Reported to the Board of Trustees
November 15, 2018

UNIVERSITY OF ILLINOIS SYSTEM

Office of Risk Management Annual Financial Report

Fiscal Year Ending June 30, 2018

Table of Contents

Introduction……………………………………………………………………………3-4

At-a-Glance…………………………………………………………...………………5

Major Self-Insurance Programs..……………………………………….….………….

Medical Malpractice……………………………………….……………6-8

Public and Board Legal……………………………...........…..........9-10

Workers' Compensation……………………………………............11-12

Sources and Uses of Funds………………………………………………13-15

Property Program……………………………………………………...........16-17

Excess Insurance Carriers and Cost……………………………………....................18

Glossary of Terms………….…………………………...…………………………19-21

Introduction

We are pleased to present the University of Illinois System Office of Risk Management Annual Financial Report for the 2018 fiscal year. All data in the report is as of June 30, 2018, unless noted otherwise.

The Office of Risk Management was established at the direction of the Board of Trustees in 1976 to administer the University of Illinois Liability Self-Insurance Plan ("Plan"). The Plan covers exposures for medical professional/hospital liability, public (general) liability, and board legal liability. Coverage under the Plan is subject to the terms and conditions as set out in the Plan document.

On June 30, 2018, the Office of Risk Management, including the Office of Claims Management/Workers' Compensation, (collectively called "RISK") completed its 42nd year administering the system's insurance programs. Since its inception, RISK has endeavored to use effective risk financing techniques while continually improving the delivery of our services in support of the system's mission. To accomplish these objectives we consult on relevant insurance matters before and after a loss occurs to protect the system's assets and operations. In addition, RISK has the responsibility of carrying out the policies of the University of Illinois in matters relating to risk financing and insurance, as well as administering the workers' compensation self-insurance program. The RISK office is a department within the Office of Treasury Operations and is located in Urbana, Illinois.

The following is a non-exhaustive list of events that could pose financial or reputational risk to the system:

Risk Events:

- Bodily injury, accidental death
- Terrorist threats and/or terrorist actions
- Property loss, or loss of valuable collections such as rare books and artwork, and/or loss of research data and specimens
- Cybercrime and/or disclosure of electronic information or personal data
- Natural disasters
- Employee dishonesty such as fraud and/or embezzlement
- Student suicide/murder/rape
- Minors on campus
- Regulatory fines or penalties and/or regulatory/legislative changes
- Employment practices claims such as sexual harassment or retaliation (Whistleblower complaints)
- Unexpected adverse medical outcomes
- Negative publicity/scandals, resulting in an inability to recruit top faculty and students
- Interruption or loss of research funding
- Workplace safety issues

The aforementioned list is a sampling of the risk an institution as large and complex as the University of Illinois System faces. The RISK office provides advice to system leadership on the pros and cons of either accepting, self-insuring or transferring potential liabilities for the aforementioned risks. However, managing operational risk is the responsibility of leadership at the Universities and the UI Health enterprise.

Duties assumed by RISK include:

- Purchasing and maintaining competitively priced commercial insurance policies to complement the self-insurance program. In addition to the major programs of insurance RISK manages between forty and fifty miscellaneous policies that includes Aviation, Crime, Fine Arts, Equipment, etc.
- 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 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 committees, as well as in positions of leadership with various state, regional, and national insurance organizations.
- Advising on cost containment, loss control programs, and policies, to assist system units in addressing 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

