



# 2008 Annual Report



30 years of Trust



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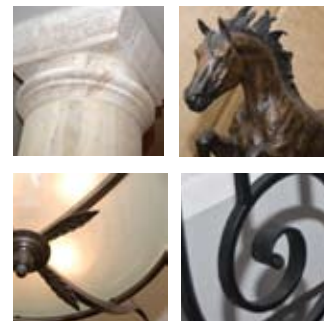
[www.tmlt.org](http://www.tmlt.org)

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

### About the cover

In 1997, TMLT headquarters moved from Highway 290 East to its current location just south of downtown Austin in Barton Oaks Plaza, Building V. The Trust occupies the top three floors of the five-story brick building. Visible through the northeast facing windows are the silhouette of the downtown Austin skyline punctuated here and there with construction cranes, and the lush green oaks of Zilker Park. We've enjoyed this location so much over the past 12 years that in 2008 we decided to purchase the building. This investment ensures that TMLT will have ample office space to grow into without having to face the future prospect of a disruptive relocation. Please accept our invitation to drop by and visit us whenever you are in town.

We are pleased to present the 2008 annual statement to policyholders. The executive summaries from each department as well as the information supplied on the financial page will provide you with a clear picture of the work your Trust accomplished for you this past year. TMLT employees and the physician Board of Governors are dedicated to serving you and to protecting your medical career. Our mission is to be on the leading edge of industry change to provide a standard for coverage and service to our policyholders by which all others are compared.



## TABLE OF CONTENTS

Endorsed by:

Bexar County Medical Society  
 Dallas County Medical Society  
 Harris County Medical Society  
 Lubbock-Crosby-Garza County Medical Society  
 Tarrant County Medical Society  
 The Texas Academy of Family Physicians  
 The Texas Orthopaedic Association  
 Travis County Medical Society

TMLT is a Gold Corporate Affiliate of the  
 Texas Medical Group Management Association

Chairman's Message	2
President's Message	4
Claim Operations	6
Risk Management	8
Thirty Years of Achievement	10
Underwriting Services	12
Sales and Marketing	14
Support Services	16
Message from the CFO	18
Financials	20



**DAVE W. KITTRELL**  
 Chairman

**Strong in 2008**

The year 2008 drew to a close amid market turmoil and economic uncertainty. Banks, insurance carriers, Fortune-500 companies — all were affected and the question remains to what extent. As a TMLT policyholder, know that TMLT is financially strong and growing. While we are not immune from economic conditions, we emerged from 2008 with an increase in surplus and 1,427 new policies. We are a policyholder-owned, not-for-profit Trust, and our strength comes from the fact that TMLT was designed by physicians for physicians.

**Our strengths**

TMLT is strong because it is led by physicians. The TMLT Board of Governors is made up of nine physicians, each practicing in different specialties and hailing from all over the state. We know what it's like to treat patients in the midst of declining reimbursements. We know about the challenges of implementing (and paying

for) electronic health records. We know how it feels to worry that a patient's bad outcome will turn into a lawsuit. We use this knowledge and experience to guide TMLT operations and provide you with sound protection and responsive service.

Another reason for our success — our responsible investment philosophy. TMLT has adopted a conservative policy for the investment of assets with the objective of achieving maximum yield with maximum safety. As this annual report details, Trust assets are invested in investment quality securities to generate income to meet operating expenses and actuarial assumptions. Despite challenging economic conditions, the Trust remains financially strong.

