University of California Office of the President
Department of Financial Management
Office of Risk Services

Annual Report FY 2008

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I. Introduction

Because of the widely varied range of activities and programs inherent in the life of a university, managing risk in an academic setting presents unique challenges that are unlikely to be faced by companies in the private sector. The risk-related groups systemwide are dedicated to reducing the cost of risk throughout the University and, most importantly, creating a safe environment for our students, patients, employees, and visitors.

Since our last report, the Office of Risk Services (OPRS) has responded to emerging risks, including:

- Increased foreign travel
- Increased threat and security events
- Foundations, Alumni & Support Groups activities

In this report we highlight the solutions we have developed in collaboration with others in response to these risks. It is no surprise that we continue to see improvement in the areas where we apply new loss control and loss prevention efforts; we continue this year to expand our efforts in a thoughtful and strategic manner to bring services to the campuses, medical centers, Agriculture & Natural Resources, and the National Laboratory.

Major accomplishments of the past year include:

- **Reduced overall cost of risk for the University for three consecutive years.**
- **Developed the Enterprise Risk Management (ERM) data warehouse and initiated development of Key Performance Indicators.**
- **Expanded the ERM Toolbox on our website to assist campuses and medical centers with implementing ERM at their locations.**
- **Continued to realize a decrease in number of new Workers' Compensation claims filed.**
- **Continued implementation of "UC Ready" to ensure the business continuity of the University in the event of catastrophic events.**

Our major challenge for the coming year is that the General Liability Program has not seen the decrease in losses that we have seen in Workers' Compensation. We are expanding the *Be Smart About Safety* program to the General Liability program to address these risks.

Major functions of the Office of Risk Services include:

- Developing and implementing Enterprise Risk Management to identify risks and controls systemwide, resulting in reduced cost and efficiencies
- Identifying risk and developing strategies to minimize the impact of risk
- Developing a center of excellence for managing risk, drawing on the expertise of highly-skilled individuals throughout the University
- Reducing costs and improving safety by executing new ideas and strategic plans in a rapid manner
- Risk Services core responsibilities:
    - Provide claims management services
        - Workers' Compensation Program
        - Professional Medical & Hospital Liability Program
        - General Liability Program
        - Auto Program
        - Employment Practices Liability Program
        - Property Program
        - Fine Arts Program
        - Construction Program
    - Purchase insurance systemwide and develop alternative risk financing mechanisms

- Develop loss control programs to reduce claims cost and provide leadership to Environmental Health & Safety (EH&S)
- Emergency management and business continuity planning (UC Ready)
- Enterprise Risk Management
- Settlement of claims and litigation (see Appendix B. Policy on Settlement of Claims and Litigation)

If the University were to move from self-insurance to a fully-insured program, it would increase our costs by approximately $105 million each year.

II. Enterprise Risk Management

Why is enterprise risk management (ERM) important to the University?

- ERM is a best practice. The majority of universities across the US are implementing ERM programs.
- Rating agencies are beginning to focus on ERM activities. In November 2007, Standard & Poor's indicated its intention to assign scores of ERM quality to all companies it reviews and to incorporate an ERM segment into its ratings reports.
- ERM increases awareness of campus and medical center activities and risks, allowing for better management of those activities.
- ERM provides a common language to communicate, a process to identify and mitigate risks, and criteria to evaluate and prioritize resources, which creates efficiencies.
- It will save the University money.

How does ERM save money? The current total cost of risk analysis identifies over $220 million in costs that can be greatly reduced with a greater consideration of risk. We know that the actual cost of risk is much greater and that with ERM we will be able to better understand activities and risks and also to quantify and reduce associated cost. By strategically managing high priority risk we have been able to save over $180 million in the last two years by reducing our overall cost of the program.

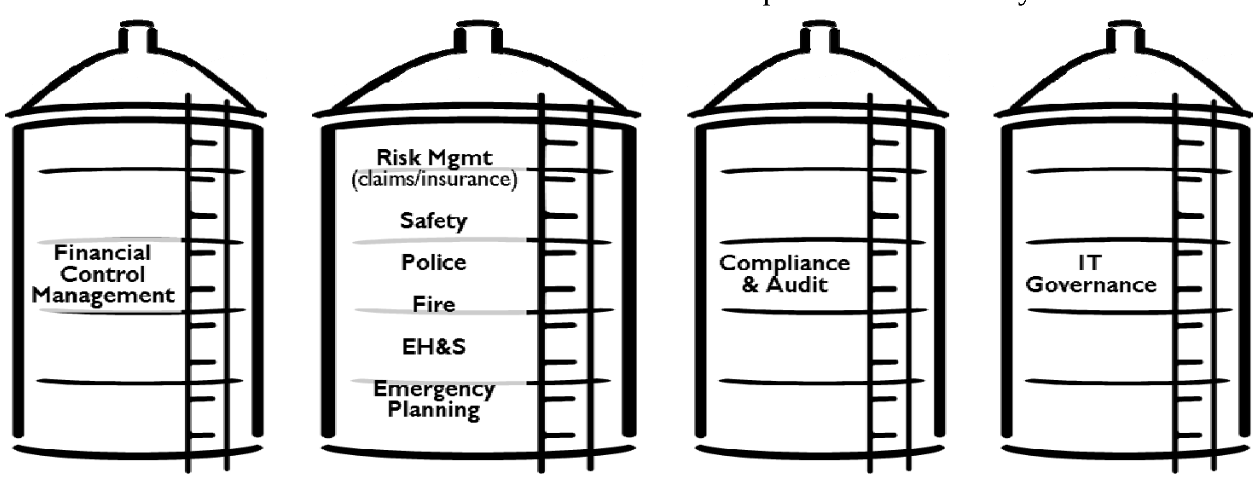
We also know from managing University claims that had the University gone through the simple exercise of applying the COSO (Committee of Sponsoring Organizations of the Treadway Commission, www.coso.org) framework during the strategic planning phase of just one single program, the university could have saved over $18 million in our Professional Liability program as well as safeguarded our reputation.

In the past, the management of risk has been siloed and limited in scope. This can lead to inefficiencies and redundancies. Providing an organized approach to gathering business control information including financial reporting, ERM will allow for a timely, comprehensive, consistent, and integrated view of risks, controls, and mitigation across business processes and across the UC campuses.

ERM Information System (ERMIS)

A systemwide central repository, the ERMIS will spur collaboration and eliminate the need to have separate databases, spreadsheets, and hardcopies of the same information. Stakeholders and decision makers will be able to perform more in-depth analysis and will spend less time identifying, collecting, and aggregating disparate data from the many data sources scattered across the UC system.

