

2010 Annual Report of the Texas Medical Association Insurance Trust



Helping Texas physicians so they can help others



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



I want to begin with a brief overview of the Trust's financial history before moving on to discuss the significant developments and financial results of the past year.

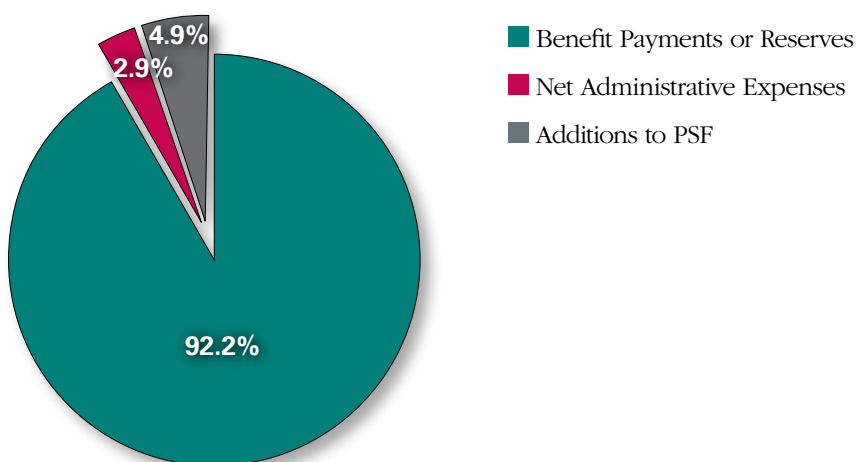
- Since 1969, our members have contributed about **\$1.51 billion** to the Trust.
- Over the last 41 years, the Trust has paid benefits or set aside as reserves for future benefit payments a total of **\$1.39 billion**. This represents about **92%** of member contributions.
- The Trust and its insurers have incurred net administrative expenses (net of investment income) of **only \$43 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 **\$74 million** in member contributions (about **5%** of the total) that has not been required for benefits and administrative expenses has 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.

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.

Exhibit 1

Uses of Member Contributions to TMAIT, 1969-2010

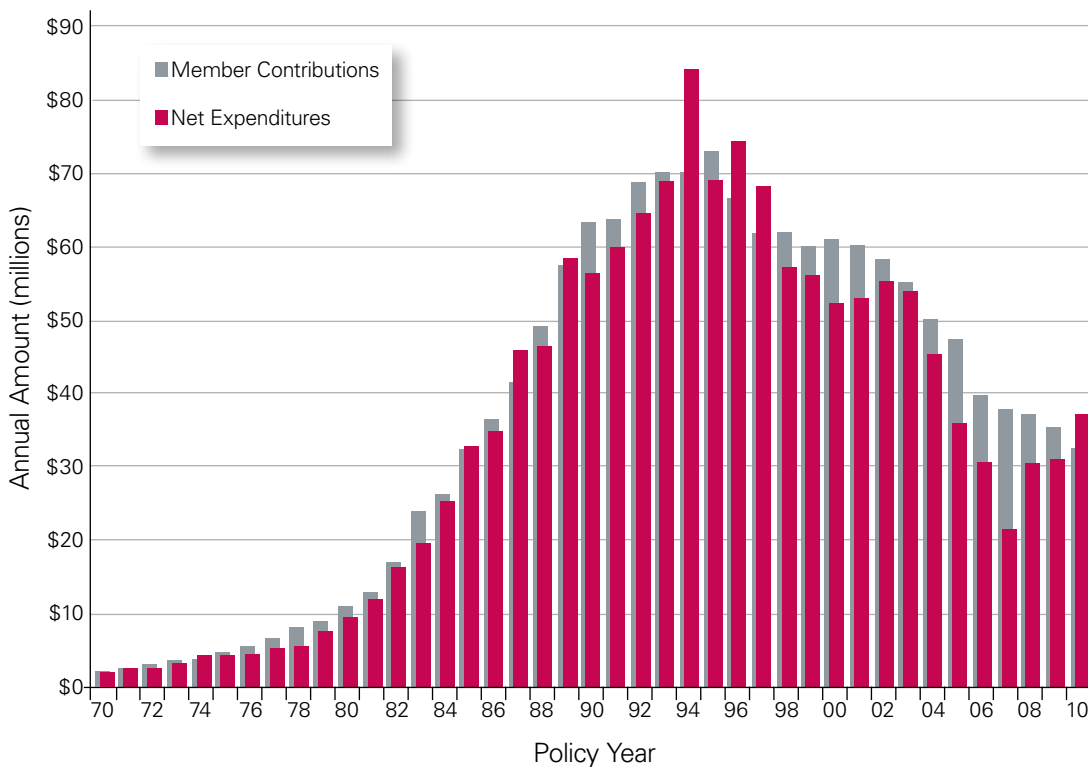


The Trustees believe that prudent management requires the accumulation of contingency reserves held in the PSF to secure the long-term success of the Program. In light of this, it is interesting to review Exhibit 2, which presents a historical comparison of member contributions and program expenditures 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 10 years 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 41-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.

