and
- convenience, low price of transfer, or demands by third parties (NCAA Athletic Injury Primary Coverage; Daycare Accident; Fine Art)

Property Insurance premiums are 84 percent of the University's commercial insurance outlay.

Property Insurance

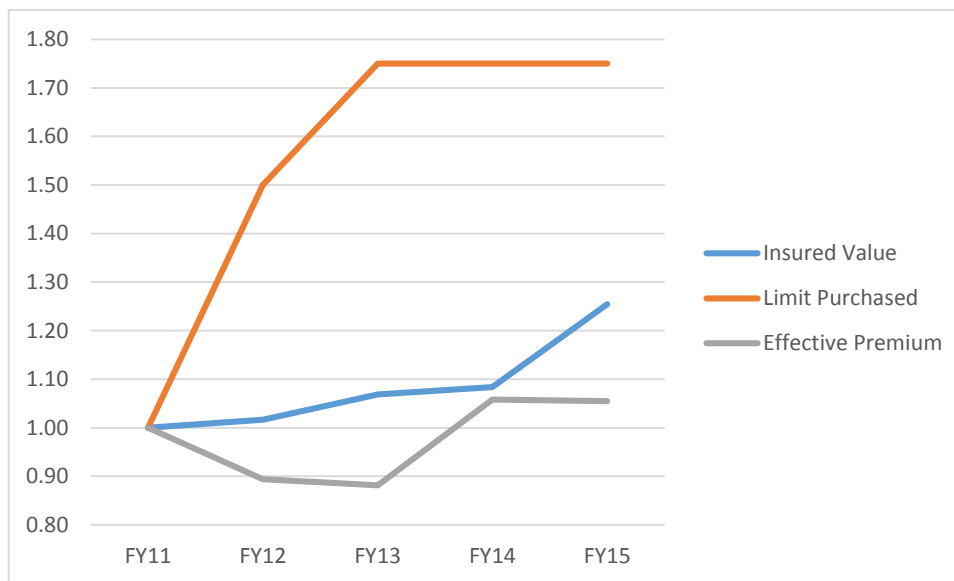
Property Insurance covers risks of direct physical loss or damage to the “covered property” as defined in the policy, subject to sublimits and specifically excluded perils. The principle insurer for the University is AIG through the Midwest Higher Education Compact (MHEC) Master Property Program.

The University conducted an RFP on its property program in Fiscal Year 11. Based on our ten-year loss history, we chose at that time to revise our deductible level from \$200,000 to \$500,000 per claim event, subject to an annual aggregate of \$1 million.

An effective measure of performance is “Effective Premium”, which reflects changes in deductible cost:

$$\text{Effective Premium} = \text{Premium Paid to Insurer} + \text{Deductible Internally Retained}$$

