



TMAIT 2006
Annual Report





The Trust's financial strength, wide array of insurance and financial products and its 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.



2006 ANNUAL REPORT OF THE TEXAS MEDICAL ASSOCIATION INSURANCE TRUST

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



Just like the practice of medicine, the business of insurance grows more complex with each passing year. For the Texas Medical Association Insurance Trust, 2006 was no exception. As we continued to work hard on all of our programs and initiatives, we undertook innovative projects and refined existing processes in order to address new challenges and help our members meet their insurance needs in this complex environment.

The 2006 Annual Report of the Texas Medical Association Insurance Trust (TMAIT or the Trust) is intended to provide our members with information concerning the significant developments and financial results of the past year.

Financially, 2006 was another successful year. Overall, the Program experienced an operating gain of almost \$10 million. This brings the total gains for the period 1998-2006 to about \$53 million. As a result of the effect of favorable experience the Program's Premium Stabilization Fund (PSF) has increased from approximately \$4 million at the end of 1997 to about \$65 million at the end of 2006, another all-time high.

Over the last several years, conditions impacting the health insurance industry have been consistently poor. Although the environment for health insurance across the country has improved somewhat, it continues on the difficult course that it has been on since 2000. The growing cost and utilization of health care, health care services and pharmaceutical products

continue to drive the cost of health insurance upward. While these forces have moderated somewhat, they continue to create cost increases that are several times greater than the general rate of inflation.

Obviously, the health insurance coverage offered by the Trust is not immune to these forces. We saw the cost of our products escalate rapidly right along with the cost of products offered by our competitors. Fortunately, however, we did not have to raise our premium rates from May 2003 through October 2006, due to the supplementation of premiums from the proceeds of the sale of the Prudential stock, the cost containment efforts of our insurer and the general moderation of cost increases. After three-and-one-half years without health insurance rate increases, we were forced to implement a 10% increase effective November 1, 2006. We expect that this increase will generate the additional revenue required to cover the rising expenses of the program during the 2007 fiscal year.

When we are forced to raise our premiums for any of our plans, especially health insurance, we realize that some of our members may find it necessary to shop for other coverage.

Some are successful in finding something less expensive, although we sincerely doubt that they find anything of equivalent quality. Nevertheless, when members decide to change health insurance carriers they often decide to change carriers for their other products as well. This creates a good deal of churning within the insurance market as our members search for less expensive coverage. The result is that the Trust is constantly locked in a battle for the loyalties of its membership.

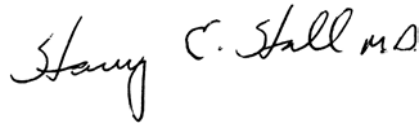
Movement of members in and out of the Trust makes operations here more difficult, just as it creates disruption in the insurance portfolio of our members. Realizing this, TMAIT has established its own insurance agency, TMAIT Financial Services, Inc. (the Agency) to assist those members who feel they need to shop for their coverage. Since 2000 TMAIT Financial Services, Inc. has provided coverage for almost 7,000 TMA members. Along with the Agency, TMAIT truly is your "trusted advisor" who can provide coverage for a lifetime.

Our partnership with Blue Cross Blue Shield, which is the largest health insurance carrier in the state and which has a long-standing working relationship with TMA, continues to assure that the Trust can maximize its responsiveness to the membership's health insurance needs in the coming years. The claims management exercised by BCBS has been a major factor in the relative stability of our health insurance plans and, along with the supplementation, was a significant factor in allowing us to complete more than three years without rate increases.

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 37 years.

While we do not expect 2007 to be any less challenging than previous years, we remain fully committed to responding to the challenges and obstacles that these times present to the profession and the insurance program. The Trustees and the staff continually analyze issues and review new opportunities and concepts in an attempt to maintain the Trust's leadership in providing insurance programs and services to Texas physicians.



Harry E. Hall, MD
Chairman, Board of Trustees

Enrollment

At the end of the 2006 policy year, more than 13,000 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 26,000 certificates of coverage to these participants.

The Program includes 1,800 resident physicians from Texas Tech University Health Science Center, Methodist Hospital and Presbyterian Hospital in Dallas, Scott and White Medical Center and The University of Texas Health Science Center in Houston. By providing cost-effective insurance coverage to residents, the Trust introduces the TMA and its services to a new group of young physicians. Through this service, the TMAIT provides a young physician with an additional incentive to become a member of the Texas Medical Association.

