

2011 Annual Report

Helping Texas physicians
so they can help others



TEXAS MEDICAL ASSOCIATION
INSURANCE TRUST

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A Message from Kevin P. Magee, MD *Chair, Board of Trustees*



After serving on the Texas Medical Association Insurance Trust (TMAIT or the Trust) Advisory Committee for three years and the Board of Trustees for seven years, I began my first year as chair on Nov. 1, 2011. In assuming the position of chair, I am filling the big shoes of Russell S. Cravey, MD, who retired from the Board after serving seven years on the Advisory Committee and nine years on the Board of Trustees, and providing tremendous leadership as chair for the last two 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.

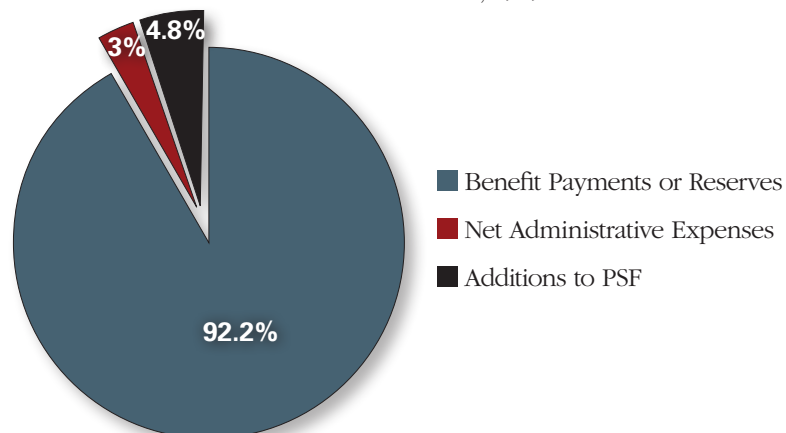
I want to begin with a brief overview of the Trust's financial history before moving on to discuss the significant developments and financial results of the past year.

- Since 1969, our members have contributed about **\$1.54 billion** to the Trust.
- Over the last 42 years, the Trust has paid benefits or set aside as reserves for future benefit payments a total of **\$1.42 billion**. This represents about **92%** of member contributions collected since the inception of the Trust.
- The Trust and its insurers have incurred net administrative expenses (net of investment income) of **less than \$47 million** since 1969. Net administrative expenses represent about 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 **\$87 million** PSF has been developed from the following sources:
 - About **\$73 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 42-year history are shown in Exhibit 1.

