Submitted by: John L. Davis, Vice President for Finance and Facilities Management

# INFORMATION REPORT

## MICHIGAN UNIVERSITIES SELF-INSURANCE CORPORATION (M.U.S.I.C.) ANNUAL REPORT

1. The Administration is pleased to submit the Annual Report (the Report) of the Michigan Universities Self-Insurance Corporation (M.U.S.I.C.) for the fiscal year ended June 30, 2004.

2. The Michigan Higher Education Group Self-Insurance and Risk Management Facilities, Inc., d/b/a Michigan Universities Self-Insurance Corporation (M.U.S.I.C.) was formed in 1987 by the Insurance Task Force of the Business Affairs Officers Committee of the President's Council. M.U.S.I.C. is comprised of eleven of Michigan's public universities, excluding Michigan State University and the campuses of the University of Michigan. Its activities are conducted by a facility manager, various service providers and staff from each of the member universities. There are three levels or layers of loss coverage; member retentions, M.U.S.I.C. retentions and insurance from the excess insurance carriers. (More information about this loss coverage structure is available in the Report on page 22, Footnote 6 - Loss Coverages.) M.U.S.I.C. was formed to realize the following benefits:

   - Greater control over the availability of insurance coverage.
   - Broad based errors and omissions coverage.
   - Less exclusions than with commercial insurance coverage.
   - Higher limits on all coverages.
   - Enhanced stability of total insurance costs.
   - Participation in investment income benefits.
   - Participation in management of the program, including claims settlement.
   - Increased emphasis upon risk avoidance.

   It should be noted that M.U.S.I.C. has achieved all of these benefits and exceeded even the most optimistic expectations of the original Task Force. This year, the M.U.S.I.C. facility manager again completed a benchmarking of M.U.S.I.C.'s liability insurance cost to these costs for comparable institutions with traditional insurance. This study showed that if the University had to obtain its insurance in traditional markets, its cost (premium and retentions) would be significantly higher than the current program. More over, these traditional insurance programs would not have the breath of M.U.S.I.C.'s coverage. (After September 11, 2001, M.U.S.I.C. was able to obtain terrorism coverage for its members, which many other insurers were not able to provide. Terrorism coverage is included in our current program and we do not anticipate any problems at renewal continuing that coverage.) M.U.S.I.C. is an excellent example of the benefits that can be achieved by joint action among Michigan public universities. University staff from each member institution serves on committees that oversee M.U.S.I.C. operations, and they are a critical element in the success of this organization.

For the fiscal year beginning July 1, 2004, M.U.S.I.C. has implemented an Automobile Physical Damage Self-Insured Program in anticipation of long-term savings to our Members.

3. Last year, M.U.S.I.C., as well as most other entities that purchase commercial insurance, faced a continuation of a difficult insurance market. M.U.S.I.C. completed another challenging renewal. Some of the factors increasing program costs were the continued fallout from the events of September 11, 2001, poor investment returns for insurance companies and the liability costs associated with the corporate scandals. M.U.S.I.C.'s overall renewal results provided its members with relatively favorable premiums and coverages despite continuing premium increases and coverage restrictions. M.U.S.I.C.'s results, however, continued to be better than the traditional insurance market.

4. On Page 14 of the Annual Report, you will find that M.U.S.I.C.'s FY 2004 financial results reflects only a modest decline in members equity, despite payment of a $4.2 million dividend to members and a continued difficult commercial insurance market. As of June 30, 2004, M.U.S.I.C. had a surplus of $16.0 million, including net income of $3.5 million for fiscal 2004, due primarily to lower claims cost than anticipated and higher investment income.