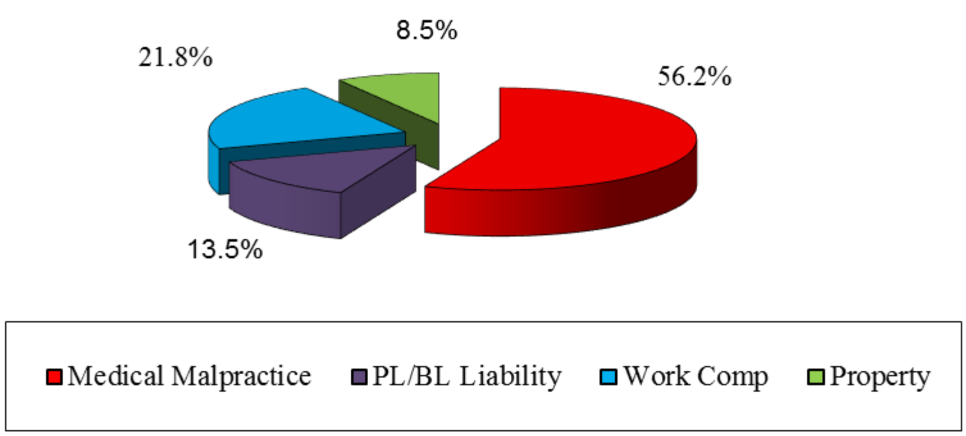
FY2018

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

Programs and Limits	Funding
Medical Malpractice $10M SIR* with a Buffer of $5M $60M Excess Commercial Insurance	Total funding need decreased roughly 3.3% or $800,000. **Total Funding: $22.5 million**
Public, Board Legal Liability Public Liability: $500K SIR*, $10M Excess Commercial Insurance, $4.5M Self Insurance Board Legal: $1M SIR*, $15M Excess Commercial Insurance, $4M Self Insurance	Total funding need increased roughly 4.8% or $250,000. **Total Funding: $5.4 million**
Workers' Compensation Statutory requirements fully self-insured Employers' Liability limit $1M	Total funding need decreased by 10 % or $1.0 million. **Total Funding: $8.8 million**
Commercial Property $500K deductible $1.75B excess commercial insurance per occurrence limit	Total funding need decreased by 2.8% or roughly $100,000. **Total Funding: $3.4 million**

*Self-Insured Retention

FY2018 Program Costs - $40.1 million



Medical Professional and Hospital Professional & General Liability

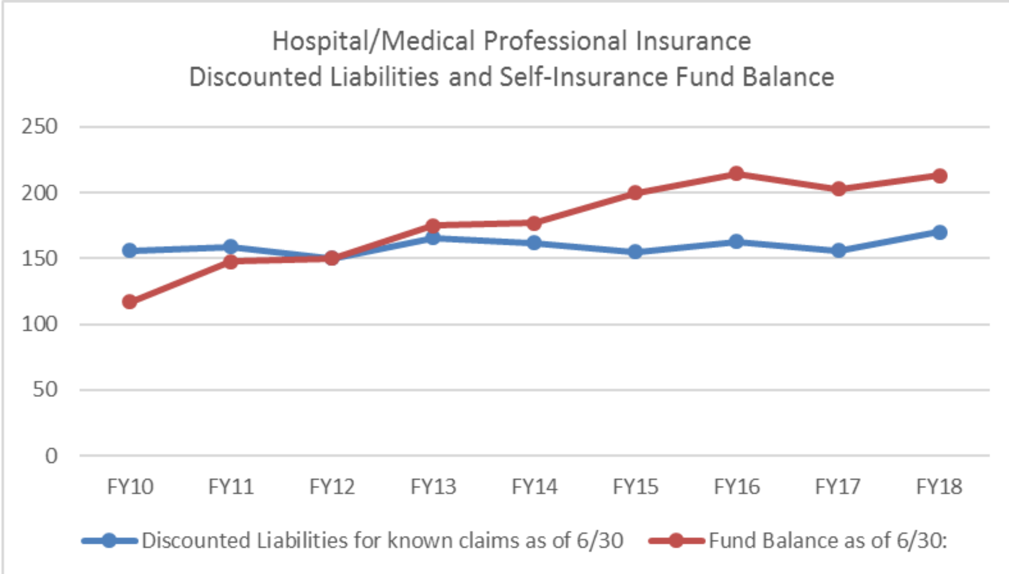
Medical professional liability insurance covers health professionals at the University of Illinois Hospital and Health Sciences System at Chicago, the various Colleges of Health Professions, and all student health service centers. The system has been self-insured for medical professional/hospital liability since August 1976 because commercial coverage for teaching hospitals was not available at cost-effective rates. Since March 1981, the system 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. $60 million of excess insurance was purchased during FY18.