Our relationships with organized medicine have also strengthened the Trust. Some of the most prominent medical organizations in the state count on TMLT for support of their programs. These organizations include the Texas Medical Association, the Texas Alliance for Patient Access, the Texas Academy of Family Physicians,

**TMLT 2008 Board of Governors**

**Dave W. Kittrell, MD**

*Chairman*  
 Obstetrics/Gynecology  
 San Antonio  
 Policyholder since 1979

**Robert I. Parks, MD**

*Vice Chairman*  
 Anesthesiology  
 Dallas  
 Policyholder since 1993

**Stuart D. McDonald, MD**

*Secretary-Treasurer*  
 Pulmonary and Critical Care  
 Fort Worth  
 Policyholder since 1993

**Alan C. Baum, MD**

Ophthalmology  
 Houston  
 Policyholder since 1984

**Donald R. Butts, MD**

Colorectal Surgery  
 Houston  
 Policyholder since 1979

**Cristie Columbus, MD**

Infectious Diseases  
 Dallas  
 Policyholder since 2000

**Arthur F. Evans, MD**

Neurosurgery  
 Lindale  
 Policyholder since 1979

**David G. Joseph, MD**

Family Practice  
 Austin  
 Policyholder since 1997

**Jimmy L. Strong, MD**

Pediatrics  
 Abilene  
 Policyholder since 1990



From left to right: Arthur F. Evans, MD, Alan C. Baum, MD, Donald R. Butts, MD, Bob R. Fields, Dave W. Kittrell, MD, Robert I. Parks, MD, Stuart D. McDonald, MD, Cristie Columbus, MD, David G. Joseph, MD, Jimmy L. Strong, MD

and a number of county and specialty societies. Over the years, we have worked together to ensure the passage of medical liability reform, reach physicians with CME programs, provide scholarships to medical students, and to provide resident education programs. These partnerships have helped us achieve our respective objectives, form strong friendships, and gain a better understanding of the issues important to physicians.

TMLT is strong because of our experience in Texas. TMLT offers one line of coverage and offers it in one state — Texas. Our entire business focus is on Texas physicians and how to protect their practices.

Our rates are set based on the claim experience of Texas physicians. Our Texas-based claim staff and defense attorneys understand the Texas legal system, the venues, and the judges. Our risk management staff travel to every corner of the state to meet physicians and discuss their specific risk exposures.

This experience is put to work for you every day.

#### Share TMLT

Having been a TMLT policyholder for almost 30 years, it gives me great satisfaction to know that more than 14,500 Texas physicians are now protected by TMLT. As TMLT policyholders, these physicians receive more than just medical liability protection. They have gained a strong ally — an ally dedicated to safeguarding their professional reputations and careers.

If you know of physicians who are currently looking for medical liability protection, please let them know about the value of TMLT. You can direct them to [www.tmlt.org](http://www.tmlt.org) or share this annual report, which details the Trust's services and financial strength. TMLT is stronger today than at any time during our 30-year history. In today's troubled economy, we are proud that more than 14,500 physicians count on us to protect their reputations and careers. Thank you for your continued support.

Another reason for our success — flexibility. TMLT's founders recognized the importance of allowing physicians to regulate their own company. Currently TMLT is not subject to regulation by the Texas Department of Insurance. As a result, we have the flexibility to respond to changes in the medical liability environment. During the crisis years from 1999 to 2002, this flexibility allowed TMLT to raise rates as claim frequency and severity reached record levels. We survived the crisis while other carriers fled the state. Once medical liability reform was passed and claim frequency and severity stabilized, TMLT reduced rates accordingly. The ability to adapt to changing market conditions has made TMLT the premier medical liability carrier in the state.

Sincerely,

Dave W. Kittrell, MD  
Chairman



**BOB R. FIELDS**  
President and CEO

Many will remember 2008 as the year our economy suffered its worst collapse since The Great Depression. Billions of dollars were lost in the stock market, millions of workers lost their jobs and unprecedented government bailouts were needed to prevent several huge companies from failing. It was a year that separated the weak from the strong, the companies with proactive vision from those with reactive leadership.

At TMLT we have long believed in a conservative investment philosophy, keeping our investments in equities in small percentages of our overall investment portfolio. Some of our competitors were willing to take greater risks for higher gains and experienced substantial capital losses by year-end. Their balance sheets suffered from their lack of respect for risk.