Exhibit 1

Uses of Member Contributions to TMAIT, 1969-2011

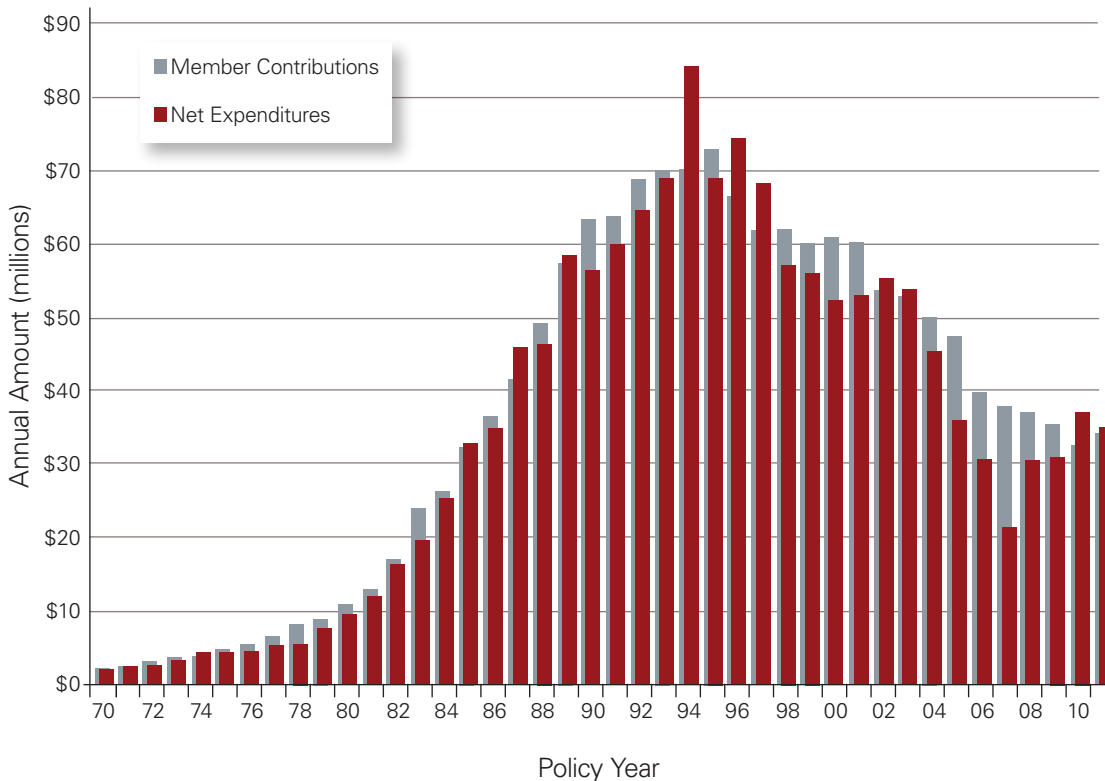


The Trustees manage Program finances in a prudent manner to achieve a balance between revenue and expenses over the long term. The Trustees believe that prudent management requires the accumulation of contingency reserves held in the PSF to secure the long-term success of the Program. In light of this, 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 11 years of losses. It is worth noting, however, that the Program has shown considerable volatility, with a few years of significant losses offset by many years with considerable gains. Overall, the cumulative gains represent about 5% of contributions over the 42-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 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.

With that brief historical review, let's move on to a discussion of 2011, another financially successful year. Overall, the Program experienced an operating loss of about \$675,000 during 2011. Along with 2010, this was the second 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 2010. The losses experienced by the Program during 2010 and 2011 have reduced the PSF to just over \$87 million, an amount that continues to provide a very high level of security.

The operating loss for 2011 occurred in part due to continuation of the Trustees' strategy of returning funds to the membership through reduced rates and/or enhanced benefits. This strategy included the following initiatives.

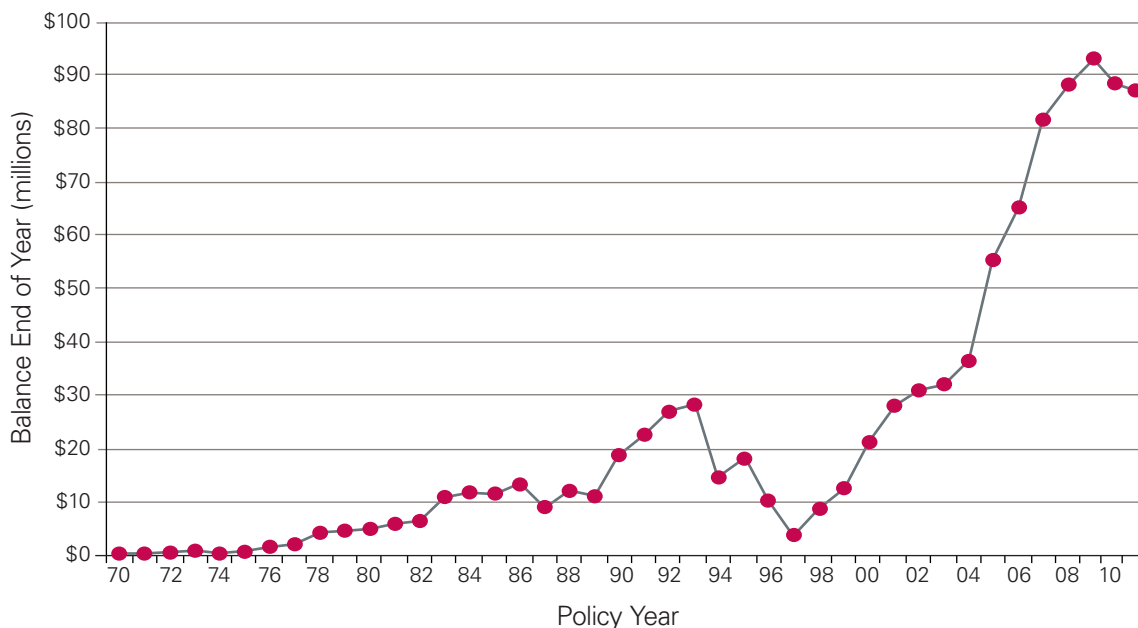
- Maintain health insurance rates as long as possible.** Maintaining adequate health insurance rates is an ongoing challenge. Like all health plan sponsors, the Trustees recognize that health insurance rate increases are unavoidable in the current environment due to the rising cost and utilization of 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 had not increased health rates since Nov. 1, 2006. Even though it is unusual for rates to remain adequate for more than one year, the rates adopted in 2006 remained adequate through 2008. During 2009, the experience worsened, and the health plan generated a loss of about \$2 million.