The system 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 system 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. FY2018 liabilities, when compared to Plan assets, show a funding surplus of $43 million. This surplus, amortized over five years, helps alleviate the funding need by $9.4 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 $19.2 million. Adding in the commercial excess insurance and administration costs brings the FY2018 total funding requirement to $22.5 million. This amount represents a 3.3% decrease from the prior year's requirement.

MEDICAL PROFESSIONAL LIABILITY

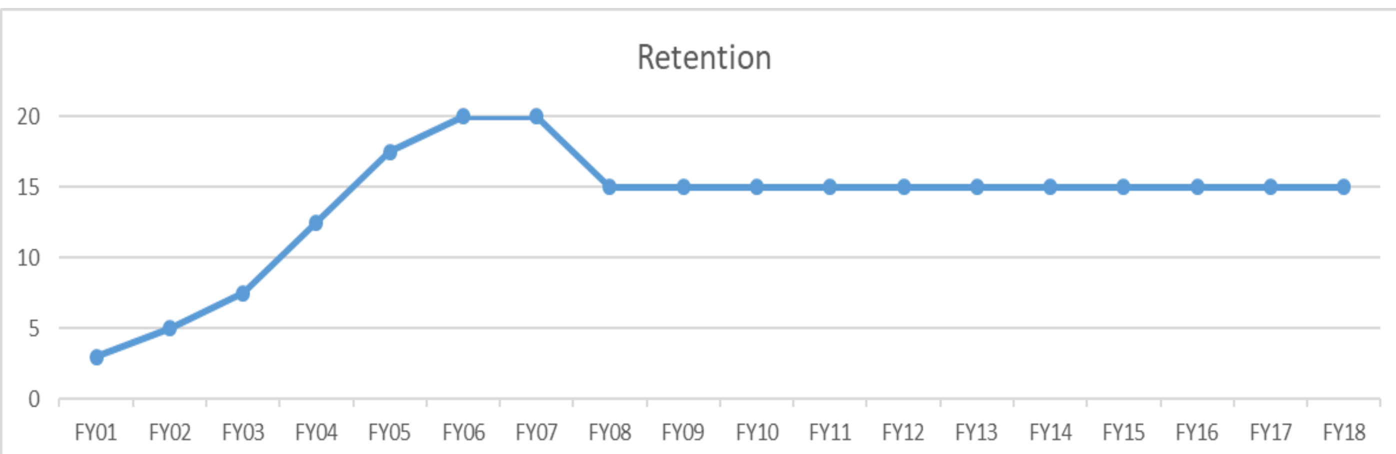
SELF-INSURANCE FUNDING PROJECTED AT BEGINNING OF FY2018

	FY2018 Program Retention of $10.0 MM per Occurrence w/ $5.0/$5.0 MM buffer layer. $60 million limits.		**FY2017 Program** Retention of $10.0 MM per Occurrence w/ $5.0/$5.0 MM buffer layer. $60 million limits.	
	FY2018 Funding		**FY2017 Funding**	
Per Actuary:				
Discounted Liability for claims at June 30:	170,394,791		156,488,679	
Estimated Fund balance at June 30:	213,411,787		203,267,630	
Funding shortfall or (excess):	-43,016,996		-46,778,951	
Amortized shortfall in prior year funding...... (.21798 factor)		-9,376,949		-10,103,674
Funding required for Claims......		**28,619,660**		**29,999,359**
Normal Indicated Fund Contribution (total)		**19,242,711**		**19,895,685**
Plus:				
Cost of Excess Insurance		2,345,238		2,448,938
Legal/Risk Administrative Cost		980,038		1,000,005
Total Funding Need...........................		**22,567,987**		**23,344,628**
Increase/Decrease:	-3.3%	($776,641)	2.0%	$449,728



As the graph above indicates, liabilities have remained remarkably consistent over the past ten years. Patient safety initiatives, aggressive litigation management, as well as success at trial have contributed to these positive results.

