

2008 Annual Report

of the Texas Medical Association Insurance Trust



Helping Texas physicians so they can help others

While the security and stability of the insurance plans has always been our highest priority, we are redoubling our efforts in 2009 as we seek to provide the highest degree of protection for our members.



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

I am now well into my fourth and final year as Chair of the Texas Medical Association Insurance Trust (TMAIT or the Trust), but I am still amazed by the remarkable range of issues and the huge volume of transactions that our staff deal with on a day-to-day basis. My time at the Trust has taught me that providing a broad range of insurance coverages to our members, their employees, and their families is a complex and ever-changing business.

The 2008 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.

Financially, 2008 was another successful year. Overall, the Program experienced an operating gain of over \$6 million. This was the 11th consecutive year that the Trust has experienced positive operating results with total gains over that period of more than \$84 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 \$88 million at the end of 2008, another all-time high.

Maintaining adequate health insurance rates is an ongoing challenge. Like all health plan sponsors, the Trustees recognize that health insurance rate increases are unavoidable in the current environment due to the rising cost and utilization of health care services. Also, like everyone else, we dread rate increases. 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.

Given the difficulty of maintaining adequate health insurance rates, we are very pleased to report that we were able to avoid an increase during 2008. As we go to press, it has now been 30 months since our last increase, which was effective Nov. 1, 2006. Fortunately, our 2006 rate increase has been accompanied by a welcome moderation in benefit cost increases during 2007 and 2008 which, together, have allowed the health plan to produce positive results over the last two years. Conditions have continued to be relatively favorable through the early months of 2009. We will have more information about the health plan later in this report.

The insurance marketplace is very competitive, which is a "good news/bad news" proposition for the Trust. Obviously, intense competition is a good thing for consumers in general as well as for our members. However, competition complicates 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 because this important coverage is so expensive. When a member finds something less expensive, he may decide to change health insurance carriers, which 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. In response to 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. Through the Agency, we are able to offer a TMA member any insurance plan that is available on the open market. At the end of 2008, the Agency is providing coverage for about 6,900 TMA members.

Our partnership with Blue Cross Blue Shield (BCBS), which is the largest health insurance carrier in the state and has a long-standing working relationship with TMA, continues to ensure 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 six 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 40 years.

We expect 2009 to be one of our most challenging years given the poor condition of the economy and the impact that it is having on all of our members' personal and business lives. 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 plans and services to Texas physicians. While the security and stability of the insurance plans have always been our highest priority, we are redoubling our efforts in 2009 as we seek to provide the highest degree of protection for our members.



Enrollment

At the end of the 2008 policy year, more than 12,700 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 25,200 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 TMA and its services to a new group of young physicians. Through this service, TMAIT provides a young physician with an additional incentive to become a member of TMA.

Administrative Costs

The working relationships between 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, TMAIT contracts require that the investment income be used to offset administrative expenses. In 2007, our investment income actually exceeded our administrative expenses with the excess applied to subsidize member contributions. Although declining interest rates reduced investment income during 2008, this arrangement allowed over 98 cents of each dollar of member contributions to be available for the payment of claims. This represents a remarkably high degree of cost efficiency.

2008 Financial Results

Along with our continuing effort to provide quality plans and excellent service, financial strength and stability remain the highest priorities of TMAIT. The Texas Insurance Code and prudent financial management require TMAIT and its insurers to maintain adequate funds to provide for all claims that 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 that are submitted soon after they are incurred, while others are for payments that may not come due for many years, such as those resulting from long-term disability (LTD) claims. At the end of the 2008 policy year, the Program maintained required claim reserves of \$55.3 million.

In addition to the required claim reserves, TMAIT maintains the PSF to provide further security and stability for the Program. The PSF is extremely important to the success of the Program, as 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 2008 resulted in an increase in the Program’s PSF balance to about \$88 million. By the end of the 2008 policy year, the PSF was equivalent to about 240% of the annualized premium of the Program. The PSF is a major factor that distinguishes TMAIT Insurance Program from most others.

Health Plans

The health plan rate increase effective Nov. 1, 2006, together with some moderation in the forces driving health care benefit costs upward, allowed the health plans to return to positive results over the last two years with a gain of \$2.9 million in 2007 and a gain of \$2.4 million in 2008. The gain increased the health plan PSF to almost \$24 million at the end of 2008.