Nevertheless, due to the strength of the PSF, the Trustees decided to maintain the rates through most of 2010. While this decision cost the PSF \$4 million during 2010, we believed that it was an appropriate means of returning funds to our members at a time when such assistance would surely be welcome.

Continuing increases in the claims incurred under the health plans gradually eroded the adequacy of the contributions, and it was finally necessary to increase the rates by an average of about 15% effective Nov. 1, 2010. The Trustees chose to increase the rates by only 15% even though projections indicated that a 25% increase would be required for the health plan to break even during 2011. The Trustees made this decision to continue to use the PSF to subsidize the rates due to the size of the PSF and a desire to mitigate the impact of the rate increase on the membership. This strategy cost the PSF about \$1.4 million during 2011.

Exhibit 3

TMAIT Premium Stabilization Fund Balance for All Plans Combined



- **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 varied by age, and averaged about 20% overall. The reduction was the fourth since 2002, with others effective Feb. 1, 2002; Aug. 1, 2005; and Feb. 1, 2007. In addition, benefit enhancements were implemented Feb. 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 initiatives, the operating results were adversely impacted by a fourth consecutive year of significantly greater-than-expected losses in the life insurance plan.

We'll have more information on the Program's 2011 operating results later in this report.

Movement of members in and out of the Trust continues to complicate the insurance pool's operation. 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 2011, the Agency was providing coverage for about 7,040 TMA members.

Our partnership with Blue Cross and 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 ensure that the Trust can maximize its responsiveness to the membership's health insurance needs in the coming years. BCBS's claims management has been a major factor in the relative stability of our health insurance plans as well as allowing us to have only two rate increases since we joined forces 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 our membership's insurance needs. We look forward to continuing to build on the strong and dynamic foundation we have established with Prudential over the last 42 years.

The Trustees and 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 2012 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.



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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 2011 policy year, 11,563 physicians and their employees were members of the TMAIT Insurance Program or purchased insurance coverage through the Agency. The insurers that the Trust and the Agency use have issued 23,857 certificates of coverage to these participants.

The Program includes 1,948 resident physicians from Texas Tech University Health Sciences Center, Methodist Hospital and Presbyterian Hospital in Dallas, 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 about 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 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 2011 were about 9.2% of member contributions, slightly higher than the 8.9% rate experienced in 2010, 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.

2011 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 pay all claims 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 2011 policy year, the Program maintained required claim reserves of \$44.4 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 2011 policy year, the Program's PSF balance was more than \$87 million, equivalent to almost 260% of annualized Program contributions. The PSF is a major factor that distinguishes the TMAIT Insurance Program from most others.



Health Plans

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 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 costs above the contributions paid by the members during 2009 and 2010. Overall, the health plans produced a loss of about \$6 million during those two years.

The PSF balance that accumulated in good times allowed us to cover the

health plan funding deficiency that developed during 2009 and 2010, thus permitting us to defer rate increases as long as possible. Nevertheless, to maintain a financially secure health plan, it was finally necessary to increase rates by an average of 15% effective Nov. 1, 2010. This increase, which represented an annual average rate of increase of only about 3.5% from 2006 to 2010, was intended to provide sufficient revenue to support the health plans during 2011, when supplemented with about \$2 million from the PSF. As experience was slightly better than expected, we required a supplement of only \$1.4 million. The rate supplements over the last three years reduced the plan's PSF to about \$17 million as of Oct. 31, 2011. The PSF supplement allowed us to once again defer rate increases for the health plan.