Because the commercial marketplace forced the system to assume higher retentions per claim it must set aside additional funding to pay a higher portion of the claims. To illustrate, in FY2001 the system assumed the first $3 million on a claim. For over the past decade the system has assumed the initial $10 million on the first claim. The system must then erode another $5 million, called a buffer layer, before dropping back to a retention of $10 million per claim thereafter.

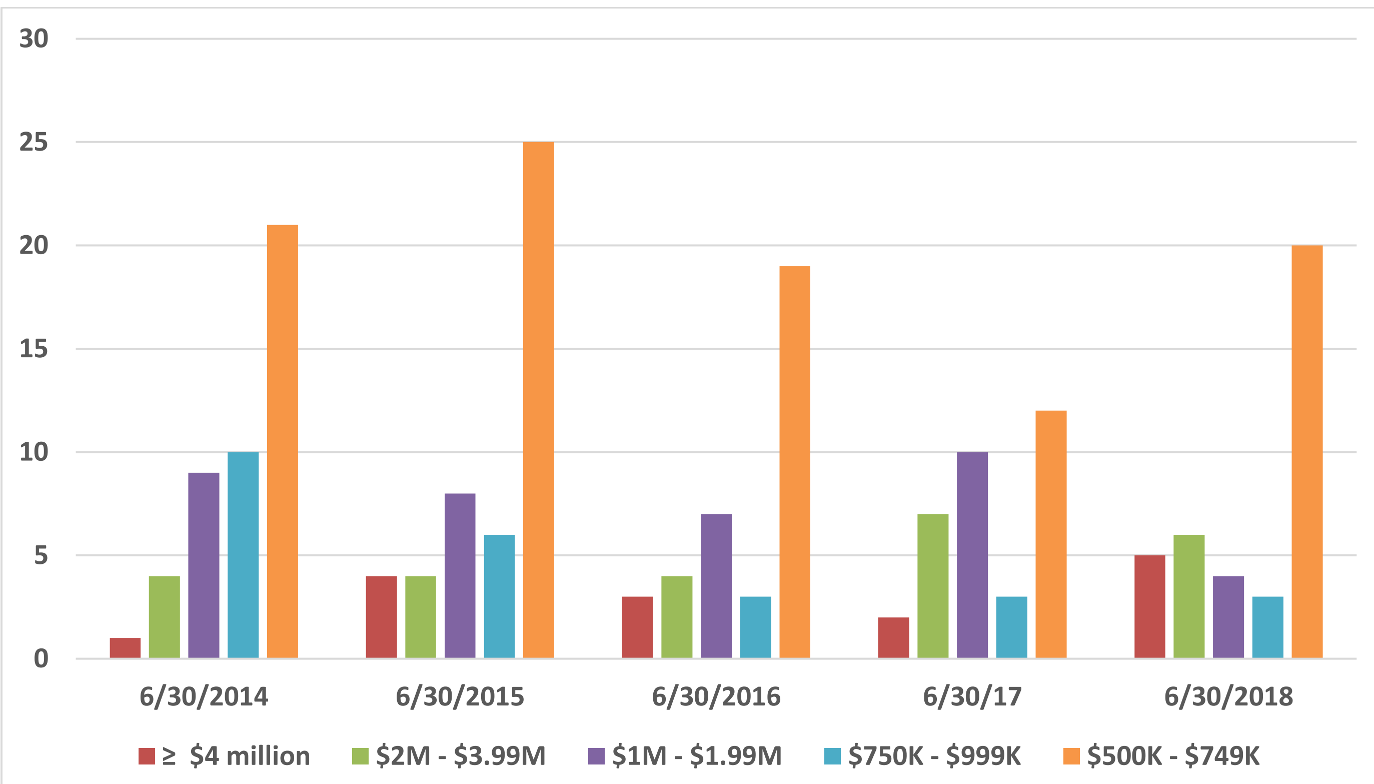


Beginning in 2010 the RISK office worked on a project designed to reduce the overall medical malpractice funding requirement. The focus was to limit the self-insurance fund's exposure to loss when clinicians practice at off-site locations, meaning locations not owned or controlled by the system. In June 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 system 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 self-insurance 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	**6/30/2014**	**6/30/2015**	**6/30/2016**	**6/30/2017**	**6/30/2018**
≥ $4 million	1	4	3	2	5
$2M - $3.99M	4	4	4	7	6
$1M - $1.99M	9	8	7	10	4
$750K - $999K	10	6	3	3	3
$500K - $749K	21	25	19	12	20
	45	**47**	**36**	**34**	**38**



Public (General) Liability and Board Legal

(Directors' & Officers' and Employment Practices) Liability

The Public Liability Self-Insurance program covers liability arising from system 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 $300,000 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 program covers the system'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.