Trends in Values, Premium and Rates: FY11 = 1

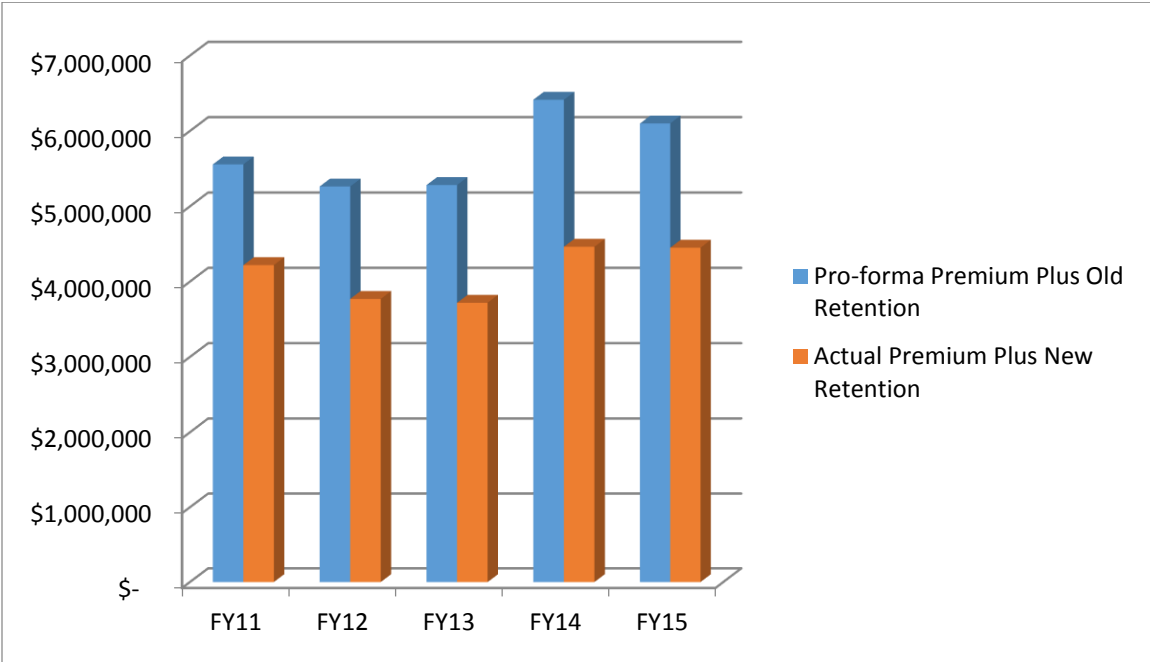


Property insurance cost drivers are Insured Value and Limit Purchased. Using FY11 as the baseline, we see Effective Premium has lagged cost drivers.

Property Insurance

Because we both reduced the rate and increased the deductible from \$200,000 to \$500,000 in FY11, we are interested in whether the net effect of the changes is benefitting the University.

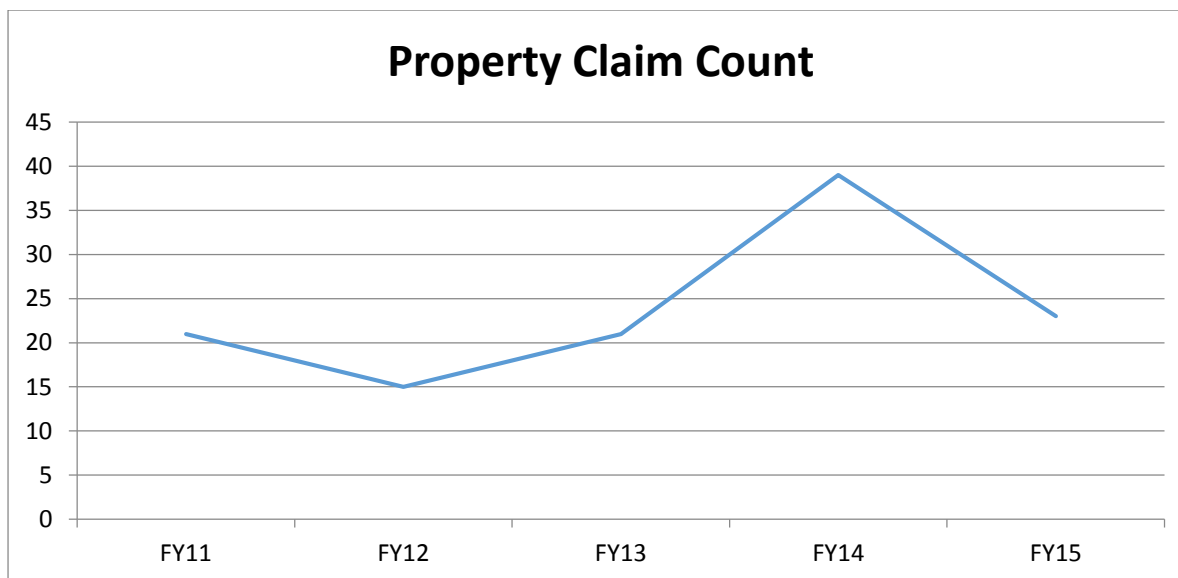
The graph below compares actual total cost (Premium plus Retention) to results adjusted pro-forma to pre-FY11 rates and deductibles.



As a result of restructuring the property program, the University has saved an average of \$1.6 million annually -- a total of \$8 million.

Property Insurance

Property Claim Count by Fiscal Year



*Property claim count was 23 events for FY15;
a return to 'normal' after the severe FY14 winter.*

In FY15, two losses exceeded \$200,000:

- November 28, 2014, Water Damage - Frozen Sprinkler Pipe, CCRB
- June 22, 2015, Collapsed Electrical Duct Bank, Pleasant Street (we expect recovery from contractors)

Miscellaneous Commercial Insurance Coverage

Here is a brief overview of purchased policies with premiums exceeding \$25,000.

