



TMAIT 2005
Annual Report

**Texas Medical Association
Insurance Trust**

Created and endorsed by the Texas Medical Association



A Message from Harry E. Hall, MD Chairman, Board of Trustees



In 2005, we celebrated the 50th Anniversary of the Texas Medical Association Insurance Program. The 2005 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 this landmark year in the history of the Program.

First, I would like to extend the appreciation of the entire Board of Trustees to Dr. Fred Ciarochi, who completed his last three year term as a Trustee in 2005. Altogether, Dr. Ciarochi served for nine years, the last five years as Chairman of the Trust. Under his leadership, we successfully met significant challenges and initiated important new efforts to strengthen the Trust and position it to better meet the needs of the membership in the future. We all feel very fortunate to have worked with a leader of such wisdom and foresight. I am pleased to have had the opportunity to serve under Dr. Ciarochi's leadership for my first five years as a Trustee, and I am honored to have been selected to follow him as your new Chairman.

2005 was the second consecutive 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 and constantly changing landscape of the insurance business kept us busy and challenged.

Financially, 2005 was one of the most successful years in the history of the Program. Overall, the Program experienced an operating gain of more than \$11 million. This brings the total gains for the period 1998-2005 to \$43 million. The positive results of the last eight years stand in sharp contrast to the period 1993-1997 in which the Program lost \$24 million. In addition, the Trust continues to benefit from the supplementation resulting from the proceeds from the liquidation of the stock that we received when Prudential converted from a mutual insurer to a stock insurer in 2001. 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 \$55 million at the end of 2005, an all-time high.

Over the last six years, conditions impacting the health insurance industry have been consistently poor. The environment for health insurance across the country continues on the difficult course that it has been on since 2000. The growing cost and utilization of health care, health care services and pharmaceutical products continue to drive the cost of health insurance upward. While these forces have moderated somewhat, they continue to create cost increases that are several times greater than the general

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rate of inflation. 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 escalate 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 to the supplementation of premiums from the proceeds of the sale of the Prudential stock, the cost containment efforts of our insurer and the general moderation of cost increases.

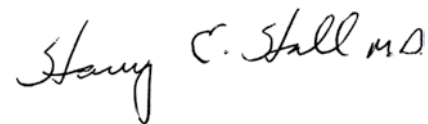
The recent respite from health insurance premium increases has been especially welcomed due to the adverse impact that the rising cost of health insurance has on the Trust. When we were forced to raise our premiums for health insurance coverage over each of the five years prior to 2004, our members found 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 members decide to change health insurance carriers they often decide to change carriers for their 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.

The Trustees moved the health insurance plans from Aetna to Blue Cross Blue Shield of Texas (BCBS) in November 2003 in order to achieve a better organizational fit and to enhance the health plans as we move forward. 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 assure that the Trust can maximize its responsiveness to the membership's health insurance needs in the coming years. With the first two years 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 three-year period without rate increases.

Our long partnership with Prudential as the insurer of the Trust's life, office overhead and disability plans continues to grow in its strength and effectiveness. This relationship continues to change and evolve along with the needs of the Trust and our members. Through all the years and all the challenges, our partnership has worked well in meeting 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 36 years.

During 2005, we liquidated the last remaining portion of the Prudential stock. While we used the proceeds from the first 75% of the stock we sold to supplement the insurance premiums paid to our insurers, we have used the proceeds from the sale of the last 25% to establish a fund to offset future administrative expenses of the Trust. Both of these applications have helped hold down the cost of coverage to our members while strengthening the Program. The proceeds from the sale of the stock have provided a measure of financial security and cost moderation for the Program that might never have been achieved simply through regular operations.



Harry E. Hall, MD
Chairman, Board of Trustees

Enrollment

At the end of the 2005 policy year, more than 12,000 physicians and their employees were members of the TMAIT Insurance Program. The Trust's insurers have issued about 23,200 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 2005, more than 98 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.

2005 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.



"The positive results of the last eight years (gain of \$43 million) stand in sharp contrast to the period 1993-1997 in which the Program lost \$24 million."

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 2005 policy year, the Program maintained required claim reserves of almost \$78 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 2005 and the supplementation discussed earlier in this report

resulted in an increase in the Program's PSF balance to more than \$55 million. By the end of the 2005 policy year, the PSF was equivalent to about 120% 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 just about broke even for 2005. As a result, the PSF for the health plans remained in excess of \$15 million at the end of 2005.

