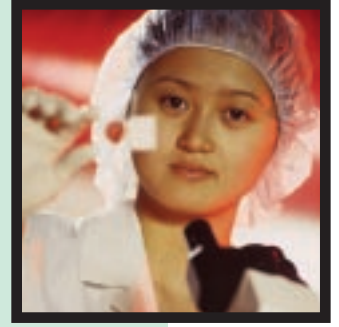


# 2003 TMAIT

TMAIT 2003 Annual Report



**Texas Medical Association  
Insurance Trust**

*Created and endorsed by the Texas Medical Association*



*While the improving economy and the impressive gains by Texas physicians in the Texas Legislature should brighten prospects for our TMAIT members, the health care field remains volatile.*

*The environment for health insurance across the country continues on the difficult course that it has been on since 2000. While conditions may have improved a little, they remain far from satisfactory.*

*The biggest development during the year 2003 was the transfer of the TMAIT health plans for individual members to Blue Cross Blue Shield of Texas.*



In today's world, every year is exciting and challenging in the insurance business. Certainly, this was the case for the Texas Medical Association Insurance Trust in 2003. While the improving economic climate and the impressive gains scored by Texas physicians in the Texas Legislature should brighten prospects for our members, the health care field

remains volatile. The complex issues resulting from this volatility kept us busy throughout the year.

### **Program's Financial Strength Increases**

Financially, 2003 was another successful year. Overall, the Program experienced a gain of \$1 million. This brings the total gains for the period 1998-2003 to \$28 million. The positive results of the last six years stand in sharp contrast to the period 1994-1996 in which the Program lost \$24 million. As a result of the favorable experience, the Program's Premium Stabilization Fund (PSF) has increased from approximately \$4 million at the end of 1997 to more than \$32 million at the end of 2003, an all-time high.

One constant over the last five years has been the extremely poor conditions existing within the health insurance industry. The environment for health insurance across the country continues on the difficult course that it has been on since 2000. While conditions may have improved somewhat, they remain far from satisfactory. The growing cost and utilization of health care, health care services and pharmaceutical products continue to drive the cost of health insurance upward at double-digit rates. Obviously, the health insurance coverage offered by the Trust is not immune to these forces. As a result, we see the cost of our products escalating rapidly right along with the cost of products offered by our competitors. We were forced to increase rates in May 2003 in order to generate the additional revenue required to cover the rising expenses.

The high and rapidly growing cost of health insurance continues to have an adverse impact on the Trust. When we are forced to raise our premiums for health insurance coverage as we have over each of the last five years, our members find it necessary to shop for other coverage. Some may be successful in finding something less expensive, although we sincerely doubt that they find anything of equivalent quality. Nevertheless, when a member decides to change health insurance carriers he/she often decides to change carriers for his/her other products as well. This creates a good deal of churning within the insurance market as our members search for less expensive coverage. The result is that the Trust is constantly locked in a battle for the loyalties of its membership. Movement of members in and out of the Trust makes operations here more difficult, just as it creates disruption in the insurance portfolio of our members.

### **Blue Cross Blue Shield of Texas**

The biggest development during the year was the transfer of the TMAIT health plans for individual members to Blue Cross Blue Shield of Texas (BCBSTX) effective November 1, 2003. (Although we have moved the individual plans to BCBSTX, we still write some of our employer group business with Aetna.) The health plans were insured by Prudential from 1969 until Aetna



purchased Prudential Health Care in 1999. As a result of the purchase, the health plans were transferred to Aetna, which provided the coverage over the next four years. The Trustees believe that this change will result in a better organizational fit and will enhance the health plans as we move forward.

### Smooth Transition From Aetna to BCBSTX

The staff worked closely with both Aetna and BCBSTX to ensure that the change was accomplished with minimal disruption to the membership. The transition went smoothly with both carriers working in a cooperative fashion for the benefit of our members. The first six months of our new relationship has been very productive. Our TMAIT staff has found their contacts at BCBSTX to be professional and effective in providing valued assistance to the Trust and its members. Our new partnership with BCBSTX, which is the largest health insurance carrier in the state and which has a long-standing working relationship with TMA, will allow the Trust to be more responsive to the membership's health insurance needs.

During 2003, we liquidated another portion of the stock that we received when Prudential converted from a mutual insurer to a stock insurer in 2001. We used the proceeds to supplement insurance premiums paid by our members. This helped hold down the cost of coverage to our members while strengthening the Program. Through 2003, we liquidated 50% of the shares we received. All of the proceeds thus far have been used to supplement premiums.

