

1999 annual report



Leading Change With Service and Value



Texas Medical Liability Trust

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Texas Medical Liability Trust

is a unique not-for-profit health care liability claim trust owned by physician policyholders and governed by a physician board. TMLT was created in 1978 by Texas Medical Association to provide a stable, reliable source of medical malpractice coverage solely for Texas physicians. Physician participation and guidance in all areas of operation are TMLT trademarks, as is our history of financial stability and unmatched service to physicians in all specialties and practice settings.

Safeguarding Texas Physicians

WHEN we began 1999, we had goals and objectives for TMLT that would further our growth in both policyholders and services. We achieved many of those goals and objectives for the company but, regrettably, the issue of increasing frequency and severity of claims overshadowed the significance of our accomplishments. In our 20-year history, TMLT has weathered adverse market conditions, inadequate tort laws and stiff competition, and we have prospered. TMLT is the recognized leader in the medical liability industry in our state and well respected by the Texas medical community. We developed our company by employing sound operating principles and by sticking to our core values. This approach has served us well and has helped secure the financial strength and integrity of the Trust. In 1998 we received our initial rating of A- excellent by A.M. Best Company, the nation's premier financial rating service. We maintained this rating throughout 1999.

As 1999 drew to a close, claim management again emerged as a critical component of TMLT's service to physicians. We defended a record number of claims, closed 88.9% of claims without any indemnity payment, and won 74 of 85 cases taken to trial. However, the continuing soft market and increased competition in our state had its effect on premium income. Unrelenting claims intake throughout the year, excluding mass litigation, necessitated a re-examination of our book of business.

Late in 1999 the medical liability insurance industry in Texas began to experience the consequences of inadequate medical liability tort laws and escalating lawsuit abuse. The board and executive management of TMLT met with our London reinsurers, as we do every year. We were successful in our discussions and negotiations with them in an increasingly unfavorable reinsurance environment. In this unfriendly climate, insurance carriers who plan to stay in the Texas market and remain profitable must consider raising their rates in 2000. We believe this will happen in our state, and that rate adjustments for medical liability protection could occur nationwide. Without effective legislation, we could see higher numbers of claims, an increased number of lawsuits and increased premiums.

Although the immediate outlook for the medical liability industry is adverse, if physicians can help effect improved medical liability laws, we may see the whole liability situation improve in a short two years.

On a positive note, we are proud of TMLT's record of long term financial stability and the increase in number of



martin f. scheid, m.d.

Chairman, Board of Governors

policyholders since our inception in 1979. We reached a landmark 10,000 policyholders in 1999, making TMLT the largest medical liability coverage provider of Texas physicians. We continue to protect physicians who practice solo, in small or large groups, in networks, in any specialty in any geographic location in our state. We provide service consistently rated as outstanding by our policyholders and practical innovations like Meddefense, online CME, and the automated practice review.

While TMLT is not-for-profit, we are a business organization and we must maintain our financial integrity if we are to keep our promises to policyholders. Our mission is "to be on the leading edge of industry change to provide a standard of coverage and service to our policyholders by which all others are compared." The TMLT physician board, the executive management, and the TMLT staff are dedicated to this mission.

A handwritten signature in blue ink that reads "Martin F. Scheid, M.D." The signature is written in a cursive, slightly stylized font.

Martin F. Scheid, M.D.
Chairman, Board of Governors

1999 Board of Governors



service

*Front row, left to right: Howard R. Marcus, M.D., Vice Chairman; Dennis J. Factor, M.D.; Nancy Byrd, M.D.; Robert G. Thumwood, M.D.;
Back row, left to right: Richard C. Geis, M.D.; Daniel A. Chester, M.D.; Martin F. Scheid, M.D., Chairman; W. Thomas Cotten, President and C.E.O.; M. Dwain McDonald, M.D.; Samuel C. Waters, M.D., Secretary-Treasurer.*

Challenges and Opportunities Ahead

OUR twentieth year of operation proved to be one of the most challenging in TMLT's history. As we celebrated two decades of growth and service to Texas physicians, we observed a steady climb in claim frequency and severity in our policyholder population with growing alarm. As the gravity of the problem became evident, we immediately implemented a comprehensive internal data study with management from all departments to help identify the causes of this increase in claim activity.

What we discovered was disturbing. Increases in claim frequency and severity in Texas were not confined to any one medical specialty or geographic area. They were scattered across the state and across specialties and showed no signs of letting up. In 1996 and 1997, we witnessed a decline in claim activity and 1995 tort reform received the credit. However, the effects of tort reform appeared to wash out in late 1998 and claim frequency and severity have been trending upward ever since. This year marks the first bottom line loss for TMLT in many years. We are disappointed in this result and challenged to balance what is in the best interest of all our policyholders with what is right for each individual physician.

Across our state, jury awards are getting larger. In 1999, we saw numerous multi-million dollar verdicts against physicians in Texas. Heightened media attention about health care issues and the misdeeds of the HMOs have compelled the public to view physicians as part of the problem they have experienced with managed care. Physicians are often vilified right along with the HMOs and the result is costing millions of dollars in the courtroom.

Not only are jury awards larger, but the cost of defending claims has increased as well. TMLT has always been proud of our philosophy to vigorously defend physicians against non-meritorious claims. It is one of our core values. We have been the physician's advocate for 20 years, but the amount to defend a case has gone up right along with jury awards. Even though TMLT has one of the best records of claims closed with no indemnity payment, it still costs an average of \$14,826 to defend that claim. We believe physicians purchase TMLT medical liability coverage because they trust us to protect and defend their professional reputations. When we successfully defend a case, we are able to help keep that lawsuit off the records of the National Practitioner Databank (NPDB). Currently, the medical community is highly concerned about a move to give the public access to the information in the NPDB. Strongly defending non-meritorious claims is costly, however, whether a case is won or lost.



w. thomas cotten

President and Chief Executive Officer

As we have reported over the past several years, the predatory pricing behavior of our competition has been a complicating factor in many ways, but it was especially troublesome during a time of increasing claim activity. As long as insurance providers are willing to secure new business at a loss, there will continue to be turmoil in the industry. TMLT has stressed time and time again that medical liability coverage is not a commodity-based relationship. We believe you get what you pay for and, unfortunately, many times physicians don't understand the difference in the value of medical liability carriers until they are party to a lawsuit.

In spite of the difficulties with increasing claims frequency and severity, we accomplished many of our goals and objectives for 1999. Our retention rate and claim statistics were admirable and we were pleased with our operating efficiencies. However, from a financial viewpoint, we were disappointed. We believe our experience in 1999 reflects a deterioration of medical malpractice insurance around the country. The Physician Insurers Association of America (PIAA) reports that a significant number of medical liability insurance providers nationwide are indicating greater instances of claims severity, although frequency may not be as problematic as we've seen in Texas.