IBM was selected as the vendor of choice to develop the ERMIS. The system will have three



platforms:

- Quantitative Analysis – Dashboard technology: key performance indicators (KPIs) and leading indicators
- Qualitative Analysis – Survey technology and risk assessment tools
- Risk and Control Monitoring – Tracking initiatives, follow-up, and completion

The system has multiple applications across the University and also supports the monitoring of internal controls and accountability, providing valuable information to Compliance, the Controllers, and Internal Auditors. The system will be launched in early 2009.

ERM Resources

The ERM Toolbox available on the OPRS website includes sample charter documents for ERM groups, sample work plans, sample strategic goal plans, sample surveys, sample strategic risk assessments, a risk "heat map" tool to assist in ranking risk, and more. Eight campuses and two medical centers currently have ERM-specific groups or existing groups whose charters have been expanded to include ERM, and the remaining locations are forming groups.

III. Cost of Risk

The total cost of risk for the University of California system includes self-insured losses for the Workers' Compensation, General Liability (including Auto, Employment and Property), and Professional Liability programs. Also included are all of the miscellaneous premium, claims administration (OPRS: local and external), and safety (EH&S budget) expenses associated with UC's risk. For the purpose of comparison, the total cost has been stated as an amount per $1,000 of system-wide operating budget.

There are many ways to calculate the cost of risk, all yielding different results. Also, within any given method there may be fluctuations from year to year. Our actuaries believe that at this time the most appropriate way of assessing the trend in the cost of risk is to group the data into three year "buckets", as shown in Table 1.

Table 1. Cost of Risk – Summary of Methods (by 3-year grouping)

	Total Cost of Risk per $1,000 Operating Budget	
Method	**2001-02 to 2003-04**	**2004-05 to 2006-07**
Change in Paid Losses	$15.07	$14.22
Current Ultimate Cost Estimates	17.71	14.83

The cost of risk has decreased in the last three years as compared to the previous three years. Under this method, the average cost of risk for the entire system over the last three years was $14.22. Table 2 is a breakdown of the $14.22 cost of risk per operating budget, as referenced above.

Table 2. Breakdown of Cost of Risk – Based on Fiscal Year Paid Losses

	Last 3 Years – Total UC (2004-05, 2005-06, 2006-07)		
	Cost of Risk ($000)	**Per $1,000 Budget**	**% of Total**
Claims Administration	$104,715	$2.15	15%
Safety (EH&S Budget)	91,494	1.88	13%
Premiums	65,617	1.35	9%
GL Self-Insurance	73,742	1.51	11%
PL Self-Insurance	141,035	2.89	20%
WC Self-Insurance	216,736	4.45	31%
Grand Total	$693,340	$14.22	100%

IV. Cost Savings from Special Initiatives, 1/1/2007 to 6/30/2008

Special Initiatives	(in thousands of dollars)		
Total Investment	**$10,055**	**Total Savings**	**$65,589**
Workers' Compensation Program			
• Accelerated Claims Closure	$6,900	• Accelerated Claims Closure – Based on claims closing below reserve	$33,200
• Permanent Disability Quality Assurance and 15% "swing" charge	$307	• Permanent Disability Quality Assurance and 15% "swing" charge	$4,100
• LLNL Liability Transfer[1]	$15	• LLNL Liability Transfer	$20,900
• TPA Contract	$0	• TPA savings	$3,900
Environmental Health & Safety			
• EH&S Staffing Stabilized	$0	• *Be Smart About Safety* at UCOP – Reduced claims and cost of claims[3]	$150
• Hazardous Materials	$0	• Disposal Contract Systemwide and savings through new requirements	$100
• Systemwide ergonomic contract	$250	• Systemwide On-line Ergonomics Training	$100
• CHWMEG[2]	$50	• Contract for Audit of TSDF[4] used by all UC sites	$50
Other Programs			
Auto Liability Property Program General Liability } Subrogation and Recovery	$400	• Auto – Subrogation and recovery • Property Program – Subrogation and recovery • General Liability – Subrogation and recovery	 $209 $184 $296
Professional Liability • High Reliability Surgical Team Project "Lifewings" • ELM online education program *The 6% Prescription* Rebate Program	 $1,248 $20 $865	• Professional Liability	$2,400
Total Investment	**$10,055**	**Total Savings**	**$65,589**
	(in thousands of dollars)		

[1] Funds already in trust.
[2] CHWMEG, Inc. (www.chwmeg.org) is a non-profit trade association of manufacturing and other "industrial" companies interested in efficiently managing the waste management aspects of their environmental stewardship programs.
[3] In addition, savings improved compliance with OSHA regulations.
[4] Treatment Storage and Disposal Facility

OPRS focuses on cost saving in all of our programs, which occur on a daily basis. Special initiatives are implemented to reduce costs in specific areas of risk.

V. Program Management

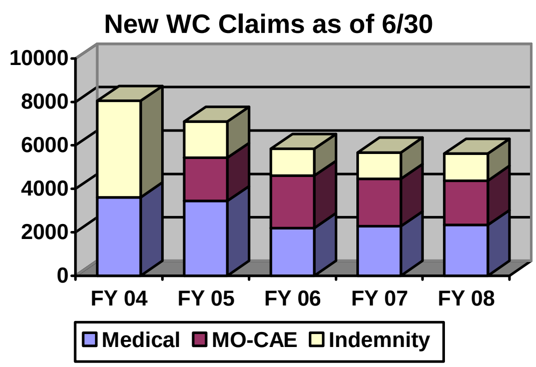
Workers' Compensation Program

Since FY06, the University's workers' compensation program continues to outperform expectations and is projected to remain in a surplus status for a third year in a row. These continued positive achievements result from our investments in new loss control and loss prevention programs, overall program re-engineering, and promptly responding to cost saving opportunities afforded through legislative changes. The surplus status follows four years (FY02-05) of being in deficit.

In FY08 the systemwide workers' compensation indicated accrual rate was 9.5% lower than in FY07 ($1.15 and $1.27 respectively). Within the systemwide reduction, the medical centers realized the greatest reduction, 20%, thereby reducing their average indicated rate from $2.86 in FY07 to $2.29 in FY08.

In FY08 we continued to realize a decrease in the number of new claims filed, down 4% from FY07 and 31.2% from FY04, shown in Figure 1. Decreasing frequency of new claims is integral to continued success in controlling severity of claims and outstanding liability.

