

2009 Annual Report of the Texas Medical Association Insurance Trust



Helping Texas physicians so they can help others



The Trust has enjoyed gains in many more years than it has suffered losses, with 31 years of gains and only nine of losses. It is worth noting, however, that the Program has shown considerable volatility, with a few years of significant losses offset by a number of years with considerable gains.



A Message from Russell S. Cravey, MD Chair, Board of Trustees

After serving on the Texas Medical Association Insurance Trust (TMAIT or the Trust) Board of Trustees for seven years, I began my first year as chair on Nov. 1, 2009. In assuming the position of chair, I am filling the big shoes of Harry Hall, MD, who retired from the Board after serving nine years and providing tremendous leadership as chair for the last four years. I am honored to have the opportunity to continue the legacy of my predecessors, who have so ably served since the Trust was created Nov. 1, 1969.

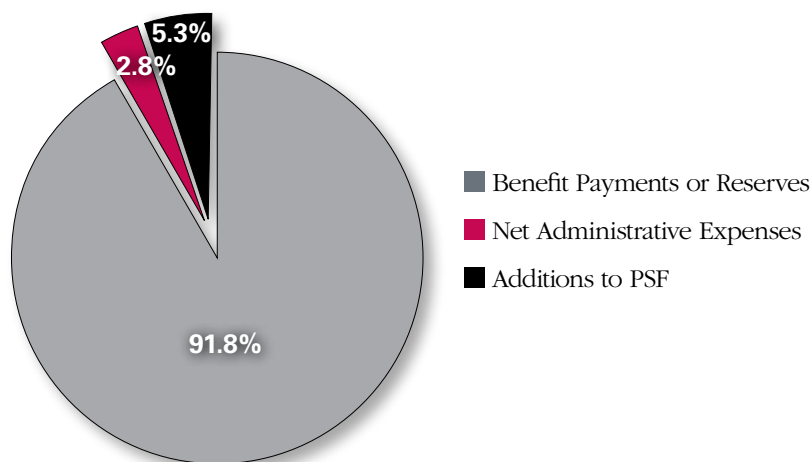
In recognition of the 40th anniversary of the founding of the Trust on Nov. 1, 2009, I want to provide a brief overview of the Trust's financial history before moving on to discuss the significant developments and financial results of the past year.

- Since 1969, our members have contributed about **\$1.47 billion** to the Trust.
- Over the last 40 years, the Trust has paid benefits or set aside as reserves for future benefit payments a total of **\$1.35 billion**. This represents about **92%** of member contributions.
- The Trust and its insurers have incurred net administrative expenses (net of investment income) of **only \$40 million** since 1969. Net administrative expenses represent **less than 3%** of member contributions.
- The remainder of member contributions has been deposited in the Trust's Premium Stabilization Fund (PSF), which provides added security and stability for the insurance program. The PSF has been developed from the following sources:
 - Almost \$78 million in member contributions (about 5% of the total) that has not been required for benefits and administrative expenses have been deposited in the PSF.
 - In addition, the Trust deposited in the PSF about \$14 million of after-tax proceeds from the sale of Prudential stock issued to the Trust when Prudential converted from a mutual to a stock insurer.

Uses of the member contributions to TMAIT over its 40-year history are shown in Exhibit 1.