To help pinpoint the causes of increasing claims frequency and severity and to look for possible solutions, three of the largest carriers in Texas are participating in a data study con-

ducted by the Texas Medical Association. TMLT is also continuing to conduct an internal data study to help us control our risks, but the cost of defending an increasing number of claims and lawsuits has led us to make the tough decision to raise rates in 2000. We understand that physicians' revenue streams are down and that an increase in malpractice rates is an unwelcome problem, but we must take the necessary steps to remain financially strong. The impact of this rate increase can be somewhat offset through good loss experience credits and risk management discounts.

In October 1999 TMLT launched an awareness campaign to help inform physicians about the increasing claim frequency and severity issue, what to expect in the near term, and how to help effect change in the system. Our TMLT 2000 campaign has been helpful in communicating the need for change, especially in getting the word out about the need for additional tort reform in 2001. Our county medical societies have also been very supportive in distributing information to their memberships.

Today's reality is challenging, but we are confident that Texas physicians will become well informed about the issues and demand action. Through their county medical societies and state medical association, they will be able to help effect the changes that must be made to combat unbridled lawsuit abuse and its results.

Our future successes are bound together. As a not-for-profit carrier, our goal is to continue to provide cost-effective, value-

added services to Texas physicians as efficiently as possible. TMLT employees are working harder and longer and we take it personally whenever we lose a case in trial. We continue to be our policyholders' advocate, but absent significant tort reform, we believe there will continue to be losses and rates will continue to rise. The companies that make up the medical liability insurance industry and the physicians we protect must work together to bring about the changes that are necessary, at both a state and national level. This is no small challenge, but the Trust is well versed in turning challenges into opportunities. Remember that Texas Medical Liability Trust was formed during a period of turmoil and uncertainty in the medical liability arena in the late 70s. Medical liability insurance was expensive and there were fewer sources of coverage to choose from. Physicians seized the call to action and a whole new breed of physician-owned medical liability carriers entered the marketplace, among them, TMLT. Today our 20 years of knowledge, experience and service to Texas physicians allows us to see beyond the immediate challenges to a dynamic and secure future.

W. Thomas Cotten
President and Chief Executive Officer

Leading Change With Service



management team

TMLT management team members include (left to right): Don Chow, Vice President, Marketing; Jim Hilscher, Vice President, Underwriting; Bob Fields, Executive Vice President, Claim Operations; Scott Berglund, Vice President, Risk Management.

IN 1999, TMLT proudly recognized 20 years of protecting and defending Texas physicians faced with malpractice claims. During this period, we closed more than 21,000 claims filed against Texas physicians. We received the solid endorsement of five respected county medical societies, the TMA, and the TAFP. Our policyholder count soared to 10,000 Texas physicians representing all specialties in all areas of the state. In fact, more Texas physicians selected TMLT's medical liability protection than any other medical liability provider in the state.

However, our celebration of this historic TMLT milestone turned bittersweet as the year progressed. We have been observing an alarming trend toward increasing claim frequency and severity across our state over the past several years. This trend escalated dramatically in 1999, reaching record levels for our company. Even as we celebrated two decades of success serving the Texas medical community, we recognized that meaningful change, including tort reform, would be necessary to halt this trend. As 1999 drew to a close, TMLT made a profound commitment to seek solutions to difficult problems, strive for meaningful change in the future, and to keep Texas physicians informed.



Communicating Value vs. Price

FACED with predatory pricing from competing carriers and a soft market for medical liability insurance, the sales and marketing department adapted and responded to the challenge of a tough marketplace in 1999.

“We recognize the soft market and that we have to compete to write and keep business,” says Don Chow, vice president, marketing. “But there are companies out there who we feel are being irresponsible in pricing.”

At the close of 1999, TMLT issued 1,451 new policies bringing the total policyholder count to 10,068. Marketing efforts were successful with individual physicians and network programs, due in part to a more aggressive direct mail campaign and up front quoting. However, the department faced significant challenges with group activity. “We had difficulties with master policy groups and groups,” says Chow. “Incumbent carriers get the last look and they will be more aggressive in pricing to keep the business, while we are committed to responsible pricing. We have to remain competitive without compromising underwriting integrity for new business.”

To combat pricing issues, Chow says the sales staff has become better trained to tell the story of TMLT, and to urge physicians to look at the value TMLT has to offer versus price.

“This shows physicians that we are behind them,” Chow says. “We have one of the finest risk management departments in the country and our claim service is impeccable. We have learned that some competitors limit the choice of attorneys, and we have heard anecdotal evidence that service from other companies is slipping. This is not the case with TMLT.”

Activity at Texas Medical Insurance Company (TMIC), TMLT’s wholly owned subsidiary, increased in 1999. TMIC offerings were further enhanced in the fall, as TMLT and TMIC entered into a strategic alliance with The Hartford. Through this partnership, TMLT policyholders will now have access to workers’ compensation, general liability, commercial automobile and other types of insurance. “This alliance with The Hartford will offer TMLT and TMIC policyholders access to excellent additional coverages at competitive premiums,” says Jim Goreham, vice president, business development.

An important achievement in 1999 was the creation of the TMLT 2000 campaign. The marketing department worked closely with the underwriting, claim and communications and advertising departments to deliver a consistent message to policyholders regarding increasing claim frequency and severity. Members of the TMLT management team made personal visits to the county medical societies, specialty societies and the TMA to further explain the issues.

service and value

In 1999, the sales and marketing department continued to cultivate relationships with the Texas Medical Association, the Texas Medical Group Management Association, the medical specialty societies and the county medical societies. TMLT served as an official sponsor for TexMed 1999, and sponsored CME activities for the Texas Academy of Family Physicians and the county medical societies. “We support organized medicine because we all have a mutual commitment to serve physicians,” says Don Chow, vice president, marketing.

“The increase in claim frequency and severity will not be limited to TMLT,” predicts Chow. “All indications are that frequency and severity are up elsewhere. The outlook issued by A.M. Best for our industry is negative. Companies and agents are perpetuating the problem by pricing products irresponsibly,” he says. “Tort reform in 1995 opened the door to Texas for our competitors. We went from about a dozen to more than 30 competitors, mostly out of state companies, and they are starting to feel the effects of increasing claims frequency and severity.”

sales and marketing

“TMLT is unlike the competition who are often more restrictive in the specialties and geographic regions they will insure. We offer coverage to all specialties in all areas of the state.”

a story of change

Technology and the internet

The volume of medical information available today is astounding. Physicians are expected to stay current with the latest medical findings, such as those published by the National Institutes of Health, the Food and Drug Administration, clinical alerts from pharmaceutical companies. Medline now references more than 9 million articles from 3,200 journals.