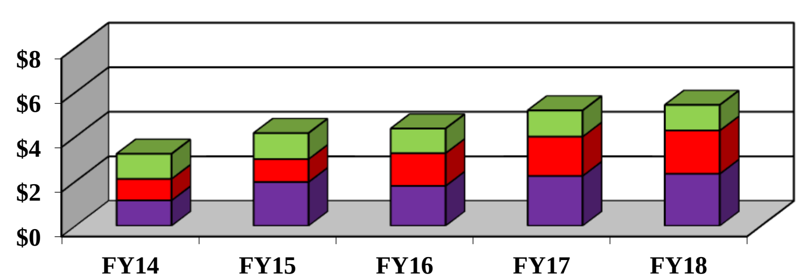
Since 1990, both the public liability and board legal liability self-insurance programs have been supplemented by the purchase of commercial excess insurance above the system's self-insured retention. The retention levels and the limits of coverage purchased have been influenced by availability in the insurance marketplace. During FY18, $15 million of excess insurance was purchased for board legal and $10 million for public liability claims.

The system annually obtains an actuarial analysis of its public liability and board legal liability self-insurance programs. The analysis estimates the ultimate outstanding losses and expenses (liabilities) on a discounted basis at various confidence levels. The system 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 surplus of approximately $14.4 million, representing $2.7 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 $2.34 million. With the cost of commercial excess insurance and administration added, the total FY2018 funding requirement is approximately $5.4 million. This amount represents an increase of roughly $250,000 over the prior year and is mainly attributable to board legal losses and expenses and increased cost of excess insurance.

The incidences of claims from employment practices have been increasing both nationally and locally. The system continues to focus greater attention on training and mediation as a means to avoid expensive and protracted litigation.

PUBLIC AND BOARD LEGAL LIABILITY
SELF-INSURANCE FUNDING PROJECTED AT BEGINNING OF FY2018

	FY2018 Program Retention of $1,000,000 per Occurrence for Board Legal; $500,000 per Occurrence for Public Liability		FY2017 Program Retention of $1,000,000 per Occurrence for Board Legal; $500,000 per Occurrence for Public Liability	
	FY2018 Funding		**FY2017 Funding**	
Per Actuary:				
Discounted Liability for claims at June 30:	16,928,110		17,514,119	
Estimated Fund balance at June 30:	31,311,011		30,618,413	
Funding shortfall or (excess):	-14,382,901		-13,104,294	
Amortized shortfall in prior year funding……		-2,689,749		-2,825,152
(.21997 factor)				
Funding required for Claims……		**5,026,134**		**5,066,525**
Normal Indicated Fund Contribution (total)		**2,336,385**		**2,241,373**
Plus:				
Cost of Excess Insurance (estimated at July 1)		1,942,805		1,759,966
Legal/Risk Administrative Cost		1,149,019		1,178,366
Total Funding Need………………………		**5,428,209**		**5,179,705**
Increase/Decrease	4.8%	$248,504	18.7%	$816,427



**includes amortized surplus/deficit for past liabilities*

Workers' Compensation

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 system has been self-insured for its workers' compensation liabilities since 1918. The Workers' Compensation exposure is funded through three mechanisms - system internal allocation, "recovery" accounts, and payroll assessments. With the exception of a single year in the 1970's the system has not purchased commercial excess coverage for its workers' compensation self-insurance program.