Administrative Costs

The working relationships between the TMAIT and its insurers continue to allow an exceptionally high return to our members. While many insurance plans allow investment income to serve as a source of profit for the insurance carrier, the TMAIT contracts require that the investment income be used to offset administrative expenses. During 2006 we achieved a milestone few insurance programs have ever attained. Our investment income slightly exceeded our total administrative costs. This allowed 100% of our members' contributions to be applied to the provision of benefits. In other words, all revenue received from members was returned to members either through current benefit payments or establishment of reserves to secure future benefit payments. Few, if any, programs have ever reached such a high level of cost-effectiveness.

2006 Financial Results

Along with our continuing effort to provide quality plans and excellent service, financial



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strength and stability remain the highest priorities of the TMAIT. The Texas Insurance Code and prudent financial management require the TMAIT and its insurers to maintain adequate funds to provide for all claims which have been incurred under the Program. These funds, referred to as claim reserves, are conservatively established so as to provide full assurance that all member claims will be paid when submitted. Some of these reserves are for short term obligations, such as health claims which are submitted soon after they are incurred, while others are for payments which may not come due for many years into the future, such as those resulting from long term disability (LTD) claims. At the end of the 2006 policy year, the Program maintained required claim reserves of \$69.5 million.

In addition to the required claim reserves, the TMAIT maintains the PSF to provide further security and stability for the Program. The PSF is extremely important to the success of the

Program since it (1) provides security for member insurance benefits, (2) allows the Trustees to avoid immediate rate increases as a result of unexpected adverse consequences, (3) reduces the cost of insurance through moderation of the risk exposure to the insurance company and (4) provides the Program with an important source of investment income which results in lower premiums for the membership.

Favorable experience for 2006 and the supplementation discussed earlier in this report resulted in an increase in the Program's PSF balance to about \$65 million. By the end of the 2006 policy year, the PSF was equivalent to more than 160% of the annualized premium of the Program. The PSF is a major factor that distinguishes the TMAIT Insurance Program from most others.

Health Plans

During the year we completed the settlement of the contract that we terminated with Aetna in 2003 when we transferred the health plans to BCBS. Once all claims outstanding at the time of termination had been paid, we were able to transfer remaining reserves to BCBS to shore up the strength of the health plan. We also renegotiated our administrative agreement with BCBS to reduce net administrative costs. Coupling these steps with near break-even results for the health plans led to an increase in the PSF to more than \$18 million at the end of 2006.

The Trustees are pleased that the plans were able to operate without rate increases for three-and-one-half years. This is extremely unusual in the current environment and is in part attributable to the cost management efforts of BCBS. Even after such a long period without increases, we were able to balance revenue and expenses with a 10% increase which is modest by health insurance standards.



The Program experienced an operating gain of almost

Although the PSF remains strong, claims 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. Although we see no immediate need for further rate changes, that is always a possibility in the current environment.

Life Insurance

The life insurance plan produced a gain of about \$1.5 million for 2006. Although the number of death claims in 2006 (32) was slightly greater than the number in 2005 (30), total death claim payments were over \$2.2 million less in 2006 than they were in 2005. There were only three claims of \$400,000 or more during 2006, while there were seven claims that large in 2005.

While the experience was good, it is important to remember that the life plan is subject to sharp swings in experience (both good and bad) due to the nature of the coverage which involves a low frequency, high severity risk.

The plan's PSF balance now stands at about \$7.5 million. The largely favorable experience of the last 10 years has placed the plan in a sound financial position.

Office Overhead

The office overhead plan experienced a gain of some \$900,000 during 2006. This is the second year of unexpected favorable experience since benefits have been increased and rates have been reduced several times in recent years in recognition of the plan's large PSF balance. Those actions had resulted in losses for several years prior to 2005. The gains of the last two years are largely the result of a reduction in new claims which produced a decline in required claim reserves. The plan's PSF balance is about \$6.0 million as of October 31, 2006.

Long Term Disability (LTD)

The LTD plan experienced another good year with a gain of \$4.2 million. These results continue the favorable trend that began in

With the gain, the PSF balance for the LTD plan now exceeds \$33 million. In light of the strength of the PSF, benefits were enhanced and rates were reduced 20% effective February 1, 2007. This action, together with the rate reduction that occurred August 1, 2005, has produced rates which are more than 35% lower than they were two years ago.

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, TMAIT has succeeded in maintaining a valuable package of products for its membership. 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 to annuity and mutual fund options.

st \$10 million, bringing the total gains for the period 1998-2006 to about \$53 million. //

1998. The following are the principal factors contributing to the gain:

- For the second 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.



