INFORMATION ONLY: **Insurance Update**

The 2021-22 insurance renewal is now complete with respect to our liability/travel, property, and athletic coverage. Similar to the previous year, market conditions resulted in a significant increase in premium costs, and we continue to experience pressure to lower limits and raise deductibles. Overall, we experienced a 32% increase in total premiums for our liability/travel, property, and athletic coverage. The increase of approximately $345,000 would have required a tuition increase in excess of 1% just to keep pace.

ATTACHMENTS:

- Update of Insurance Renewal Outcomes (PDF)

Insurance Renewals
2021-22

The 2021-22 insurance renewal is now complete with respect to our liability/travel, property, and athletic coverages. Similar to the previous year, market conditions resulted in a significant increase in premium costs, and we continue to experience pressure to lower limits and raise deductibles. Overall, we experienced a 32% increase in total premiums for our liability/travel, property, and athletic coverage. The increase of approximately $345,000 would have required a tuition increase in excess of 1% just to keep pace. A 5-year summary of the premiums for the system in reflected in the table below:

5-Year Premium History					
	2017	**2018**	**2019**	**2020**	**2021**
Liability/Travel	$ 293,258.00	$ 310,265.00	$ 325,312.00	$ 364,460.00	$ 467,641.00
Property	$ 196,902.69	$ 208,576.58	$ 247,829.80	$ 455,571.00	$ 685,016.00
Athletic	$ 298,378.00	$ 287,355.38	$ 274,159.38	$ 254,159.38	$ 266,386.50
Total Premium	$ 788,538.69	$ 806,196.96	$ 847,301.18	$ 1,074,190.38	$ 1,419,043.50

<u>Liability and Travel Policies</u>

We experienced the largest increases with respect to our Educators Legal Liability and our Cyber Liability coverages. Our 41% increase in premiums for ELL are substantially due to our loss history. Additionally, several states have begun to remove or extend statutes of limitations related to sexual molestation and assault and insurer have responded by placing time limits on coverage. Due to a dramatic increase in ransomware attacks in recent years, including the Solar Winds attack, we experienced a larger than anticipated increase in our Cyber Liability coverage of approximately 86% from $78,510 to $146,375. In the past, our increases in this line of coverage have typically been approximately 5% annually. Due to the wholly unexpected and substantial increase in premiums for Cyber Liability, the System Office absorbed $67,801 of the increase for a single year by using funds from the NeSIS cash fund. This will provide the colleges with additional time to adjust budgets to absorb the increase. We will be working with Aon, our broker, to explore ways to improve our position for next year's renewal.

<u>Property</u>

During the 2021-22 renewal, we notified the MHEC Property Program the NSCS intended to go to market with our property insurance program after experiencing an 84% increase last year and increases to the deductibles related to hail/wind/tornado coverage. Additionally, we explored the possibility of participating in the property insurance program through State Risk Management. Our revenue bond buildings cannot be insured through the state program and the State's insurer declined to provide a bid for the inclusion of our state buildings as part of the State Risk Management Property Program. After going to the market, the best proposal we received came from Travelers and included a rate of .1146 for a total annual premium of $820,431, a general deductible of $100,000 and a 3% wind/hail deductible per building.

In July, MHEC provided an estimated premium with respect to the property insurance program of $530,600, which was lower than we had expected but as those are preliminary only and subject to change and did not include broker fees or surplus lines taxes. In the past, we rarely see much change in the premium amount. Unfortunately, that was not the case this year. Ahead of receiving the invoice, we received a call from Marsh who administers the MHEC program at which time they explained that costs associated with the loss layer (which is the first $1M of coverage of the program) were substantially higher than anticipated. As a result, our $530,600 premium increased to $685,016, a 60.26% increase from last year. Once surplus taxes were included our total invoiced cost are $697.487.87. (Broker Fees are handled separately and are included as consulting fee below). We had no notice that this increase was anticipated.

We conveyed our frustration about having such substantial and unanticipated increases 2 years in a row and the lack of transparency. The University has left the MHEC Property Program. Additionally, we learned:

- During this year's renewal program participation dropped from 84 members to 35 members.
- ¾ of the insured value in the program filed an intent to market for this last renewal.
- The large increase from preliminary premium estimates to final invoice were due almost entirely to the loss fund and caused by the large exodus from the program.
- Zurich will be conducting loss control inspections of every member this year and they are making a strong push to respond to recommendations.

The structure and timing of the renewal process, and the fact that we are not receiving premiums and coverage details until after we are required to commit, make it impossible for us to make a meaningful comparison or pursue another option when we receive a change so late.

<u>Next Steps</u>

The State provided the NSCS with additional funding of $200,000 for FY22 specifically earmarked to cover insurance cost increases. The difference between the cost increase and the funding increase is a shortfall of $144,853.12. The System Office will be looking at our health insurance cost increase when it is available in October to determine whether or not we should submit a deficit budget request which would include the shortfall of $144,853 with respect to the current year's property/liability premiums and the health insurance cost increase.

In order to reduce or at a minimum stabilize costs, we will need to explore substantial increases in deductibles or lower limits. Market forces are not expected to improve and requiring the Colleges to maintain higher reserves to cover substantially higher deductibles is inefficient and diverts resources from other initiatives that more directly impact students and employees. Therefore, we have begun to explore the possibility of establishing an insurance trust similar to those operated by the University. The trust would operate as the initial layer of coverage for property and liability and allow us to increase retentions and make us more competitive in the marketplace.

Establishing an insurance trust would require enabling legislation; actuarial services to determine the necessary funding level; an initial funding source; a trust agreement; and operational policies and guidelines. In order to process claims, we would need to contract with a 3rd party administrator or have additional staff. We do not anticipate this trust taking on workers compensation, health insurance or vehicle insurance.

We will continue risk management efforts and work with our brokers to ensure we are in the best possible position for the 2022-23 renewal.