Background

- SB 242 effective 7/20/11
- OUS independence to:  
  - Purchase insurance  
  - Operate self-insurance program  
  - Handle litigation
- BRS retained to assist in:  
  - Separation from Department of Administrative Services (DAS)  
  - Creation of OUS Risk Management Program
Project Purpose

- Design new risk finance mechanisms:
  - Damage to OUS property;
  - Tort liability claims and losses; and
  - Workers’ compensation losses.
- Determine appropriate risk management organization:
  - Internal staffing levels;
  - Outsourced service needs; and
  - Reporting structure.
- Develop implementation plan; and
- Support OUS in transition negotiations with DAS.

Project Work Steps

1. Interviewed:
   - OUS, Campus, and DAS Risk Management Stakeholders
   - State’s Broker and Insurer Representatives
2. Surveyed 900+ employees
3. Analyzed:
   - Financial statements and budgets
   - Property values and other exposure data
   - Laws impacting tort liability
   - Current DAS self-insurance/insurance programs
   - Historical property and casualty loss data
   - Risk costs allocated by DAS
   - Current risk management structure and staffing
4. Designed New OUS Programs:
   - Risk Financing structure
   - Risk Management Organization Structure
5. Secured feedback from Finance VPs and Risk Council
6. Issued final report
Current Risk Financing Program

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Limits</th>
<th>Campus Deductible</th>
<th>Coverage Provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability*</td>
<td>Unlimited</td>
<td>None</td>
<td>DAS</td>
</tr>
<tr>
<td>Property</td>
<td>$400,000,000</td>
<td>$2,500</td>
<td>DAS/Commercial Carriers</td>
</tr>
<tr>
<td>Boiler &amp; Machinery</td>
<td>$100,000,000</td>
<td>$25,000</td>
<td>DAS/Commercial Carrier</td>
</tr>
<tr>
<td>Crime</td>
<td>$20,000,000</td>
<td>$5,000</td>
<td>DAS/Commercial Carrier</td>
</tr>
<tr>
<td>Workers’ Compensation</td>
<td>Unlimited</td>
<td>None</td>
<td>SAIF</td>
</tr>
</tbody>
</table>

*Does not include miscellaneous liability insurance policies purchased by DAS on behalf of OUS, such as aircraft, marine pollution, protection, and indemnity. Limits on these policies vary.

Cost of DAS Coverage and Services

<table>
<thead>
<tr>
<th>Program</th>
<th>Estimated 2012-13 Cost*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers’ Compensation</td>
<td>$3,150,000</td>
</tr>
<tr>
<td>Tort Liability</td>
<td>$3,459,000</td>
</tr>
<tr>
<td>Property / Crime</td>
<td>$4,790,000</td>
</tr>
<tr>
<td>Total</td>
<td>$11,399,000</td>
</tr>
</tbody>
</table>

* 50% of 11-13 Biennial Risk Charge Allocations per DAS
### Major Risk Treatment Techniques & Tools

#### Risk Control
- Loss Prevention Programs
- Training
- Contractual Transfers
- Facility Protection
  - Sprinklers
  - EQ Hardening
  - Security Systems
  - Other

#### Claims Management
- Prompt Reporting, Investigation, & Resolution
- Firm/Fair Negotiations
- Legal Defense Management
- Medical Cost Management
- Other Post-Loss Mitigation

#### Risk Finance
- Insure
- Self-Insure
- Pool

### OUS Risk Finance Program Design

- **Considerations**
  - July 1, 2012 Implementation
  - Retain Broad Protection Features of DAS Programs
  - Provide Resource to Handle Claims
  - Maintain or Reduce Costs
  - Provide for Cost Stability
  - Enhance Loss Prevention Capability
Why a Joint Approach to Risk Finance

• Smoother transition from DAS
• Economies of scale
• Increased ability to retain risk
• Spread of risk
• Synergy of shared resources, challenges, solutions

Conclusion: Workers’ Compensation

Maintain Program with SAIF

• SAIF’s claim handling resources are sound
• Relationship with campuses is good
• Loss prevention resources available from SAIF
• SAIF’s cost + premium formula is reasonable
• Overall smooth transition expected
• Costs shared by Universities
Conclusion: Tort Liability

- Self-insure
- System SIR between $100,000 & $500,000
- Excess insurance to $40 million limit
- Wrap Around Oregon Tort Caps
- Claims administered by contract firm (TPA)
- Losses and other costs shared by Universities

Tort Liability Structure
Conclusion: Property

- Large Deductible Program
- System deductible between $100,000 & $500,000 (Catastrophic peril deductible different)
- Excess Insurance to $400 million per loss
- Claims administered by TPA
- Losses and other costs shared by Universities

Property Program Structure

NOTES – Not drawn to scale. *Separate limits apply for catastrophe perils.
2012-13 Core Program Cost Comparison

