Reported to the Board of Trustees
November 13, 2014

University of Illinois

Annual Financial Report

University Office of Risk Management

Liability, Workers' Compensation and Property Insurance Programs

Year Ended June 30, 2014

Table of Contents

UNIVERSITY OFFICE OF RISK MANAGEMENT

We are pleased to present the University Office of Risk Management's Annual Financial Report for the fiscal year July 2013 – 2014.

On June 30, 2014, the University Office of Risk Management, including the Office of Claims Management/Workers' Compensation, (collectively called "UORM") completed its 38th year administering the University's insurance programs. UORM was established at the direction of the University of Illinois Board of Trustees in 1976. Since its inception, UORM has strived to use effective risk management techniques while improving the delivery of our services in support of the university's mission. To accomplish these objectives we engage in planning, leading, organizing, coordinating, and controlling activities both before and after a loss occurs to minimize adverse effects, at a reasonable cost. In addition, UORM has the responsibility of carrying out the policies of the University of Illinois in matters relating to risk management and insurance, as well as administering the workers' compensation self-insurance program. UORM is a department within the Office of Treasury Operations and is located on the Urbana campus.

The University of Illinois has campus locations at Urbana-Champaign, Chicago and Springfield, and has branches of the Chicago-based health professions at Peoria, Rockford, Urbana, and the Quad Cities. The UI educates over 77,000 students per year and has continuing education centers in suburban and downstate Illinois, and University Extension offices in many of the state's 102 counties.

UORM assists senior leadership in identifying, quantifying, containing, and managing risk so that this institution can attain its objectives. In conjunction with appropriate campus groups, we coordinate the reduction of risk and the prevention of loss within prudently economic constraints, and then implement the most cost-effective risk solution. Risk may come from many sources.

Risk Events:

- Bodily injury, accidental death
- Terrorist threats and/or terrorist actions
- Property loss and/or loss of research data and specimens
- Loss of valuable collections, such as rare books and artwork
- Fraud and/or embezzlement
- Student suicide/murder/rape
- Minors on campus
- Cybercrime
- Disclosure of electronic information or personal data
- Regulatory fines or penalties and/or regulatory/legislative changes
- Employment practices claims such as sexual harassment or retaliation
- Contamination due to mishandled chemicals or radioactive materials

- Unethical use of human subjects in research
- Unexpected adverse medical outcomes
- Intellectual property infringement
- Inappropriate athletic recruiting
- Negative publicity/scandals, resulting in an inability to recruit top faculty and students
- Class action claims
- Interruption or loss of research funding
- Unanticipated increase in the cost of energy
- “Whistleblower” complaints
- Event cancellation
- Workplace safety issues
- Business disruption
- Natural disaster
- Pandemic
- Employee/student violence
- Plane/vehicular crash involving key personnel or an athletic team

The aforementioned list is not exhaustive and is only a sampling of the risk an institution as large and complex as the University of Illinois faces. UORM advises the institution on the pros and cons of either accepting, self-insuring or transferring potential liabilities for the aforementioned risks. Managing risk is critical.

Other duties assumed by UORM include:

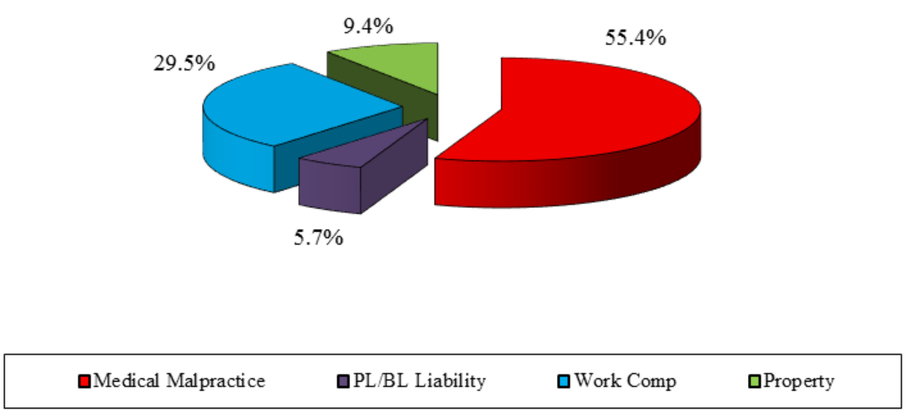
- Purchasing and maintaining competitively priced commercial insurance policies to complement the self-insurance program.
- Collecting exposure and claims data information.
- Issuing RFP’s for commercial insurance products and consulting services.
- Allocating and collecting internal assessments for insurance and funding requirements.
- Issuing certificates of insurance and evidence of self-insurance coverage.
- Negotiating and settling property losses.
- Processing legal expense payments for claims paid from self-insurance trust accounts.
- Analyzing alternative risk transfer and risk financing methods.
- Preparing an annual report for the Board of Trustees and required documentation for external, internal, and federal auditors.
- Serving on several claims committees, as well as in positions of leadership with various state, regional, and national insurance organizations.
- Developing cost containment and loss control programs and policies, in conjunction with campus units to address adverse trends in loss experience.
- Reviewing contract and lease language, including insurance requirements, indemnification, subrogation, and hold harmless clauses.
- Advocating for transitional and return to work options for injured employees.
- Acting as a resource to the University community on issues such as auto liability, use of waivers, contractual risk transfer, and professional liability.

MAJOR INSURANCE PROGRAMS AT A GLANCE
FY2014

Summarized below is a snapshot of the costs associated with the major programs that are discussed in this annual report.