Given this enormous amount of information and the need to stay current, physicians are turning to web-based information services, such as Physicians Online, Medscape and WebMD. These services digest the findings from medical journals, government reports, FDA alerts and scientific conferences, and provide that information, in condensed form, to physicians through the internet. The data can be customized by specialty and interest, and these companies hope to become *the* source of new information for physicians. Thousands of physicians are currently using these services. Medscape has signed up more than 280,000 physicians since 1995 and Physicians Online has signed up more than 210,000 physicians since 1994.

As email has become the most common, if not preferred, method of communication in other industries, the medical profession has been slow to adopt email as a means for improving patient communication. A 1997 survey by the American Medical Association found that physicians were more likely to use email for physician-to-physician communication than for interaction with patients, despite evidence showing that patients prefer their physician as a source of information, and that patients find physicians dif-

ficult to reach by other means.

The barriers to the use of email include concerns about patient privacy, physician fear of excessive volume, and liability concerns. However, according to a study from the Journal of the American Medical Association, early adopters of email in medical practice have described the value of email: the volume has not been overwhelming and has often cut down on telephone time; email allows for a more detailed response; patients find it easier to open a dialogue and remember the information given; and email documents interaction with the patient more effectively.

With electronic medical records physicians could have full access to a patient's medical history at the touch of a button. The limitations of paper-based medical records have been well established. The records are often illegible and the information contained in them is often inaccurate. Worse yet, much of a patient's medical history is unavailable because a patient's medical records are not centralized. Electronic medical records (EMR) offer the best solution. An EMR would be one place where all critical data throughout a patient's life are gathered – patient history, lab results, x-rays, a treating physician's notes.

While basic electronic medical record systems have been used, the obstacles to their full use are considerable. Pulling together data from several different systems has presented the greatest difficulty. The health information company Healtheon has spent \$73 million and three years trying to build a web-based EMR, and has yet to succeed with a working system.

Addressing the Challenge



IN 1999, the underwriting department continued to feel the effects of a soft market for medical liability insurance. Competing carriers practiced predatory pricing, making the job of retaining current policyholders and adding new policyholders even more challenging. “We must contend with unreasonable pricing and emphasize the value-added coverage and service that comes with a TMLT policy,” says Jim Hilscher, vice president, underwriting. “But we must also make it clear that we must charge a fair price.”

Despite the competition, the underwriting department excelled in two important areas in 1999 – policyholder retention and customer service.

TMLT’s policyholder retention rate for 1999 was 89.1 percent, up from 88.4 percent in 1998. Policyholder retention has historically been a key measure of success for TMLT. “This is a significant accomplishment considering the discounted pricing offered by the competition, especially on large physician groups,” says Hilscher.

TMLT issued 1,451 new policies in 1999, bringing TMLT’s policyholder count to 10,068 at year end. The underwriting department processed more than 97 percent of new business within 10 working days and 97 percent of existing policies at least 30 days before renewal.

In addition to excelling in service and retention, the underwriting department played a vital role in addressing the increase in claims activity.

“By mid-year 1999, we realized the claim frequency and severity problem was not going away,” says Hilscher. The underwriting management team worked together with members from other departments. “We put together an action plan to review premium increases and discounts and a strategy to re-underwrite existing business,” says Hilscher.

To recognize policyholders with good loss history, the underwriting department modified its premium discount program. “Given the re-underwriting and the premium adjustments, we had to come up with a way to reward our policyholders with superior experience,” says Hilscher. “Enhancements were added and some physicians can now earn even greater discounts if they have no claims,” he says.

During the latter half of the year, the underwriting department began the formidable task of re-underwriting all policies at renewal. “The re-underwriting program was implemented to improve the overall quality of business and counter the impact of increasing claim frequency and severity,” says Hilscher.

Underwriting standards were revised and applied to existing business, resulting in non-renewals, cancellations, reductions

service and value

The underwriting department worked closely with the marketing and claim departments to introduce the TMLT 2000 campaign in the fall of 1999. “The purpose of the campaign was to fully communicate to policyholders the issues surrounding the rate adjustments. We wanted to explain to physicians why this was occurring, and to let them know what they could do to minimize the adjustments,” says Jim Hilscher, vice president, underwriting. The TMLT 2000 kits contain detailed information about TMLT rates, TMLT discount opportunities, medical liability and tort reform, and were mailed to all policyholders at renewal.

of limits and other restrictive actions. This underwriting action resulted in 74 more non-renewals in 1999 than 1998. The new underwriting criteria were also applied to new applicants.

Once these underwriting actions were implemented, the department worked hard to communicate these changes to policyholders. Through the TMLT 2000 campaign, policyholders received detailed information about the rate adjustments as their policies renewed. In conjunction with TMLT 2000, underwriting staff were given specialized training to better address policyholder inquiries.

underwriting

“We must contend with unreasonable pricing and emphasize the value-added coverage and service that comes with a TMLT policy. But we must also make it clear that we must charge a fair price.”

a story of change

Managed care in transition

In the 1990s, more and more patients were moved into managed care health care plans than ever before. And as more patients were forced to deal with the headaches and hassles caused by managed care, dissatisfaction with the system grew. Many doctors, patients, nurses, pharmacists and administrators were unhappy with the system. State government moved in and so began the national trend of state legislation aimed at improving consumer protection for patients in managed care plans.

Lawmakers in all 50 states have enacted a wide range of patient protection laws, according to the National Conference of State Legislators. Of these, 22 states have policies requiring continuity of care; 36 states provide women direct access to ob/gyn services or allow women to designate an ob/gyn as her primary caregiver; 42 states provide women a minimum length of stay following childbirth; 47 states ban gag clauses in managed care contracts; 25 states have bans on the use of financial incentives by managed care plans.

In 1997, Texas became one of the first states to pass an HMO liability law which gave patients the right to sue managed care organizations for treatment decisions that result in physical injury or death, and provides an external review process when health plans deny care. The main intent of the law was to allow patients and physicians an appeals process whenever medical treatment was denied.

The law has prompted only a handful of lawsuits against HMOs, but by July 1999, 591 patients had requested independent reviews from the Texas Department of Insurance.

While 580 cases had been completed, 47 percent of the decisions made by managed care organizations have been upheld, 46 percent have been overturned and 7 percent have been partially overturned. Georgia and California have similar HMO liability laws and 28 states have mandated an independent appeals process.