*DAS vs. New OUS Program*

<table>
<thead>
<tr>
<th>Core Program</th>
<th>DAS Budget Allocation</th>
<th>New OUS Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers’ Compensation</td>
<td>$3,150,000</td>
<td>$4,358,000</td>
</tr>
<tr>
<td>Tort Liability</td>
<td>3,459,000</td>
<td>2,379,000</td>
</tr>
<tr>
<td>Property</td>
<td>4,790,000</td>
<td>3,406,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$11,399,000</strong></td>
<td><strong>$10,143,000</strong></td>
</tr>
</tbody>
</table>

Other Cost Considerations

- DAS vs. OUS Core Program = +$1,256,000 before:
  - System Risk Management Office;
  - Peripheral Insurance Programs (e.g. Marine, Other states WC);
  - Loss Reductions from Enhanced EH&S initiatives;
  - Assumption of Tail Claims; and
  - Contingency Margin.
## Claims Handling

<table>
<thead>
<tr>
<th>Core Program</th>
<th>Current Approach</th>
<th>New OUS Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers’ Compensation</td>
<td>SAIF</td>
<td>SAIF</td>
</tr>
<tr>
<td>Tort Liability Claims</td>
<td>DAS</td>
<td>Contract Administrator</td>
</tr>
<tr>
<td>Tort Liability Litigation</td>
<td>DOJ</td>
<td>OUS/Contract Law Firms</td>
</tr>
<tr>
<td>Property</td>
<td>DAS</td>
<td>Contract Administrator</td>
</tr>
</tbody>
</table>

## Risk Control

<table>
<thead>
<tr>
<th>Core Program</th>
<th>Current Approach</th>
<th>New OUS Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers’ Compensation</td>
<td>Campus/SAIF</td>
<td>Campus/System Safety Mgr./SAIF</td>
</tr>
<tr>
<td>Tort Liability</td>
<td>Campus</td>
<td>Campus/System Safety Mgr.</td>
</tr>
<tr>
<td>Property</td>
<td>Campus</td>
<td>Campus/System Safety Mgr.</td>
</tr>
</tbody>
</table>
Risk Management at OUS Level

Hire a Risk Management Director and Risk Analyst to:

- Manage system-wide risk identification, evaluation, and treatment;
- Place all insurance;
- Manage broker, claims TPA, and other risk management vendors;
- Collect and manage underwriting data;
- Provide input to strategies on litigated claims;
- Direct claims settlement to established authority levels;
- Develop risk management policies and procedures;
- Budget and allocate risk costs;
- Oversee EH&S Manager’s efforts;
- Measure and report to senior management program results; and
- Provide loss trending, risk management expertise, and program results to the institutions

Proposed Organizational Chart

[Diagram showing the organizational structure with roles including Oregon Board of Higher Ed, General Counsel, Chancellor, VC Finance & Administration, Risk Management Director, EH&S Manager, and Risk Analyst]
Cost Comparison Summary

2012-13

<table>
<thead>
<tr>
<th>Cost Component</th>
<th>DAS Budget Allocation</th>
<th>New OUS Program Est. Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers’ Compensation</td>
<td>$3,150,000</td>
<td>$4,358,000</td>
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<tr>
<td>Tort Liability</td>
<td>3,459,000</td>
<td>2,379,000</td>
</tr>
<tr>
<td>Property</td>
<td>4,790,000</td>
<td>3,406,000</td>
</tr>
<tr>
<td>Peripheral Insurance</td>
<td>Included Above</td>
<td>200,000</td>
</tr>
<tr>
<td>OUS Risk Management Unit</td>
<td>Not Applicable</td>
<td>671,200</td>
</tr>
<tr>
<td>Effect of Robust EH&amp;S*</td>
<td>Not Applicable</td>
<td>(285,000)</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$11,399,000</strong></td>
<td><strong>$10,729,200</strong></td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td><strong>$669,800</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Favorable impact estimated by BRS at 5% of projected losses

Other Program Design Comments

• To allow for contingencies, funding for 2012-13 should be not less than DAS Budget Allocations.

• OUS will inherit assets and outstanding (tail) liabilities for pending losses, underfunded by about $2.7 million. Provisions should be made to fully fund such liabilities over time.

• All self-insured claims should be funded with prudent margins for contingencies (e.g. 70%-80% confidence levels).

• To ensure assets set aside to fund outstanding liabilities remain in tact, consider establishing a trust, captive insurer or other formal structure to hold such assets.
**Next Steps**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Target Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hire OUS Risk Management Director</td>
<td>February 15, 2012</td>
</tr>
<tr>
<td>Select OUS Insurance Broker/Assume Responsibility for all Expiring DAS-Placed Insurance</td>
<td>March 15, 2012</td>
</tr>
<tr>
<td>Select Property &amp; Liability Contract Claims Administrator(s)</td>
<td>May 15, 2012</td>
</tr>
<tr>
<td>Complete 2012-13 Renewal Negotiations with SAIF</td>
<td>June 1, 2012</td>
</tr>
<tr>
<td>Finalize OUS Funding &amp; Allocation Model</td>
<td>June 15, 2012</td>
</tr>
<tr>
<td>New Program takes Effect</td>
<td>July 1, 2012</td>
</tr>
<tr>
<td>Conclude Analysis of Trust or other Group Structure</td>
<td>October 31, 2012</td>
</tr>
</tbody>
</table>

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