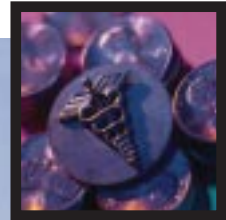
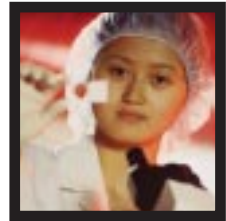


2004 TMAIT

TMAIT 2004 Annual Report



**Texas Medical Association
Insurance Trust**

Created and endorsed by the Texas Medical Association

Compared to recent years, 2004 was relatively calm for the Trust. Nevertheless, the growing complexity of the insurance business kept us busy and challenged.

Our goal, since our founding in 1955, has been to provide the physicians of Texas with valuable, cost-effective insurance products that are designed and administered to meet their unique needs. Based on our results and feedback from our members, we have succeeded in meeting that goal.



As in previous years, the 2004 Annual Report of the Texas Medical Association Insurance Trust is intended to provide our members with information concerning the significant developments and financial results of the past year. But before we get to these issues, I want to take a moment to note that 2005 will mark the 50th Anniversary of the Texas Medical

Association Insurance Trust Program. Our goal since 1955 has been to provide the physicians of Texas with valuable, cost-effective insurance products that are designed and administered to meet their unique needs. Our success in meeting this goal is attributable in large part to the efforts of all those members who have worked so hard through the various Boards and Committees as well to all the members who have loyally supported the Program over the years.

We are also grateful to our insurance company partners who have supported us and to our dedicated staff that works tirelessly to serve the needs of the membership. With the continued dedication of the membership and the commitment of our insurers and staff, we are confident that the next 50 years will be even more successful!

2004 Relatively Calm Year for the Trust

As compared to the past several years, 2004 was a relatively calm year for the Trust. Continued improvement in the economic climate and the impressive gains scored by Texas physicians in the 2003 session of the Texas Legislature helped our members, while less volatility in the TMAIT health insurance plans produced a welcomed stability in Trust operations. Nevertheless, the growing complexity of the insurance business kept us busy and challenged.

Financially, 2004 was another successful year. Overall, the Program experienced an operating gain of about \$4 million. This brings the total gains for the period 1998-2004 to \$32 million. The positive results of the last seven years stand in sharp contrast to the period 1993-1997 in which the Program lost \$24 million. In addition, the Trust supplemented the Program with proceeds from the liquidation of another portion of the stock that we received when Prudential converted from a mutual insurer to a stock insurer in 2001 and with refunds received from the termination of the contract with Aetna in 2003. As a result of the combined effect of favorable experience and the supplementation, the Program's Premium Stabilization Fund (PSF) has increased from approximately \$4 million at the end of 1997 to more than \$43 million at the end of 2004, an all-time high.

Health Insurance Costs Continue to Increase

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 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. From 1999 to 2003, we saw the cost of our products escalating rapidly right along with the cost of products offered by our competitors. Fortunately, however, we have not had to raise our rates since May 2003, due not only to the supplementation discussed above but also to the change in carriers discussed below.

The recent respite from health insurance premium increases has been especially welcomed due to the adverse impact that the rising cost of health insurance has on the Trust. When we were forced to raise our premiums for health insurance coverage over each of the five years prior to 2004, our members found it necessary to shop for other coverage. Some were successful in

finding something less expensive, although we sincerely doubt that they found 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.



Change to BCBS Beneficial to Trust, Members

The biggest development impacting 2004 was the transfer of the TMAIT health plans for individual members to Blue Cross Blue Shield of Texas (BCBS) effective November 1, 2003. (Although we moved the individual plans to BCBS, 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 from 1999-2003.

The Trustees made the change to BCBS in order to achieve a better organizational fit and to enhance the health plans as we move forward. The staff worked closely with both Aetna and BCBS 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. Our partnership with BCBS, 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. With the first year of our relationship with BCBS now behind us, we can report that it has worked even better than we expected. The claims management exercised by BCBS has been a major factor in the relative stability of our health insurance plans and, along with the supplementation, has allowed us to complete a two-year period without rate increases.

As we complete the first year in our relationship with BCBS, we celebrate the completion of 35 years in partnership with Prudential. Over the years, our relationship with Prudential has changed and evolved along with the needs of the Trust and our members. Of course, Prudential has changed as well, as it left the health insurance business and restructured as a stock insurer. Through all the years and all the challenges, our partnership has worked well as we meet the insurance needs of our membership. We look forward to continuing to build on the strong and dynamic foundation we have established with Prudential over the last 35 years.