In addition to pressure from state governments, HMOs have now become the next target for mass litigation attorneys. Six managed care organizations, including Aetna, CIGNA, Foundation Health Systems, Humana, PacifiCare Health Systems and the Prudential Insurance Company of America, were named in a series of class action suits filed in October 1999. The threats made against managed care organizations have been grandiose, with one attorney telling the *New York Times* “. . . in five years you will see a massive lawsuit brought to destroy and dismember managed care as it currently operates.” (“Tobacco-Busting Lawyers on New Gold-Dusted Trails,” *New York Times*, March 10, 1999).

In response to these pressures, and from the strain of rising health care costs, many managed care companies have begun re-evaluating cost control strategies. In November 1999, UnitedHealthcare, the country’s second-largest health insurer, announced it would drop pre-authorization requirements for medical procedures and allow physicians the final say in making treatment decisions. This policy change was motivated by economics, internal studies found that UnitedHealthcare was spending \$100 million on pre-authorization reviews and approving them 99.1 percent of the time.

Managing Policyholder Defense



service and value

TMLT is perhaps the only liability carrier actively working for tort reform. Bob Fields, executive vice president, claim operations, has worked with the TMA Professional Liability Committee for the past seven years, advising the committee on the problems in the legal environment and specific changes in tort laws that are needed. TMLT also encourages policyholders to contact their elected officials, their local newspapers and the leaders of organized medicine about medical liability and tort reform issues.

FOR the claim department, 1999 was like no other year in TMLT's 20-year history. Unprecedented increases in claim frequency and severity stretched the department's resources; workloads for claim personnel and defense attorneys increased; the number of lawsuits filed against TMLT policyholders rose to new levels.

"In 1999, 3,487 claims were filed against 10,068 policyholders, which means for every 100 policyholders, we received 34.6 claims," says Bob Fields, executive vice president, claim operations. "Nineteen-ninety-nine also saw the highest average paid claim in TMLT history at \$182,896. When claim frequency and severity go up in conjunction, there is a problem."

The claim intake for 1999 was 3,487 compared to 2,141 in 1998. Mass litigation from fen-phen accounted for 981 claims of the total intake for 1999.

Despite the increase in claim frequency and severity, the claim department was successful in several key areas in 1999. The percentage of claims closed without indemnity remained high at 88.9 percent. TMLT won 74 of 85 cases taken to trial. Loss adjustment expenses per closed file ended the year at \$14,826, which is substantially less than the 1998 figure of \$21,158.

The claim department closed 2,461 claims, which is 36 percent more than claims closed in 1998. "The claim department worked very hard to achieve this in spite of record, heavy claim intake during the year," says Fields.

To ensure the increase in claim intake did not result in deteriorating claim service to policyholders, a fourth region was added to the claim department structure and additional claim staff was hired. "We increased staff, increased our team of approved defense attorneys, and our attorneys and staff worked longer hours."

Finding new staff members to serve in the claim department proved challenging, both for the claim department and the human resources department. "Trying to recruit in a tight labor market has been difficult. But, we have found talented and qualified people to fill those roles," says Gail Nichols, vice president, human resources and administrative services.

The claim department employs a strong philosophy of policyholder defense, and TMLT has earned a reputation as a formidable proponent for physicians. "We evaluate ourselves on how well we defend physicians. We believe in fighting non-meritorious claims, and we will not settle a claim without the policyholder's consent" says Fields.

While TMLT is dedicated to delivering superior claim

service, the company is also committed to seeking long-term solutions to the problem of increased claim activity.

“Physicians must see that increasing claim frequency and severity causes an increase in their malpractice insurance rates, and these problems need to be addressed in the form of new legislation, what we call tort reform,” Fields says.

In 2000, TMLT will be working with organized medicine to help effect tort reform during the 2001 legislative session. “We need policyholders to place tort reform high on their agenda, otherwise they can expect increasing rates and nothing will change. Nothing will change unless we change the law.”

claim operations

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a story of change

Mass litigation

For all intents and purposes, mass litigation is a new phenomenon. The 1990s saw the birth of mass litigation with silicone breast implants and it grew from there to include Norplant, pedicle screw, and fen-phen, just to name a few. The following stories illustrate the causes and outcomes of two important class action cases.

Breast implants – Until December 1990, 1.5 million American women had received silicone-gel breast implants. Some studies indicated complications from surgery or leaking implants, but there was no evidence of serious illness. A physician from the Public Citizen Health Research Group, concerned about a study showing that small amounts of gel inserted in rats caused cancer, asked the Food and Drug Administration to ban breast implants. The FDA investigated and found no evidence to support a cancer charge.

In December 1990, CBS aired an episode of “Face to Face with Connie Chung” in which two physicians claimed there was a link between silicone breast implants and disease. Both physicians were involved in pending litigation as paid experts for plaintiffs’ attorneys, which was never mentioned during the program. Silicone breast implant lawsuits exploded.

David Kessler, the FDA commissioner at the time, declared a moratorium on breast implants. Three months later he repealed the moratorium, and breast implants were approved with informed consent. In 1995, Kessler testified before Congress that the FDA was reasonably certain implants did not cause an increase in the risk of connective tissue disease. However, by that time, mass litigation had

forced Dow Corning into bankruptcy.

In June 1999, the National Academy of Sciences Institute of Medicine announced the results of a two-year study into the possible connection between breast implants and connective tissue disease. There was no connection, and this study matched the results of at least 17 other studies. But, by this time, breast implant litigation had resulted in settlements totaling \$7 billion.

Norplant – Wyeth-Ayerst Laboratories brought Norplant to the market in 1991, after 20 years of testing. Norplant had proven to be a safe, effective, and easy to use form of contraception, with a failure rate of less than one percent. Once introduced, Norplant became widely used.

In May 1994, on another episode of “Connie Chung,” women claimed to have experienced pain, numbness and scarring when their Norplant capsules were removed. Norplant sales declined, lawyers advertised, and lawsuits were filed.

The FDA investigated Norplant and found “no basis for questioning its safety and effectiveness.” The lawsuits claimed Wyeth-Ayerst had not issued sufficient warning about side effects, such as bleeding, headaches and nausea.

Wyeth-Ayerst said these side effects were temporary and no different from side effects caused by other hormonal contraceptives, and that adequate warnings were provided in packaging. But, by spring 1998, Wyeth-Ayerst faced 3,732 suits from 39,580 plaintiffs. In August 1998, the company agreed to settle for \$50 million.

Motivating Change



IN 1999, the risk management department reached more physicians and staff than ever before. Whether it was through practice reviews or by attendance at CME seminars, more than 4,000 physicians participated in TMLT's risk management programs.

"TMLT has one of the top risk management departments in the country," says Scott Berglund, vice president, risk management. "Not many companies dedicate the same amount of resources and support to risk management as TMLT."