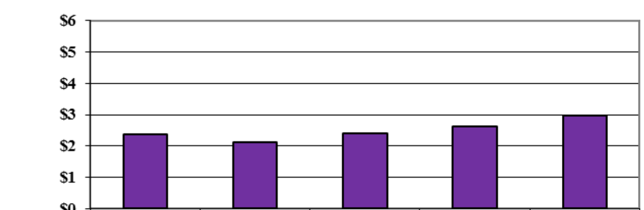
An annual internal allocation provides funding for claims of injured employees whose wage sources are state funds. Payroll assessments provide the funding for claim payments for injured employees whose wage sources are "local" or "grant/gift" accounts. Separate claim payment accounts are maintained for state, auxiliary, and grant/gift wage sources at each of the universities. A separate account is maintained for the UIC hospital exposure as well. 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 account balance serves as the contingency source of funds in the event of a catastrophic loss.

The system annually obtains an actuarial analysis of its workers' compensation self-insurance program. The report estimates the ultimate outstanding losses and expenses (liabilities) on a discounted basis at various confidence levels. The system 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 program assets there is a funding surplus of roughly $12.5 million representing an amortized amount of about $1.7 million. 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 $8.1 million. With the cost of administration added the total FY2018 funding requirement is approximately $8.8 million. This amount represents a roughly 10% decrease from the prior year funding requirement, or $1.0 million.

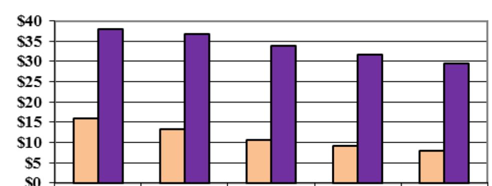
WORKERS' COMPENSATION

SELF-INSURANCE FUNDING PROJECTED AT BEGINNING OF FY2018

	FY2018 Program		FY2017 Program	
	FY2018 Funding		FY2017 Funding	
Per Actuary:				
Discounted Liability for claims at June 30:	29,461,715		31,762,690	
Estimated Fund balance at June 30:	42,005,436		40,282,781	
Funding shortfall or (excess):	-12,543,721		-8,520,091	
Amortized shortfall in prior year funding……		-1,729,856		-1,580,083
(.213991 factor)				
Funding required for Claims……		**9,803,391**		**10,702,564**
Normal Indicated Fund Contribution (total)		**8,073,535**		**9,122,481**
Plus:				
Cost of Excess Insurance		N/A		N/A
Legal/Risk Administrative Cost		684,729		655,665
N/A = do not purchase				
Total Funding Need……………………….		**8,758,264**		**9,778,146**
Increase/Decrease:	-10.4%	-$1,019,882	-14.6%	-$1,674,838



	FY14	FY15	FY16	FY17	FY18
Medical	$2.38	$2.13	$2.41	$2.62	$2.97



	FY14	FY15	FY16	FY17	FY18
Indicated Funding	$15.91	$13.18	$10.68	$9.12	$8.07
Liabilities	$38.01	$36.82	$33.81	$31.76	$29.46

The cost of medical payments for FY18 continued to trend upwards. This is due in part to the increase in medical treatment costs within the worker's compensation environment.

The decrease in indicated funding levels and liabilities continued for FY18. This reflects the continuing efforts to improve and expand return-to-work policies and programs.

Sources and Uses of Funds during Fiscal Year 2018

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

- Fund contributions made to the self-insurance funds
- 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 RISK)

MEDICAL PROFESSIONAL LIABILITY

Sources and Uses of Funds during Fiscal Year 2018 and for the Period FY91-18

(in millions)

	FY18		FY91-FY18	
Beginning Fund Balance:	$217.4		$39.9	
Sources:				
Fund Contributions	22.6	81%	604.2	87%
Investment Income	2.6	9%	61.5	9%
Quasi-Endowment G/L	2.7	10%	14.2	2%
Insurance Recoveries	0.0	0%	16.7	2%
	$27.9	100%	$696.6	100%
Uses:				
Legal & Indemnity payments	25.4	86%	404.0	78%
Excess Insurance costs (includes Offsite)	3.1	11%	90.8	17%
Administrative costs	1.0	3%	26.0	5%
	$29.5	100%	$520.8	100%
Ending Fund Balance at 6/30/2018:	$215.8		$215.7	
Discounted Liabilities at 6/30/2018:	$162.9		$162.9	
Funding shortfall/excess:	$52.9		$52.8	

Note: Rounding differences may account for slight discrepancies in totals

For the period ending 6/30/2018 there was a 4.4% decrease in medical professional liabilities (discounted) from prior year. Estimated liabilities at period ending 6/30/2018 were $162.9 million compared to $170.4 million at period ending 6/30/2017. For the period ending 6/30/2018, liabilities compared to assets resulted in a funding excess of $52.8 million.