As discussed earlier, we liquidated another portion of the Prudential stock during 2004. 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 2004, we liquidated 75% of the shares we received. All of the proceeds thus far have been used to supplement premiums. The proceeds from the sale of the stock have provided a measure of financial security for the Program that might never have been achieved simply through regular operations.

Fred F. Ciarochi MD

Fred F. Ciarochi, MD
Chairman, Board of Trustees



Enrollment

At the end of the 2004 policy year, more than 11,700 physicians and their employees were members of the TMAIT Insurance Program. The Trust's insurers have issued about 23,000 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 2004, 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.

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 \$43 million at the end of 2004.

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

2004 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 2004 policy year, the Program maintained required claim reserves of more than \$90 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 consequences, (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 investment income which results in lower premiums for the membership.

- Favorable experience for 2004 and the supplementation discussed earlier in this report resulted in an increase in the Program's PSF balance to more than \$43 million. By the end of the 2004 policy year, the PSF was equivalent to about 90% of the annualized premium of the Program. The PSF is a major factor that distinguishes the TMAIT Insurance Program from most others.

Health Plans

- Together, the health plans experienced a gain of more than \$3 million for 2004. In addition, we were able to strengthen the condition of the health plans through supplementation of the premiums with funds generated by the sale of a portion of the stock received in connection with the Prudential demutualization and through funds released under the terminated contract with Aetna. These actions helped cover the increasing costs experienced in 2004, thus allowing the health plans to avoid rate increases since May 2003. The Trustees are pleased that the plans have been without rate increases for two years. This is extremely unusual in the current environment and is in part attributable to the cost management efforts of BCBS. Nevertheless, the plans will continue to be challenged by rising trends in the cost and utilization of health care, factors which will eventually necessitate

another rate increase. Hopefully, this can be deferred at least until the last quarter of 2005.

Life Insurance

The life insurance plan experienced breakeven results for the policy year. This is a satisfactory outcome for the plan given that largely favorable experience over the previous eight years has placed the plan in a sound financial position.



Office Overhead

The office overhead plan experienced a loss of about \$800,000 during 2004. After many years of favorable experience, the plan has now experienced losses in each of the last two years. The losses are not completely unexpected, however, since 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, these losses have not significantly weakened the plan, thus allowing the Trustees the luxury to defer corrective action while we determine if the experience of the last two years is indicative of a longer term trend.



Long Term Disability (LTD)

The experience for the LTD plan remained positive for the seventh year in a row, generating a gain of about \$2 million. The two factors that had plagued the plan during the difficult 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 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 10 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. Our move to BCBS has expanded the variety of health insurance products that we are able to offer and has improved the viability of the plans. 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 BCBS and strong marketing efforts, we had another good year financially. The proceeds from the Prudential stock again served the Trust well as they helped us maintain positive results. Although we have utilized about 75% of the stock, the remaining stock will continue to help support the Program in the future. Financially, the Trust continues to strengthen and, once again, we can report that the Trust is the strongest that it has ever been.

Unfortunately, the utilization and price of health care are continuing to rise. Increasing at double-digit rates, the cost of health care is placing severe pressure on all health insurance plans. Although it has been two years since our last rate increase, we are operating in an environment of periodic premium rate increases. Although such 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 premium supplements from the Prudential stock proceeds, have allowed us to defer the next increase in health rates at least until the latter part of 2005, a period of more than two years. 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.

The TMAIT continues to build on business initiatives developed in 2003 and 2004. The recent legislation creating Health Savings Accounts (HSAs) has physicians throughout Texas seeking reliable information on the implementation and operation of the Consumer Driven Health Plans (CDHPs) and HSAs. TMAIT has responded to these requests by creating an HSA seminar series (approved for continuing medical education credit) that covers issues such as:

- Origin and purpose of HSAs
- Structuring of HSAs
- Variety of plans available
- Expectations insurance companies are setting for plan participants
- Impact of these plans on the office visit co-pay
- Impact of CDHPs on physicians

At the TMAIT we also continue to improve our technology in order to offer more value-added services to TMA physicians who purchase their employee benefit programs through the TMAIT. These programs include such time savers as on-line enrollment, improved

- employee education and communication
- concerning their benefits, and human
- resource systems that assist both the employ-
- er and the employee.