### An Example Why TMAIT Service is Unique

In closing, I would like to tell you about an initiative that occurred during 2003 that I believe is representative of the many uniquely valuable benefits that accrue to members of the Trust. Our life insurance plan includes a premium waiver benefit that may be overlooked even by those who qualify. In short, under certain conditions, the premium for life insurance coverage may be waived for a member who becomes totally and permanently disabled as defined by the plan. Occasionally, a member who becomes disabled overlooks this benefit and neglects to submit a claim. During the year, Prudential, which insures our life and disability plans, unilaterally undertook a project to determine whether any of our disability claimants who also carry our life insurance had failed to apply for their premium waiver benefit. Prudential found 16 of these potential claimants and notified them of their potential eligibility. This is the kind of service that is unique to the Trust, where we and our insurance company partners look out for the interests of the members.

**Fred F. Ciarochi, MD**  
*Chairman, Board of Trustees*



### Why the PSF is an Important TMAIT Benefit

*Our Premium Stabilization Fund (PSF) increased from \$4 million at the end of 1997 to more than \$32 million at the end of 2003.*

*The PSF provides financial security and stability for our program and its investment income allows TMAIT to keep premiums as low as possible.*

### Enrollment

At the end of the 2003 policy year, more than 11,600 physicians and their employees were members of the TMAIT Insurance Program. The Trust's insurers have issued approximately 22,000 certificates of coverage to these participants.

The Program includes 1,800 resident physicians from Texas Tech University Health Science Center, Methodist Hospital and Presbyterian Hospital in Dallas, Scott and White Medical Center and The University of Texas Health Science Center in Houston. By providing cost-effective insurance coverage to residents, the Trust introduces the TMA and its services to a new group of young physicians. Through this service, the TMAIT provides a young physician with an additional incentive to become a member of the Texas Medical Association.

### Administrative Costs

The working relationship between the TMAIT and its insurers continues to allow an exceptionally high return to our members. While many insurance plans allow investment income to serve as a source of profit for the

insurance carrier, the TMAIT contracts require that the investment income be used to offset administrative expenses. During 2003, more than 95 cents of each premium dollar collected by the TMAIT was available for the payment of claims. Such a high return allows the Trust to minimize the cost of insurance for the members.

### 2003 Financial Results

Along with our continuing effort to provide quality plans and excellent service, financial strength and stability remain the highest priorities of the TMAIT. The Texas Insurance Code and prudent financial management require the TMAIT and its insurers to

maintain adequate funds to provide for all claims which have been incurred under the Program. These funds, referred to as claim reserves, are conservatively established so as to provide full assurance that all member claims will be paid when submitted. Some of these reserves are for short term obligations, such as health claims which are submitted soon after they are incurred, while others are for payments which may not come due for many years into the future, such as those resulting from long term disability (LTD) claims. At the end of the 2003 policy year, the Program maintained required claim reserves of \$94 million.

In addition to the required claim reserves, the TMAIT maintains the PSF to provide further security and stability for the Program. The PSF

- is extremely important to the success of the
- Program since it (1) provides security for
- member insurance benefits, (2) allows the
- Trustees to avoid immediate rate increases as
- a result of unexpected adverse conse-
- quences, (3) reduces the cost of insurance
- through moderation of the risk exposure to
- the insurance company and (4) provides the
- Program with an important source of invest-
- ment income which results in lower premi-
- ums for the membership.

- Favorable experience for 2003 resulted in an
- increase in the Program's PSF balance to more
- than \$32 million. By the end of the 2003 poli-
- cy year, the PSF represented approximately
- 61% of the annualized premium of the
- Program. The PSF is a major factor that distin-
- guishes the TMAIT Insurance Program from
- most others.

### Health Plans

- Together, the health plans experienced a gain
- of approximately \$400,000 for 2003. The
- plans continued to be adversely affected by
- rising trends in the cost and utilization of
- health care. We were able to maintain their
- positive condition in 2003 through rate
- adjustments effective May 1, 2003 and
- through supplementation of the rates from
- funds generated by the sale of a portion of
- the stock received in connection with the
- Prudential demutualization. Although these
- actions helped cover the increasing costs
- experienced in 2003, continued increases in
- cost will likely necessitate another rate
- increase during 2004.

### Life Insurance

- The life insurance plan experienced a loss of
- approximately \$1.2 million for the policy year.