We will complete the runoff period applicable to the terminated Aetna contract on April 30, 2006. Contractually, we were required to leave certain funds on deposit with Aetna to cover liabilities which remained unpaid at the time of termination. Payments applicable to claims that were incurred prior to and paid subsequent to the termination of the contract have been less than expected. Consequently, we expect some funds will be available for transfer to BCBS upon completion of the runoff period. This transfer will benefit the membership by covering premium inadequacies that are beginning to develop.

Although the health plans operated reasonably well and the PSF remained strong through 2005, claims have increased significantly over the first quarter of 2006. At present, revenue is not sufficient to cover expenses. While the PSF is adequate to subsidize member contributions for some period of time, it is not advisable to allow expenses to increasingly exceed revenue over an extended period, since that would eventually require a catch-up increase that could be severe. BCBS requested that the Trust consider a rate increase effective May 1, 2006. We have postponed that increase for the time being.

The Trustees are pleased that the plans have been without rate increases for three years.



problems for the plan since it is subject to sharp swings in experience (both good and bad) due to the nature of the coverage which involves a low frequency, high severity risk. The plan's PSF balance now stands at about \$6 million.

Although the loss reduced the PSF, the plan remains strong since the largely favorable experience of the last nine years has placed the plan in a sound financial position.

Office Overhead

The office overhead plan experienced a gain of some \$500,000 during 2005. The favorable experience of 2005 is somewhat unexpected since benefits have been increased and rates have been reduced several times in recent years in recognition of the plan's large PSF balance. Those actions had resulted in losses for several years prior to 2005. The plan's PSF balance is about \$5.1 million as of October 31, 2005.

Long Term Disability (LTD)

The LTD plan experienced the largest gain in its history, about \$12.1 million. These results continue the favorable trend that began in 1998. The following factors contributed to the gain:

- For one of the few years in the history of the plan, there were significantly more terminations among claimants (due to death, expiration of benefits or recovery from disability) than there were new disabilities.
- There was a net reduction in the total reserve for claims in payment status. This is primarily attributable to a natural progression of claimants toward the end of the period for which payments will be due. While this factor is always applicable for claims that have been in payment status for several years, its effect is generally obscured when there are a large number of newer claims, a condition which presently does not exist.
- Finally, plan revenues exceeded payments during the period. Although such excesses

are not uncommon, they have generally been required in the past to cover increases in reserves, which did not occur during this period.

In light of the continuing favorable experience and the strength of the PSF, LTD rates were reduced 20% effective August 1, 2005.

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.

// The Trust continues to strengthen and, once again, we can report that the Trust **is the** strongest that it has ever been. //

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. Changes will be deferred at least until the third quarter of 2006.

Life Insurance

The life insurance plan produced a loss of about \$1 million for 2005. Although the number of death claims in 2005 (30) was only about 10% higher than in 2004 (27), total death claim payments were over 80% higher in 2005 (\$5 million in 2005 vs. \$2.7 million in 2004). There were seven claims of \$400,000 or more during 2005, while there were only two claims that large in 2004. While the experience was poor, it is not necessarily indicative of long-term financial



2005 was another good year 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. Even though rates of increase have moderated slightly, the cost of health care is placing severe pressure on all health insurance plans. Although it has been three years since our last rate increase, we continue to operate in an environment of periodic premium rate increases. Although such



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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 third quarter of 2006, a period of over three years. While the Trust’s fiduciary responsibilities necessitate periodic rate increases in order to keep pace with rising cost, 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 2004 and 2005. These initiatives include:

- We conducted a complete review of our external agency relationships which resulted in a smaller, but higher quality group of agents with enhanced production goals. We also conducted programs for our agents to facilitate communication with the insurers we work with.
- We introduced a simplified issue system for term life insurance coverage for our physician members as well as their employees.
- We continued our active schedule for presentation of seminars on Health Savings Accounts, including participation in the TexMed program on Consumer Driven Healthcare.
- We participated in TMA’s seminars on Cost Analysis and Contracting and Human Resources.
- We designed new health insurance plans which we intend to introduce at the time of the next increase in premium rates. These plans are designed to provide members with added options for managing the cost of their coverage.
- We introduced an “e-zine” to members of the Texas Medical Group Managers Association. This is available online and is emailed to their members monthly. In the e-zine, we discuss topics concerning benefits, retirement, and other relevant financial issues.
- TMAIT Financial Services, Inc., our full service insurance agency introduced a new disability insurance resource that helps physicians identify the contract that best fits their specialty.
- We created seminars especially designed for retirees and those nearing retirement.