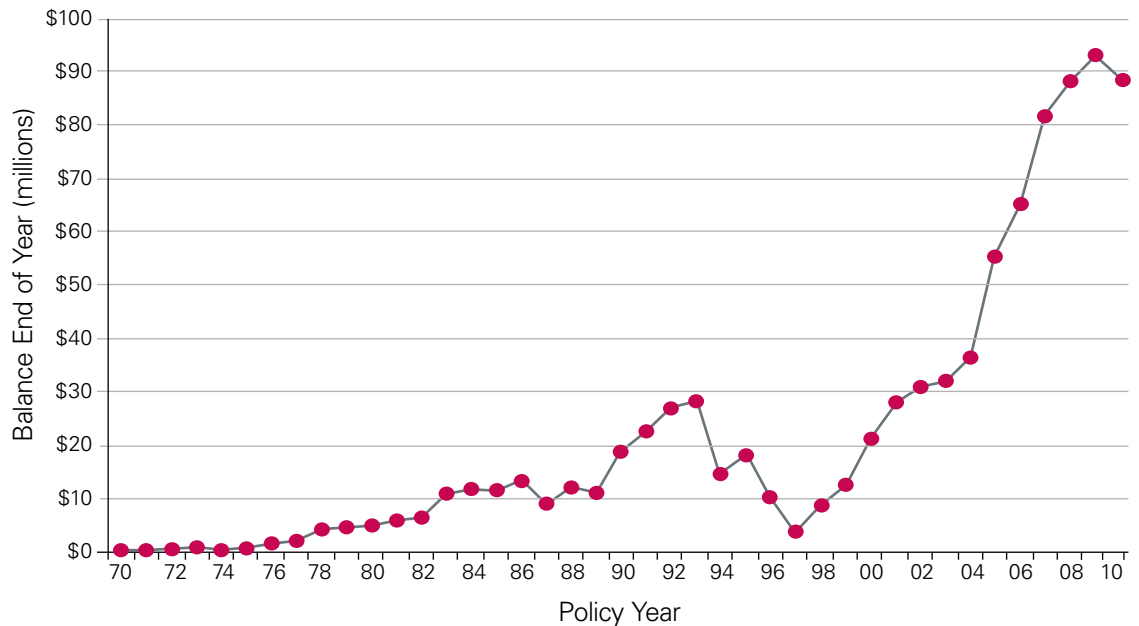
Exhibit 3 presents the historical growth of the fund. As you can see, after some tough times in the mid 1990s, brought on by a crisis with the long term disability (LTD) plan, the fund has enjoyed steady growth with particularly large gains from 2005 through 2009.

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.

With that brief historical review, let's move on to a discussion of 2010, which, financially, was another successful year, even though the results were quite different than those of the last 12 years. Overall, the Program experienced an operating loss of about \$4.6 million during PY10. This was the first year since 1997 that the Program has experienced negative operating results. From 1998 to 2009, the Program accumulated total gains of more than \$88 million. As a result of this favorable experience, the Program's PSF increased from approximately \$4 million at the end of 1997 to about \$92 million at the end of 2009. The loss during 2010 reduced the PSF to about \$88 million, an amount that provides a very high level of security for the Program.

Exhibit 3

TMAIT Premium Stabilization Fund Balance for All Plans Combined



The operating loss for 2010 occurred in part due to strategic decisions by the Trustees to return funds to the membership through reduced rates and/or enhanced benefits. This strategy included the following initiatives.

- **Maintain health insurance rates as long as possible.** 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. Prior to 2010, we last increased health rates November 1, 2006. Even though it is unusual for rates to remain adequate for more than a year, the rates adopted in 2006 remained adequate through 2008. During the last half of 2009, the experience worsened and the health plan began to generate a loss of about \$2 million for 2009. Nevertheless, due to the strength of the PSF, the Trustees decided to maintain the rates until October 31, 2010. While this decision cost the PSF an additional \$4 million, we believed that it was an appropriate means of returning funds to our members at a time when such assistance would surely be welcome. The continuing increases in the claims incurred under the plans gradually eroded the adequacy of the contributions, and it was finally necessary to increase the rates by an average of about 15% effective November 1, 2010. We believe the four-year period between rate increases is truly remarkable.
- **Reduce rates and enhance benefits in the LTD plan.** As a result of continued good experience, the Trustees approved a rate reduction for the LTD plan effective May 1, 2010. The reduction varies by age and averages about 20% overall. The reduction is the third in the last five



years, with others effective February 1, 2002; August 1, 2005; and February 1, 2007. In addition, benefit enhancements were implemented February 1, 2007, and May 1, 2008. The cumulative impact of these changes reduced plan revenue and increased plan cost while increasing value to the membership.