   At the December 2004 M.U.S.I.C. Board meeting, it was decided to return $2.8 million of this surplus to the member institutions as dividends. (M.U.S.I.C.'s actuary is presently calculating the University's portion of this dividend.) The remaining surplus is held towards funding the gap between the actual premiums and the M.U.S.I.C. retentions for current and past years, any unusually large unforeseen claims activity that may arise and any unfavorable volatility in the value of M.U.S.I.C.'s investments. This surplus also provides M.U.S.I.C. with flexibility in meeting the continuing challenges of the insurance market, through such strategies as assuming more risk or to control or minimize member's premiums. Additionally, the University would be entitled to a portion of this surplus in the event of the dissolution of M.U.S.I.C., in accordance with the provisions of the M.U.S.I.C. Participation Agreement.

**5.** M.U.S.I.C.'s philosophy of promoting loss control and claim management continues to be instrumental in mitigating premium increases. It continues to provide support to the Member Institutions in a number of areas including Campus Visits, a Safety Symposium, Ad Hoc Requests and Newsletters. The topic for the Fall Safety Symposium was Study Abroad. The Symposium was well attended and included representatives from the various university offices of Risk Management, International Study Departments, Facilities and General Counsels. The annual joint workshop for risk managers and each institution's general counsel was also conducted. The Claims and Loss Control Committee continues to focus on our loss history with an eye to the future programs and has selected Cyber Risk for the 2004-2005 loss control theme. One of M.U.S.I.C.'s goals for 2004/05 is to perform a risk assessment exercise, to identify common and uncommon exposures to our Members.

6. M.U.S.I.C. continues to be significantly beneficial to the University, as detailed in Table A, which provides comparisons to the respective last year the University purchased commercial insurance to the respective M.U.S.I.C. program. It should be noted that in the last year of commercial coverage the University did not carry insurance coverage in several important areas because it was cost prohibitive or not available at any cost.

In addition to price stability, M.U.S.I.C. has benefited the University through the return of dividends. Including the $2.8 million pending dividend discussed in Section 4, total dividends of $20.1 million will have been returned to the member institutions. Excluding the pending dividend, the University has received $2.4 million in dividends. It should be noted that dividends aren't typically available under commercial insurance programs. M.U.S.I.C. continues to have coverage that is broader than any available in the traditional insurance market place, some of which are not otherwise available at any price.

TABLE A

# WAYNE STATE UNIVERSITY
# M.U.S.I.C. PROGRAM COMPARISON

## CASUALTY PROGRAM

| | **Commercial Insurance**<br>(Prior to M.U.S.I.C.)<br>(Last Purchased 1986-87) | **M.U.S.I.C. Program**<br>(2004-2005) |
|---|---|---|
| General Liability | | |
| Limits | $10 Million/$10 Million | $2 Million/$6 Million* |
| Retention | $500,000 Ea. Occurrence | $341,539 Aggregate |
| Excess Liability | Did Not Have Coverage** | $100 Million* |
| Total Limits | $10 Million | $106 Million |
| Premium | $404,280 | $550,518 |
| Errors & Omissions | | |
| Limits | Did Not Have Coverage** | $2 Million/$6 Million* |
| Retention | Did Not Have Coverage** | $693,049 Aggregate |
| Excess Liability | Did Not Have Coverage** | $10 Million* |
| Total Limits | Did Not Have Coverage** | $16 Million* |
| Premium | Did Not Have Coverage** | $259,533 |

## PROPERTY PROGRAM

| | (Last Purchased 1988-89) | (2004-2005) |
|---|---|---|
| Amount of Coverage | $787,375,000 | $1,694,008,797 |
| Deductible | $50,000 Each Occurrence | $50,000 Each Occurrence |
| Rate | .035/$100 | .0379/$100 |
| Premium | $274,763 | $622,797 |

## AUTOMOBILE PROGRAM

| | (Last Purchased 1990-91) | (2004-2005) |
|---|---|---|
| Liability Limit | $1 Million | $1 Million* |
| Comprehensive (Fire/Theft) | Did Not Have Coverage | $5,000 Deductible |
| Collision | Did Not Have Coverage | $5,000 Deductible |
| Premium | $14,857 | $10,246 |

*** Combined limits for all M.U.S.I.C. members.**

**** Did not have coverage because it was cost prohibitive or either not available at any cost.**