Exhibit 1

Uses of Member Contributions to TMAIT, 1969-2009

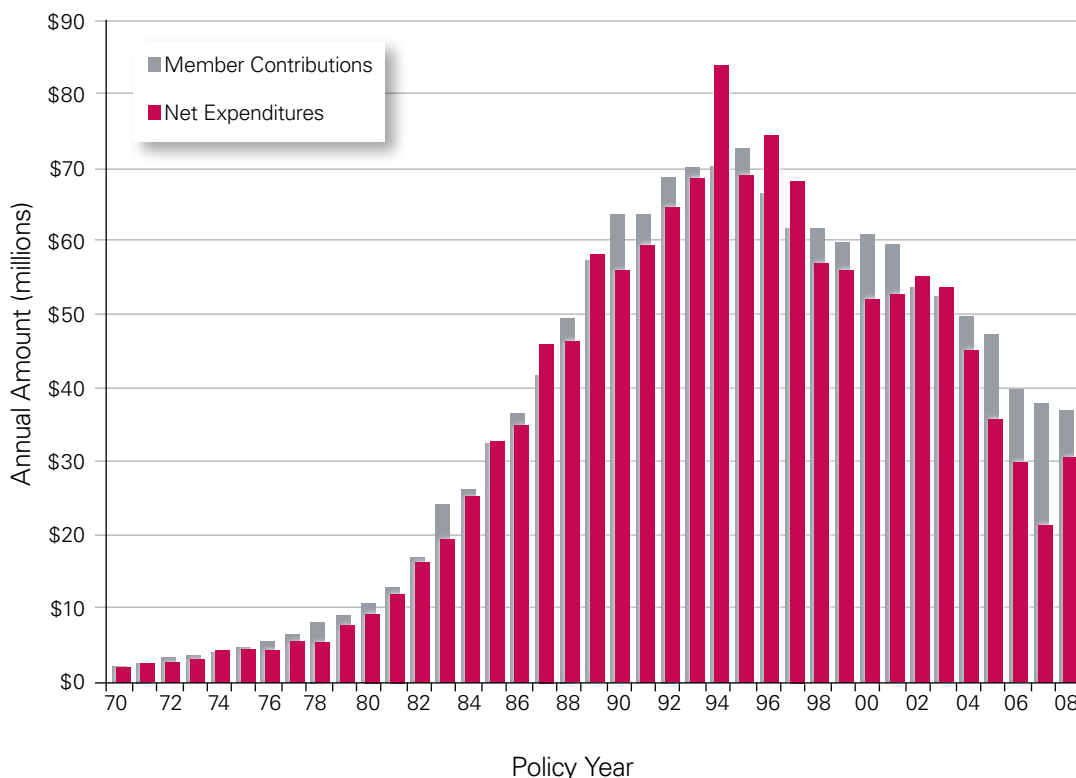


The Trustees seek to manage Program finances in a prudent manner so as to achieve a proper balance between revenue and expenses over the long term. The Trustees believe that prudent management requires the accumulation of contingency reserves held in the PSF to secure the long-term success of the Program. In light of this, it is interesting to review Exhibit 2, which presents a historical comparison of member contributions and program expenditures on a year-by-year basis.

The Trust has enjoyed gains in many more years than it has suffered losses, with 31 years of gains and only nine of losses. It is worth noting, however, that the Program has shown considerable volatility, with a few years of significant losses offset by a number of years with considerable gains. Overall, the cumulative gains represent about 5% of contributions over the 40-year history of the Program.

Exhibit 2

Comparison of Member Contributions and Net Expenditures for all TMAIT Plans Combined



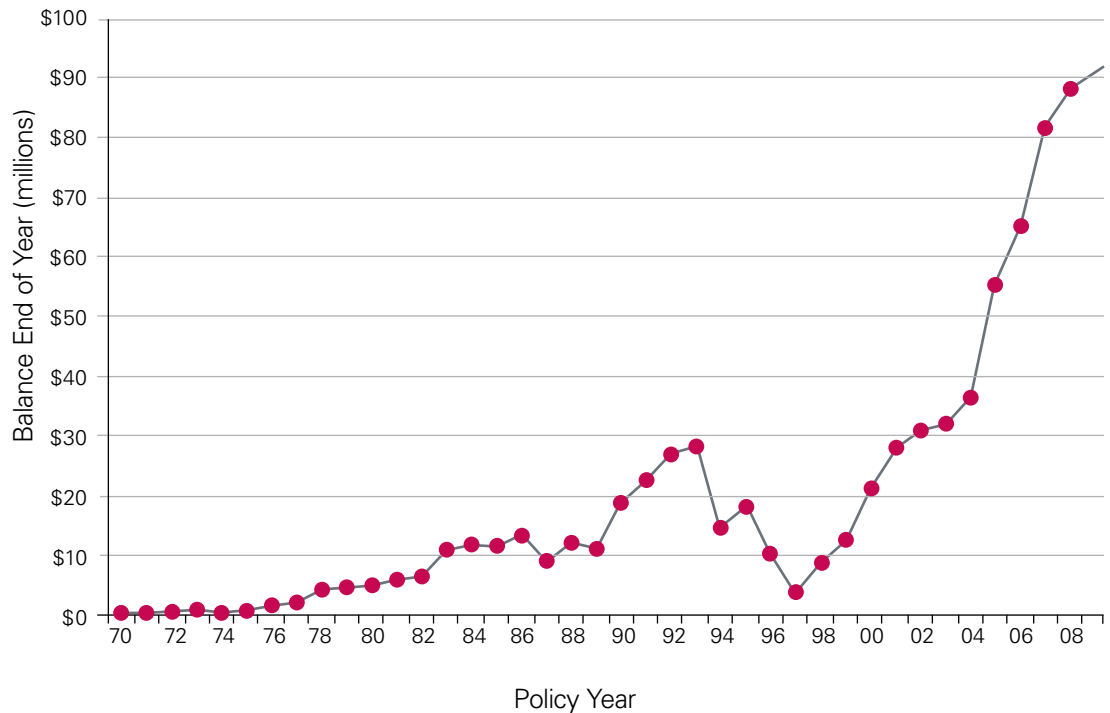
The PSF is extremely important to the success of the Program, as it (1) provides security for member insurance benefits, (2) allows the Trustees to avoid immediate rate increases as a result of unexpected adverse consequences, (3) reduces the cost of insurance through moderation of the risk exposure to the insurance company, and (4) provides the Program with an important source of investment income that results in lower premiums for the membership. The PSF rises and falls according to the Program's operating results.