In addition to these strategic changes, the operating results were adversely impacted by a third consecutive year of significantly greater-than-expected losses in the life insurance plan. We'll have more information on the Program's 2010 operating results 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 2010, the Agency is providing coverage for about 6,309 TMA members.

Our partnership with Blue Cross Blue Shield of Texas (BCBS) ... the largest health insurance carrier in the state and with whom TMA has a long-standing working relationship ... 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 since we joined forces with BCBS in 2003.

Our long partnership with Prudential as the insurer of the Trust's life, office overhead, and disability plans continues to grow in strength and effectiveness, changing and evolving 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 41 years.

The Trustees and the staff continually analyze issues and review new opportunities and concepts 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 2011 as we seek to provide the highest degree of protection for our members. I am pleased to again report that we remain well-positioned to continue to serve the insurance needs of TMA members.

Along with our continuing effort to provide quality plans and excellent service, financial strength and stability remain TMAIT's highest priorities.

Enrollment

At the end of the 2010 policy year, 11,444 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 23,616 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 The University of Texas 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 has reduced our investment income significantly. As a result, net administrative expenses for 2010 were about 8.9% of member contributions, higher than the 6.5% rate experienced in 2009, which was 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.

2010 Financial Results

Along with our continuing effort to provide quality plans and excellent service, financial strength and stability remain TMAIT's highest priorities. 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 LTD claims. At the end of the 2010 policy year, the Program maintained required claim reserves of \$46.6 million.

In addition to the required claim reserves, TMAIT maintains the PSF to provide further security and stability for the Program. At the end of the 2010 policy year, the Program's PSF balance was almost \$88 million, which was equivalent to about 264% of annualized Program contributions. 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. Given the 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. This situation continued throughout 2010. Overall, the health plans produced a loss of about \$4 million for the year. This loss was in addition to the \$2 million loss incurred in 2009. The loss reduced the PSF to about \$18 million as of Oct. 31, 2010.

The PSF balance that accumulated in good times allowed us to cover the health plan funding deficiency that developed over the last two years, thus allowing us to defer rate increases as long as possible. While the PSF remains strong, claims continue to increase. Continued subsidization of the inadequate rates would run the risk of diminishing the fund while allowing the relationship between the rates and the costs to become so imbalanced as to necessitate excessive increases. As a result, in order to maintain a financially secure health plan, it was necessary to increase rates by an average of 15% effective November 1, 2010. Although this increase represented an annual average rate of increase of only about 3.5% over the last four years, we understand that any rate increase is an added burden on the already-stressed budgets of Trust members.



Life Insurance

The life insurance plan experienced a loss of about \$2.8 million for 2010, as compared with a loss of \$2.4 million and \$700,000 in 2008 and 2009, respectively. The loss reduced the plan's PSF balance to about \$3.7 million.

The number of death claims in 2010 (31) was the same as it was in 2009 (31), but the total payments in 2010 (\$7.1 million) were about \$1.3 million greater than in 2009. There were six claims of \$400,000 or more in 2010 while there were five claims that large in both 2008 and 2009. There were two claims in excess of \$1.5 million in 2010, while there was only one claim that large in each of 2008 and 2009. The death claim payments in 2010 were the highest in the history of the plan. This dubious record for 2010 followed 2009, when death claim payments were, at the time, the highest in the plan's history.

The year 2010 is the second time in the 41-year history of the Trust that it has incurred losses three years in a row (\$2.4 million in 2008, \$700,000 in 2009, and \$2.8 million in 2010). Following the last time this happened (1991-93), the plan produced a gain for nine years in a row.

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 claims that occurred in both 2009 and 2010. 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 12 years, while it has experienced losses in eight years.
- The gains have ranged from about \$6,000 to more than \$2.1 million (in 2007), with an average of roughly \$850,000.
- The losses have ranged from \$270,000 to \$2.8 million, with an average of around \$1.2 million.
- The gains have exceeded the losses by about \$500,000 over the last 20 year, i.e., the experience has been slightly better than breakeven during that period.

While it remains possible that the last three years simply represent a natural swing in the experience, the growing magnitude of the losses may indicate an emerging negative trend. The plan's PSF has served its purpose during this period and remains adequate to support the plan in 2011. Nevertheless, we are watching the plan carefully to determine whether an adverse trend may be developing.