EXCESS GENERAL AND AUTO LIABILITY – EXTRA MN: \$40 million in coverage excess a \$1 million Self-insured Retention (Deductible) for General and Automobile liabilities the University may incur outside the jurisdiction, and Tort Cap protection, of Minnesota law.

EXCESS CLINICAL TRIALS LIABILITY – EXTRA MN: \$10 million in coverage excess a \$1 million Self-insured Retention (Deductible) for Clinical Trials liabilities the University may incur outside the jurisdiction, and Tort Cap protection, of Minnesota law.

INTERCOLLEGIATE ATHLETICS: This policy insures medical costs arising from injuries sustained by University intercollegiate athletes during play, practice or travel.

HULL & LIABILITY (Primary & Excess): Physical Damage and Liability coverage up to \$1 million of primary liability, plus \$14 million of excess liability, arising out of our ownership and use of the 86-foot *Blue Heron* research vessel in Duluth.

Total Cost of Risk Summary

University of Minnesota

Total Cost of Risk: Fiscal Years 2011 – 2015

COST ITEM	FY11	FY12	FY13	FY14	FY15
Captive					
Paid Losses	\$ 2,134,294	\$ 2,460,907	\$ 1,705,771	\$ 652,031	\$ 530,860
Case Reserves	\$ -	\$ 63,558	\$ 17,091	\$ 591,594	\$ 359,036
Incurred, But Not Reported (EST.)	\$ 10,574	\$ 39,719	\$ 114,881	\$ 271,494	\$ 1,380,512
Liability Claims Administrator	\$ 69,717	\$ 63,566	\$ 51,707	\$ 50,542	\$ 56,333
Captive Administrative Expenses	\$ 117,876	\$ 120,930	\$ 116,909	\$ 101,896	\$ 109,878
Litigation Cost	\$ 1,617,689	\$ 1,469,704	\$ 1,309,705	\$ 1,322,522	\$ 1,222,818
Total Captive	\$3,950,150	\$4,218,384	\$3,316,064	\$2,990,079	\$3,659,437
Self-Insurance					
Workers' Compensation Ultimate Loss (EST.)	\$ 3,609,388	\$ 2,137,732	\$ 4,685,592	\$ 3,781,360	\$ 3,410,603
WC Reinsurance Association	\$ 160,246	\$ 142,096	\$ 155,784	\$ 223,486	\$ 268,505
Special Compensation Fund	\$ 356,973	\$ 291,348	\$ 207,312	\$ 301,786	\$ 179,742
WC Claims Administrator	\$ 291,712	\$ 267,826	\$ 275,324	\$ 313,479	\$ 297,777
Litigation Cost	\$ 211,198	\$ 214,019	\$ 191,338	\$ 214,638	\$ 346,676
Bill Review Service	\$ 36,751	\$ 28,640	\$ 32,717	\$ 38,591	\$ 32,694
WC Actuarial	\$ 9,892	\$ 9,288	\$ 10,300	\$ 10,430	\$ 9,892
WC Total	\$ 4,676,160	\$ 3,090,949	\$ 5,558,367	\$ 4,883,770	\$ 4,545,889
Retained Property Losses [1]	\$ 1,565,492	\$ 1,520,600	\$ 1,463,923	\$ 2,082,430	\$ 1,182,222
Electronic Data Processing [2]	\$ 36,095	\$ 29,707	\$ 24,371	\$ 12,837	\$ 27,288
Automobile Physical Damage	\$ 127,295	\$ 156,843	\$ 87,779	\$ 210,577	\$ 153,238
Total Self-insurance	\$6,405,042	\$4,798,099	\$7,134,440	\$7,189,614	\$5,908,637
Commercial Insurance					
All Risk Property	\$ 2,618,781	\$ 2,240,136	\$ 2,261,562	\$ 2,345,651	\$ 3,268,222
Excess General/Auto Liability - Extra MN	\$ 233,400	\$ 234,745	\$ 238,002	\$ 242,762	\$ 250,044
Excess Clinical Trials Liability - Extra MN	--	--	\$ 139,839	\$ 215,756	\$ 184,506
Intercollegiate Athletics	\$ 53,000	\$ 31,500	\$ 31,500	\$ 33,500	\$ 33,500
Hull, Liability, Pollution (Blue Heron Watercraft)	\$ 30,613	\$ 30,613	\$ 31,558	\$ 28,701	\$ 28,659
Fidelity & Crime	\$ 19,967	\$ 20,210	\$ 20,162	\$ 21,740	\$ 22,015
Fine Arts	\$ 17,549	\$ 18,280	\$ 18,280	\$ 18,827	\$ 18,827
Nonowned Aircraft Liability	\$ 18,000	\$ 18,000	\$ 22,000	\$ 22,000	\$ 22,000
Showboat	\$ 6,925	\$ 6,925	\$ 9,739	\$ 11,748	\$ 13,300
Broadcaster's Liability	\$ 5,365	\$ 5,365	\$ 5,365	\$ 5,594	\$ 5,594
Child Care Center AD&D	\$ 1,173	\$ 1,188	\$ 1,159	\$ 1,397	\$ 1,198
Upward Bound AD&D	\$ 376	\$ 376	\$ 406	\$ 406	\$ 406
Brokerage	\$ 54,000	\$ 54,000	\$ 37,586	\$ 38,337	\$ 38,337
Total Commercial Insurance	\$3,059,149	\$2,661,338	\$2,817,158	\$2,986,419	\$3,886,608
GRAND TOTAL COST OF RISK	\$13,414,342	\$11,677,821	\$13,267,662	\$13,166,112	\$13,454,682