The loss was attributable to a “catch-up” on premium waiver claims for several members who were found to have overlooked their eligibility for benefits resulting from total and permanent disability. Due to favorable experience over the previous eight years, the plan was able to weather this loss with no significant adverse effect on its financial condition.

### Office Overhead

The office overhead plan experienced a loss of about \$900,000 during 2003. After many years of favorable experience, this was something of a surprise, although the Trustees have reduced rates and increased benefits several times in order to find a balance between rates and benefits. Due to its long history of success, this loss does not significantly weaken the plan

### Long Term Disability (LTD)

The experience for the LTD plan remained positive for the sixth year in a row. The two factors that had plagued the plan during the period 1993-1997, higher than expected incidence of disability and lower than anticipated rates of recovery among disabled physicians, once again were not present.

Although the Trustees are increasingly optimistic about the plan’s condition, physician LTD experience throughout the commercial insurance industry is extremely volatile. The turmoil in medical practice seems to have abated somewhat in recent years, as state legislatures and the U.S. Congress have become increasingly sympathetic to physicians’ concerns regarding managed care and medical malpractice insurance rates. As physicians sense an added degree of control over their professional life, their attitude

towards their work improves. This has undoubtedly had a favorable impact on disability experience.

## Summary and Outlook

In spite of the many challenges and changes that have occurred in the association insurance market and the medical profession over the last ten years, TMAIT has succeeded in maintaining a valuable package of products for its membership. At a time when health insurance has been disappearing from the portfolios of numerous insurance organizations, TMAIT has continued to offer a wide variety of traditional indemnity, PPO, and HMO products. With the move to BCBSTX, we are especially enthused about the variety of health insurance products that we are able to offer. At the same time, our other insurance and financial products continue to offer physicians a wide range of choices from life and disability insurance, to critical illness and long-term care products to annuity and mutual fund options.

In addition to our successful transition of the individual health plans to BCBSTX and strong marketing efforts, we had another good year financially. The proceeds from the Prudential stock again served the Trust well as it helped us maintain positive results. Although we have utilized about 50% of the stock, the remaining stock will continue to help support the program in the future. Financially, the Trust is the strongest that it has ever been.

Unfortunately, the utilization and price of health care are continuing to rise rapidly. Increasing at double-digit rates, the cost of health care is placing severe pressure on all health insurance plans. We are operating in an environment of periodic premium rate

increases. Although these increases are necessary to maintain the financial viability of the Trust's plans, we recognize that they squeeze the budgets of our physicians and their employees. In the process, rate increases undermine the loyalty of TMA members to the TMAIT. Even more troubling than the increases themselves, prevailing conditions indicate that this cycle is likely to continue for the foreseeable future.

When we set health insurance rates, it is our aim to establish them at such a level as to provide for the expenses we anticipate incurring over the 12-month period following the increase. If costs rise more rapidly than anticipated, we may have to adjust rates again in the interim. If conditions are better than expected, the rates may be adequate for more than a year. Fortunately, the increase implemented in May 2003, together with the rate supplements from the Prudential stock proceeds, have allowed us to defer the next increase in health rates until at least August 2004. While the Trust's fiduciary responsibilities necessitate periodic rate increases in order to keep pace with rising costs, such action is undertaken judiciously and with a full and sympathetic understanding of the impact that it will have on the membership.

We have a number of exciting initiatives scheduled for 2004. We will be offering a broad array of seminars over the course of the year, including sessions on wealth protection and retirement planning, as well as a newly revised asset protection program reflecting the impact of Proposition 12. In addition, we have planned new marketing campaigns for member life insurance, voluntary life insurance for employees of physicians and a new individual dental plan. We are working with



Prudential to streamline life insurance underwriting in order to facilitate increased coverage for qualifying members. All in all, we expect 2004 to be another busy and challenging year for the Trust.

The Board of Trustees and the dedicated staff of the TMAIT are committed to providing high quality, cost-effective service and products to the TMA and its members. The Trust's financial strength, wide array of insurance and financial products and its commitment to meeting the needs of the membership will continue to provide a strong source of insurance coverage for TMA members in the years to come.

### Trustees

The TMAIT operates under the authority of an eight-member Board of Trustees. During 2003, the Trustees met in February, May, and September in conjunction with TMA conferences and meetings of the House of Delegates. In addition, the Trustees held their annual three-day planning session in July.