• 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 2004,
 • the Trustees met in February, May, and
 • September in conjunction with TMA confer-
 • ences 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, composed 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 princi-
 • pal strengths of the TMAIT since it provides
 • each member with a forum for further consid-
 • eration of decisions that affect insurance cov-
 • erage. The Advisory Committee met three
 • times during 2004 and considered 10 appeals.

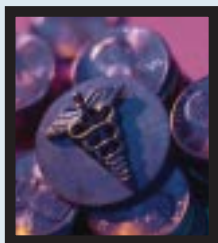
• **Staff**

• To further enhance member service, the
 • TMAIT maintains a 22-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
 • benefits information, the TMAIT staff can pro-
 • vide information quickly and an immediate
 • response to a member's inquiry about insur-
 • ance benefits. The staff is assisted by actuarial



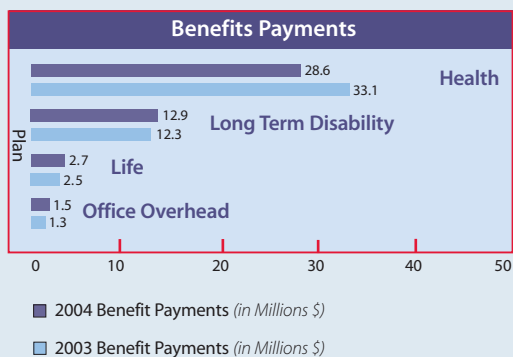
- and legal advisors who provide advice on a broad range of technical issues. The staff serves as a liaison between the membership and the insurance carriers and provides a member service that is generally not available to an individual purchasing coverage through the commercial insurance market.

Our Insurers



- The TMAIT life, office overhead and LTD plans are underwritten by 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



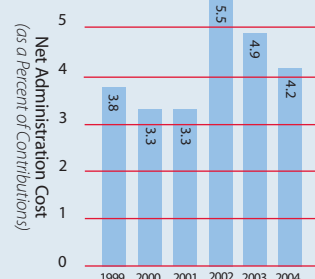
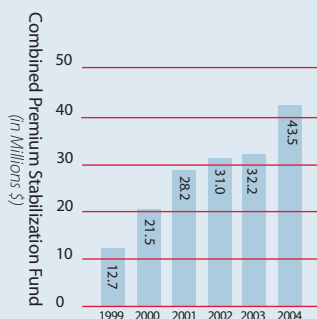
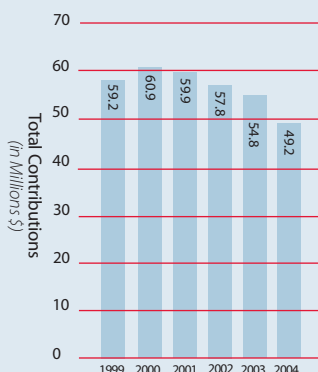
2004 Program Highlights

Rate of Return on Invested Assets	4.6
LTD Payments	3,103
Disabled Physicians Receiving LTD Payments	190
New LTD Claims	34
Death Claims	21
Applications	1,957
Inquiries	4,689
Billings	48,646

2004 Enrollment by Plan

Plan	Enrollment
Life Insurance	6,900
Long Term Disability	4,900
Office Overhead	1,400
Personal Accident	2,400
Major Medical*	5,500

*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	■	■	■
Health Savings Accounts	■	■	■

TMAIT Board of Trustees

Fred F. Ciarochi, MD

Chairman
Duncanville

Edwin R. Buster III, MD

Secretary
Austin

Russell S. Cravey, MD

Kerrville

William W. Gordon, MD

San Antonio

Harry E. Hall, MD

Lubbock

Patrick S. Pevoto, MD

Austin

George O. Zenner, Jr., MD

Houston

Louis J. Goodman, PhD

Austin

TMAIT

Mailing Address:

P.O. Box 1707
Austin, TX 78767-1707

Street Address:

401 West 15th Street, Suite 600
Austin, TX 78701
(800) 880-8181

In Austin:

(512) 370-1776
Fax (512) 370-1799

www.tmaid.org

**Texas Medical Association
Insurance Trust**

Created and endorsed by the Texas Medical Association

P.O. Box 1707 • Austin, Texas 78767-1707

PRESORTED STANDARD
U.S. POSTAGE PAID
AUSTIN, TX
PERMIT NO. 2862