2006 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. Unfortunately, the increasing utilization and price of health care required us to increase health insurance rates for the first time

In the process, rate increases undermine the loyalty of TMA members to the TMAIT. Even more troubling than the increases themselves, prevailing conditions indicate that this cycle is likely to continue for the foreseeable future.

When we set health insurance rates, it is our aim to establish them at such a level as to provide for the expenses we anticipate incurring over the 12 month period following the increase. If costs rise more rapidly than anticipated, we may have to adjust rates again in the interim. If conditions are better than expected, the rates may be adequate for more than a year. While the Trust's fiduciary responsibilities necessitate periodic rate increases in order to keep pace with rising cost, such action is undertaken judiciously and with a full and sympathetic understanding of the impact that it will have on the membership.

The TMAIT continues to build on the following business initiatives begun in 2006:

- We conducted a complete review of our external agency relationships and have come to the conclusion that we can better serve TMA members through our professional staff in Austin and a few key specialists located throughout the state. TMAIT will no longer "endorse" specific insurance agents, brokers, or financial planners. This means that physicians, practice managers and their staffs will be able to seek advice and assistance from individuals whose focus is 100% on the practice of medicine.
- Our website is undergoing an extensive renovation which, when completed, will contain a "plan finder" that is designed to help physicians and practice administrators identify the types of plans best suited for specific areas within the practice of medicine or specific periods during the life of the practice. The new website will position TMAIT as the TMA members' "Trusted Advisor" and demonstrate how TMAIT can provide the physician and the practice with insurance coverage and financial services for a lifetime.
- We have expanded our marketing projects with Prudential to include simplified issue systems for term life insurance and long-term disability



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in three-and-one-half years. Still, the 10% rate increase was relatively moderate during a time when many plans experience increases of that magnitude or greater every year!

Although health insurance rate increases are necessary to maintain the financial viability of the Trust's plans, we recognize that they squeeze the budgets of our physicians and their employees.

coverage for our physician members. We plan to continue this process with our office overhead and personal accident programs.

- We have scheduled presentations of Medical Identity Theft seminars including participation at TEXMED and various county medical society programs.
- TMAIT Financial Services, Inc., our full service insurance agency, introduced a new employer group disability insurance program underwritten by The Hartford. We've negotiated best-in-class coverage with discounts for TMA members. Key highlights include own-specialty and sub-specialty definitions of disability.

At the TMAIT we also continue to improve our technology in order to offer more value-added services to TMA physicians who purchase their employee benefits through the TMAIT. Our technology includes such time savers as on-line enrollment, improved employee education and communication concerning their benefits, and human resource systems that assist both the employer and the employee. We have also developed a web-based tool for quoting the cost of health and long-term care coverages. In many cases, the physician can apply for health insurance on-line.

The Board of Trustees and the dedicated staff of the TMAIT are committed to providing high quality, cost-effective service and products to the TMA and its members. The Trust's financial strength, wide array of insurance and financial products and its commitment to meeting the needs of the membership will continue to provide a strong source of insurance coverage for TMA members in the years to come.

Trustees

The TMAIT operates under the authority of an eight-member Board of Trustees. During 2006, 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.



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Advisory Committee

The Board of Trustees is assisted by the TMAIT Advisory Committee, comprised of nine TMA physicians and a member of the TMA Alliance appointed by the Trustees for the purpose of reviewing claims and underwriting decisions, which are appealed by the membership. The Advisory Committee, which includes a variety of medical specialists, provides the member with an opportunity for a panel of his or her peers to review insurance carrier decisions concerning underwriting and claims matters. The Advisory Committee is one of the principal strengths of the TMAIT since it provides each member with a forum for further consideration of decisions that affect insurance coverage. The Advisory Committee met three times during 2006 and considered 10 appeals.