PUBLIC & BOARD LEGAL LIABILITY

Sources and Uses of Funds during Fiscal Year 2018 and for the Period FY91-18

(in millions)

		FY18		FY91-FY18	
Beginning Fund Balance:		$31.6		$6.0	
Sources:					
	Fund Contributions	5.1	86%	106.8	82%
	Investment Income	0.3	5%	17.0	13%
	Quasi-Endowment G/L	0.5	8%	2.4	2%
	Insurance Recoveries	0.0	0%	3.6	3%
		$5.9	100%	$129.8	100%
Uses:					
	Legal & Indemnity payments	3.7	57%	71.4	68%
	Excess Insurance costs	1.7	26%	19.0	18%
	Mediation training	0.0	0%	0.2	0%
	Administrative costs	1.1	17%	14.3	14%
		$6.5	100%	$104.9	100%
Ending Fund Balance at 6/30/2018:		$31.0		$30.9	
Discounted Liabilities at 6/30/2018:		$16.9		$16.9	
Funding shortfall/excess:		$14.1		$14.0	

Note: Rounding differences may account for slight discrepancies in totals

For the period ending 6/30/2018 there were excess funds in the public and board legal liability self-insurance accounts of $14.0 million. We have seen a gradual increase of overall program costs as we continue to monitor new claims that may adversely affect the program.

• • • • • • • • • • • • • • • • • •

In the workers' compensation self-insurance accounts, there was an overall funding excess of $13.6 million with the ending fund balance totaling $43.1 million at year-end, compared to a balance of $42.0 million at 6/30/2017.

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

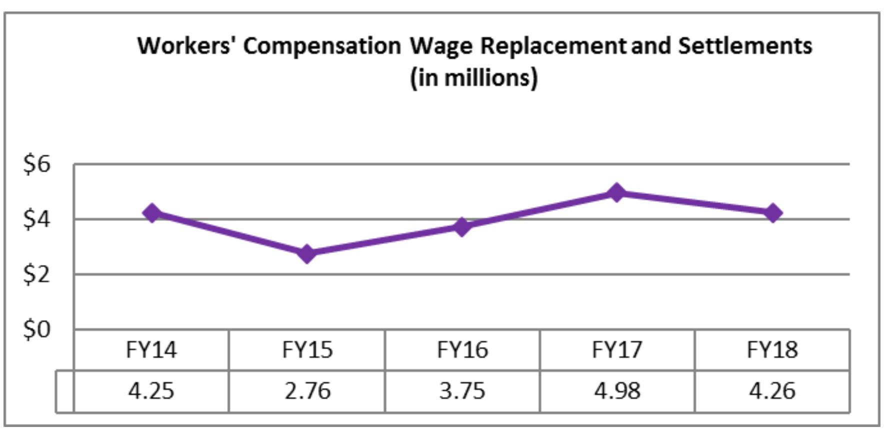
Sources and Uses of Funds during Fiscal Year 2018 and for the Period FY91-18

(in millions)

		FY18		FY91-FY18	
Beginning Fund Balance:		$42.0		$0.5	
Sources:					
	State Appropriation	6.9	67%	113.7	47%
	Returned State Appropriation	-1.0	-10%	-3.5	-1%
	University Resources	0.0	0%	13.5	6%
	Auxiliary and Trust Contributions	2.3	22%	71.8	30%
	Investment Income	0.5	5%	7.2	3%
	Recovery/Chargebacks	1.6	16%	36.8	15%
		$10.3	100%	$239.5	100%
Uses:					
	Legal/Medical/Wage & Indemnity payments	8.5	92%	178.4	91%
	Loss Control/Safety Programs	0.0	0%	0.2	0%
	Miscellaneous	0.2	2%	0.9	0%
	Administrative Costs	0.5	5%	17.4	9%
		$9.2	100%	$196.9	100%
Ending Fund Balance at 6/30/2018:		$43.1		$43.1	
Discounted Liabilities at 6/30/2018:		$29.5		$29.5	
Funding shortfall/excess:		$13.6		$13.6	