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 to continuously monitor the experience. While rate changes remain a possibility in the current environment, we do not expect an increase until August 2009, at the earliest. At that point, we will have gone almost three 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 experienced a loss of about \$2.4 million for 2008. Although the number of death claims in 2008 (26) was the same as it was in 2007, the total payments were some \$3.2 million greater. There were five claims of \$400,000 or more during 2008, while there were only two claims that large in 2007. There was one claim for \$1.5 million in 2008. The death claim payments were the second highest in the history of the plan, exceeded only by the amount paid in 1991. While the experience was poor, 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, i.e., claims don't occur very often, but when they do, they may be quite large, like the \$1.5 million claim paid in 2008. Therefore, it is reasonable to expect that there will be periods for which experience will be poor, just as there will be periods for which experience will be good. Consider the following summary of the life plan experience over the last 20 years.

- The plan has experienced gains in 13 years, while it has experienced losses in 7 years.
- The gains have ranged from about \$6,000 to more than \$2.1 million (in 2007), with an average of about \$900,000.
- The losses have ranged from \$230,000 to \$2.4 million, with an average of roughly \$930,000.
- The gains have exceeded the losses by approximately \$5 million over the last 20 years.

We believe that the 2008 loss represents a natural swing in the experience. The largely favorable experience of the last 20 years has placed the plan in a sound financial position. The plan's PSF, which now stands at about \$7.2 million, served its purpose in 2008 and remains quite adequate to support the plan in the future.

Office Overhead

The office overhead plan experienced a gain of more than \$800,000 during 2008. This is the fourth consecutive year of favorable experience, which continues to be somewhat unexpected, as 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 produced losses for several years prior to 2005. The gains of the last four years are largely the result of a low rate of new claims, which has produced a decline in claim payments as well as a decline in required claim reserves. The plan's PSF balance is approximately \$8 million as of Oct. 31, 2008.

With immediate access to all membership and claims information, TMAIT staff can provide information quickly and an immediate response to a member's inquiry about insurance benefits.



Long-Term Disability

The LTD plan experienced another good year with a gain of \$5.7 million. These results continue the favorable trend that began in 1998. Following are the principal factors contributing to the gain:

- For the fourth 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. 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 disabilities continued to decline.

With the gain, the PSF balance for the LTD plan now exceeds \$49 million.

The improvement in experience over the last few years has allowed the Trust to implement rate reductions effective Aug. 1, 2005, and Feb. 1, 2007. In addition, benefit enhancements were implemented Feb. 1, 2007, and 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 TMAIT provides for its membership continues to grow in value. 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 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 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.

2008 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. We were pleased that we were able to begin the year without having to increase the rates for the health insurance plan. At the beginning of the 2008 policy year, we never expected to be able to make it through the entire year without an increase. Now, here we are, halfway through 2009, and we are still charging the rates that were adopted in late 2006.

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 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 current rates will be sufficient to support the plan at least until Aug. 1, 2009; i.e., the rates will have held steady for at least 33 months. 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.

During 2008, TMAIT 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.

We expect 2009 to be one of our most challenging years due, in large part, to the extremely difficult financial conditions affecting the national and international economy. Physicians will not be immune from financial uncertainty in 2009. In these difficult and confusing times, our members will look to the Trust more than ever to help them maximize stability and security in their insurance portfolio in the most cost-effective manner possible.

In 2009, the Trust will focus on establishing a firm foundation for meaningful growth of the Program in the coming years. To do this, we must gain a deeper understanding of TMAIT participants and TMA members in general, as well as constantly review the contribution that various insurance products can make to the lives of TMA members and the continued viability of the Program.

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 TMAIT provides for its membership continues to grow in value.

The Trust — with its financial strength, wide array of insurance 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.

To assist us in this important project, we have retained a national marketing firm, closerlook, to conduct market research. The objectives of our research include:

- Developing a better understanding of the needs of the membership.
- Determining the optimum insurance plans for inclusion in the Trust portfolio.
- Identifying the factors that encourage TMA members to enroll in the coverages provided through the Trust.
- Designing methods to attract more young physicians.