Staff

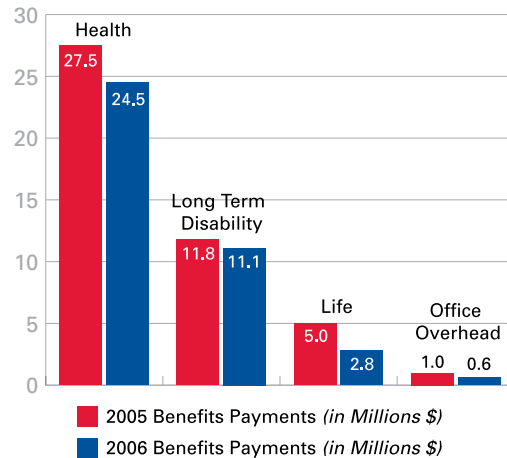
To further enhance member service, the TMAIT maintains a 20-person staff at TMA's Austin headquarters. The TMAIT staff is involved in every phase of the Program, from enrollment and billing to claims assistance. With immediate access to all membership and claims information, the TMAIT staff can provide information quickly and an immediate response to a member's inquiry about insurance benefits. The staff is assisted by actuarial and legal advisors who provide advice on a broad range of technical issues. The staff serves as a liaison between the membership and the insurance carriers and provides a member service that is generally not available to an individual purchasing coverage through the commercial insurance market.

Our Insurers

The TMAIT life, office overhead and LTD plans are underwritten by Prudential Financial, Inc., Prudential Plaza, Newark, NJ 07102. The health insurance plans are underwritten by Blue Cross Blue Shield of Texas, Dallas, TX 75265. In addition to providing financial security, the insurers are important members of the TMAIT administrative team. Working in partnership with the Trustees, the Advisory Committee and the TMAIT staff, the insurers provide the TMAIT with the high level of insurance expertise and administrative assistance that is required to successfully operate a cost-effective, state-of-the-art insurance program. The TMAIT staff communicates throughout each day with our insurance representatives. This close contact allows the TMAIT to provide first-class service to its membership.

TMAIT Statistics

Benefits Payments

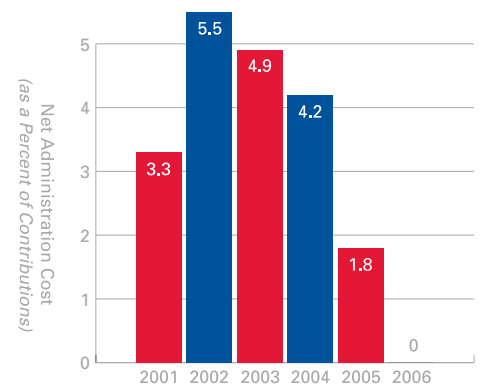
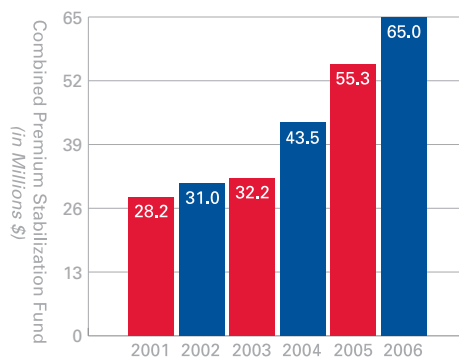
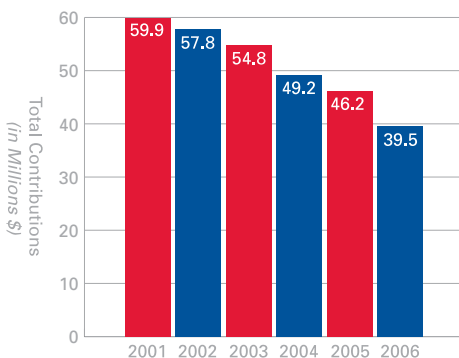


2006 Program Highlights

Rate of Return on Invested Assets	5.2
LTD Payments	2,763
Disabled Physicians Receiving LTD Payments	162
New LTD Claims	24
Death Claims	32
Applications	2,761
Inquiries	4,921
Billings	43,499

2006 Enrollment by Plan

Life Insurance	6,040
Long Term Disability	4,494
Office Overhead	1,340
Personal Accident	2,152
Major Medical*	4,856
*All plans combined.	



TMAIT Insurance Coverage

Coverage	Physician	Family	Staff
Major Medical	■	■	■
High Deductible Catastrophic Major Medical	■	■	
Life	■	■	■
Long Term Disability	■		
Personal Accident	■	■	
Point-of-Service (POS)	■	■	■
Hospital Indemnity	■	■	
Office Overhead Expense	■		
Long Term Care	■	■	■
Short Term Disability	■		■
Group Dental	■	■	■
Individual Dental	■	■	■
Health Savings Accounts	■	■	■
Medjet Assist	■	■	■
Travel Guard International	■	■	■
Annuities	■	■	■
Critical Illness	■	■	■
401(K)	■	■	■
Retirement Planning	■	■	■
Pension Planning	■	■	■

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