Figure 1. New WC Claims

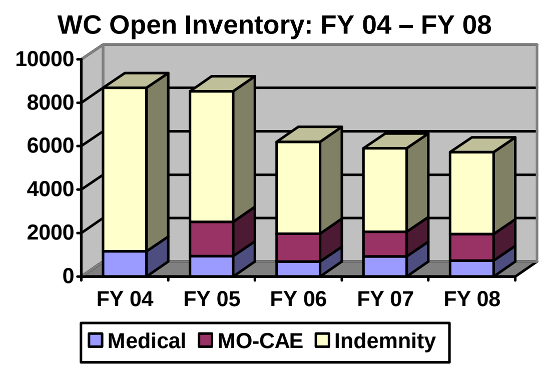


As a result of our FY07 surplus of $56.9 million, in FY08 we were able to return a retrospective rebate of approximately $37 million to those locations experiencing a surplus status, many of whom have committed to continue to reinvest portions of their rebate to make additional investments in loss prevention and loss control programs to help ensure our trend of positive results. In FY08 locations reinvested approximately $6 million of these rebate funds in loss prevention and loss control programs.

In addition to the retrospective rebate, in FY08 98.2% or $16.4 million of the available $16.7 million in *Be Smart About Safety* funding was approved and returned for campus and medical center loss prevention and loss control programs. Combined, the *Be Smart About Safety* funding, the approximately $6 million retrospective rebate reinvestment, and approximately $752,000 in approved deficit deferral programs resulted in a total safety investment of approximately $23.2 million through the workers' compensation program.

As shown in Figure 2, reducing our indemnity claim inventory is key in controlling our outstanding liability. Through the continuation of the Accelerated Claims Closure Project, revision of our settlement strategy, Third Party Administrator (TPA) incentives, and the transfer of our Lawrence Livermore National Laboratory liability to a fully insured program, we continue to realize a reduction in our indemnity claim inventory. In FY08 we were successful in reducing our indemnity claim inventory by 8% or 328 claims, and have successfully reduced our indemnity claim inventory by 53.3% or 4,308 claims since FY04.

Figure 2. WC Open Inventory FY04 – FY08



Program Activities During FY08

- Continued Accelerated Claims Closure Project: resulted in closure of 3,064 indemnity claims and reduction of outstanding claim reserves by approximately $33.2 million.
- Successfully completed Loss Portfolio Transfer of the Lawrence Livermore National Laboratory (LLNL) workers' compensation claims from the University's self-insured program to a fully insured program with a third party vendor, prompted by LLNL becoming part of a joint venture structure.
- Conducted Request for Proposal for TPA Services: our TPA contract for claims administration expired at the end of FY08. Our existing TPA was the successful bidder and we negotiated a reduced rate, which will realize annual savings of $3.9 million.
- Revised the workers' compensation settlement authority and Settlement Authorization Request process. This granted our claims administrator authority to resolve matters up to $25,000 and streamlined the University's process for resolutions over $25,000. Streamlining our processes is expected to produce annual program savings of $3 to $5 million, plus substantial administrative savings systemwide.
- Began implementation of an Occupational Health Clinic Information System: many of our occupational health clinics currently are deficient in their ability to obtain, track, and communicate information in regard to injury and disability management. We have partnered with them to implement an information system with primary goals of improving care, reducing disability, and facilitating claims management.
- Implemented a systemwide Preferred Provider Physical Therapy Network: in FY07 we identified a need to provide supplemental options to our current physical therapy providers. We arranged for access to a statewide preferred provider physical therapy network that affords us more timely service and reduced the costs of physical therapy while maintaining the highest quality of care and adhering to established workers' compensation protocols.
- Completed an independent review of the nurse case management portion of our Managed Care Program: an independent auditor was used to review our nurse case management program. We implemented their recommendations of increased resources and more standardized procedures in FY08, resulting in additional staffing and reengineering of our process and procedures with our TPA and our nurse case management partner. We expect these changes to lead to greater disability management and decreased liability.

Initiatives for FY09

- Redevelop our TPA client service instructions in accordance with the claims handling expectations, standards, and procedures set forth in our recent request for proposal, to ensure we are receiving the highest level of service while employing effective cost savings strategies.
- Migrate our claims handling information technology system from the University-administered VOS platform to our TPA-administered iVOS platform, an advanced system that will produce greater efficiency in processing claims and allow more effective capture and reporting of data.
- Implement an electronic incident reporting system to report and capture all incidents regardless of cause and severity.
- Re-evaluate the potential implementation of a systemwide Medical Provider Network (MPN), as afforded under SB899. The original evaluation of this implementation determined it was not in the University's best interest to proceed with this protocol until a later date when the effect of the program could be determined. This would also allow the University time to evaluate how we could properly incorporate our own Occupational Health clinics into this network. In response to changes in the program and statewide MPN

performance, we will again explore this protocol and evaluate its potential impact on our program.

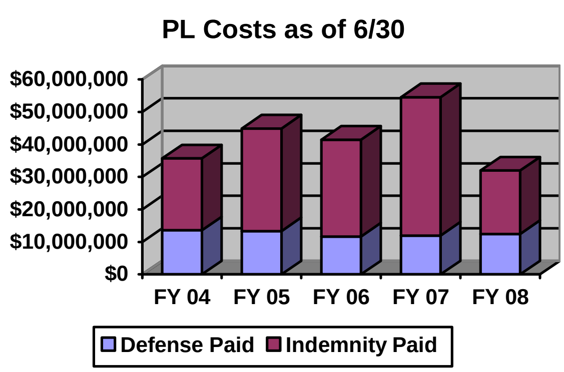
- Re-evaluate the effectiveness of our occupational health clinics. This evaluation will primarily focus on disability management.
- For locations remaining in a deficit status, conduct location-specific evaluations focusing on loss prevention, loss mitigation, disability management, medical management, claims management, program management, geographical factors, loss history, etc. The evaluation team will consist of subject matter experts from our broker, Marsh, and actuary, Bickmore; occupational health advisor Corky Hull, MD; and OPRS.
- Conduct a Litigation Review and Evaluation of the UC Defense Counsel Panel: Carried over from FY08, this will be a qualitative review of our workers' compensation litigation defense guidelines, procedures, and counsel panel with a focus on producing a more effective litigation program and decreasing expenditures.

Professional Medical & Hospital Liability Program

Our excess insurer's reviews continue to find the cases to be managed "in a professional, even exemplary, manner."