At-a-Glance	By the Numbers
Medical Malpractice	Total funding need decreased roughly 8.2% or $2.81 million. **Total Funding: $31.4 million**
Public and Board Legal Liability	Total funding need increased roughly 3.4% or $106,700. **Total Funding: $3.2 million**
Workers' Compensation	Total funding need increased by 2 % or $355,000. **Total Funding: $16.8 million**
Commercial Property	Total funding need increased 7.6% or roughly $405,000. **Total Funding: $5.3 million**

FY2014 Program Costs - $56.7 million



MAJOR SELF-INSURANCE PROGRAMS

MEDICAL PROFESSIONAL AND HOSPITAL PROFESSIONAL & GENERAL LIABILITY

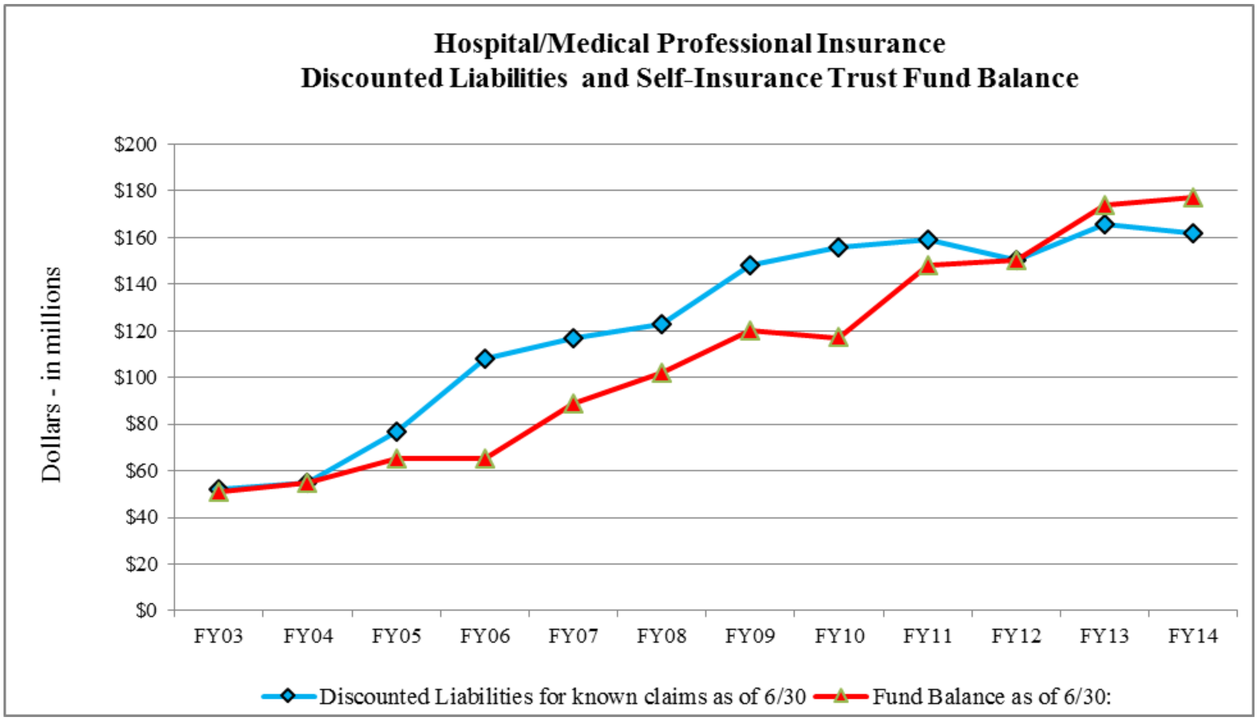
Medical professional liability insurance covers health professionals at the University of Illinois Medical Center at Chicago, the various Colleges of Health Professions, and all student health service centers. The University has been self-insured for medical professional/hospital liability since August 1976, because commercial coverage for teaching hospitals was not available at cost-effective rates. Since March 1981 the University has purchased commercial excess liability insurance to provide additional coverage limits above a large self-insured retention. The retention levels and the limits of coverage purchased have been influenced by availability in the insurance marketplace.

The University annually obtains an actuarial analysis of this self-insurance program. The report estimates the ultimate outstanding losses and expenses (liabilities) on a discounted basis at various confidence levels. The University uses the 60th percentile confidence level to determine its outstanding liabilities. This implies there is a 60% chance that the reserves will be adequate and a 40% chance that the reserves will prove to be inadequate. FY2014 liabilities, when compared to Plan assets, show a funding surplus of over $15 million. This surplus, amortized over five years, helps alleviate the funding need by $3.3 million. The actuarial firm also determines the amount needed to set aside for funding claims that occur during the new fiscal year. The combined total is the normal indicated funding contribution, which is roughly $30.2 million. Adding in the commercial excess insurance and administration costs brings the FY2014 total funding requirement to $31.4 million. This amount represents an 8.2% decrease from the prior year's requirement.