Exhibit 3 presents the historical growth of the fund. As you can see, after some tough times in the mid-1990s, brought on by a crisis with the Long Term Disability (LTD) plan, the fund has enjoyed steady growth with particularly large gains in the last five years.

With that brief historical review, let's move on to a discussion of 2009, which was another financially successful year. Overall, the Program experienced an operating gain of more than \$4 million. This was the 12th consecutive year that the Trust has experienced positive operating results, with total gains over that period of more than \$88 million. As a result of this favorable experience, the Program's PSF has increased from approximately \$4 million at the end of 1997 to about \$92 million at the end of 2008, another all-time high.

Exhibit 3

TMAIT Premium Stabilization Fund Balance for All Plans Combined



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 rates, we are very pleased to report that we were able to avoid an increase during 2009. As we go to press, it has now been 42 months since our last increase, which was effective Nov. 1, 2006. Unfortunately, the conditions affecting the plan took a turn for the worse during the last half of 2009. After positive results during 2007 and 2008, rising claims generated a loss of almost \$2 million in 2009. We will have more information about the health plan later in this report.

Movement of members in and out of the Trust continues to complicate the operation of the insurance pool. To stabilize the insurance market for the Trust and our members, TMAIT established its own insurance agency, TMAIT Financial Services, Inc. (the Agency), in 2000 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 2009, the Agency is providing coverage for about 1,823 TMA members.



Our partnership with Blue Cross Blue Shield of Texas (BCBSTX), which is the largest health insurance carrier in the state and has a long-standing working relationship with TMA, ensures 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 one rate increase since we joined forces with BCBSTX in 2003.

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 2010 to be another challenging year for the Trust given the uncertain condition of the economy and the impact that it is having on all of our members' personal and professional 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 2010 as we seek to provide the highest degree of protection for 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.

Enrollment

At the end of the 2009 policy year, 12,685 physicians and their employees were members of the TMAIT Insurance Program or purchased coverage through the Agency. The insurers that the Trust and the Agency use have issued 25,568 certificates of coverage to these participants.

The Program includes 1,870 resident physicians from Texas Tech University Health Sciences Center, Methodist Hospital and Presbyterian Hospital in Dallas, Scott & White Memorial Hospital, and UT System Medical Foundation at 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 TMA member.

Administrative Costs

The working relationship between TMAIT and its insurers has allowed an exceptionally high return to our members over the years. As discussed earlier, the net administrative expenses charged to the Program have averaged less than 3% of member contributions over the history of the Program. 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 a number of years past, our investment income actually has exceeded our administrative expenses with the excess used to subsidize member contributions. Unfortunately, even though administrative expenses continue to be low relative to those for the typical insurance program, the economic climate significantly has reduced our investment income. As a result, net administrative expenses for 2009 were about 6.5% of member contributions, the highest rate in many years. This situation is likely to continue until interest rates rise. Although this level is high compared with the historical average for the Trust, it is significantly below rates prevalent in the insurance industry.