TMLT's dedication to risk management mirrors TMLT's dedication to policyholders. "Our goal with risk management is to help physicians practice safe medicine, help members of the medical team work together and make physicians as defensible as possible if they are ever sued," says Berglund.

One of the most successful and popular risk management programs, the Practice Review, was re-worked in 1999. The Automated Practice Review was introduced in the fall. Through a customized computer program, the practice review process was automated, decreasing turnaround time for completion of reviews from 3 weeks to 2-5 days.

In addition to the automation, an exit interview was added to the practice review process. "The exit interview is used as a tool to give the physicians immediate feedback, which makes the entire process more meaningful. These enhancements have changed the quality of the practice review for TMLT and our doctors," says Berglund. Risk management representatives conducted 1,198 practice reviews in 1999.

The risk management department also worked to more fully develop its educational programs. In 1999, the department was awarded full ACCME accreditation for four years. "TMLT is now a fully accredited provider of continuing medical education, which means we can participate in jointly-sponsored and co-sponsored programs, says Berglund. "This directly enhances the quality of what we offer physicians. We can now create programs from our closed claim studies and from policyholder requests," he says.

The department provided education for 941 physicians through TMLT-developed programs and 2,127 physicians participated in joint TMA/TMLT seminars. The department also offers programs for medical office staff, and in 1999, 661 staff members participated in these programs.

While the department continues to expand the quality and quantity of its programs, Berglund says he measures the department's success by how well physicians implement risk management principles.

"Motivating and implementing behavioral change is the

service and value

Risk management practice reviews have long been one of the department's most successful programs, and the process of revising the practice review was no small task. To better serve TMLT policyholders and to decrease administrative overhead, a computer program was developed that automated the process. "Hundreds of programming hours were spent developing and perfecting the Automated Practice Review," says Treg Russell, vice president, management information systems. These improvements will allow physicians to receive instant feedback during practice reviews, and in turn, help them practice safer medicine.

most difficult aspect of risk management. Physicians are interested in what we tell them and they agree with us, but the challenge lies in the implementation of our recommendations,” Berglund says. “They are motivated, but they face the same challenges as everyone else.”

In 2000, the department will continue to refine the practice review process and plans to expand its educational offerings. “We are exploring additional opportunities with various entities to continue to provide quality education programs to our physicians,” Berglund says. “We want to increase the number of online courses and we hope to add clinical topics in addition to risk management topics.”

a story of change

The image of the physician

At least once a week a major network news show runs an in-depth story about substandard physicians, abused patients and poor outcomes. An Institute of Medicine study claims as many as 98,000 people die every year in hospitals because of medical errors and accidents. Fueled by these and other media reports, and their own experiences and frustrations with managed care, the public’s perception of physicians is changing. For physicians, a patient’s safety and care has always been the primary objective. But given all the negative publicity about physicians and our health care system in general, it’s easy to understand how patients can overlook this fact.

On November 30, 1999, the National Academy of Science’s Institute of Medicine released the results of an intensive multi-year study on health care quality in the United States, called “To Err Is Human: Building a Safer Health System.” The report describes the findings of one study that claims medical errors kill 44,000 people in US hospitals each year. Another study puts the number much higher at 98,000. “Even using the lower estimate, more people die from medical mistakes each year than from highway accidents, breast cancer or AIDS,” the Institute of Medicine stated in a press release.

Medical errors, the report says, afflict every health care setting: day surgery, outpatient clinics, retail pharmacies, nursing homes and home care. The report further explains that most medical errors do not result from individual recklessness, but from basic flaws in the organization of the health care system. Examples include keeping medications

risk management

“TMLT has one of the top risk management departments in the country. Not many companies dedicate the same amount of resources and support to risk management as TMLT.”

in toxic concentrations in hospital pharmacies, administering mistakenly prescribed drugs to patients and illegible handwriting on drug orders.

The report describes a comprehensive strategy for government, industry, consumers and health care providers to reduce medical errors. The authors urged Congress to create a National Center for Patient Safety with the Department of Health and Human Services to set goals for avoiding medical mistakes, track progress and to fund research on better ways to prevent medical errors. It suggested as a minimum goal a 50 percent reduction in medical errors within five years.

With the release of the Institute of Medicine report came a flurry of news coverage. Network and local newscasts, and newspapers and magazines across the country all ran the story of how medical errors kill more people than traffic accidents. The American Medical Association, responded to the report saying that any error that harms a patient is one error too many, but “overwhelmingly the system of medicine in the United States is safe . . . when you consider the millions of doctor/patient interactions each day.”

These and other high profile stories on medical errors and the problems of our health care system undermine the already-frail trust patients place in the system. A public that has little faith in its physicians is a public that will continue to sue them.

A Comprehensive Report



ray demel

Vice President and Chief Financial Officer

THE following financial statements detail TMLT’s financial position for 1999 and clearly illustrate the impact of rising claims frequency and severity. Earned premium volume remained flat during the year, reflecting the soft market. Investment income decreased by \$1.5 million. Claim expense increased by \$14.5 million, which resulted in a pre-tax net loss during the year of \$14 million. This generated an income tax refund of \$2.7 million to partially offset this loss. Total assets decreased by \$25 million, liabilities decreased by \$3 million and surplus decreased by \$21 million.

TMLT continues to operate in a “soft” premium market in Texas. Increased competition makes it difficult to obtain the premium rates needed to provide the level of service that our policyholders have come to expect. Claims expense increased dramatically during the year, and resulted in cash payments in excess of \$90 million for indemnity and expenses (a record high amount for TMLT). These cash expenditures required the liquidation of invested assets. The rising interest rate environment actually caused the market value of our bonds to decrease by \$5 million during the year, however this was offset by the increase of \$5 million in the equity portfolio. In 1999, TMLT added a new equity manager, and invested an additional \$10 million with this new manager. The funding for the new equity investment came from the sale of fixed income investments. As a result, the total amount invested in bonds was lowered, which decreased the amount of interest earned in 1999.

Policyholders received \$4 million in surplus refunds in 1999, bringing the total surplus returned to policyholders to \$28 million. We do not anticipate making a surplus refund in 2000.

The year 2000 will prove to be a challenging year. We are committed to identifying the causes for the increase in claim frequency and severity, and taking corrective action. We are also committed to obtaining an adequate rate for the insurance protection that we provide to our customers. This will allow TMLT to continue to grow and prosper into the next century.

