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INFORMATION REPORT

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

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, 2006.

1. 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. All members obtain loss coverage through M.U.S.I.C. for their general liability, errors and omissions liability, property, automobile (liability and physical damage) and nonowned aircraft liability insurance.

For the general liability, and errors and omissions liability programs there are three levels or layers of loss coverage as follows: a) member retentions, b) M.U.S.I.C. retentions and c) insurance coverage from excess insurance carriers.

More information about this loss coverage structure is available in the Report on page 24, Footnote 6 - Loss Coverages.

Additionally, M.U.S.I.C. provides coverage for activities carried out in foreign countries and medical malpractice coverages for certain individual members through a group purchase program. The University obtains its coverage for activities in foreign countries through this program.

2. 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.

Recent benchmarking data prepared by Marsh U.S.A., Inc. (Marsh), the facility manager, suggests that M.U.S.I.C. premiums are less than one could obtain in the traditional insurance markets, and substantially less for general liability and auto/property insurance programs. M.U.S.I.C. deductibles are also considerably less for its property insurance program and its aggregate coverage for its general liability coverage is considerably greater than that for the same price available in traditional insurance markets.

One recent example of the benefit of participating in M.U.S.I.C. has been in the Automobile Physical Damage Program. For the fiscal year beginning July 1, 2004, M.U.S.I.C. dropped its commercial insurance for this program and implemented a self-insured program with a new funding and administration structure. To date, the results of this program have been favorable.

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. M.U.S.I.C. is an excellent example of the benefits that can be achieved by joint action among Michigan public universities.

3. The overall administration of M.U.S.I.C. is handled by a facility manager, with assistance from various other service providers. Staff from each member institution chair or serve on various committees that oversee M.U.S.I.C. operations and provide general supervision to the facility manager, currently Marsh U.S.A, Inc. (Marsh). The university staff members serving on these committees are a critical element in the success of the organization.

In 2005-2006, M.U.S.I.C. retained an insurance consulting firm, Ken Beres Consulting, Inc. to conduct an administrative audit of the facility manager, Marsh. In the consultant's opinion, Marsh is providing excellent service, and performing the duties as provided by the facility manager agreement. They also concluded that Marsh is charging a reasonable fee for these services, and one that they believe would be difficult for other firms to match.

4. Last year, M.U.S.I.C., as well as most other entities that purchase commercial insurance, faced some limited improvement in the difficult insurance markets of prior years. M.U.S.I.C.'s results continued to be better than the traditional insurance market. However, the large

property losses due to the hurricanes in 2005 did have some adverse impact on the cost of property insurance for the 2006-2007 policy year.

5. Page 14 of the Annual Report shows you that M.U.S.I.C.'s FY 2006 financial operations resulted in a \$1.3 million increase in members equity, despite payment of a \$2.1 million dividend to members. As of June 30, 2006, M.U.S.I.C. had a surplus of \$17.1 million, including net income of \$3.4 million for fiscal 2006, due to favorable current and prior years claims experience and investment income.

At the December 2006 M.U.S.I.C. Board meeting, it was decided to return \$1.6 million of this surplus to the member institutions as dividends. (M.U.S.I.C.'s actuary has calculated that the University's portion of this dividend will be \$261,000.) 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 in the future 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.

6. M.U.S.I.C.'s philosophy of promoting loss control and claim management continues to be instrumental in mitigating premium increases. M.U.S.I.C. 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 of the past year's symposium was "Suicide Awareness" and it was attended by 105 M.U.S.I.C. institution staff whose offices would potentially deal with this matter. 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 loss history with an eye to future programs and has selected the area of "Managing Construction Liability" for the 2006-2007 loss control theme.

In 2005-2006, M.U.S.I.C. initiated its first Corporation wide comprehensive review of risk exposures since the formation of MUSIC in 1987. The purpose of this review is to identify new exposures which have emerged as well as the common and uncommon exposures of the member universities. Marsh Risk Consulting is conducting this study. There has been some delay in completing the study due to consultant turnover at Marsh.

7. M.U.S.I.C. continues to be significantly beneficial to the University. Table A provides comparisons of the current programs to the respective last year the University purchased commercial insurance. 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 \$1.6 million pending dividend discussed in Section 5, total dividends of \$24.7 million will have been returned to the member institutions. Including the pending dividend, the University will have received \$3.3 million in dividends. It should be noted that dividends aren't typically available under commercial insurance programs. Moreover, M.U.S.I.C. continues to have coverage that is broader than any available in the traditional insurance market place, and some of which are not otherwise available at any price.

TABLE A

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

| | Commercial Insurance (Prior to M.U.S.I.C.) | M.U.S.I.C. Program |
|----------------------------|---|--------------------------|
| CASUALTY PROGRAM | (Last Purchased 1986-87) | (2006-2007) |
| General Liability | | |
| Limits | \$10 Million/\$10 Million | \$2 Million/\$6 Million* |
| Retention | \$500,000 Ea. Occurrence | \$405,563 Aggregate |
| Excess Liability | Did Not Have Coverage** | \$100 Million* |
| Total Limits | \$10 Million | \$106 Million |
| Premium | \$404,280 | \$573,596 |
| Errors & Omissions | | |
| Limits | Did Not Have Coverage** | \$2 Million/\$6 Million* |
| Retention | Did Not Have Coverage** | \$536,829 Aggregate |
| Excess Liability | Did Not Have Coverage** | \$10 Million* |
| Total Limits | Did Not Have Coverage** | \$16 Million* |
| Premium | Did Not Have Coverage** | \$200,876 |
| PROPERTY PROGRAM | (Last Purchased 1988-89) | |
| Amount of Coverage | \$787,375,000 | \$1,861,775,720 |
| Deductible | \$50,000 Each Occurrence | \$50,000 Each Occurrence |
| Rate | .035/\$100 | .04/\$100 |
| Premium | \$274,763 | \$742,199 |
| AUTOMOBILE PROGRAM | (Last Purchased 1990-91) | |
| 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 | \$ 38,678*** |

* 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.

***Include State lease vehicle premium of \$14,800.