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 rates and costs to become so imbalanced as to necessitate excessive increases. As a result, we will probably need to raise the health rates later in 2012.

Life Insurance

The life insurance plan experienced a loss of about \$3.1 million for 2011, bringing the total losses over the last four years to \$9 million. The loss reduced the plan's PSF balance to about \$600,000 as of Oct. 31, 2011.



The number of death claims in 2011 (32) was one more than the number in 2010 (31), and the total payments in 2011 (\$7.1 million) were slightly higher than they were in 2010. There were eight claims of \$400,000 or more in 2011, while there were six claims that large in 2010. There were two claims in excess of \$1 million in 2011, just as there were in 2010. The death claim payments in 2011 were the highest in the history of the plan. This was the third consecutive year in which the life plan experienced record high claims.

The period 2008-2011 is the only time in the 42-year history of the Trust that the life plan has incurred losses four years in a row (\$2.4 million in 2008, \$700,000 in 2009, \$2.8 million in 2010, and \$3.1 million in 2011).

Historically, it has not been unusual for the life plan to experience volatile swings in experience. This is due to the nature of the coverage and the

large amounts of coverage in force. However, after considerable study by staff, the consulting actuary, and Prudential, the Trustees concluded that the losses experienced over the last four years demonstrate a trend that is likely to continue unless we take action to remediate the situation.

Our analysis has indicated that the plan's problems could not be solved simply through a large rate increase. Accordingly, the Trustees adopted a strategy designed to achieve improvement in operating results through a combination of risk management, cost reductions, and increased revenue. The goal of this strategy is to remediate the problem in a manner that is less disruptive and ultimately more productive than a large rate increase. This strategy includes a revised reinsurance arrangement designed to smooth out the volatility associated with large claims, a moderate rate increase, and benefit revisions. These rate and benefit

changes have been announced to the membership and will be effective May 1, 2012.

In addition, we will introduce a new life plan with an updated rating schedule and benefit design. It is currently pending approval by the Texas Department of Insurance and should be available this summer.

This is a complex situation that defies a simple solution. Fortunately, the Trust is in a strong financial position to address the situation through the strategy described above. This strategy is likely to require a minimum of five years to return the life plan to a financially self-supporting position. While we believe this approach offers a reasonable chance for improving the plan's experience, it will be necessary to monitor the developing experience carefully and be prepared to revise the strategy if the actual results vary from our expectations.

Office Overhead

In 2011, the number of new office overhead claims decreased more than 19%, which led to a gain of about \$500,000 for the year. This was a marked reversal from 2010, when the number of new claims suddenly increased by about 19%.

The plan's PSF balance is about \$8.3 million as of Oct. 31, 2011, and remains extremely strong. In recognition of the strong PSF, the office overhead plan benefits were enhanced effective Nov. 1, 2010.

Long-Term Disability

The LTD plan experienced another good year with a gain of \$3.2 million. With the gain, the PSF balance for the LTD plan now exceeds \$61.5 million.

Last year was the 14th 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 Feb. 1, 2002; Aug. 1, 2005; Feb. 1, 2007; and May 1, 2010. In addition, benefit enhancements were implemented Feb. 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 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 range of health insurance products 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 give physicians a wide range of choices — from life and disability insurance to long-term care products.

While the Trust's fiduciary responsibilities necessitate periodic 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 our membership. As a result, we defer rate increases as long as possible.

We introduced several initiatives in 2011 that were designed to improve our services and educate our members:

- We conducted campaigns to reach both existing TMAIT members and TMA members who have not yet entered a relationship with TMAIT. Our audiences ranged from physicians just leaving residency to those preparing for retirement.
- We reached out to medical group practice managers to help them provide employee benefits that match their needs with their budgets.
- To deliver better service to our members, we redesigned our website (www.tmaid.org) and improved our resources for providing useful insurance information to physicians.
- The redesign of www.tmaid.org was a success, recently winning an award for Outstanding Achievement in Web Development by the Web Marketing Associations' Web Awards. The website scored the highest in the categories of design, interactivity, copywriting, and ease of use.
- We redesigned our e-newsletter, *TMAIT Insights*, to make it easier to access the new website. The new

design allows the reader to preview the article from a small description within the e-newsletter, then click a link to read more on www.tmaid.org. This strategy brings the readers to the website where they can find valuable content and information about our insurance products.