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	December 31	
	1999	1998
	<i>(In Thousands)</i>	
Assets		
Securities, available-for-sale, at fair value:		
Fixed-maturity securities	\$189,563	\$227,807
Common stocks	25,970	8,379
Cash and cash equivalents	8,643	11,900
Premiums receivable	24,919	24,331
Accrued interest receivable	2,380	3,239
Reinsurance recoverables:		
On paid losses	3,890	979
On unpaid losses and loss adjustment expenses	25,968	33,007
Prepaid reinsurance premiums	4,865	4,511
Refundable federal income taxes	2,750	1,402
Deferred income taxes	7,299	5,397
Key man life insurance	4,374	4,244
Other	6,586	6,599
Total assets	<u>\$307,207</u>	<u>\$331,795</u>

	December 31	
	1999	1998
	<i>(In Thousands)</i>	
Liabilities and policyholders' surplus		
Liabilities:		
Reserves:		
Unpaid losses and loss adjustment expenses	\$172,292	\$172,509
Unearned premiums	38,417	36,729
	<u>210,709</u>	<u>209,238</u>
Premiums received in advance	2,777	2,367
Accounts payable and accrued expenses	4,569	5,179
Reinsurance premiums payable	15,866	20,400
Total liabilities	<u>233,921</u>	<u>237,184</u>
Policyholders' surplus:		
Contributed surplus	10,516	14,514
Plus surplus contributions receivable	2	-
	<u>10,518</u>	<u>14,514</u>
Accumulated other comprehensive income (loss)	(104)	5,707
Unassigned surplus	62,872	74,390
Total policyholders' surplus	<u>73,286</u>	<u>94,611</u>
	<u>\$307,207</u>	<u>\$331,795</u>

See accompanying notes.

	Year ended December 31	
	1999	1998
	<i>(In Thousands)</i>	
Premiums earned, net of reinsurance	\$69,791	\$70,944
Investment income, net of investment expenses of \$347 in 1999 and \$254 in 1998	13,279	14,870
Net realized gains	1,157	1,366
Other revenue	1,213	1,191
Total revenues	85,440	88,371
Losses and expenses:		
Losses and loss adjustment expenses	85,518	70,966
Other underwriting expenses	14,130	12,010
Total operating expenses	99,648	82,976
(Loss) income before income taxes	(14,208)	5,395
Income tax expense (benefit)	(2,690)	788
Net (loss) income	\$ (11,518)	\$ 4,607

See accompanying notes.

consolidated statements of changes in policyholders' surplus

(In Thousands)

	Contributed Surplus	Unassigned Surplus	Accumulated Other Comprehensive Income	Total Policyholders' Surplus	Comprehensive Income
Balances at January 1, 1998	\$18,625	\$69,783	\$ 4,503	\$92,911	\$ -
Other comprehensive income	-	-	1,204	1,204	1,204
Return of contributed surplus, net	(4,111)	-	-	(4,111)	-
Net income	-	4,607	-	4,607	4,607
Balances at December 31, 1998	14,514	74,390	5,707	94,611	5,811
Other comprehensive income	-	-	(5,811)	(5,811)	(5,811)
Return of contributed surplus, net	(3,996)	-	-	(3,996)	-
Net loss	-	(11,518)	-	(11,518)	(11,518)
Balances at December 31, 1999	\$10,518	\$62,872	\$(104)	\$73,286	\$(17,329)

See accompanying notes.

	Year ended December 31	
	1999	1998
	<i>(In Thousands)</i>	
Operating activities		
Net (loss) income	\$(11,518)	\$4,607
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation	930	524
Net amortization on securities	137	101
Deferred income taxes	1,092	2,018
Net realized gains	(1,157)	(1,366)
Change in operating assets and liabilities:		
Premiums receivable	(588)	(1,061)
Reinsurance recoverables	4,128	1,124
Reserves	(217)	3,975
Reinsurance premium balances	(4,534)	(4,340)
Refundable income taxes	(1,348)	(1,402)
Other	1,201	(4,272)
Net cash used in operating activities	(11,874)	(92)
Investing activities		
Purchases of securities	(199,191)	(79,707)
Proceeds from disposals and maturities of securities	212,057	85,969
Purchases of furniture and equipment	(123)	(625)
(Increase) decrease in key man life insurance	(130)	154
Net cash provided by investing activities	12,613	5,791
Financing activity		
Surplus refunds, net of contributions	(3,996)	(4,111)
Cash used in financing activity	(3,996)	(4,111)
Change in cash and cash equivalents	(3,257)	1,588
Cash and cash equivalents at beginning of year	11,900	10,312
Cash and cash equivalents at end of year	\$8,643	\$11,900

See accompanying notes.

1. Organization and Accounting Policies

Organization

Texas Medical Liability Trust (Trust) was formed in June 1978 to provide professional liability and office premises liability insurance coverage to eligible physicians who are members of the Texas Medical Association and who practice primarily in Texas. The Trust was organized under Article 21.49-4 of the Texas Insurance Code under the name “Texas Medical Association Health Care Liability Claim Trust” and began operations in 1979.

The Trust provides professional liability coverage to the ancillary staff of the Trust’s policyholders through its wholly-owned subsidiary, Texas Medical Insurance Company (TMIC), which was formed in 1995 as a state-regulated property/casualty insurance company.

Basis of Presentation

The consolidated financial statements include the accounts of the Trust and TMIC after elimination of all significant intercompany accounts.

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known which could impact the amounts reported and disclosed herein.

Premiums

Policies written are generally for a one-year term and premiums are recorded as earned on a pro rata basis over the life of the policy. Policies are written on both an occurrence and claims-made basis. Unearned premiums represent the portion of premiums written which are applicable to the unexpired terms of the policies in force.

Billings for calendar year premiums are rendered in advance of the premium year. Also, surplus deposits are received from physicians applying for coverage in advance of approval of their applications. Premiums and deposits collected in advance of the period covered are classified as premiums received in advance.

Unpaid Losses and Loss Adjustment Expenses

Unpaid losses and loss adjustment expenses represent the estimated liability for claims reported through year end (case-basis) plus the estimated losses and loss adjustment expenses relating to incidents incurred but not yet reported. These amounts have been estimated by management and the Company’s consulting actuaries based on available industry data and the Trust’s actual experience and represent estimates of the ultimate cost of all losses incurred, but unpaid, through year end. However, the ultimate cost of settling claims may vary significantly from the estimated liability. The estimates are continually reviewed and adjusted as necessary; such adjustments are included in current operations and are accounted for as changes in estimates.

Unpaid losses and loss adjustment expenses have been discounted using a 4% factor. The discount amount was approximately \$11,000 and \$10,000 at December 31, 1999 and 1998, respectively.

The Trust considers anticipated investment income in determining whether a premium deficiency exists on the unexpired terms of the policies in force. No such deficiency has been recorded as of December 31, 1999.