MEDICAL PROFESSIONAL LIABILITY

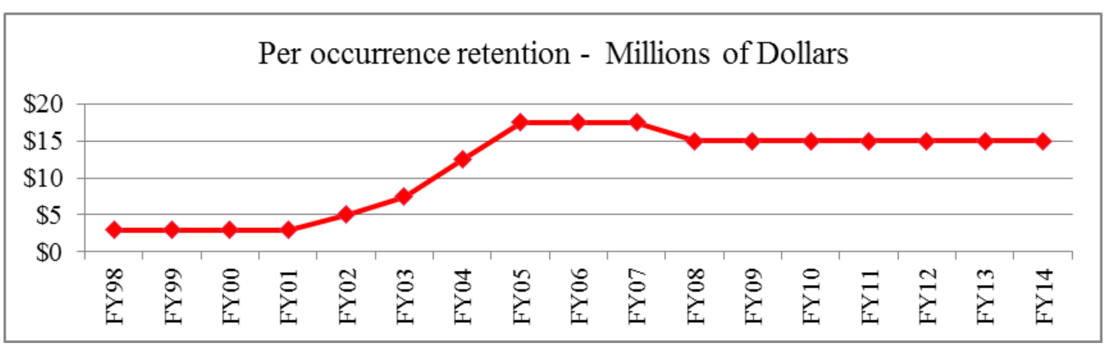
SELF-INSURANCE FUNDING INDICATED AT BEGINNING OF FY2014

	FY2014 Program Retention of $10.0 MM per Occurrence w/ $5.0/$5.0 MM buffer layer. $60 million limits.		**FY2013 Program** Retention of $10.0 MM per Occurrence w/ $5.0/$5.0 MM buffer layer. $60 million limits.	
	FY2014 Funding		**FY2013 Funding**	
Per Actuary:				
Discounted Liability for claims at June 30:	161,974,116		165,637,392	
Estimated Fund balance at June 30:	177,166,185		174,768,311	
Funding shortfall or (excess):	-15,192,069		-9,130,919	
Amortized shortfall in prior year funding...... **(.21997 factor)**		-3,341,891		-2,008,583
Funding required for Claims......		**30,208,860**		**31,313,520**
Normal Indicated Fund Contribution (total)		**26,866,969**		**29,304,937**
Plus:				
Cost of Excess Insurance		3,507,798		3,814,531
Legal/Risk Administrative Cost		1,049,303		1,119,136
Total Funding Need............................		**31,424,070**		**34,238,604**
Increase:	-8.2%	($2,814,534)	-8.3%	($3,088,508)



As the graph above shows Plan liabilities increased rapidly prior to FY2011, took a dip, and began increasing again in FY2013. In part, the reason for this dramatic growth is due to high settlements and verdicts, and the unpredictability of juries in Cook County. However, patient safety initiatives, aggressive litigation management, as well as success at trial have contributed to the deceleration in the growth of liabilities.

Because the commercial marketplace forced the University to assume higher retentions per claim it must set aside additional funding to pay a higher portion of the claims. To illustrate, in FY1998 the University assumed the first $3 million on a claim. For the past several years the University assumed the initial $10 million on the first claim. The University must then erode another $5 million, called a buffer layer, before dropping back to a retention of $10 million per claim thereafter.

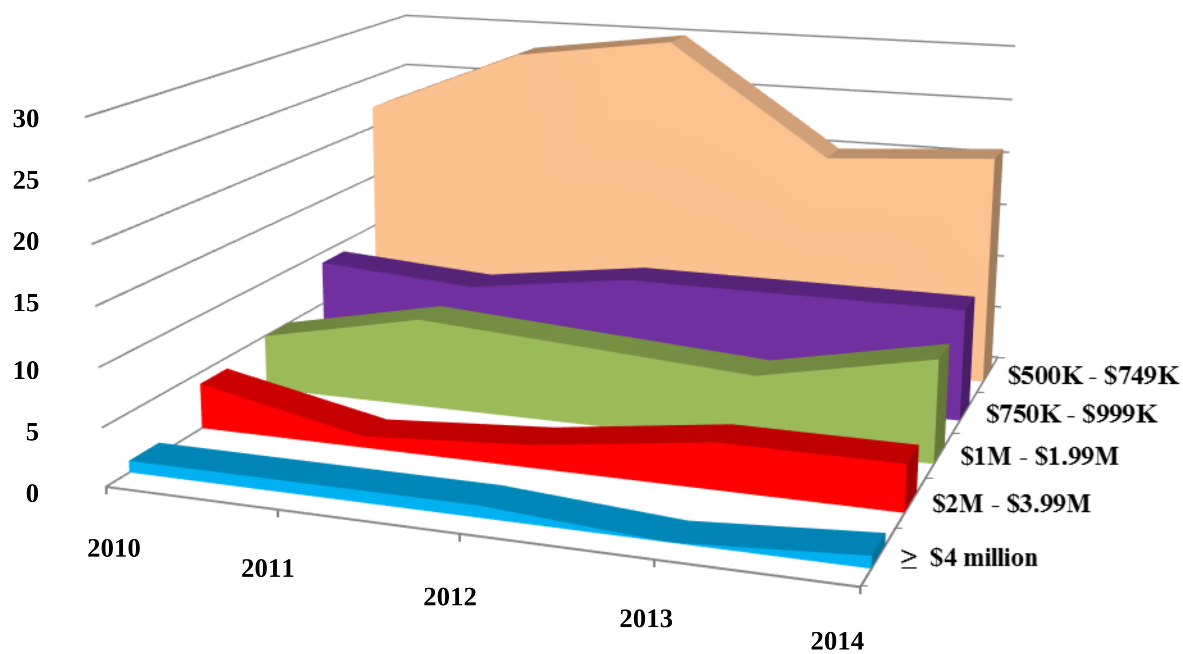


Beginning in 2010 UORM worked on a project designed to reduce the overall medical malpractice funding requirement. The focus was to limit the self-insurance trust's exposure to loss when clinicians practice at off-site locations, meaning locations not owned or controlled by the University. In June 2011, the Board of Trustees approved off-site insurance limits of $1 million per occurrence and $3 million per policy year, bringing limits of liability for those practicing off-site in line with what medical practitioners would have in independent practice. The new off-site limits became effective January 1, 2012. Beginning January 1, 2014 the University purchased $15 million in shared commercial excess coverage to provide additional limits of protection for the physicians practicing off-site. This coverage protects against claims above the University trust fund limits of $1 million per occurrence and $3 million per policy year.

Claims Reserved at $500,000 or Greater

# of Reserved Claims at June 30

Value	**2010**	**2011**	**2012**	**2013**	**2014**
≥ $4 million	1	1	1	0	1
$2M - $3.99M	4	1	2	4	4
$1M - $1.99M	5	8	7	6	9
$750K - $999K	9	8	10	10	10
$500K - $749K	22	28	30	20	21
	41	**46**	**50**	**40**	**45**



PUBLIC (GENERAL) LIABILITY and BOARD LEGAL (DIRECTORS' & OFFICERS' and EMPLOYMENT PRACTICES) LIABILITY

The Public Liability Self-Insurance Plan covers liability arising from University owned or controlled premises, as well as negligent acts of faculty and staff that result in property damage or bodily injury to a third party. In Illinois, a Tort Claims Act provides the means for citizens to recover damages from state agencies, and the Act requires claims made for certain torts be brought in the Illinois Court of Claims. In the Court of Claims there are caps on damages of $100,000 per person. Actions brought in the Circuit and Federal court system are not within the purview of the Illinois Court of Claims.

