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STATE OF ALABAMA
Department of Finance
Division of Risk Management

Comprehensive Annual Report
For the Fiscal Year Ended September 30, 2003



Bob Riley
Governor

Drayton Nabors, Jr.
Director of Finance

Jerry Carpenter
General Counsel

Kim Huggins
Acting Risk Manager

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MESSAGE FROM THE RISK MANAGER

The 2003 Annual Report provides detailed statistical and financial data regarding the Division of Risk Management's performance in FY 2003. An important part of DORM's operation is successful investment of the equity of each trust fund. Strong investment returns help hold down premiums paid by our client agencies, and assure strong response when disaster strikes.

The Division of Risk Management provides the following services to our clients:

- **The State Insurance Fund (SIF)** provides quality property insurance for state properties, colleges and universities and most public school systems.
- **The General Liability Trust Fund (GLTF)** protects state employees who are subjected to lawsuits arising from the performance of their job duties.
- **The State Employee Injury Compensation Trust Fund (SEICTF)** covers state employees for lost time and medical expenses resulting from accidental injuries while on the job.
- **The Employee Assistance Program** provides counseling and referral for employees with problems that affect job performance.
- **Risk Management Services** delivers an array of skilled services designed to avoid loss, both human and financial.

The 2003 operations of each of these major areas are outlined in this report.

The constant operating philosophy of the Division is that we are a service organization whose objective is to best meet the needs of our client state agencies. Our staff is productive, professional and motivated. We all look forward to serving our clients even better in 2004.

Kim Huggins
Acting Risk Manager

STATE INSURANCE FUND

The State Insurance Fund (SIF) was established in 1923 to provide secure, adequate and economical property insurance on State-owned properties. Our operation closely parallels that of private industry insurance companies in the following ways:

- We establish rates, premium discounts and experience credits to result in equitable premiums charged to the policyholders.
- We adjust and pay losses promptly, recognizing that the SIF has a high obligation to its policyholders due to the legislative act that brought us together.
- We purchase Excess Insurance up to \$500 million per occurrence to protect the State from disasters such as hurricanes and tornadoes.
- We survey properties for safety, loss prevention and property cost evaluations.
- We invest our premiums to keep future costs low and to build fund equity.

SIF clients whose properties have been inspected are offered blanket replacement cost coverage for qualified buildings. This valuable coverage provides full replacement cost coverage in the event of a total loss no matter what insured value is shown. Other valuable coverages are Extra Expense, Electronic Data Processing coverage and Boiler & Machinery which is reinsured by The Travelers.

FY2003 was an active claims year for the fund. Excess Insurance reimburses our losses after \$3,500,000 per occurrence and \$7,500,000 yearly. We are currently being reimbursed for many of our losses and that will continue until all claims are closed. Some of the larger losses for FY2003 are listed below:

- 11/5/2002 – Henry County Board of Education suffered major destruction to Abbeville High School by a tornado. Total incurred loss is \$3,715,499.00
- 11/10/2002 - Walker County Board of Education also sustained extensive damage to Carbon Hill Elementary/Jr High by a tornado. Total incurred loss is \$3,454,761.00
- 12/24/2002 - Wind and lightning storm resulted in various losses totaling \$1,292,919.00
- 4/25/2003 – Lightning and hail storm resulted in various losses totaling \$1,066,205.00
- 5/15/2003 – Etowah County Board of Education sustained extensive damage to their Highland Elementary School building by fire. Total incurred loss is \$2,989,679.00

The SIF is on the right course and will continue its fundamental plan. We recognize the financial obligation arising from extraordinary growth in insured values. In 1995, we insured \$11.8 billion in values. Today, we insure approximately \$25 billion in values. This means our fund equity and financial structure must be adequate to respond and we believe we are positioned to meet the financial demands that are certain to occur in the future.

Values Table			
FY	Statewide Insured Values	Value Increase From Previous Year	Increase
2003	24,499,362,104	2,641,099,820	10.78%
2002	21,858,262,284	1,968,635,457	9.01%
2001	19,889,626,827	1,201,401,396	6.04%
2000	18,688,225,431	1,114,330,758	5.96%
1999	17,573,894,673	2,256,317,091	12.84%
1998	15,317,577,582	1,228,452,640	8.02%
1997	14,089,124,942	876,473,448	6.22%
1996	13,212,651,494	1,414,164,335	10.70%

Property Claims Summary Table				
Incurred Losses				
	Number of Claims		Incurred Losses - FY 2003	
Perils	FY 2002	FY 2003	Amount	% of Total
Fire	81	41	\$ 4,151,616	22.33%
Lightning	253	443	\$ 2,559,447	13.76%
Wind	90	239	\$ 8,379,737	45.06%
Burglary	105	116	\$ 195,971	1.05%
Vandalism	29	32	\$ 52,335	0.28%
Hail	5	61	\$ 2,217,613	11.93%
Vehicle	25	20	\$ 30,844	0.17%
Water	72	98	\$ 697,236	3.75%
Boiler & Machinery	17	16	\$ 56,140	0.30%
Collapse	2	4	\$ 10,100	0.05%
Freeze	4	30	\$ 178,577	0.96%
EDP	2	6	\$ 15,500	0.08%
Other	5	11	\$ 51,111	0.27%
Totals	690	1,117	\$ 18,596,227	100%

Claims Summary

	FY 2003	FY 2002	FY 2001	FY 2000
Claims Handled	1,117	690	1,035	840
Outside Adjusted	448	268	538	392
Inside Adjusted	669	422	497	448
Average Claim Size	\$ 16,648	\$ 12,866	\$ 9,110	\$ 8,711

GENERAL LIABILITY TRUST FUND

State employees are subject to being sued for their actions in performance of their official duties. The General Liability Trust Fund (GLTF) defends and indemnifies eligible employees for up to \$1 million per occurrence. Coverage is broad and includes automobile liability.

