



TMAIT 2007  
Annual Report





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## 2007 ANNUAL REPORT OF THE TEXAS MEDICAL ASSOCIATION INSURANCE TRUST

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



The Texas Medical Association Insurance Trust had a very productive year in 2007. This was my second year as Chair and, with all that we had going on, it seemed to go by very fast. Our 2007 Annual Report of the Texas Medical Association Insurance Trust (TMAIT or the Trust) is intended to provide our members with information concerning the significant developments and financial results of the past year.

Financially, 2007 was another successful year. Overall, the Program experienced an operating gain of over \$16 million. This was the 10th consecutive year that the Trust has experienced positive operating results with total gains over that period of over \$77 million. As a result of this favorable experience, the Program's Premium Stabilization Fund (PSF) has increased from approximately \$4 million at the end of 1997 to about \$81 million at the end of 2007, another all-time high.

After 3 1/2 years without health insurance rate increases, we began the 2007 policy year with a 10% increase effective November 1, 2006. While health insurance rate increases are unavoidable in the current environment in which the cost and utilization of health care services continue to rise, we always dread them. Not only do they cause financial difficulty for our members, but they also create a churning effect within our insurance plans as members shop for alternative coverage. Thus it is essential that we minimize the frequency of such increases. Fortunately, our rate increase was accompanied by a welcomed moderation in benefit cost increases during 2007. The rate increase, together with the moderation in benefit cost increases allowed the health plan to produce positive results during 2007. Conditions have continued to be relatively favorable into the early months of 2008. We will have more about the health plan later in this report.

The insurance marketplace is very competitive. Obviously, that is a good thing for consumers in general as well as for our members. However, it does complicate the operations of the Trust where we work very hard to maintain a stable and viable insurance pool for our members. In a competitive market, our members often shop for coverage, either because they are looking for lower prices or simply because they are contacted by their local agent. This most often involves health insurance since this important coverage is so expensive. When a member finds something less expensive, he may decide to change health insurance carriers. This may lead to a decision to change carriers for his other products as well. The result is that the Trust is constantly locked in a battle for the loyalties of its membership.

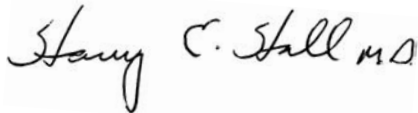
Movement of members in and out of the Trust makes the operation of the insurance pool more difficult, just as it creates disruption in the insurance portfolio of our members. Realizing this, in 2000, TMAIT established its own insurance agency, TMAIT Financial Services, Inc. (the Agency), to assist those members who feel they need to shop for coverage. At the end of 2007, the Agency is providing coverage for about 6,700 TMA members.

During 2007, the Trust streamlined and upgraded its distribution system to rely more heavily on the internal resources of the Agency. We also upgraded and enhanced our website to allow members the opportunity to take advantage of our technological capabilities.

Our partnership with Blue Cross Blue Shield, which is the largest health insurance carrier in the state and which has a long-standing working relationship with TMA, continues to assure that the Trust can maximize its responsiveness to the membership's health insurance needs in the coming years. The claims management exercised by BCBS has been a major factor in the relative stability of our health insurance plans and has been a significant factor in allowing us to have only two rate increases over the last five years.

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 changes and evolves 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 38 years.

While we do not expect 2008 to be any less challenging than previous years, we remain fully committed to responding to the challenges and obstacles that these times present to the profession and the insurance program. The Trustees and the staff continually analyze issues and review new opportunities and concepts in an attempt to maintain the Trust's leadership in providing insurance programs and services to Texas physicians.



Harry E. Hall, MD  
Chairman, Board of Trustees

## Enrollment

At the end of the 2007 policy year, more than 12,900 physicians and their employees were members of the TMAIT Insurance Program or purchased coverage through the Agency. The insurers used by the Trust and the Agency have issued about 25,500 certificates of coverage to these participants.

The Program includes 1,800 resident physicians from Texas Tech University Health Sciences Center, Methodist Hospital and Presbyterian Hospital in Dallas, Scott and White Medical Center and the UT System Medical Foundation 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 TMA.

## Administrative Costs

The working relationships between the TMAIT and its insurers continue 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 2007, our investment income exceeded our administrative expenses by some \$1.4 million. We used the excess investment income to supplement our members' contributions so that the funds returned to members either through current benefit payments or establishment of reserves to secure future benefit payments exceeded



“2007 was the 10th consecutive year that the Trust has experienced positive operating results.”

the amount that members contributed to the program by almost 4%. Few, if any, programs have ever reached such a high level of cost-effectiveness.

## 2007 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 2007 policy year, the Program maintained required claim reserves of \$59.6 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 2007 resulted in an increase in the Program's PSF balance to about \$81.6 million. By the end of the 2007 policy year, the PSF was equivalent to about 218% of the annualized premium of the Program. The PSF is a major factor that distinguishes the TMAIT Insurance Program from most others.