The Board Legal Liability Self-Insurance Plan covers the University's liability arising from alleged civil rights violations, discrimination, ADA violations, wrongful termination, and other claims that may be filed in the Federal or State Court systems. In addition, coverage extends to directors, officers, and employees who may be individually named in these claims.

The University's Public Liability and Board Legal Liability Self-Insurance Plans were established in August 1976. Since 1990 both the Public Liability and Board Legal Liability Self-Insurance Plans have been supplemented by the purchase of commercial excess insurance above the University's self-insured retention. The retention levels and the limits of coverage purchased have been influenced by availability in the insurance marketplace.

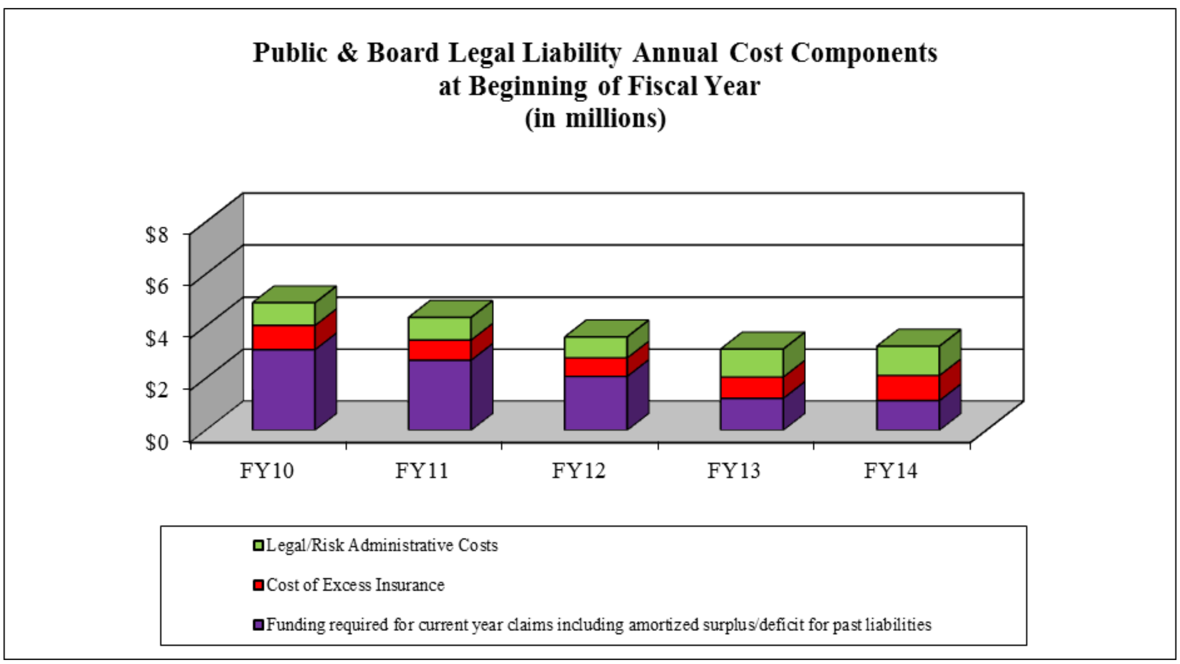
The University annually obtains an actuarial analysis of its Public Liability and Board Legal Liability Self-Insurance Plans. The analysis estimates the ultimate outstanding losses and expenses (liabilities) on a discounted basis at various confidence levels. The University uses the 75^{th} percentile confidence level to determine its outstanding liabilities. Funding for liabilities is adjusted to smooth contributions using a five-year amortization of fund surpluses or deficits. When compared to the Plan assets there is a funding surplus of approximately $14.3 million, representing $3.1 million when amortized over five years. The actuarial firm also determines the amount needed to set aside for funding claims that occur during the new fiscal year. The combined total is the normal indicated funding contribution, which is roughly $1.14 million. With the cost of commercial excess insurance and administration added, the total FY2014 funding requirement is approximately $3.2 million. This amount represents an increase of roughly $106,000 over the prior year. The costs associated with these two programs have stabilized over the past few years and we are cautiously optimistic that this is a trend and not an anomaly.

The incidences of claims from employment practices have been increasing both nationally and locally. In recent years the University has focused greater attention on training and mediation as means to avoid expensive and protracted litigation. We have experienced a stabilization of costs, in large part due to the increased focus on loss prevention and mitigation.

PUBLIC AND BOARD LEGAL LIABILITY

SELF-INSURANCE FUNDING INDICATED AT BEGINNING OF FY2014

	FY2014 Program Retention of $500,000 per Occurrence for Board Legal; $500,000 per Occurrence for Public Liability		**FY2013 Program** Retention of $500,000 per Occurrence for Board Legal; $500,000 per Occurrence for Public Liability	
	FY2014 Funding		**FY2013 Funding**	
Per Actuary:				
Discounted Liability for claims at June 30:	18,903,122		19,010,898	
Estimated Fund balance at June 30:	33,171,660		34,012,107	
Funding shortfall or (excess):	-14,268,538		-15,001,209	
Amortized shortfall in prior year funding…… (.21997 factor)		-3,135,631		-3,305,742
Funding required for Claims……		**4,278,214**		**4,536,830**
Normal Indicated Fund Contribution (total)		**1,142,583**		**1,231,088**
Plus:				
Cost of Excess Insurance (estimated at July 1)		965,390		817,085
Legal/Risk Administrative Cost		1,121,960		1,075,057
Total Funding Need………………………		**3,229,933**		**3,123,230**
Increase:	3.4%	$106,703	-12.9%	($463,310)



WORKERS' COMPENSATION INSURANCE

Workers' Compensation and Employers Liability insurance is designed to provide a satisfactory way to address the medical and economic aspects of employment-related injuries. Workers' Compensation insurance is not based on the legal concept of negligence, but pays without regard to who is at fault, as long as the injury or occupational illness arises out of and in the course and scope of employment. Workers' Compensation insurance includes four types of benefits – disability (loss of income), medical, rehabilitation, and survivor (death).