Pressure on claim costs continues as plaintiff attorneys try to circumvent the limits imposed on damages by the Medical Injury Compensation Reform Act (MICRA) by making allegations not covered by that statute, such as Elder and Dependent Adult Abuse Act allegations. UC continues to be successful in defending against these allegations and in keeping defense costs contained. Increasing costs of damages components in malpractice cases (future healthcare costs, future wage loss, and cost to purchase annuities to fund future periodic payments for these damages) also contribute to higher settlements in individual cases and to pressure on funding for future losses. However, continued focus on claims management is helping to maintain the average cost of indemnity. Due to the nature of professional liability losses, severity tends to fluctuate from year to year. See Figure 3.

Figure 3. PL Costs by Fiscal Year



The 4% Prescription was increased to 6% and includes grant funds of up to 2% of premium rebate to each location for locally identified loss prevention initiatives. OPRS continues to support the crew resource management training for surgical specialties and operating room staff, which has resulted in positive publicity for the locations. A front page article in the August 9, 2008, *San Diego Union Tribune*, "Under the Microscope: Increased scrutiny has hospitals focusing more on safety", referenced this initiative at the UCSD Medical Centers:

> At Thornton Hospital and the UCSD Medical Center in Hillcrest, surgery patients go through a checklist with their doctors and nurses before receiving anesthesia. Among other things, the list is designed to ensure that the right person has the right operation.
>
> It was modeled after safety checklists that pilots use before flying.
>
> "The culture of silence and the culture of secrecy that used to exist in hospitals is being stripped away," said Memphis-based hospital consultant Stephen Harden, a commercial airline pilot and former Navy Top Gun instructor.
>
> He helps hospitals, including those in the University of California system, and physicians apply safety practices from the aviation world to their health care settings.
>
> http://www.signonsandiego.com/news/health/20080809-9999-1n9quality.html

Program Activities During FY08

- The number of cases presented annually (excluding licensing board actions) was consistent with the number presented during FY07; see Figure 4.
- Our continued focus on timely, efficient claims processing and case closures resulted in 606 cases (including deposition representation matters) open in the program as of June 30, 2008, a decrease of 5.61% from the prior fiscal year end. Figure 5 reflects the continued reduction of open claims inventory.
- OPRS issued a request for proposals for third party administrator services and selected Sedgwick CMS again as its claims administrator for the Professional Medical and Hospital Liability Program.
- Exigis performed an independent audit of defense counsel compliance with the program's defense guidelines and found that overall rates of compliance were good. The guidelines have been revised for improved oversight and efficiency.
- OPRS continued to focus on loss prevention, funding the purchase of "Professional Risk Management", a physician-aimed risk management newsletter, and the ELMExchange online risk management education program for all attendings and residents; and the ECRI Corporation Healthcare Risk Control for each medical center risk management office.
- The "High Reliability Surgical Team" initiative, a patient safety/loss prevention initiative aimed at improving communication among surgical teams, is using LifeWings Partners LLC – a team of physicians, nurses, pilots, former astronauts, physician executives, and insurance experts who have adapted, for use in healthcare, the same teamwork training concepts and safety tools that have made commercial aviation so safe and reliable. Training has occurred at all University medical centers for surgical services and is being expanded to other services in selected locations.

Figure 4. New PL Cases by Year

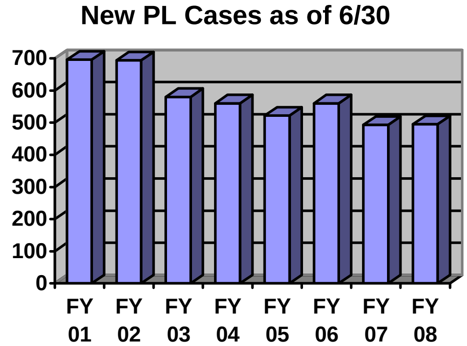
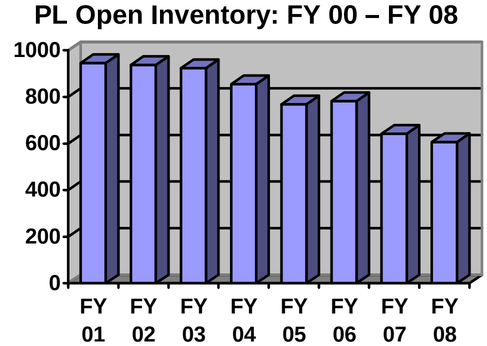


Figure 5. Open PL Cases at End of Fiscal Year



Initiatives for FY09

- A seminar for all defense counsel was held in October, 2008, to disseminate information regarding claims handling to all program attorneys, risk managers, and claims staff, with focused objectives on early investigation and efficient claims handling.
- The premium incentive program has been increased by 2% and renamed The 6% Prescription; it targets reducing claim frequency by increasing risk management education and loss prevention. The Schools of Medicine and Medical Centers can receive 2% of their premium in grant funds for designated loss prevention initiatives and another 4% of premium rebated based on established performance criteria. Grant funds have been approved for a variety of loss prevention activities including informed consent initiatives, crew resource training programs for healthcare environments

(LifeWings), and patient satisfaction initiatives.

- Additional loss prevention activities, such as providing funds for the systemwide contract initiated by Health and Clinical Affairs with the Center for Patient and Professional Advocacy (CPPA) at Vanderbilt University Medical Center. This program uses Vanderbilt's Patient Advocacy Reporting System™ and intervention services designed to identify and work with physicians at high risk of medical malpractice claims to improve interpersonal skills.

General Liability Program

The General Liability Program provides coverage for claims arising on our premises or from our operations, such as slip and fall claims, or other injuries to third parties that occur in our dormitories, classrooms, and athletic facilities.

The number of new General Liability claims increased by 2% in FY08. As shown in Figure 6, the number of General Liability claims has been steadily increasing over recent years. We remain focused on resolving these claims and have reduced the number of open claims, as shown in Figure 7.

Most challenging are high profile matters involving political activism such as the UC Berkeley tree sitter protests and animal rights activism that threatens the security of University property, our researchers, and our staff. Of particular concern are efforts by animal rights supporters targeting the personal homes and property of faculty researchers. The general liability program has begun to respond and cover security requests and damage to property caused by these incidents.

In the aftermath of Virginia Tech and Northern Illinois University, UC must also prepare to minimize the threat of an active shooter or similar activity.

Because general liability claims cover such a broad spectrum of risk, it is a continual challenge to keep the costs down. Payments to third parties are on the rise and the costs to defend these claims are continuing to skyrocket, as shown in Figure 8.