### Health Plans

After 3 1/2 years without health insurance rate increases, we were forced to implement a 10% increase effective November 1, 2006. That step, together with some moderation in the forces driving health care benefit costs upward allowed the health plans to return to positive results with a gain of \$2.9 million. The gain increased the health plan PSF to about \$21.4 million at the end of 2007.

Although the PSF remains strong, claims are likely to continue to increase. At present, revenue is sufficient to cover expenses, but maintenance of a financially secure health plan requires us



## // The Trust continues to strengthen and,

to continuously monitor the experience. While rate changes remain a possibility in the current environment, we do not expect an increase prior to the end of the 2008 policy year. At that point we will have gone more than two years since the last increase. This is extremely unusual in the current environment and is in part attributable to the cost management efforts of BCBS.

### Life Insurance

The life insurance plan produced a gain of about \$2.1 million for 2007. The number of death claims in 2007 (26) was down by almost 19% compared to the number in 2006 (32) and total death claim payments were over \$600,000 less in 2007 than they were in 2006. There were only

two claims of \$400,000 or more during 2007, while there were three claims that large in 2006. While the experience was good, it is important to remember that the life plan 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 \$7.5 million. The largely favorable experience of the last 10 years has placed the plan in a sound financial position.

### Office Overhead

The office overhead plan experienced a gain of some \$1.1 million during 2007. This is the third year of favorable experience, which continues to be 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 gains of the last three years are largely the result of a low rate of new claims which has produced a decline in required claim reserves. The plan's PSF balance is about \$7.1 million as of October 31, 2007.

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.

- The rate of new disability claims under the plan continued to decline.

With the gain, the PSF balance for the LTD plan now exceeds \$60 million.

The improvement in experience over the last few years has allowed the Trust to implement rate reductions effective August 1, 2006, and February 1, 2007. In addition, benefit enhancements were implemented February 1, 2007, and additional enhancements will become effective May 1, 2008.

### Summary and Outlook

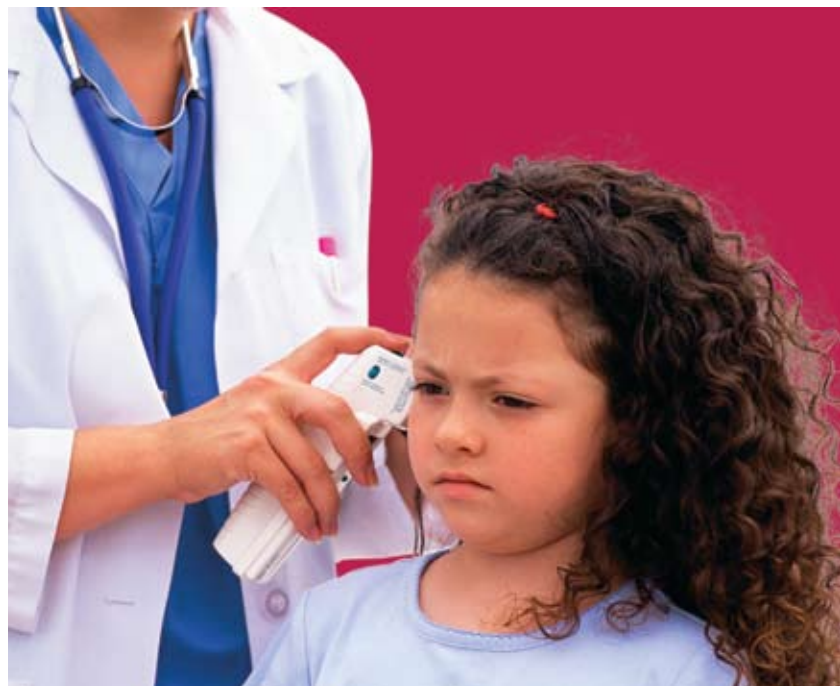
In spite of the many challenges and changes that have occurred in the association insurance market and the medical profession over the last 10 years, the package of products the TMAIT provides for its membership continues to grow in value. At a time when health insurance has been

once again, we can report that the Trust is the strongest that it has ever been. //

### Long Term Disability (LTD)

The LTD plan experienced an outstanding year with a gain of \$10.2 million. These results continue the favorable trend that began in 1998. The following are the principal factors contributing to the gain:

- For the third year in a row, there were 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.



disappearing from the portfolios of numerous insurance organizations, TMAIT has continued to offer a wide variety of traditional indemnity, PPO and consumer directed health care (HSA/HRA) products. Our move to BCBS and the creation of the Agency has expanded the variety of health insurance products that we are able

(November 1, 2006), the increasing utilization and price of health care required us to increase health insurance rates for the first time in 3 1/2 years. Still, the 10% rate increase was relatively moderate during a time when many plans experience increases of that magnitude or greater every year!



Although health insurance rate 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. Although benefit cost increases have moderated, the conditions that drive benefit costs higher (increases in the price and utilization of health care) are likely to continue for the foreseeable future.

When we set health insurance rates, it is our aim to establish them at a level sufficient to provide for the expenses we anticipate incurring over the 12-month period following the increase. It now seems clear that our last increase will be sufficient to support the plan at least through the end of the current policy year (October 31, 2008); i.e., the rates will have held steady for at least 24 months. 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.