The University has been self-insured for its Workers' Compensation liabilities since 1918. The Workers' Compensation exposure is funded through three mechanisms - state appropriation, "recovery" accounts, and payroll assessments. With the exception of a single year in the 1970's the University has not purchased commercial excess coverage for its Workers' Compensation Self-Insurance Plan.

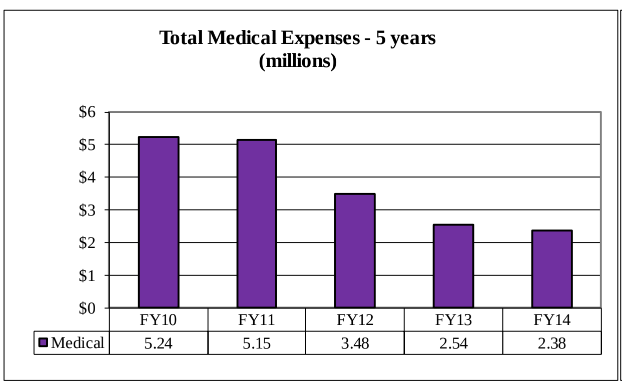
An annual state appropriation provides funding for claims of injured employees whose wage sources are state funds. Payroll assessments provide the funding for claim payments for injured employees whose wage sources are "local" or "grant/gift" accounts. Separate claim payment accounts are maintained for state, auxiliary, and trust wage sources at each of the campuses. A separate trust account is maintained for the UIC hospital exposure. In addition, "recovery funds" were established in the early 1990's as an incentive for loss prevention. Because the employing department is charged 49% of the cost for wages and settlements paid by workers' compensation funds, they have an incentive to return employees to work as soon as possible. The accumulated funds now serve as the source of funds if the state appropriation runs out.

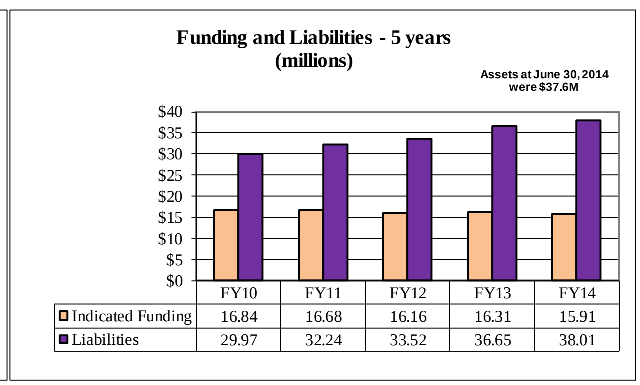
The University annually obtains an actuarial analysis of its Workers' Compensation Self-Insurance Plan. The report estimates the ultimate outstanding losses and expenses (liabilities) on a discounted basis at various confidence levels. The University uses the 75th percentile confidence level to determine its outstanding liabilities. Funding for liabilities is adjusted to smooth contributions using a five-year amortization of fund surpluses or deficits. When compared to the Plan assets there is a funding shortfall of roughly \$3.3 million, representing an amortized amount of about \$700,000. The actuarial firm also determines the amount needed to set aside for funding claims that occur during each new fiscal year. The combined total is the normal indicated funding contribution of \$15.9 million. With the cost of administration added the total FY2014 funding requirement is approximately \$16.8 million. This amount represents a \$355,000 decrease from the prior year funding requirement, or roughly 2%.

WORKERS' COMPENSATION

SELF-INSURANCE FUNDING INDICATED AT BEGINNING OF FY2014

	FY2014 Program		FY2013 Program	
	FY2014 Funding		**FY2013 Funding**	
Per Actuary:				
Discounted Liability for claims at June 30:	38,011,647		36,652,831	
Estimated Fund balance at June 30:	34,670,398		28,410,315	
Funding shortfall or (excess):	3,341,249		8,242,516	
Amortized shortfall in prior year funding……		728,334		1,796,726
(.221968 factor)				
Funding required for Claims……		**15,185,290**		**14,511,615**
Normal Indicated Fund Contribution (total)		**15,913,624**		**16,308,341**
Plus:				
Cost of Excess Insurance		N/A		N/A
Legal/Risk Administrative Cost		838,502		798,931
N/A = do not purchase				
Total Funding Need………………………		**16,752,126**		**17,107,272**
Increase:	-2.1%	-$355,146	0.9%	$149,497





It is notable that the cost of medical payments has decreased over 100% since FY2010. In part this is due to the use of an external medical bill review firm, which scrutinizes bills for errors and reviews them for relevance and medical necessity. In addition, there has been a flattening of indicated funding, which substantiates continuing efforts to improve early return-to-work policies and programs.

Sources and Uses of Funds during Fiscal Year 2014

All of the self-insurance trust funds have these common elements:

- Fund contributions made to the self-insured trust
- Investment income
- Excess insurance company recoveries (if any)

Less the following expenditures:

- Settlements (indemnity payments)
- Legal fees and expenses
- Excess insurance company premium (if any)
- Cost of administration (Legal Counsel and UORM)

MEDICAL PROFESSIONAL LIABILITY
Sources and Uses of Funds during Fiscal Year 2014 and for the Period FY91-14
(in millions)

		FY14		FY91-FY14	
Beginning Fund Balance:		$181.7		$39.3	
Sources:					
	Fund Contributions	30.7	87%	510.5	87%
	Investment Income	0.7	2%	52.8	9%
	Quasi-Endowment G/L	3.8	11%	7.9	1%
	Insurance Recoveries	0.0	0%	16.7	3%
		$35.2	100%	$588.0	100%
Uses:					
	Legal & Indemnity payments	6.2	53%	323.1	77%
	Excess Insurance costs	4.5	38%	77.3	18%
	Administrative costs	1.0	9%	21.7	5%
		$11.7	100%	$422.1	100%
Ending Fund Balance at 6/30/2014:		$205.2		$205.2	
Discounted Liabilities at 6/30/2014:		$154.8			
Funding shortfall/excess:		$50.4			

Note: Rounding differences may account for slight discrepancies in totals

For the period ending 6/30/2014 there was a 4.3% decrease in medical professional liabilities (discounted) from prior year. Estimated liabilities at period ending 6/30/2014 were $155 million compared to $162 million at period ending 6/30/2013. For the period ending 6/30/2014, liabilities compared to Plan assets resulted in a funding excess of $50.4 million.