Loss Control Measures

An effective way to reduce risk in the General Liability program is to raise awareness regarding the safety of our premises. OPRS expanded the *Be Smart About Safety* program to include projects and programs that reduce "premises liability risk". The expanded program asks all of our campus partners—EH&S, Physical Plant, Police, Budget, Finance, and Risk—to collaboratively come up with risk reducing solutions. Our actuary predicts similar reduction in the number and severity of general liability claims as seen in the Workers Compensation program.

Program Activities During FY08

- Expanded the University's Risk Summit to include a track for facility and physical plant managers.
- In collaboration with the Office of General Counsel, hosted a conference addressing issues arising from animal rights activism and threats against researchers and staff.
- Identified UC Davis' "active shooter" program as a training tool for all campuses and featured it at the University's Risk Summit.
- Worked with the University's TPA to

Figure 6. GL Claims Opened by Fiscal Year

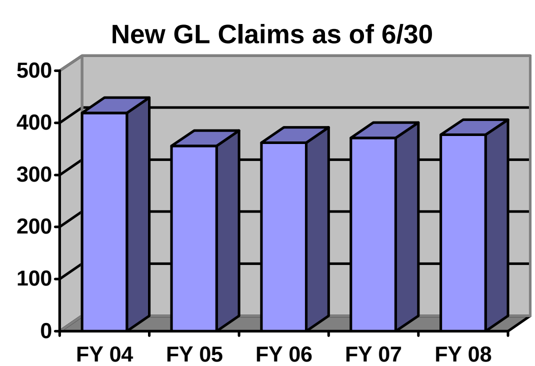
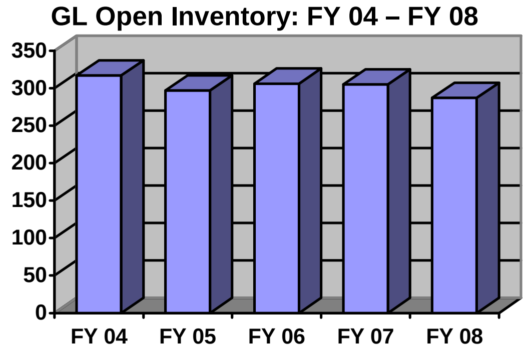


Figure 7. Open GL Cases at End of Fiscal Year



increase subrogation and recovery efforts from responsible third parties.

Threat and Security

Threat and Security issues related specifically to animal activism extremists vary by campus, from printed threats to physical attacks on faculty and staff residences.

According to the FBI and private industry experts, there are "no patterns" to animal activist extremist tactics; therefore, current events are not necessarily predictors for future events. The Police Chiefs address potential security and threat issues at all locations on an ongoing basis based on intelligence gathered from each other and the various interagency groups to which they belong. The same efforts that prevent and mitigate the threats and events arising from animal activist extremists also positively impact workplace violence, active shooter, and mentally ill individuals.

Since expanding coverage for these types of losses in January of 2008, OPRS has managed more than 124 reported claims related to threat and security issues, some related to animal activists, others to violence in the workplace and to internal and external planting of firebombs on campus, among others.

Through various programs in place, services related to security assessment and assistance are available. Campuswide security assessments by outside independent security experts have been completed at UCB, UCD, UCI, UCLA,UCSD, UCSB, and UCSC. We intend to complete all campus assessments during the coming fiscal year.

Travel Program

University faculty, staff, and students travel domestically and internationally to teach, do research, and conduct University business. Most trips take place without mishap. When there is a problem, UC's Travel Insurance program goes into action.

OPRS negotiated a new Travel Insurance Program effective October 1, 2007. This program is broader and more generous than what was previously available and is provided at no cost to faculty, staff, and students.

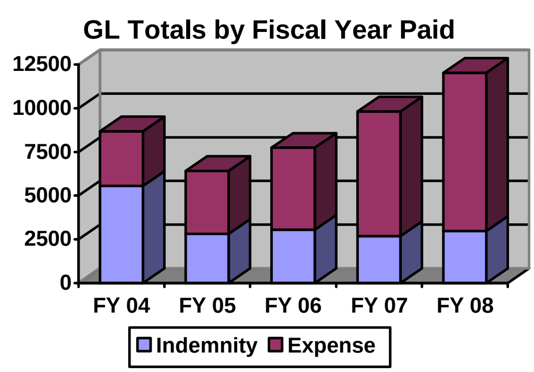
Estimated cost savings for each location will be at least $50,000 because campuses and departments will no longer be purchasing additional insurance separately.

The core benefits of this Travel Insurance Program include:

- Security Extraction
- Emergency Medical Evacuation
- Repatriation of Remains
- Accident/Sickness Medical Expense
- Accidental Death and Dismemberment
- Paralysis and Permanent Total Disability

As part of this program, OPRS must provide travel information to the insurance carrier. Since there is no automated or centralized source within the University, OPRS implemented a web-based travel registration process at

Figure 8. GL Costs by Fiscal Year



uctrips-insurance.org to capture this information systemwide. This registration is critical to maintain the most cost-effective and best coverage possible for the entire University community.

Foundations, Alumni, and Support Groups Program

In keeping with the recent Regental charge:

> "Recognizing the pressing need for greater University Support of the campus alumni programs… the Board urges OP to ensure through policy and action systemwide support." — July 2008, Regents Committee on Educational Policy

For the past 26 months, the Office of Risk Services and Foundation and Alumni Affairs have worked in conjunction with the Regents' insurance broker to evaluate the liability associated with the events and operations of the Foundations and Alumni Associations. Since beginning, we have accomplished the following:

- Systemwide Directors & Officers policy for Foundations
- Crime policy
- Property coverage – blanket policy
- General liability blanket policy – savings on the event portion alone is a minimum of $560,000 a year

In many cases, insurance was simply not being purchased. When coverage is not purchased, losses in most cases falls on the Regents' self-insured program or become unfunded losses for the campuses. Just one incident alone last year impacted the general liability program by $2 million. Putting global policies in place saves costs, improves coverage terms, and ensures coverage for the Foundations, the Alumni Associations, and the Regents.

Auto Program

The University's Auto Program has shown an increase in claim frequency and severity over the past two years, since it was expanded to include physical damage claims. As expected, the number of physical damage claims has increased, as shown in Figure 9; however, the number of physical damage claims reported in FY08 decreased slightly and liability claims continued to decrease.

Total payments for FY08 decreased, as shown in Figure 10; however, adverse experience over the past several years has resulted in an increase in the Ultimate Program Costs. Four pending bodily injury claims with total remaining reserves of approximately $8 million will impact the program in the upcoming years.