2009 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 established conservatively 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 claims. At the end of the 2009 policy year, the Program maintained required claim reserves of \$48.3 million.

In addition to the required claim reserves, TMAIT maintains the PSF to provide further security and stability for the Program. Favorable experience for 2009 resulted in an increase in the Program's PSF balance to more than \$92 million. By the end of the 2009 policy year, the PSF was equivalent to about 267% of the annualized premium of the Program. The PSF is a major factor that distinguishes the TMAIT Insurance Program from most others.



Health Plans

The health plan rate increase effective Nov. 1, 2006, together with moderation in the forces driving health care benefit costs upward, allowed the health plans to return to positive results during 2007 and 2008. Unfortunately, the utilization and cost of health care services continue to increase rapidly all across the country. Given the great extent of political and media attention currently focused on health care and health insurance, it is impossible to pick up a newspaper or magazine or watch newscasts without seeing a report on health care and the burden it is placing on the budgets of individuals, businesses, and governments throughout the United States. The forces that drive health insurance cost — the increasing utilization and price of health care services — pushed TMAIT health plan claims above the contributions paid by the members during the second half of 2009. Overall, the health plans produced a loss of about \$1.7 million for the year. The PSF balance that accumulated in good times allowed us to cover the funding deficiency that developed during the year. The loss reduced the PSF to about \$22 million as of Oct. 31, 2009.

Although the PSF remains strong, claims continue to increase. Maintenance of a financially secure health plan will require us to increase health plan contribution rates perhaps as early as Aug. 1, 2010. This will be our first increase since November 2006, a period of 45 months. Although this is a remarkably long time without a health plan rate increase, we are nevertheless concerned about the impact it will have on Trust members.



Life Insurance

The life insurance plan experienced a loss of about \$700,000 for 2009, as compared with a loss of \$2.4 million in 2008. The number of death claims in 2009 (31) was greater than the number in 2008 (26), while the total payments (\$5.8 million) were about \$300,000 greater. There were five claims of \$400,000 or more during both 2008 and 2009, while there were only two claims that large in 2007. There was one claim for \$1.5 million in 2008 and one for \$2 million in 2009. The death claim payments in 2009 were the highest in the history of the plan. This dubious record for 2009 followed 2008, when death claim payments were, at the time, the second highest in the plan's history. The high prior to 2008 was the \$5.6 million 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 do not occur very often, but when they do, they may be quite large, like the \$2 million claim paid in 2009. Therefore, it is reasonable to expect that there will be periods for which experience is poor, just as there will be periods for which experience is 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 seven years.
- The gains have ranged from about \$6,000 to more than \$2.1 million (in 2007), with an average of roughly \$840,000.
- The losses have ranged from \$270,000 to \$2.4 million, with an average of around \$1 million.
- The gains have exceeded the losses by approximately \$4 million over the last 20 years.

We believe that the 2008 and 2009 losses represent a natural swing in the experience. The largely favorable experience of the last 20 years has placed the plan in a sound financial position. Although the life plan's PSF declined to about \$6.5 million at the end of 2009, it remains quite adequate to support the plan in the future.

Office Overhead

The office overhead plan experienced a gain of more than \$150,000 during 2009. This is the fifth consecutive year of favorable experience, which continues to be somewhat unexpected, as we have increased benefits and reduced rates 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 five years are largely the result of a low rate of new claims, which has produced a decline in claim payments as well in required claim reserves. The plan's PSF balance is about \$8 million as of Oct. 31, 2009.

Long-Term Disability

The LTD plan experienced another good year with a gain of \$6.5 million. These results continue the favorable trend that began in 1998. The following are the principal factors contributing to the gain:

- For the fifth year in a row, there were more terminations among claimants than were expected (due to death, expiration of benefits, or recovery from disability).
- In addition, the rate of new disabilities continued to be lower than anticipated.

With the gain, the PSF balance for the LTD plan now exceeds \$56 million.

As a result of this continued good experience, the Trustees have approved a rate reduction effective May 1, 2010, which will vary by age and will average about 20% overall. The reduction is the third in the last five years, with others 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 during 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 products. Our move to BCBS and the creation of the Agency have expanded the variety of health insurance products that we are able to offer and have 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 long-term care products.