### Advisory Committee

The Board of Trustees is assisted by the TMAIT

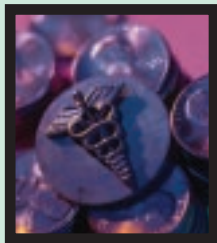
Advisory Committee, made up of nine TMA physicians and a member of the TMA Alliance appointed by the Trustees for the purpose of reviewing claims and underwriting decisions, which are appealed by the membership. The Advisory Committee, which includes a variety of medical specialists, provides the member with an opportunity for a panel of his or her peers to review insurance carrier decisions concerning underwriting and claims matters. The Advisory Committee is one of the principal strengths of the TMAIT since it provides each member with a forum for further consideration of decisions that affect insurance coverage. The Advisory Committee met three times during 2003 and considered 10 appeals.

### Staff

To further enhance member service, the TMAIT maintains a 25-person staff at TMA's Austin headquarters. The TMAIT staff is involved in every phase of the Program, from enrollment and billing to claims assistance. With immediate access to all membership and claims information, the TMAIT staff can provide information quickly and an immediate response to a member's inquiry about



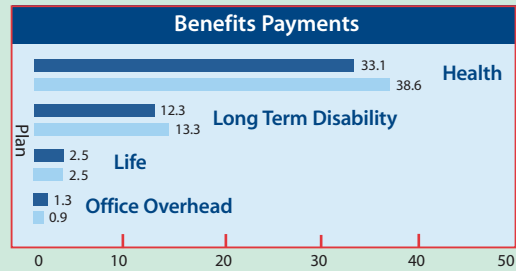
- insurance benefits. The staff is assisted by
- actuarial and legal advisors who provide
- advice on a broad range of technical issues.
- The staff serves as a liaison between the membership and the insurance carriers and provides a member service that is generally not available to an individual purchasing coverage through the commercial insurance market.



### Our Insurers

- The TMAIT life, office overhead and LTD plans are underwritten by the Prudential Financial, Inc., Prudential Plaza, Newark, NJ 07102. The health
- insurance plans are underwritten by Blue Cross Blue Shield of Texas, Dallas, TX 75265. In addition to providing financial security, the insurers are important members of the TMAIT administrative team. Working in partnership with the Trustees, the Advisory Committee and the TMAIT staff, the insurers provide the TMAIT with the high level of insurance expertise and administrative assistance that is required to successfully operate a cost-effective, state-of-the-art insurance program. The TMAIT staff communicates throughout each day with our insurance representatives. This close contact allows the TMAIT to provide first-class service to its membership.

### TMAIT Statistics

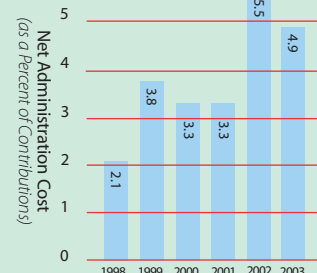
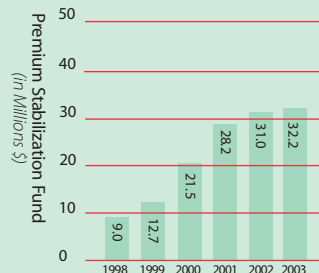
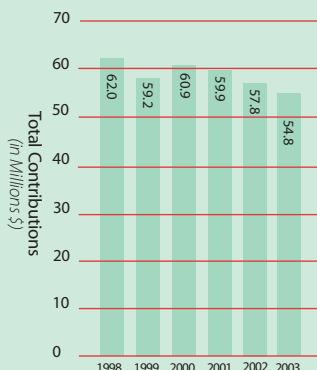


■ 2003 Benefit Payments (in Millions \$)  
 □ 2002 Benefit Payments (in Millions \$)

Rate of Return on Invested Assets	5.1%
Health Claims Paid	132,967
LTD Payments	3,122
Disabled Physicians Receiving LTD Payments	186
New LTD Claims	22
Death Claims	21
Applications	1,236
Inquiries	2,780
Billings	50,273

Plan	Enrollment
Life Insurance	7,300
Long Term Disability	5,300
Office Overhead	1,500
Personal Accident	2,400
Major Medical*	5,700

\*All plans combined



## TMAIT Insurance Coverage

Coverage	Physician	Family	Staff
Major Medical	■	■	■
High Deductible Catastrophic Major Medical	■	■	
Life	■	■	■
Long Term Disability	■		
Personal Accident	■	■	
Point-of-Service (POS)	■	■	■
Hospital Indemnity	■	■	
Office Overhead Expense	■		
Medical Savings Account	■	■	■
Long Term Care	■	■	■
Short Term Disability	■		■
Group Dental	■	■	■
Individual Dental	■	■	■

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