Loss Control Measures

Centralizing the physical damage claims has made it clear that many of our single vehicle accidents are preventable through training, education, and awareness. A systemwide Driver and Vehicle Safety workgroup was formed through the Risk Management Leadership Council, with members from each campus in the areas of Fleet, EH&S and Risk Management,

Figure 9. Auto Claims Opened by Fiscal Year

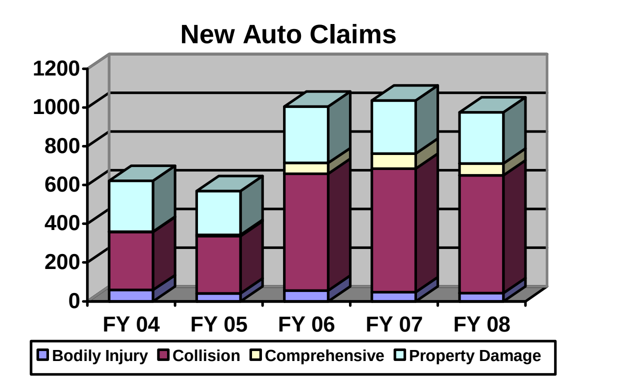
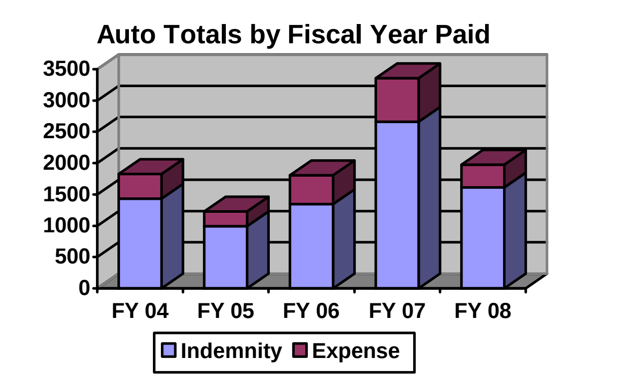


Figure 10. Auto Payment Totals by Fiscal Year



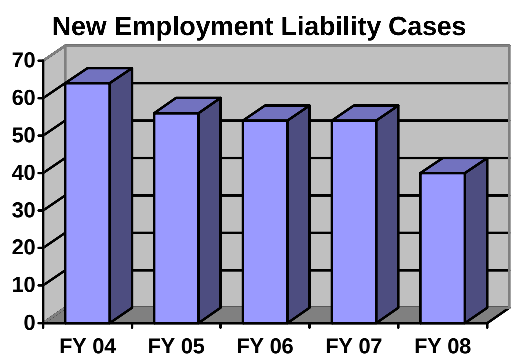
and is currently developing guidelines for a systemwide training program to increase the awareness and skills of all employees, faculty, and students who drive on behalf of the university. Additionally, the University's insurance broker's Fleet Safety Division will be conducting a gap analysis of Fleet Safety at several of the locations. The University's actuary has also worked with clients in the area of transportation and has expressed interest in working with the group to help lower the cost of risk.

The University's *Be Smart About Safety* program has been expanded to include Auto Safety and some of the campus have applied for funding to provide driver safety promotional materials, on-board cameras, backup sensors and driver training.

Employment Practices Liability Program

Employment Practices Liability (EPL) exposures and litigation represents a substantial and growing cost to many employers including UC. This area encompasses a broad range of employment-related claims arising from employee wrongdoing, with the most high profile and often the most expensive among these being sexual harassment, discrimination, and retaliation. The University's actuary projected that the ultimate EPL loss and legal exposure for FY07/08 would be over $18.4 million.

Figure 12. EPL Claims Opened by Fiscal Year



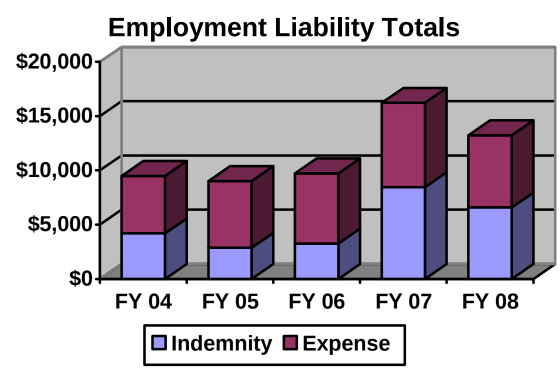
OPRS, in partnership with Office of General Counsel, manages the defense of employment liability lawsuits that are filed against The Regents. New Employment Practice Liability lawsuits opened during FY08 decreased by 26%, as shown in Figure 12, the lowest we have seen in quite a few years.

As shown in Figure 11, the amounts paid to employees (indemnity) is slightly down as well as the amount paid to lawyers to defend the cases. However, spending $13 million in a fiscal year on such matters must be addressed.

Loss Control Measures

OPRS has partnered with OGC to build and reinforce a workplace culture that encourages the professional and ethical treatment of all employees, informs and educates supervisors of relevant legal issues, and reinforces best management practices. This requires implementing programs that may also reduce EPL claims and control losses.

Figure 11. EPL Totals by Fiscal Year

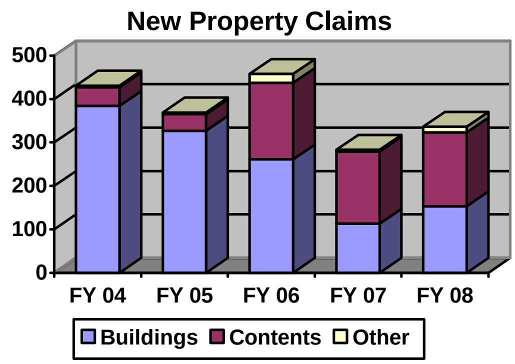


The University's actuaries concluded that implementing a comprehensive EPL loss prevention and cost-reduction program as suggested above could save UC 10% to 20% , or $1.8M to $3.7M, per year. OGC and OPRS are working jointly to develop and implement such a program.

Property Program

Reported values for the University's property assets for FY07, including buildings, contents, equipment, library collections and fine art, are approximately $45 Billion.

Figure 13. Property Claims Opened by Fiscal Year



FY08 saw an increase in claims of approximately 19% over FY07. This increase occurred due to increased reporting; OPRS believes that property claims were significantly underreported before centralization of the program.

Total payments for property claims in FY08 have increased slightly and are anticipated to increase in upcoming years as a result of several pending large losses and significant water and storm damage claims that have occurred this year.