PUBLIC & BOARD LEGAL LIABILITY

Sources and Uses of Funds during Fiscal Year 2014 and for the Period FY91-14

(in millions)

		FY14		FY91-FY14	
Beginning Fund Balance:		$33.8		$6.0	
Sources:					
	Fund Contributions	3.2	66%	87.1	81%
	Investment Income	1.0	20%	15.8	15%
	Quasi-Endowment G/L	0.7	13%	1.6	2%
	Insurance Recoveries	0.0	0%	3.6	3%
		$4.9	100%	$108.1	100%
Uses:					
	Legal & Indemnity payments	2.1	47%	57.5	72%
	Excess Insurance costs	1.2	27%	12.7	16%
	Mediation training	0.0	0%	0.1	0%
	Administrative costs	1.1	26%	9.6	12%
		$4.4	100%	$79.9	100%
Ending Fund Balance at 6/30/2014:		$34.3		$34.2	
Discounted Liabilities at 6/30/2014:		$18.9			
Funding shortfall/excess:		$15.4			

Note: Rounding differences may account for slight discrepancies in totals

For the period ending 6/30/2014 there were excess funds in the public and board legal liability trust accounts of roughly $15.4 million. As stated earlier, we have seen a flattening of overall program costs; however, we continue to keep a close eye on new claims that may adversely impact the program in the future.

• • • • • • • • • • • • • • • • • •

In the Workers' Compensation trust accounts, there was an overall funding shortfall of $1.1 million, which is an improvement over prior year. The ending fund balance totals $35.7 million at year-end, compared to a balance of $10 million in FY2006.

As stated earlier, due to rising Workers' Compensation costs the employing department is assessed a "recovery" or "charge-back" for 49% of wage replacement, and 49% of settlement expenses. These charges are assessed to "state" and "auxiliary" wage sources. In addition, claim payments recovered from negligent third-parties (subrogation) are deposited in the "recovery" accounts. The "recovery" program serves as an incentive for units to initiate safety programs that prevent injuries, and to return injured employees to modified work on a timelier basis.

WORKERS' COMPENSATION

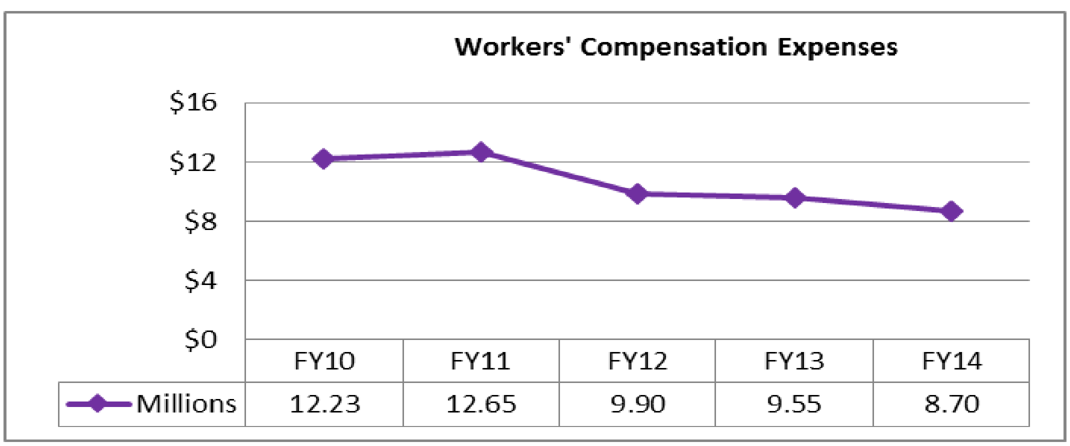
Sources and Uses of Funds during Fiscal Year 2014 and for the Period FY91-14

(in millions)

	FY14		FY91-FY14	
Beginning Fund Balance:	$32.6		$0.5	
Sources:				
State Appropriation	6.8	58%	87.8	44%
Returned State Appropriation	-1.9	-16%	2.2	1%
AAMT Funding	0.0	0%	13.5	7%
Auxiliary and Trust Contributions	5.1	43%	58.7	30%
Investment Income	0.1	1%	5.7	3%
Recovery/Chargebacks	1.7	14%	30.4	15%
	$11.8	100%	$198.3	100%
Uses:				
Legal/Medical/Wage & Indemnity payments	7.9	90%	147.5	90%
Loss Control/Safety Programs	0.0	0%	0.2	0%
Miscellaneous	0.0	0%	0.7	0%
Administrative Costs	0.8	10%	14.6	9%
	$8.7	100%	$163.0	100%
Ending Fund Balance at 6/30/2014:	$35.7		$35.8	
Discounted Liabilities at 6/30/2014:	$36.8			
Funding shortfall/excess:	($1.1)			

Note: Rounding differences may account for slight discrepancies in totals

For the period ending 6/30/2014 total Workers' Compensation expenses (legal, medical, wage, and indemnity payments) have decreased 29% since FY2010.



COMMERCIAL PROPERTY AND
SELF-INSURED PROPERTY PROGRAM

The University, along with the other members of the Illinois Public Higher Education Cooperative (IPHEC) purchasing group, procures its property insurance through the Midwestern Higher Education Compact (MHEC). While policy coverage terms are determined on a group basis, each participating university has its own basic coverage limits. Excess limits are purchased at the option of each participating university.