[1] Amount of Insurable property losses between \$10,000 and deductible.

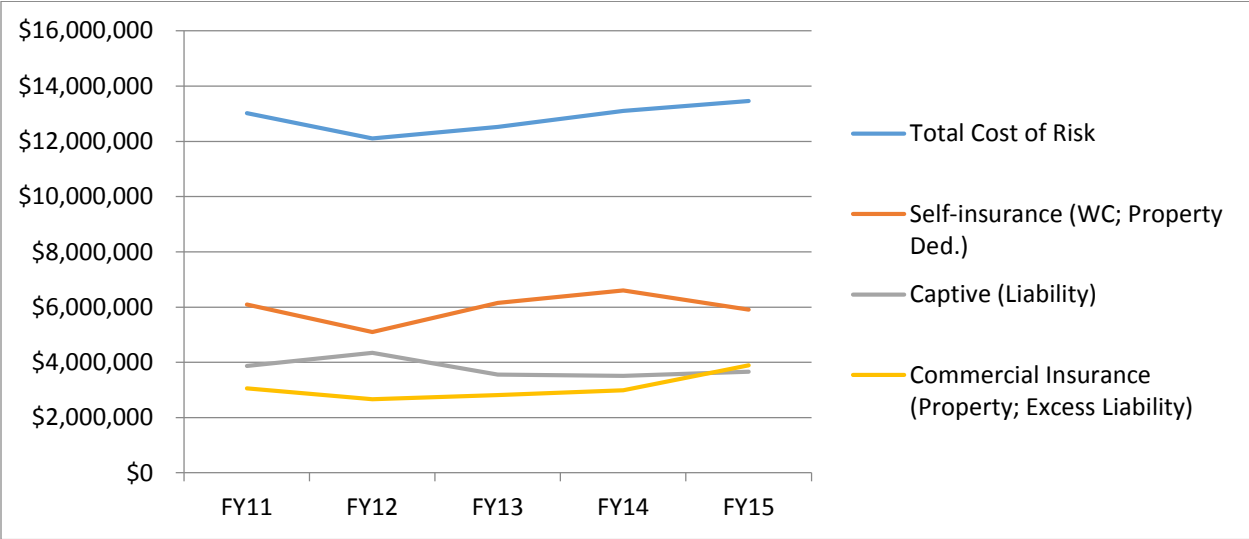
[2] EDP coverage is self-insured; figure shows losses excess \$500/claim.

Total Cost of Risk Summary

The University's Total Cost of Risk is the sum of:

- Self-Insured costs;
- Captive costs; and
- Commercial Insurance premiums.

Total Cost of Risk by Fiscal Year



Total Cost of Risk averaged \$12.7 million over the past five years.

FY16 Work Plan

Third Party Administrator

Our contract with Sedgwick CMS, who administer claims on our behalf for RUMINCO Liability and for Workers' Compensation, expires June 30, 2015. We will issue an open RFP and select a vendor for the next three years.

Property Insurance

We will introduce competition to the MHEC group property program.