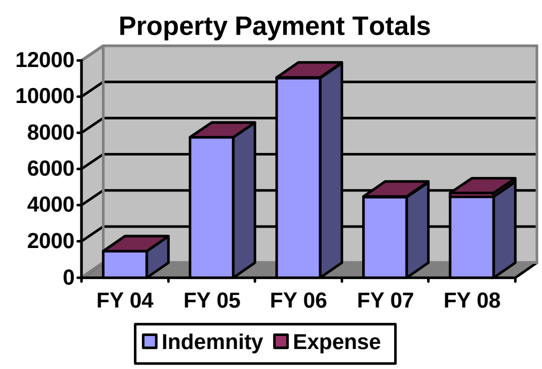
Loss Control Measures

Placing the primary layer of property insurance with FM Global was a major step toward improving property loss control. In 2007, FM Global Field Engineers visited all of the campuses and medical centers to conduct loss prevention reviews and generated Risk Reports with recommendations for improving property loss prevention efforts. FM Global will work with the campuses in addressing the recommendations and will also conduct a Business Impact Analysis to help measure the Business Income losses exposures of the University. They can also provide training and loss prevention programs.

Because Facilities Departments are often not equipped with the manpower or equipment to manage large water losses, OPRS is working with the campuses to improve response time and mitigation efforts with water damage claims through the use of water restoration companies.

The *Be Smart About Safety* Program has been expanded to include Property Loss Control.

Figure 14. Property Payment Totals by Fiscal Year



To improve accurate tracking and reporting of property values, the University will begin a project with our Property Broker, Alliant, and FM Global to obtain current replacement cost and market values for University property, which will be managed on a software program provided by Alliant. OPRS will also explore the integration of deferred maintenance data into this program.

Fine Arts Program

World-renowned collections of art, film, books, and historical objects are located throughout the system with reported values of approximately $14 Billion. These collections are often unique and continue to grow as donations are made.

One newsworthy donation made to UC Santa Cruz this year was a multi-million dollar collection of Grateful Dead memorabilia. Many objects are on display; others are stored and used in various research applications.

Despite the large exposures, the frequency of Fine Arts claims remains low. Claims typically involve damage to objects on loan to the University, which the exhibit loan agreement requires us to insure. The University continues to purchase insurance for both Scheduled Fine Arts, which includes earthquake coverage, and Unscheduled Fine Arts and Library Collections.

Loss Control Measures

The University's Fine Art Insurance Broker held two seminars in January 2008, at Berkeley and UCLA. These included a review of insurance coverage available through the University's policy and discussions regarding Loss Preventions and Best Practices. The seminars were attended by representatives from the libraries, museums, and art departments, including many individuals who will be participating in the Risk Management Leadership Council's Fine Art Workgroup.

Construction Program

The University generates one of the largest volumes of construction in California, with active projects in excess of $7 billion per year. OPRS provides oversight for construction-related insurances jointly administered with the Capital Projects and Facilities, Design and Construction offices at each location.

OPRS and the insurance broker provide training sessions at locations systemwide to improve awareness of construction risks and understanding of the insurance. The insurance company also routinely conducts loss control visits to construction sites and advises on measures to be taken to reduce the risk of loss, and can advise on any construction project that may present significant or unusual risks.

One way to reduce costs is by the University purchasing the insurance rather than the general contractors. The University's Master Builder's Risk program provides builder's risk insurance, which covers loss or damage to a project during the course of construction. It offers favorable rates over what a general contractor can provide, which translates into lower insurance premiums.

Insurance cost savings can also be achieved through an Owner Controlled Insurance Program (OCIP). Traditionally, the contractor/sub-contractors provide the insurance, then charge the University for the cost, which usually includes an additional profit margin (and may also include independent agent and broker commission). Under an OCIP, the University as project owner secures the insurance for the entire construction project, including the General Liability, Excess Liability, and Workers' Compensation insurances for the general contractor and all sub-contractors.

Typically 1-3% of total project cost can be saved through an OCIP program.

Only a handful of projects are in an OCIP. The main "roadblock" to increased participation in an OCIP is the delay for release of premium savings to the locations. We are working on developing a financial vehicle that will securitize the funds, reserve for losses, and release a significant amount of the premium at the close of the project rather than the current ten-year waiting period.

VI. Prevention and Loss Control

In addition to our *Be Smart About Safety* program, OPRS is responsible for the following programs:

Emergency Management Program

The Emergency Management (EM) programs at the UC campuses and medical centers are staffed by multi-disciplinary personnel in public safety, EH&S, and independent emergency management offices. UC is one of only a few higher education institutions in the nation that have voluntarily adopted the comprehensive and widely endorsed National Standard on Disaster/Emergency Management (NFPA 1600, rev. 2007) as its benchmark to self-assess its programs. Our annual Emergency Management Status Report can be found on the UC systemwide emergency management webpage at www.ucop.edu/facil/pd/emergprep/syswidemgt.html

In addition to overseeing and coordinating systemwide emergency preparedness, the OPRS Emergency Management program manages all UC homeland security grant funds, coordinates annual meetings of all systemwide emergency management personnel, and serves as UC's liaison on multiple

State Office of Emergency Services (OES) committees. OPRS also staffs the UCOP Emergency Manager position and maintains the UCOP Emergency Operations Plan to support continuity of governance/operations of the University's senior executives.

To learn more, visit the UCOP emergency preparedness webpage at www.ucop.edu/facil/pd/emergprep/welcome.html

Environmental Due Diligence Program

OPRS manages the systemwide environmental due diligence program to assess and manage hazardous materials-related risks related to all University property transactions, including acquisitions, sales, and gifts/bequests of real property to the Regents and Campus Foundations.

In FY08, approximately twenty environmental site assessment property investigations were conducted for campuses, foundations, and the Regents, resulting in significant environmental consultant cost savings. In addition, numerous third-party and consultant site assessment reports were reviewed and evaluated, and technical advice was provided to systemwide real estate and legal personnel.

Continuity Planning and UC Ready

We are working to implement UC Ready, the award-winning business continuity planning program and software tool developed by UC Berkeley, which is being adopted by all campuses, medical centers, and the Berkeley laboratory.

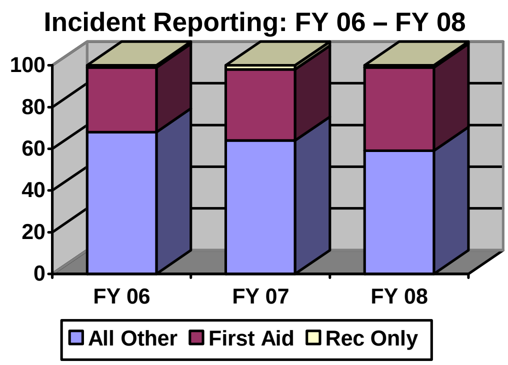
The software workgroup is currently refining the program, which will help increase collaboration between administrative functions and emergency management to ensure appropriate and timely response to incidents and that each location is "event ready". Finalization and implementation of the systemwide software tool is scheduled for early 2009. Systemwide implementation of the complete program (software, UC Ready coordinators, support staff, training, etc.) is expected by 2010.