The GLTF sets aside a monetary reserve for each claim in the amount of the ultimate expected loss. Defense is conducted by the Office of the Attorney General in collaboration with GLTF.

Employee Automobile Liability

GLTF provides liability coverage for the operators of more than 7,000 state owned vehicles. These include trucks, tractor-trailer rigs, state trooper and other law enforcement cars, buses and service vehicles, as well as passenger cars. All claims are adjusted by the American Southern Insurance Company.

In addition, more than 6,000 employees regularly use their personal autos in their state jobs. For these individuals, the GLTF coverage is excess of their personal auto insurance. Finally, all state employees are covered for use of any vehicle on state business in the line and scope of employment, whether they regularly do so or not.

Auto Exposure Table

Class	Description	Number of Vehicles Insured				
		FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
001	Private Passenger	1,782	1,971	1,899	1,803	1,854
002	Pickups & Vans	2,865	2,845	2,783	2,390	2,467
003	Trucks & Tractors	1,339	1,340	1,400	1,231	1,310
004	Law Enforcement	981	1,021	1,018	1,056	982
005	Buses	456	499	509	481	469
	Total Vehicles	7,423	7,676	7,609	6,961	7,082

STATE EMPLOYEE INJURY COMPENSATION TRUST FUND

The State Employee Injury Compensation Trust Fund (SEICTF) pays medical costs for on-the-job injuries and compensates injured employees for resulting lost work time. This program is similar to the private sector workers' compensation program.

In 2003:

- Subrogation recoveries exceeded \$202,000.
- There were no recoveries from the excess insurance carrier.
- There was no increase in rates charged to client agencies. Rates charged remain close to half the NCCI loss cost rates for private sector workers' compensation insurance in Alabama.
- There was no increase in administration fees charged to self-funded client agencies.
- Claims administration and management successfully transitioned from a contracted third-party administrator to a staff of merit system employees allowing total management by the in-house staff. Operating expenses were reduced and resulted in a 30% savings of \$1,866,103.
- Collection of prior year charges resulted in additional revenues of \$1,971,305.
- Consultation was provided to State agencies to assist in prevention of exposures and appropriate response when workers are exposed to infectious materials.
- Completed project to vaccinate DOC and DPS personnel at increased risk for exposure to Hepatitis B. Over 3,400 immunizations were administered.
- Early Return to Work initiatives resulted in 180 lost time claims compared to 250 in 2002.

RISK MANAGEMENT SERVICES

Pursuit Driver Training Courses for covered law enforcement personnel are available to state agencies through DORM.

A Boiler Operator Training Course for boiler operators and maintenance personnel is conducted annually at no cost for agencies which participate in the State Insurance Fund. The course focuses on proper maintenance and safe operation of pressurized equipment. The 2003 course was attended by more than 100 agency representatives.

More than 2,800 boilers and other items of pressurized equipment were inspected during 2003. These inspections assist agencies in identifying and correcting conditions that could result in sudden breakdown, property damage and personal injury.

Two seminars for state attorneys who defend General Liability Trust Fund cases were co-sponsored by DORM and the Office of the Attorney General.



THE EMPLOYEE ASSISTANCE PROGRAM

The State Employee Assistance Program (EAP) provides services to 112 state agencies and departments covering more than 22,800 employees and family members.

The EAP operates similarly to most broad based EAP services in the private sector. The program is designed to help employees become more effective in their job performance by providing professional, confidential counseling and assistance with various problems. EAP deals with issues such as supervisor/employee conflict, personal finances, marital and family disruptions, drug and alcohol abuse, and emotional and mental stresses.

In 2003:

- There were 140 intake assessments, 240 cases overall and 350 follow-up visits. A total of 803 service hours were provided to clients.
- Females represented 59% of clients, males 41%. Family members of employees represented 21% of total participation.
- 41% of clients were minority individuals.
- Emotional problems were the most frequent primary issue for clients (48%), followed by marital/family issues (17.5%) and work-related issues (10%).
- 17% of clients had 16 or more years of state service.
- Supervisor/employee conflict was the most frequently reported work performance problem, followed by (2) problems with fellow employees and (3) quality/quantity of work performed.
- 33% of clients became aware of the program's services through their supervisor.
- 25% of clients had some college education, 33% had a college degree, and 7% had an advanced degree.
- 72% of clients are between the age of 35 and 59.
- 49% of clients are married.

Financials start here.

Staff

ACTING RISK MANAGER

Kim Huggins

ADMINISTRATIVE

Marilyn Tucker
Joyce Gassett
Laura Robinson

INFORMATION SYSTEMS

Becky Cole
Sharon Henderson

CLAIMS

Kim Huggins
Leigh Warner
Dorothy Roberts
Teresa Nobles

EMPLOYEE ASSISTANCE

Sam Boswell

LOSS CONTROL

Jack Pierce
Walter Cooper
Harper Pruett
Ken Barnett
Matthew Payne

UNDERWRITING

Carl Walter
Dale Whittle

EMPLOYEE INJURY

Mike Jarrett
Pete Maddock
Sandra Landers
Ann Jackson
Chemeka Williams
Dorothy Kelly
Georgia Ivey
Gwen Owens
Hugh Gale
Kitty Berrey
Kristi Kelley
Lou Scholl
Paula Cole
Paulette Weeks
Rosanna McHargue
Sirena Sheridan
Sue Willis
Tammy Sasser
Tracy Dumas