Property insurance protects the University's buildings and contents from direct physical loss or damage. Perils covered include fire, windstorm, hail, smoke damage, explosion, theft, flood, and earthquake. The policy is written on a scheduled basis to cover buildings and contents and includes business income and expense (including tuition & fees), as well as builder's risk. The policy includes flood and earthquake coverage for all buildings, but coverage sub-limits of $100 million apply for both flood and earthquake losses. In addition to the policy flood limit, buildings and contents in the Boneyard flood plain are subject to a further sub-limit of $50 million with a $1 million deductible. All campus buildings have boiler and machinery coverage.

By far the biggest change we have experienced in recent years is the increase in deductible, or retention per loss. For well over a decade, the University had a $10,000 per occurrence deductible on its auxiliary facilities system buildings, as well as buildings covered by bond issue or built with donor funds. All other buildings were insured with a $500,000 per occurrence deductible. Beginning July 1, 2003 *all* University buildings are now insured on a blanket basis with a $500,000 deductible per occurrence. The single exception is for buildings under construction, which are subject to a $100,000 deductible. Buildings financed by bond issue; auxiliary enterprise buildings; gift-buildings; etc. are referred to as Schedule I. Academic buildings are referred to as Schedule II.

In FY2004 the University established a Property Insurance Deductible Self-Insurance Plan to provide funding for losses to Schedule I buildings and contents that fall between $25,000 and $500,000. In the event of a loss, Schedule I properties will pay $25,000 and the University's Property Self-Insurance Plan will fund the difference. Schedule II buildings have historically had a $500,000 per occurrence deductible. Beginning FY2008 UORM began setting aside funds for a Property Self-Insurance Plan for academic buildings to be used to pay some portion of the $500,000 deductible.

The University also insures its library collections, and purchases a rare books and fine arts insurance policy to insure the valuable contents of the Krannert Art Museum (KAM), Spurlock Museum, and the University main library's special collections and rare books. The cost is divided between the campus, the main library, Spurlock, and KAM.

REAL & PERSONAL PROPERTY COVERAGE

FY2014

Policy Term: 7/1/13 to 7/1/14

COVERAGE'S	VALUES	DEDUCTIBLE
SCHEDULE I (AFS, Gift, and Bond Financed Buildings/Contents Business Income, Boiler & Machinery)	$4,792,060,307	$500,000
SCHEDULE II (Academic Buildings only, including Boiler & Machinery, Library Books)	$9,904,220,030	$500,000
TOTAL INSURED VALUES	**$14,696,280,337**	

COMMERCIAL INSURANCE	LIMITS
Primary Layer	$ 100,000,000
Excess $400 million	$ 400,000,000
Excess $500 million	$ 500,000,000
Excess $500 million	$ 500,000,000
Excess $250 million	$ 250,000,000
TOTAL COMMERCIAL COVERAGE PURCHASED	$1,750,000,000

TOTAL PROGRAM COST **$ 5,303,491***

*Cost of risk transfer to commercial carrier - $3.09 million.

EXCESS INSURANCE CARRIERS FY2014

Medical Professional/Hospital Professional
For FY2014 the University purchased a claims-made policy with Zurich American Insurance Company with a $10 million per occurrence retention, $5/$5 million "buffer/inner aggregate" layer, and no aggregate stop loss protection. For any claim or claims that exceed the $10 million self-insurance retention the University assumes the financial responsibility for up to an additional $5 million. Should the University exhaust the $5 million inner aggregate, Zurich will cover claims costs for any remaining claims that exceed $10 million. We annually review self-insured retention levels with our consulting actuary, Milliman, to ensure the cost of risk transfer is less than the cost to assume the financial risk within the self-insurance trust fund.

Total limits of liability purchased are $60 million above the self-insured retention, with Zurich providing $25 million, and CNA and Ironshore providing the remaining $35 million of liability coverage. Defense costs are not included within the layers of commercial insurance coverage.

Public and Board Legal Liability
For FY2014 the University purchased commercial excess insurance from AIG, an insurance company known for insuring higher education institutions. FY2014 is the eighth year we have been insured with them. The University purchases public liability insurance with a $10 million per occurrence limit and $19.5 million general aggregate, subject to a $500,000 self-insured retention. In addition, the University purchases board legal liability insurance with a $15 million occurrence/aggregate limit, subject to a $500,000 self-insured retention. Defense costs are included within each policy's limits of liability.

Cyber Liability and Breach Response
Beginning January 1, 2014 the University began purchasing cyber liability and breach response insurance through Beazley Insurance, a Lloyd's of London Company, in the amount of $10 million with a $500,000 self-insured retention. Defense costs erode the limit of liability.

Property Insurance
For FY2014 the University purchased property insurance through the Midwestern Higher Education Compact (MHEC). Lexington Insurance Company provided the primary layer of insurance ($100 million), and various carriers provided excess layers totaling $1.75 billion. The deductible is $500,000 per occurrence except for specified buildings under construction, in which case the deductible is $100,000. Beginning in FY2008, the University began requiring the contractors on capital projects to carry builders risk insurance in order to provide pricing stability in the overall property program.

EXCESS INSURANCE COSTS FY2015

Medical Professional/Hospital Professional
For FY2015 total limits of liability purchased are $60 million above the self-insured retention, with Zurich providing $25 million. AIG and Endurance American provide the next $35 million of liability coverage. Defense costs are not included within the layers of commercial insurance coverage.

Cost of Risk Transfer: $2,833,771

Public, Board Legal and Cyber Liability
For FY2015, Public and Board Legal Liability insurance is purchased through AIG Insurance Company:

Public Liability - $10,000,000. Defense costs are covered as a separate reimbursement above the $10,000,000 policy limit.

Board Legal Liability - $15,000,000. Defense costs are not covered as a separate reimbursement, meaning the costs of defense erode the $15,000,000 limit.

Cyber Liability - $10,000,000. Defense costs are not covered as a separate reimbursement, meaning the costs of defense erode the $10,000,000 limit.