Incident Reporting

We are working to develop and implement a systemwide customized Event Reporting System (ERS). For safety and legal compliance purposes, the University requires that all incidents (aka "Events") be reported and reviewed. For maximum reporting and accurate data capture percentage, the ability to report needs to be made web-based, with easy access and user-friendly entry screens.

The ERS will be implemented as part of iVOS, which is currently used for claims administration by the University's third party administrator, Sedgwick CMS. When the project is complete, the iVOS database will be the end data capture repository of the entry data, for continued followup, reporting, and closure of the Event.

Figure 15. Incident Reporting FY06 – FY08



UC Office of the President Be Smart About Safety

In 2006, UCOP initiated a new employee safety program, *Be Smart About Safety*. This program trained 48 department safety officers who in turn conduct mandatory monthly safety meetings and quarterly area inspections, maintain safety bulletin boards, and assist in mishap investigation. During its first three years, this new program has trained over 80% of UCOP employees in numerous safety-related topics, including ergonomics, office safety, lifting, travel safety, workplace violence, chemical and biological hazards, food safety, UCOP AED program, fire and earthquake safety, and response to an active shooter incident. After three years this program continues to create an awareness and energy for safety at UCOP and has created a new awareness and energy for employee safety at UCOP. In 2007, UCOP had the lowest total loss index systemwide; the UC average was 54.45, while UCOP's index was 2.86.

Environmental Health and Safety Program

The EH&S departments at each location are the primary contact for local, state, and federal agencies to inform the campus communities of regulatory requirements and to perform compliance functions related to EH&S. EH&S departments handle requests for information, training, regulatory interpretation and applicability, approval of potentially hazardous procedures, resolution of safety problems, and surveillance and monitoring, and serve as the campus workplace safety consulting resource. They are working partners in campus advisory groups such as the Chemical Safety Committee, the Radiation Safety Committee, the Animal Use and Care Committee, the Biological Safety Committee, and many other administrative and research committees. The EH&S departments also interface with all campus departments to ensure their activities are successful and safe.

EH&S Program Results

During CY 07 systemwide averages in almost all areas of Cal/OSHA reporting decreased. (OSHA regulations require that data be reported on a Calendar Year basis, not Fiscal Year.) The overall performance index moved from 59.3 to 54.5.

For more details, see the "Environment, Health, and Safety" section of the Risk Services web page at www.ucop.edu/riskmgt/ehs/welcome.html.

Appendix A. University Risk Financing Policy

Approved January 16, 1970; revised September 22, 2005

1. Recognizing that the University of California is exposed to various property and liability risks which either may be insured or not insured, in whole or in part, it is University policy with respect to the financial management of such risks to:
   a. evaluate risk primarily from the standpoint of the entire University, rather than a single campus or department;
   b. eliminate or modify conditions and practices, whenever practical, which may cause loss;
   c. assume risks whenever the amount of potential loss would not significantly affect the University-wide financial position;
   d. insure risks whenever the amount of potential loss would be significant; and
   e. purchase insurance from whichever insurance carrier is deemed to be in the best interests of the University.
2. The President is assigned the authority and responsibility for:
   a. coordination of the University risk management program;
   b. purchase of all property and liability insurance, including selection of sources; and
   c. administering all University insurance programs.
3. In determining what constitutes a significant loss, the President will rely on a Biannual Risk Retention Study to determine the appropriate level of risk retention. Exceptions to these guidelines may be made by the President when:
   a. it is desirable to buy special services, such as inspection or claim adjustment services, in connection with insurance;
   b. insurance is required by law or contractual agreement;
   c. deductible insurance or non-insurance does not satisfy the test of economic feasibility;
   d. insurance is not available;
   e. insurance is not available on a financially sound basis;
   f. in the judgment of the President, an exception is deemed to be in the best interests of the University.
4. In purchasing insurance, the President will use the following guidelines:
   a. insurance negotiations will be conducted by a qualified broker on behalf of the University;
   b. selection will be based on quality of protection and services provided and the ultimate cost, in that order;

c. the University will maintain a competitive atmosphere, but with continuity of relationships with insurance sources unless a significant reason for change exists.

Appendix B. Policy on Settlement of Claims and Litigation

Effective July 20, 2000

1. As used in this Policy, the following terms shall have the meaning specified:
   a. "Claim" shall refer to any demand for payment which is disputed in whole or in part and is made other than through litigation. Commercial negotiations to adjust amounts payable under a contract shall not be treated as "claims."
   b. "Litigation" shall refer to legal proceedings in the form of a lawsuit, arbitration proceeding, or internal or external administrative proceeding.
2. Settlement Authority of the President

The President shall have authority to settle claims when the consideration paid or received by the University shall have a value not in excess of $100,000. Settlement of claims when the consideration paid or received by the University exceeds $50,000 shall require the concurrence of the General Counsel. Settlement of claims by the President shall be subject to appropriate funding.

3. Settlement Authority of the General Counsel

The General Counsel shall have authority to settle claims and litigation when the consideration paid or received by the University shall have a value not in excess of $250,000. Settlement of claims or litigation by the General Counsel shall be subject to appropriate funding.

4. Reporting of Settlement Actions

The following reports of settlement actions shall be submitted to The Regents:

   a. Annually by the President, all settlements of claims.
   b. At each regular meeting of The Regents by the General Counsel, all settlements of claims and litigation when the consideration paid or received by the University has a value between $50,000 and $250,000.

At each regular meeting of the Regents by the General Counsel, all settlements of claims and litigation approved by the Chairman of the Board and the Chairman of the Committee on Finance pursuant to section 5.a. hereof.

5. Settlement Actions Reserved to The Regents

The following proposals for settlements of claims or litigation shall be submitted to the Chairman of the Board and the Chairman of the Committee on Finance or to The Regents for prior approval:

   a. To the Chairman of the Board and the Chairman of the Committee on Finance, settlements when the consideration to be paid or to be received by the University has a value between $250,000 and $500,000.
   b. To The Regents, settlements when the consideration to be paid or to be received by the University has a value in excess of $500,000.
   c. To The Regents, settlements of any amount involving significant questions of University policy.

All settlement proposals shall be accompanied by the recommendation of the General Counsel and a statement of the applicable fund source.