Financially, 2009 was another good year. The Trust continues to strengthen and, once again, we can report that the Trust is the strongest that it has ever been. As a result of good experience with the LTD plan, we are able to again reduce rates effective May 1, 2010. Unfortunately, the rising utilization and price of health care generated losses for the health plans in 2009. These conditions are likely to continue to drive benefit costs higher for the foreseeable future. As a result, it will likely be necessary to increase health plan rates in 2010, our first increase since 2006.

While the Trust's fiduciary responsibilities necessitate periodic rate increases in order to keep pace with rising costs, we undertake such action judiciously and with a full and sympathetic understanding of the impact that it will have on the membership.

We expect 2010 to be another interesting year with continuation of difficult financial conditions affecting the national and international economy, and the ongoing debate on health care reform. In these 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. While it is impossible to predict the outcome of the reform movement and the implications that any resulting legislation may have on the Trust and its products, our members can be confident that the Board, our staff, and our advisors will be monitoring the situation carefully and will be prepared to act in the best interests of the membership.

TMAIT continues to focus on the smart growth of the program. By "smart growth," we mean expanding membership in the Program and increasing the number of insurance products per member while remaining focused on serving the best interests of TMA members. We continue to promote TMAIT as the preferred advisor to guide physicians through the insurance-buying process — an approach that offers more value than simply promoting products.

To help convince Texas physicians that TMAIT should be the preferred advisor for guiding them through the insurance-buying process, we emphasize the following:

- TMAIT has extensive experience in meeting the insurance needs of Texas physicians.
- TMAIT is directly affiliated with TMA, an organization highly respected by its members.
- Our thought-leadership materials provide TMA members with valuable, objective information about insurance. Our pieces include a *Life and Career Stage* series, *Insurance Guides for Physicians*, and a monthly newsletter, *TMAIT Insights*.

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 reliable source of insurance coverage for TMA members in the years to come.

While it is impossible to predict the outcome of the reform movement and the implications that any resulting legislation may have on the Trust and its products, our members can be confident that the Board, our staff, and our advisors will be monitoring the situation carefully and will be prepared to act in the best interests of the membership.

TMAIT Board of Trustees

Russell S. Cravey, MD
Chair
Kerrville

Kevin P. Magee, MD
Secretary
Dallas

Kimberly Carter, MD
Austin

Howard S. Garb, MD
Tyler

Bernard M. Gerber, MD
Bellaire

Louis J. Goodman, PhD
Austin

Robert A. Light, MD
Houston

Roberto San Martin, MD
San Antonio

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
contact@tmaid.org

Trustees

TMAIT operates under the authority of an eight-member board. During 2009, the Trustees met in person in January, April, 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 August.

Advisory Committee

The Board of Trustees is assisted by the TMAIT Advisory Committee, composed of nine TMA physicians and a TMA Alliance member 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 claim 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.

Staff

To further enhance member services, 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 information, TMAIT staff can provide an immediate response to a member's inquiry about insurance benefits. Staff are assisted by actuarial and legal advisors who provide advice on a broad range of technical issues. 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, the Advisory Committee, and TMAIT staff, the insurers provide TMAIT with the high level of insurance expertise and administrative assistance required to operate a cost-effective, state-of-the-art insurance program successfully. TMAIT staff communicate throughout each day with our insurance representatives; this close contact allows TMAIT to provide first-class service to its membership.

2009 Benefit Payments

Health.....	\$19.2
Long-Term Disability	9.0
Life	5.8
Office Overhead.....	0.6

Miscellaneous

Total Contributions	\$34.6 million
Combined Premium Stabilization Fund.....	\$92.4 million
Net Program Administrative Cost	6.6% of contributions

2009 Program Highlights

Rate of Return on Invested Assets.....	3.6%
LTD Payments.....	2,236
Disabled Physicians Receiving LTD Payments	134
New LTD Claims	19
Death Claims	31
Applications	1,279
Coverage Quotes	1,670
Billings.....	40,264

2009 Enrollment by Plan

Plan	Enrollment
Life Insurance	5,471
Long Term Disability	4,616
Office Overhead.....	1,131
Personal Accident	2,029
Health.....	3,945
Dental.....	808





P.O. BOX 1707
AUSTIN, TEXAS 78767-1707

PRSRT STD
U.S. POSTAGE PAID
PERMIT NO. 1787
AUSTIN, TX