Note: Rounding differences may account for slight discrepancies in totals

For the period ending 6/30/2018 total workers' compensation wage and indemnity payments took a slight dip. However, due to increases in medical costs and wages we do not anticipate this to continue. We will carefully monitor this and continue to work aggressively to control costs.



Property (including Buildings/Contents/Business Interruption)

The University of Illinois system, 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 institution has its own basic coverage limits. The University of Illinois System purchases limits of $1.75 billion.

Property insurance protects the system's buildings and contents from direct physical loss or damage. Perils covered include fire, windstorm, hail, water and 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 System buildings have boiler and machinery coverage.

The policy deductible is $500,000 per occurrence, except for buildings under construction, which are subject to a $100,000 per occurrence 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, a property insurance deductible buy-down program was established 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 pay $25,000 and the monies collected in the property deductible buy-down account will fund the difference. Schedule II buildings have historically had a $500,000 per occurrence deductible. However, beginning FY2008 the RISK office began setting aside funds for a property insurance deductible buy-down for academic buildings. For FY2018 Schedule II properties pay $100,000 of a loss and the funds in the buy-down account pays the difference.

The system 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 system's main library's special collections and rare books. The cost is divided between the UIUC, the main library, Spurlock, and KAM.

Property Coverage
FY2018

Policy Term: 7/1/17 to 7/1/18

COVERAGE'S	VALUES	DEDUCTIBLE
SCHEDULE I (AFS, Gift, and Bond Financed Buildings/Contents Business Income, Boiler & Machinery)	$3,526,673,009	$500,000
SCHEDULE II (Academic Buildings only, including Boiler & Machinery, Library Books)	$10,725,769,039	$500,000
TOTAL INSURED VALUES	**$14,252,442,048**	

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 **$ 3,394,646***

*Cost of risk transfer to commercial carrier - $2.345 million.

Excess Insurance Carriers & Costs

FY2018

Medical Professional/Hospital Professional

For FY2018 the system purchased claims-made policies with various companies with Zurich American Insurance Company being the lead carrier. We retain a $10 million per occurrence retention, with a $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 system assumes the financial responsibility for up to an additional $5 million. Should the system exhaust the $5 million inner aggregate, Zurich and the other companies 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 fund.

Total limits of liability purchased are $60 million above the self-insured retention, with Zurich providing $25 million. Medical Protective and Sompo provide the remaining $35 million of liability coverage. Defense costs are not included within the layers of commercial insurance coverage. **Cost of risk transfer: $2,345,238**

Medical Professional/Hospital Professional "Offsite"

For FY2018 we purchased excess coverage from Zurich and Medpro of $15 million over a retention limit of $1 million dollars for UIC College of Medicine Physicians practicing at facilities not owned or operated by the "system" or University of Illinois. **Cost of risk transfer; $719,160**

Public and Board Legal Liability

For FY2018 the system's commercial excess insurance moved from AIG, whom we had been with for eleven years, to United Educators, an insurance company known for insuring higher education institutions. The move was necessitated by AIG's refusal to provide any liability coverage for traumatic brain injury claims. The system 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 system purchases board legal liability insurance with a $15 million occurrence/aggregate limit, subject to a $1,000,000 self-insured retention. Defense costs are included within each policy's limits of liability. **Cost of risk transfer: $1,209,679**

Cyber Liability and Breach Response

For FY2018 the system purchased 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. **Cost of risk transfer: $351,543**

Property Insurance

For FY2018 the system purchased property insurance through the Midwestern Higher Education Compact (MHEC). Lexington Insurance and Zurich Insurance combined to provide the $100 million primary layer of insurance, 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.
Cost of risk transfer: $2,345,071

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