- We introduced an investment seminar to help physicians as they plan for their future.
- We now offer a “life insurance audit” in which TMAIT professionals perform an in-depth audit of a physician’s existing insurance coverage.
- We established a new long term care insurance resource which provides access to many companies and numerous plan options.
- We introduced a travel assistance program that allows TMA members the option to receive medical evacuation to the hospital of their choice when they travel in excess of 150 miles from their home.
- We introduced a travel insurance program that includes a full range of protection including emergency medical evacuation, medical care, trip cancellation, and flight insurance.
- We introduced a strategic partnership with Odyssey One Source a firm that specializes in helping physician practices with Human Resource Outsourcing (HRO), Administrative Support Outsourcing (ASO), and Professional Employer Organization (PEO).

We have undertaken two major projects for 2006.

- After careful study of the ramifications of the new Medicare Part D program, we concluded that more cost effective coverage for prescription drugs was available through a Part D plan than is presently provided through the Medicare Complement Plan (Option 16). This is due to the low cost of the Part D coverage as a result of the Federal government’s subsidy which pays about 76% of the cost of Part D coverage. We revised Option 16 to eliminate coverage for prescription drugs with a 45 % reduction in premium effective February 1, 2006. As a part of this project, we undertook a major effort to assist our members in enrolling in a Part D prescription drug plan. The staff has provided a great deal of written and telephonic communication to educate and assist our members.
- We have been working with the new association division at Prudential to develop a major marketing effort for our life, disability and office overhead coverages. This team is very talented and has many good ideas concerning the manner in which we educate our members about our coverages. We are excited and optimistic about the prospects that this project holds for expanding our membership.

Membership expansion could be of great value to existing members, since a larger membership base will enhance the viability of the program by spreading risk and administrative cost over a broader pool.

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 employer and the employee. We have also developed a web-based tool for quoting the cost of health and long term care coverages. In many cases, the physician can apply for health insurance on-line.

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 2005, 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, comprised 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 members with the opportunity for a panel of their 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 two times during 2005 and considered eight appeals.

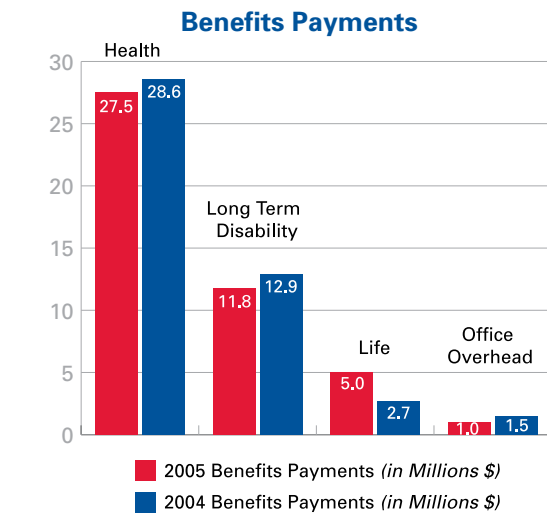
Staff

To further enhance member service, the TMAIT maintains a 21-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 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



2005 Program Highlights	
Rate of Return on Invested Assets	4.7
LTD Payments	2,989
Disabled Physicians Receiving LTD Payments	170
New LTD Claims	16
Death Claims	30
Applications	2,059
Inquiries	4,815
Billings	48,683

2005 Enrollment by Plan	
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	■		
Long Term Care	■	■	■
Short Term Disability	■		■
Group Dental	■	■	■
Individual Dental	■	■	■
Health Savings Accounts	■	■	■
Medjet Assist	■	■	■
Travel Guard International	■	■	■
Annuities	■	■	■
Critical Illness	■	■	■
401(K)	■	■	■
Retirement Planning	■	■	■
Pension Planning	■	■	■

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