Reinsurance

Amounts recoverable from reinsurers for unpaid losses and loss adjustment expenses and the amounts payable to reinsurers for reinsurance premiums are estimated in a manner consistent with the related liabilities associated with the reinsured policies. Consistent with the estimate of the unpaid loss and loss adjustment expenses, the reinsurance balances are discounted at a rate of 4%. The effect of this discounting decreased a portion of ceded premiums by approximately \$92 and \$17 at December 31, 1999 and 1998, respectively. Adjustments to the provisional reinsurance premiums are provided for in the ceded premiums.

Amounts paid to reinsurers under prospective, short-duration reinsurance contracts are recorded as prepaid reinsurance premiums which are recognized as the related premiums are earned.

Investments

Investments are categorized as available-for-sale. Accordingly, the investment portfolio is carried at fair value. Unrealized holding gains and losses on securities are reported in accumulated other comprehensive income (loss) and are classified as a separate component of policyholders' surplus.

The cost of fixed-maturity securities is adjusted for amortization of premiums and accretion of discounts to maturity, or in the case of loan-backed securities, over the estimated life of the security. Such amortization and interest earned are included in investment income. Realized gains and losses are included in net realized gains on investments. The cost of securities sold is based on the specific identification method.

Income Taxes

The Trust uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Acquisition Costs

Acquisition costs are expensed as they are incurred; the financial statement effect of this method does not differ significantly from the effect of using the deferral method.

Cash Equivalents

Money market funds and commercial paper with initial maturities of less than three months are considered to be cash equivalents.

Disclosures about Fair Value of Financial Instruments

The fair value of financial instruments, as defined by generally accepted accounting principles, approximates the recorded book value of such instruments.

2. Comprehensive Income

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS 130, *Reporting Comprehensive Income*. The Trust adopted SFAS 130 during the year ended December 31, 1998.

SFAS 130 requires presentation of comprehensive income (loss) (net income (loss) plus all other changes in net assets from non-owner sources) and its components in the financial statements. The Trust has adopted SFAS 130 and changed the format of its consolidated statements of changes in policyholders' surplus to present comprehensive income (loss).

Components of other comprehensive income (loss) consist of the following:

	Year Ended December 31	
	1999	1998
	<i>(In Thousands)</i>	
Unrealized gains (losses) on securities		
Unrealized gains on available-for-sale securities	\$(7,161)	\$3,222
Less: reclassification adjustment for realized gains in net income	(1,572)	(1,397)
Income tax (expense) benefit	2,922	(621)
Other comprehensive income	\$(5,811)	\$1,204

Accumulated other comprehensive income shown on the consolidated statements of changes in policyholders' surplus is solely comprised of unrealized gains (losses) from available-for-sale securities, net of tax of \$(53) and \$2,943 for the years ended December 31, 1999 and 1998, respectively.

3. Securities

The amortized cost and fair value of the Trust's investments in fixed-maturity securities are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
At December 31, 1999:				
U.S. government and its agencies	\$ 10,024	-	\$ 564	\$ 9,460
States, political subdivisions and countries	2,997	-	57	2,940
Corporations	81,140	114	2,774	78,480
Loan-backed securities and collateralized mortgage obligations	100,586	235	2,138	98,683
	<u>\$194,747</u>	<u>\$ 349</u>	<u>\$5,533</u>	<u>\$189,563</u>
At December 31, 1998:				
U.S. government and its agencies	\$ 12,165	\$ 101	\$ 45	\$ 12,221
States, political subdivisions and countries	65,585	3,783	21	69,347
Corporations	63,464	2,818	254	66,028
Loan-backed securities and collateralized mortgage obligations	79,315	1,550	654	80,211
	<u>\$220,529</u>	<u>\$8,252</u>	<u>\$974</u>	<u>\$227,807</u>

At December 31, the Trust's investment in common stocks had a cost basis of \$20,943 and \$7,009 in 1999 and 1998, respectively. Gross unrealized gains and gross unrealized losses were \$6,131 and \$1,104, respectively in 1999, and \$1,370 and \$-0-, respectively, in 1998.

The fair values generally represent quoted market value prices for securities traded in the public marketplace or analytically determined values using bid or closing prices for securities not traded in the public marketplace.

The amortized cost and estimated fair value of the fixed-maturity securities at December 31, 1999 are summarized, by stated maturity, as follows:

	Amortized Cost	Estimated Fair Value
Years to maturity:		
One or less	\$ 2,516	\$ 2,514
After one through five	26,963	26,489
After five through ten	48,136	45,913
After ten	16,546	15,964
Loan-backed securities and collateralized mortgage obligations	100,586	98,683
Total	<u>\$194,747</u>	<u>\$189,563</u>

Actual maturities may differ from the contractual maturities in the foregoing table because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Proceeds from the sales of available-for-sale securities were \$211,603 in 1999 and \$60,911 in 1998. Gross realized gains and gross realized losses on these sales were \$2,129 and \$972, respectively, during 1999, and \$1,525 and \$159, respectively, during 1998.

4. Unpaid Losses and Loss Adjustment Expenses

The following table provides a reconciliation of the beginning and ending reserve balances for unpaid losses and loss adjustment expenses (LAE), net of reinsurance recoverables, for 1999 and 1998:

	Year ended December 31	
	1999	1998
Reserve for unpaid losses and LAE, net of related reinsurance recoverables at beginning of year	\$139,502	\$137,744
Add provision for claims, net of reinsurance, occurring in:		
Current year	72,341	66,938
Prior years	13,177	4,028
Incurred losses during the current year, net of reinsurance	85,518	70,966
Deduct payments for claims, net of reinsurance, occurring in:		
Current year	374	234
Prior years	78,322	68,974
	78,696	69,208
Reserve for losses and LAE, net of related reinsurance recoverables, at end of year	146,324	139,502
Reinsurance recoverables on unpaid losses and LAE, at end of year	25,968	33,007
Reserve for unpaid losses and LAE, gross of reinsurance recoverables on unpaid losses, at end of year	\$172,292	\$172,509

The foregoing reconciliation shows that the Trust's reserve for unpaid losses and LAE, net of related reinsurance recoverable, at December 31, 1999 and 1998, was increased by \$13,177 and \$4,028 for claims that had occurred on or prior to 1998 and 1997, respectively. During 1999 and 1998, the Trust has experienced increased claim frequency and higher severity at early stages of development which has resulted in increased reserves for both current year and prior year reported claims. This increased frequency and severity appears to be an early response by plaintiff's attorneys to recent changes in Texas regarding the filing of lawsuits and the time period allowed for discovery. The provisions for both current year claims and prior years' claims shown also reflect the expected favorable effects of reserve redundancies that continue to emerge when individual claims are settled and the projected proportion of claims to be closed without an indemnity payment.