The Board of Trustees understands that we can accomplish our objectives and maximize our service to the membership only through the well-trained and dedicated staff that we have developed over the years. We and the staff are committed to providing high-quality, cost-effective service and products to TMA members. The Trust — with its financial strength, wide array of insurance 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

TMAIT operates under the authority of an eight-member Board of Trustees. During 2008, 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, comprising nine TMA physicians and a member of the TMA Alliance appointed by the Trustees for the purpose of reviewing claims and underwriting decisions that 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 TMAIT, as it provides each member with a forum for further consideration of decisions that affect insurance coverage. The Advisory Committee met three times during 2008 and considered six appeals.

Staff

To further enhance member service, TMAIT maintains a 21-person staff at TMA's Austin headquarters. TMAIT staff are involved in every phase of the Program, from enrollment and billing to claims assistance. With immediate access to all membership and claims information, TMAIT staff can provide information quickly and an immediate response to a member's inquiry about insurance benefits. The staff are assisted by actuarial and legal advisors who provide advice on a broad range of technical issues. The staff serve as a liaison between the membership and the insurance carriers, and provide 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 Insurance Company of America, 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, Advisory Committee, and TMAIT staff, the insurers provide 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. TMAIT staff communicate throughout each day with our insurance representatives. This close contact allows TMAIT to provide first-class service to its membership.

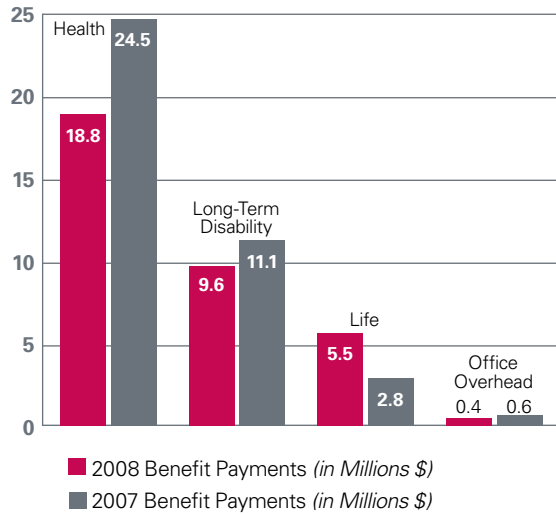




2008 Enrollment by Plan

Plan	Enrollment
Life Insurance	5,424
Long-Term Disability	4,618
Office Overhead	1,207
Personal Accident	2,058
Health	4,108

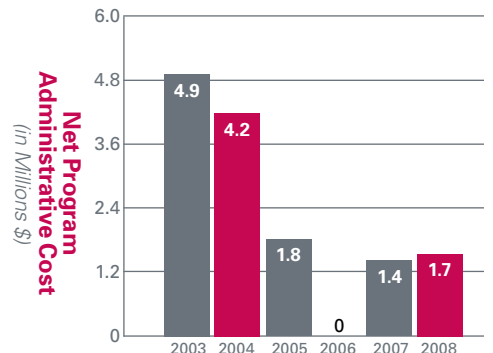
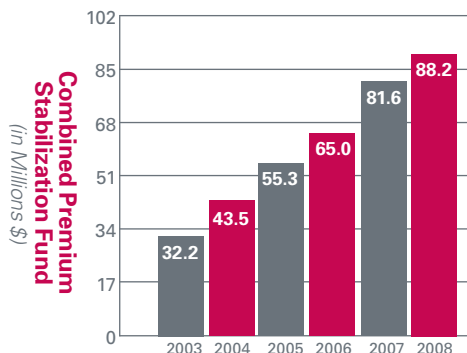
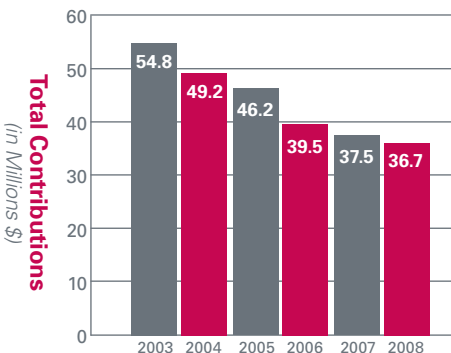
Benefit Payments



2008 Program Highlights

Rate of Return on Invested Assets.....	4.7%
LTD Payments.....	2,353
Disabled Physicians Receiving LTD Payments	144
New LTD Claims.....	16
Death Claims	26
Applications	1,499
Coverage Quotes.....	1,523
Billings	41,888

TMAIT Statistics



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.



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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	■	■	■
Travel Protection	■	■	■
Critical Illness	■	■	■
Retirement Planning	■	■	■



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