- We have also continued to expand the content of *TMAIT Insights* to include articles relevant to physicians but outside the boundaries of insurance.
- We redesigned the new member e-mail to include articles about fellow physicians, insurance advice, and information about the TMAIT insurance products available only to TMA members. The redesigned e-mail resulted in more visits to the Request a Quote page and more quote submissions.
- We developed a number of focused information campaigns including long-term disability for residents, long-term care for mature physicians, long-term disability to long-term care conversion, long-term disability with the future increase option, and long-term disability for young female physicians.
- We continued to provide informative guides that contain valuable, objective information about insurance, including the *Life and Career Stage series*, *Insurance Guides for Physicians*, and *Group Insurance for Your Medical Practice*. We also developed specialized articles like *Smart Financial Steps for Young Physicians*.
- We conducted a policy cancellation survey to learn more about physicians' reasons for terminating coverage.
- We updated the informational brochures that cover the various insurance plans TMAIT provides.

We will use what we have learned this year to improve our efforts to generate "smart growth" for 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 seek to accomplish this by explaining to TMA members that

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TMAIT should be the preferred advisor for guiding them through the insurance-buying process — an approach that offers more value than simply promoting products.

In the early years of TMAIT, the insurance marketplace could be an unfriendly place for professionals and small businesses in general, and for physicians in particular. During that era, even though the Trust was the only insurance source for many TMA members, it still managed to offer products that provided equal or better quality, service, and cost, compared with those available to larger businesses.

Much has changed over the last 20 years, with the market becoming increasingly expansive and competitive, offering physicians a wide array of insurance products. Although, the Trust is no longer the only source for TMA members, it remains the best source:

- Through TMAIT and the Agency, TMA members have access to every insurance product in today's market in addition to the valuable Trust plans that are available only to TMA members.
- TMAIT Trustees and staff know and understand physicians better than anyone in the insurance market. We exist only to serve physicians. As a result, our service is unparalleled.
- TMAIT works closely with TMA to support its members and programs.
- TMAIT is governed by Trustees who are appointed by TMA or elected by the TMAIT membership.

We expect 2012 to be another interesting year with a fragile economy, changes in the delivery of health care, strained federal and state budgets, and ongoing 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. While it is impossible to predict the impact the continuing evolution in health care and health insurance 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 be prepared to act in the best interest of the membership.

One of the things we do best is listen to our members and respond to their needs. In this regard, we are expanding the definition of "eligible dependents" to include domestic partners and same-sex spouses. Individuals who satisfy the revised eligibility provisions will be able to apply for coverage beginning this summer.

We also will be introducing our new life insurance plan this summer to address issues we discovered during the analysis of the current life plan.

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 our members, 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 2011, the Trustees met in person in January, May, 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 23-person staff at TMA's Austin headquarters, led by Larry Stein, administrator, and James Prescott, associate administrator. 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 the Agency, 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 and 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.

2011 Benefit Payments

Health.....	\$18.7
Long-Term Disability	7.8
Life	7.1
Office Overhead.....	0.7

Miscellaneous

Total Contributions	\$33.8 million
Combined Premium Stabilization Fund.....	\$87.2 million
Net Program Administrative Cost	9.2% of contributions

2011 Program Highlights

Rate of Return on Invested Assets.....	3.3%
LTD Payments.....	1,962
Disabled Physicians Receiving LTD Payments	131
New LTD Claims	14
Death Claims	32
Applications	917
Coverage Quotes	1,850
Billings.....	38,467

2011 Enrollment by Plan

Plan	Enrollment
Life Insurance	5,008
Long-Term Disability	4,582
Office Overhead.....	1,076
Personal Accident	1,904
Health.....	3,430
Dental.....	817



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