Cost of Risk Transfer: $1,296,943

Property Insurance
For FY2015, total limits of liability purchased are $1.75 billion purchased through the Midwestern Higher Education Compact (MHEC). AIG and Zurich Insurance Companies provide the primary layer of insurance ($100 million) through a quota-share arrangement. Various other commercial insurers provide the excess layers.

Cost of Risk Transfer: $2,979,351

GLOSSARY OF TERMS

ADMINSTRATIVE COSTS – In this document, this refers to costs for University Risk Management and University Legal Services provided to administer the insurance programs.

AGGREGATE LIMIT – Indicates the amount of coverage the insured has under the policy/contract for a specific period of time, usually the policy/contract period, no matter how many separate accidents might occur.

CLAIMS MADE POLICY – Refers to a policy that covers claims only if they are “made” during the policy period. This coverage trigger is what causes the “tail” liability exposure for claims that have occurred, but have not been reported.

DISCOUNTED LIABILITIES – Refers to the present value of further expected payout or liabilities.

EXCESS INSURANCE – Refers to a policy covering the insured against certain hazards and applying only to loss or damage in excess of a stated amount.

EXCESS INSURER’S – Refers to insurance companies who provide insurance protection over sizable retentions, or deductibles. They price their insurance product under the assumption most claims will fall below their point of attachment.

EXCESS OF LOSS REINSURANCE – Triggered if the loss suffered by the insurer or self-insurer exceeds a set amount, called the retention.

EXPOSURE - Estimate of the probability of loss from some hazard, contingency or circumstance.

HAZARD - The conditions that may create or increase the probability of a loss from a given peril.

HOLD HARMLESS AGREEMENT - A contract under which one party to the contract assumes the legal liability of the other party.

INCURRED LOSSES – Refers to the total of all losses occurring within a fixed period.

INCURRED BUT NOT REPORTED (IBNR) – refers to the technique of assigning claim values for claims which are assumed to have occurred, based on past claim history, but which have not yet been reported.

INDEMNIFY – To hold harmless against loss or damage.

INDEMNITY – In this document, the word indemnity is used interchangeably with settlement, and is used to reference a claim payment the U of I makes a claimant, or plaintiff.

IN FORCE – Amount of insurance coverage or the face amount of the policies that an insurer has underwritten.

INSURANCE - The contractual relationship that exists when one party, called the insurer, for a consideration, called a premium, agrees to reimburse another, called the insured, for loss on a specified type of coverage. Commercial insurance is purchased by an insured to transfer financial risk to the insurer.

LEGAL EXPENSES – In this document, legal expenses refer to fees paid to outside law firms for claims brought against the University, and/or employees or agents, as defined in the University’s Self-Insurance Plan document. A legal expense also includes other expenses related to the defense of a claim, such as court reporting costs or the subpoena fees.

LEGAL LIABILITY - Liability imposed by law.

LIABILITY - Any legally enforceable obligation.

LIMITS OF LIABILITY – The limit of liability is the maximum sum of money which the insurance company, or self-insurer, agrees to pay under the policy in the event of a covered loss.

LONG-TAIL LINES – Colloquialism describing an insurance coverage that has a lengthy period between the occurrence and final settlement of a claim. Types of long-tail insurance lines include medical malpractice, professional liability, and workers' compensation.

LOSS RATIO – The ratio of incurred losses and loss adjustment expenses (LAE) to net premiums earned.

LOSS RESERVES – In this document, liabilities established to pay anticipated claim costs and expenses associated with settling claims.

MALPRACTICE – Alleged professional misconduct or lack of skill in the performance of a professional act.

NEGLIGENCE – The failure to use the degree of care an ordinary person would use under given circumstances. Negligence may be constituted by acts of omission, commission, or both.

OCCURRENCE POLICY - Refers to a policy that covers claims that occur during the policy period.

POLICY – the term "policy" is also called the insurance policy or contract.

REINSURANCE – The process by which an insurance company protects itself against excessive loss by reinsuring a part of its risks with other companies and paying such sharing companies a portion of the premium it receives.

REPLACEMENT COST – The replacement value of damaged property is paid without deduction for depreciation.

RETENTION – Refers to the net amount of risk retained on a given risk. The term "retention" applies on high excess programs, whereas the term "deductible" is used on programs where little financial risk is assumed.

RISK – The term "risk is used most commonly to denote the subject matter of insurance, i.e. the object of an underwriter's attention. A home, a building, or a driver of a car may be referred to as a risk. In addition, the term "risk", in the academic sense, may be used to refer to the uncertainty of financial loss. In this sense, risk is the uncertainty or chance of loss.

TAIL – also known as an "Extended Reporting Policy endorsement". On claims-made policies, the "tail" refers to the exposure for claims that have occurred, but are not known. When moving from one claims-made policy to another one of two things needs to occur. Either the effective date of the new claims-made policy must have a retroactive date, which should coincide with the effective date of the first claims-made policy issued to the insured, or the insured needs to purchase the "tail" endorsement. Either is designed to prevent gaps in coverage based on when claims are reported.

TORT – a wrong; a private or civil wrong or injury resulting from a breach of a legal duty that exists by virtue of society's expectations regarding interpersonal conduct, rather than by contract or other private relationship. There are many kinds of torts, each with different elements, but they can be generally classified into three groups: those involving intent, negligence, or strict liability. The essential elements of a tort are the existence of a legal duty owed by a defendant to a plaintiff; a breach of that duty; and a causal relationship between the defendant's conduct and the resulting damage to the plaintiff.

UNDERWRITING – Refers to the function of securing and evaluating information, and making decisions to accept or reject risks.

WORKING LAYER – An underwriting term referring to the dollar amount the insured retains, and where excess insurance sits above it. In excess liability policies, particularly malpractice, the excess insurer wants to have their coverage sit well in excess of where claims frequently settle.

For additional copies, please contact:
University Office of Risk Management
506 S. Wright Street, Room 247 Henry Administration Bldg.
Urbana, IL 61801
(217) 333-3113
http://www.treasury.uillinois.edu/risk_management