"In 2000, TMAIT established its own insurance agency to assist those members who feel they need to shop for coverage. At the end of 2007, the Agency is providing coverage for about 6,700 TMA members."

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.

2007 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. At the beginning of the policy year

**The TMAIT conducted the following business initiatives in 2007:**

- During 2007, we completed an extensive renovation of our website which now includes a "plan finder" that is designed to help physicians and practice administrators identify the types of plans best suited for specific areas within the practice of medicine or specific periods during the life of the practice. The new website positions TMAIT as the TMA members' "Trusted Advisor" and demonstrates how TMAIT can provide the physician and the practice with insurance



coverage and financial services they can count on.

- We conducted term life insurance and long term disability coverage marketing projects with Prudential to heighten awareness of these valuable plans among TMA members. These marketing projects were well-received and resulted in a significant number of physicians enrolling for new or expanded coverage.
- TMAIT Financial Services, Inc., our full service insurance agency, introduced a new employer group disability insurance program underwritten by The Hartford. We've negotiated best-in-class coverage with discounts for TMA members. Key highlights include own-specialty and sub-specialty definitions of disability.

The Board of Trustees and the dedicated staff of the TMAIT are committed to providing high quality, cost-effective service and products to TMA members. The Trust, with its financial strength, wide array of insurance and financial products and 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 2007, the Trustees met in February, April, and October 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 member with an opportunity for a panel of his or her peers to



“Our recently renovated web site reminds members that TMAIT is the TMA member’s “Trusted Advisor” and that we can provide the physician and practice with insurance coverage and financial services they can count on.”

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 once during 2007 and considered 2 appeals.

### Staff

To further enhance member service, 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.

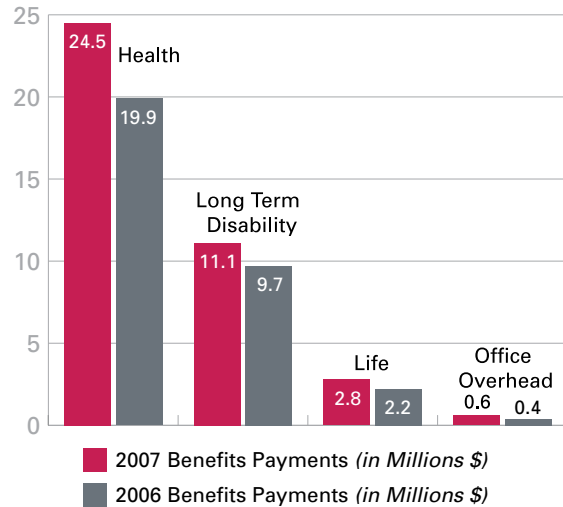
Through the combined resources of TMAIT and TMAIT Financial Services, Inc., we are able to offer TMA members access to an extremely broad range of insurance products - from the cost-effective group insurance plans offered through the Trust to individual insurance products tailored to specific needs.

### 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

### Benefits Payments

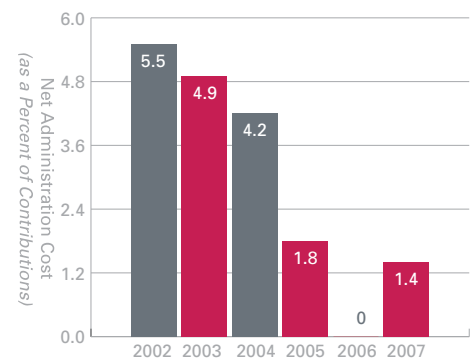
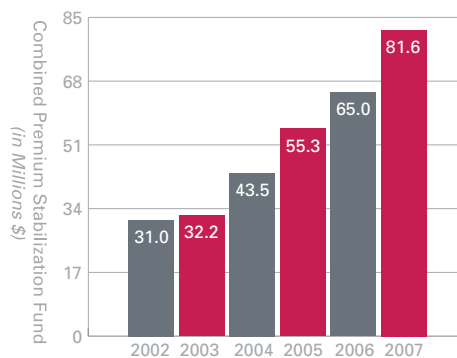
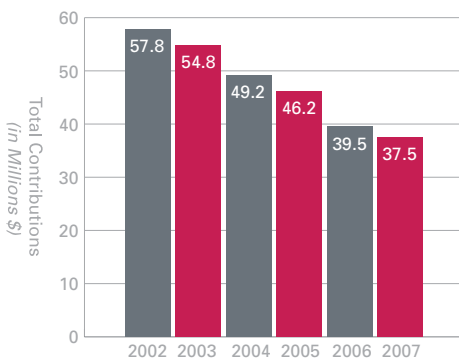


### 2007 Program Highlights

Rate of Return on Invested Assets	5.6%
LTD Payments	2,513
Disabled Physicians Receiving LTD Payments	164
New LTD Claims	18
Death Claims	26
Applications	1,597
Coverage Quotes	1,764
Billings	42,844

### 2007 Enrollment by Plan

Life Insurance	5,452
Long Term Disability	4,563
Office Overhead	1,266
Personal Accident	2,098
Health	3,589



## 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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