Office Overhead

The office overhead plan experienced a loss of about \$280,000 during 2010. The gains during the five-year period ending in 2009 were largely the result of a relatively low rate of new claims. The number of new claims increased almost 19% during 2010.

The plan's PSF balance is about \$7.8 million as of October 31, 2010, and remains extremely strong. In recognition of the strong PSF, the office overhead plan benefits were enhanced effective November 1, 2010.

Long-Term Disability

The LTD plan experienced another good year with a gain of \$2.6 million. With the gain, the PSF balance for the LTD plan now exceeds \$58 million.

2010 was the 13th consecutive year in which the LTD plan has generated a gain. This long run of favorable experience has allowed the Trust to implement rate reductions effective February 1, 2002; August 1, 2005; February 1, 2007; and May 1, 2010. In addition, benefit enhancements were implemented February 1, 2007, and May 1, 2008.

The most recent rate reductions, which averaged about 20%, have begun to slow the growth of the PSF and, over time, could result in a decline in the fund balance. This should not present any problems for the plan given the strength of the fund.

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.

Even though the Trust experienced a loss in 2010, it was primarily the result of deferring rate increases for the health plan and reducing rates for the LTD plan; i.e., the result of saving money for our members. While the Trust's fiduciary responsibilities necessitate periodic health plan rate increases 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. As a result, we defer rate increases as long as possible.

We made a number of important changes and introduced several initiatives in late 2010 and early 2011, including the following.

- We made significant improvements to our office overhead plan effective November 1, 2010:
 - Increased the maximum benefit from \$20,000 to \$35,000 per month.
 - Increased the maximum age at issue from 60 to 70 with proof of good health.
 - Added a Future Insurability Option under which a physician who is approved for coverage prior to age 40 may increase his or her coverage by \$1,000 annually for five years up to a maximum additional benefit of \$5,000 (not to exceed the \$35,000 monthly maximum) without proof of good health.
 - Increased the maximum age for coverage from 70 to 75, provided coverage was applied for and approved prior to age 70 and the physician is still working at least 10 months a year. The maximum benefit duration for a physician age 70 or older is one year.



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- Expanded the list of eligible overhead expenses to include:
 - Principal and interest on debt related to purchase of practice and student loans (amounts previously payable by the practice),
 - Leased equipment and furniture payments,
 - Car allowances (as related to the practice),
 - Business loan interest on loans incurred prior to disability, and
 - Other fixed overhead expenses that are normal and customary in the operation of the practice as approved by the insurer.
- We made changes to the health plans to bring them into compliance with the Affordable Care Act. These changes include removing lifetime coverage amounts from each plan.
- We improved the group life plan for employees of physician group practices.
- We introduced a new TMAIT Advisor, John Isgitt, who is available to personally meet with physicians, practice managers and residents to help them with their insurance needs.
- We launched a new web site in March 2011. The new web site provides greater access to information and is more user-friendly and interactive.

We expect 2011 to be another interesting year with continuation of difficult financial conditions, strained federal and state budgets, and ongoing legislative debate and litigation 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 state or federal 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 intend to accomplish this through the following strategies.

- Explaining to Texas physicians that TMAIT should be the preferred advisor for guiding them through the insurance-buying process — an approach that offers more value than simply promoting products.
- Emphasizing TMAIT’s experience in meeting the insurance needs of Texas physicians and our direct affiliation with TMA, an organization highly respected by its members.
- Providing informative materials to TMA members that include 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.

Trustees

TMAIT operates under the authority of an eight-member board. During 2010, the Trustees met in person in January, 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 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 a member the 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 gives each member a forum for further consideration of decisions that affect insurance coverage.

Staff

To further enhance member services, TMAIT maintains a 22-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 supply an immediate response to a member's inquiry about insurance benefits. Staff are assisted by actuarial and legal advisors who offer 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.

2010 Benefit Payments

Health.....	\$19.4
Long Term Disability	8.1
Life	7.1
Office Overhead.....	0.9

Miscellaneous

Total Contributions	\$32.2 million
Combined Premium Stabilization Fund.....	\$87.9 million
Net Program Administrative Cost	8.9% of contributions

2010 Program Highlights

Rate of Return on Invested Assets.....	3.3%
LTD Payments.....	2,050
Disabled Physicians Receiving LTD Payments	134
New LTD Claims	21
Death Claims	31
Applications	869
Coverage Quotes	1,933
Billings.....	40,342

2010 Enrollment by Plan

Plan	Enrollment
Life Insurance	5,343
Long Term Disability	4,632
Office Overhead.....	1,089
Personal Accident	1,975
Health.....	3,680
Dental.....	798



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