OAKLAND UNIVERSITY
BOARD OF TRUSTEES
WORKING SESSION AGENDUM ITEM
March 2, 2005

MICHIGAN UNIVERSITIES SELF-INSURANCE CORPORATION ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2004 REPORT

Introduction

The Michigan Universities Self-Insurance Corporation (M.U.S.I.C.) completed its seventeenth year of operation in 2003-2004. M.U.S.I.C.'s long-term strategy and focus continues to be one of sound risk control practices, active claims and litigation management, consistency in underwriting and development and nurturing of long-term beneficial relationships with service providers. The commitment to these practices has provided the members with stability and a solid equity position.

Good News

A casualty dividend of $4.2 million was declared payable by the corporation to its membership in 2003-2004. Oakland University received a dividend check for $327,200 in February 2004. Several loss control initiatives have been funded through this dividend money. Since 1999 $10.1 million has been paid out in dividends of which Oakland University has received $806,079. These dividends are a unique and valuable feature of the M.U.S.I.C. program which cannot be replaced outside of this program.

A study was undertaken during this fiscal year to determine the total cost of risk for M.U.S.I.C. from July 1, 1987 to June 30, 2003. The results continue to demonstrate that the corporation's focus on controlling costs and maximizing the return to its members has been extremely successful. Fixed costs (such as administrative, legal, actuarial, and third party administrative costs) made up 14% of the total cost of risk. These costs are well below those of other self-insurance groups and the insurance industry as a whole. The primary reason fixed costs are so low is due to the time that the representatives from each university devote to the administrative management of the organization through service on the various working committees and the board.

Losses due to paid claims, reserves and defense costs made up 40% of total cost of risk over the sixteen year period 1987-2003. The corporation's philosophy since inception has been to take a proactive approach to loss control. Training, seminars, loss control visits, and newsletters are all part of the menu of loss control services provided to members. In addition, claims are actively managed by our risk managers and aggressively litigated by our General Counsel's Office.

Equity and Dividends (surplus) generated accounted for 46% of the total cost of risk. The M.U.S.I.C. success has not only been one of controlling fixed and variable costs, but also of good management decisions, conservative administration and return of premium to the corporation.

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Risk Control

Oakland University was proud to host M.U.S.I.C.'s Safety Symposium on Study Abroad programs. The-one day seminar was held at Meadow Brook Hall and was attended by 63 representatives of faculty and staff from 11 of our state universities. This seminar provided information on safety and loss control issues for faculty and students traveling abroad. This is an important area for all of our schools as our study abroad programs attract more students each year.

In 2003, the Risk Management Office facilitated an Errors & Omissions seminar on campus. The seminar was conducted by Megan Norris, a well recognized expert in labor law in our area from the offices of Miller, Canfield, Paddock & Stone of Detroit. In excess of 40 Oakland University faculty and staff were able to attend the half day seminar.

Significant Events in FY 2003-2004

M.U.S.I.C. continues to evaluate each of the coverages annually to see if they are competitive and broad enough for our current environments. A change in our auto policy was discussed and analyzed in fiscal year 2002-2003. To better serve our members it was determined to implement a self-insured auto physical damage program for the 2004-2005 policy year. Coverage is broader and less expensive than the expiring renewal program.

Claims

Amongst our M.U.S.I.C. peers, Oakland University was ranked lowest in average claims paid for both General Liability and Errors and Omissions over the period 1987 - 2004. New property claims continued at the same rate as the prior year; these claims were mostly weather related.

Financial Stability

M.U.S.I.C.'s audited financial statements for the fiscal year ending June 30, 2004 showed that there were no material adjustments for the fiscal year. This year's financial results reflect a positive net experience that included a positive investment performance.

On June 30, 2004, members equity was $16,009,290, which reflected a net increase for year-to-date investment earnings and an increase in fair value of investments, and combined increases were $1,990,173. Claim reserves increased slightly by $111,000 from the prior year in Property and Errors & Omissions lines of coverages.

M.U.S.I.C. paid out a dividend of $4,160,848 to its members.

Premium Comparison Policy

Upon the recommendation made by the Board of Trustees during last year's report, the Risk Management Department developed a Premium Comparison Policy to affirm that the M.U.S.I.C. program offers competitively priced policies. Some of the tools we are using include bidding, benchmarking, and alternative funding programs. This year we consulted with another insurance agent on our medical malpractice and developed a self-insured program for auto physical damage. We also participated in the Risk and Insurance Management Society's benchmarking program. In addition, we are tracking premium trends in anticipation of the fiscal year 2005-2006 renewals. We see that premiums are stabilizing or declining, although some trouble spots remain in the market, such as medical malpractice and construction risks.

Conclusion

M.U.S.I.C. continues to be an evolving organization with some exciting initiatives in the planning stages. For the upcoming fiscal year they will perform a corporate-wide enterprise risk management assessment to better understand new and emerging exposures. The strength of the corporation is due to the active role the member universities take in its administration. For fiscal year 2004-2005, Oakland University will be represented on various committees: Legal (chair), Claims & Loss Control (vice chair), Underwriting and Finance.

Attachment

1. M.U.S.I.C. Costs-10 Year Renewal Comparison
2. M.U.S.I.C. Annual Report, Fiscal Year Ended: June 30, 2004

Submitted for Review by Director of Purchasing and Risk Management Catherine R. Lark

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Reviewed by Secretary Victor A. Zambardi

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Reviewed by President Gary D. Russi

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