(Amounts In Thousands)

Medical malpractice claims have a very long development period. Historically, cases have taken years to be reported and as a rule take years to adjust, settle or litigate. Given the uncertainties in the estimation of claim reserves, there can be no assurance concerning future adjustments for prior years' claims.

5. Reinsurance

The Trust cedes certain risks to various reinsurers. These reinsurance arrangements allow management to control exposure to potential losses arising from large risks and provide additional capacity for growth. A significant portion of the reinsurance is effected under quota-share reinsurance contracts and, in some cases, stop-loss coverage.

Ceded premiums are charged to operations as a deduction from premiums written. The effect of reinsurance on premiums written and earned are as follows:

	1999		1998	
	Written	Earned	Written	Earned
Direct	\$83,378	\$81,645	\$81,065	\$80,403
Ceded	11,899	11,854	9,281	9,459
Net premiums	<u>\$71,479</u>	<u>\$69,791</u>	<u>\$71,748</u>	<u>\$70,944</u>

The amounts deducted from losses and loss adjustment expenses in the income statements that relate to reinsurance were \$16,034 for 1999 and \$9,849 for 1998.

Reinsurance ceded contracts do not relieve the Trust from its obligations to policyholders. The Trust remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance agreements. To minimize its exposure to significant losses from reinsurer insolvencies, the Trust evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

6. Federal Income Taxes

Significant components of the provision for income tax expense (benefit) for the year ended December 31 were as follows:

	1999	1998
Current expense (benefit)	\$(3,782)	\$(1,230)
Deferred expense	1,092	2,018
	\$(2,690)	\$788

The Trust made income tax payments of \$-0 in 1999 and \$2,000 in 1998.

Significant components of the Trust's deferred tax liabilities and assets were as follows as of December 31:

	1999	1998
Deferred tax assets:		
Loss reserve discounting	\$5,422	\$6,264
Unearned premium discounting	2,283	2,423
Net operating losses	2,246	-
Other	538	160
Total deferred tax assets	10,489	8,847
Valuation allowance for deferred tax assets	(2,750)	-
Total deferred tax assets, net of allowance	7,739	8,847
Deferred tax liabilities:		
Net unrealized gain on securities	-	(2,940)
Other	(440)	(510)
Total deferred tax liabilities	(440)	(3,450)
Net deferred tax asset	\$7,299	\$5,397

Under the provisions of FASB Statement No. 109, the Trust is allowed to recognize a deferred tax asset to the extent that management believes it is more likely than not that the Trust will realize a future benefit. At December 31, 1999 and 1998, the Trust recognized a portion of the benefit that may be realized from the recovery of previously paid taxes available in the carryback period, the implementation of prudent tax planning strategies, and expected future taxable income. At December 31, 1999, the Trust established a \$2,750 valuation allowance for the deferred tax asset, a \$2,750 increase from December 31, 1998.

At December 31, 1999, the Trust has a taxable net operating loss of \$14.6 million, of which \$8.7 million is eligible to be carried back and has been recorded as refundable federal income taxes on the consolidated balance sheet; the remaining amount will be carried forward to offset future federal taxable income.

The differences between the income tax expense reported and the income tax expense that would result from applying domestic federal statutory rates to pretax income in 1999 and 1998 resulted primarily from the effects of tax-exempt interest and changes in the valuation allowance.

7. Policyholders' Surplus

Eligible physicians desiring to purchase insurance through the Trust are required to purchase a Surplus Deposit Certificate. The Surplus Deposit Certificates are offered solely to provide surplus for the Trust and do not bear interest.

During 1999 and 1998, the Board of Governors authorized the return of 15% of policyholders' surplus deposits for those policyholders who met their surplus requirements as of December 31, 1998 and 1997.

8. Commitments and Contingencies

The Trust leases office facilities and certain equipment through agreements which expire through 2004. As of December 31, 1999, the future minimum lease payments under these agreements for the years ending December 31 are as follows:

2000	\$ 747
2001	747
2002	747
2003	747
2004	652
Thereafter	-
Total	<u>\$ 3,640</u>

Total rent expense was \$1,321 for 1999 and \$1,133 for 1998.

The Trust is named as a defendant in various legal actions principally from claims made under insurance policies. Those actions are considered by the Trust in estimating the loss and loss adjustment expense reserves. The Trust's management believes that the resolution of those actions will not have a material adverse effect on the Trust's financial position or results of operations.

9. Employee Benefit Plan

The Trust sponsors a non-contributory, defined contribution employee benefit plan, which covers all employees who have completed one year of service. The Trust makes contributions to the Plan equal to 10% of participants' salaries. Such contributions are reduced by forfeitures of participants who leave the Plan before they become fully vested. Plan expense was \$954 for 1999 and \$785 for 1998.

10. Year 2000 Issue - Unaudited

Prior to January 1, 2000, there was concern regarding the ability of computers to adequately distinguish 21st century dates from 20th century dates due to the two digit fields used by many systems. However, the Trust has not encountered any problems with its internal and financial reporting systems and believes that its systems will continue to be operable beyond the Year 2000.

Board of Governors
Texas Medical Liability Trust and Subsidiary

We have audited the accompanying consolidated balance sheets of Texas Medical Liability Trust and subsidiary as of December 31, 1999 and 1998, and the related consolidated statements of operations, changes in policyholders' surplus and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Texas Medical Liability Trust and subsidiary at December 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst & Young LLP

March 23, 2000
Austin, Texas



tml t headquarters

Austin, Texas

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TMLT is the only health care liability claim trust created and endorsed by Texas Medical Association.

Endorsed by:

The Texas Academy of Family Physicians
Bexar County Medical Society
Dallas County Medical Society
Harris County Medical Society
Tarrant County Medical Society
Travis County Medical Society

Gold Corporate Affiliate of the Texas Medical Group
Management Association

Rated A- Excellent by A.M. Best Company



TEXAS MEDICAL LIABILITY TRUST

Our Vision

TMLT is the most respected and preferred provider of medical professional liability coverage and related products in Texas. Through the efforts of our team of qualified professionals and physician insureds, we sustain TMLT's premier position in quality of coverage, service, market share and financial integrity.

Our Mission

Our mission is to be on the leading edge of industry change to provide a standard of coverage and service to our policyholders by which all others are compared.

Our Purpose

Our purpose is to make a positive impact on the quality of health care for Texans by educating, protecting and defending physicians. We provide peace of mind to our policyholders and a supportive work environment for our team members.



TEXAS MEDICAL LIABILITY TRUST