Our good news to policyholders is that, despite the economic challenges of 2008, TMLT was successful in increasing its profit from last year and building policyholder surplus for the seventh straight year. By controlling our claims and underwriting costs, by achieving excellent policyholder retention, and by continuing to write new business, TMLT was able to produce outstanding results again in 2008. This success enabled the Trust to finalize conversion to a new, state-of-the-art software

system. It also enabled us to purchase, for the first time in our 30-year history, our own office building. TMLT is now the proud owner of the 120,000 square foot, five story building shown on the front cover of this annual report.

During 2008, we were once again pleased to announce an average 4.7% rate reduction for 2009, our sixth straight rate reduction since 2003 tort reform. In addition, we announced our fourth consecutive dividend for 2009. A credit of 22.5% will be applied to renewing policies. The result of all those cumulative rate reductions and dividends means that a renewing policyholder in 2009 will be paying about 50% of what he or she paid for medical liability insurance in 2003. What other product or service can you purchase at half the 2003 cost? Obviously, tort reform works—not only for the benefit of physicians, but also for their patients through greater access to healthcare.

One of the keys to our organization's success is our unique structure. We are a self-insurance trust owned by physicians and governed by physicians. Our nine physician governing board members, elected by the policyholders of TMLT, are closely involved in all major decisions of the Trust. These include claim philosophy and defense of Trust members; underwriting

### 2008 Executive Team

**Bob R. Fields**  
President and CEO

**John Alexander**  
Sr. Vice President - Underwriting Services

**Ray Demel**  
Sr. Vice President - Chief Financial Officer

**Gail Nichols**  
Vice President - Human Resources & Admin. Services

**Jane Holeman**  
Vice President - Risk Management

**Jill McLain**  
Sr. Vice President - Claim Operations

**Don Chow**  
Sr. Vice President - Sales & Marketing

**Treg Russell**  
Vice President - Management Information Systems

**Dana Leidig**  
Vice President - Communications & Advert.

and sales; risk management; rate setting and dividend approval; donations by the Trust; and, protecting tort reform.

Another key to TMLT's success has been the talent and performance of its 165 member staff shown on the last page of this report. Many of these outstanding employees have been with the Trust for over twenty years and serve as leaders and key members of our team. It has been through the efforts of our dedicated staff, coupled with the support of our physician board members, that TMLT has achieved its leadership position in the Texas market. I have worked with these employees for many years, I have witnessed their creativity and drive, and I am exceedingly proud of their contributions to our company.

In our organizational model, which has stood the test of time, profit is not

our main objective. Providing the highest quality insurance coverage for the lowest possible price is our number one goal, year in and year out. The preservation of your livelihood and reputation is why TMLT was created and wrote its first policy on January 1, 1979.

History shows that some of our competitors will distribute excess earnings and profits to stockholders or investors. TMLT uses excess earnings to lower rates and expand coverage for its physician members.

During the first five months of 2009, our TMLT legislative team will be working closely with our friends at TMA and the Texas Alliance for Patient Access (TAPA) to protect our hard-fought gains in 2003 tort reform. In addition, we want to keep the regulation of TMLT within the hands of our physician members

and governing board. They have done a wonderful job of overseeing the management of the Trust for 30 years and there is no need to make any changes now.

As you read the rest of this annual report and learn of our successes achieved in 2008, I hope you will be proud of the organization your physician colleagues created long ago. They had a special dream of founding an organization that would insure doctors in all specialties and territories in Texas and that would stand strongly behind doctors even during years when the business climate was unfavorable. With your help, together we have made their dream come true.



Bob R. Fields  
President & CEO



Back row (l-r): Jane Holeman, Treg Russell, Gail Nichols, Jill McLain, John Alexander, Dana Leidig, Don Chow.  
Front row (l-r): Bob R. Fields, Ray Demel.



**JILL MCLAIN**  
 Sr. Vice President  
 Claim Operations

**TMLT's** mission – “to be on the leading edge of industry change to provide a standard for coverage and service to our policyholders by which all others are compared”- is no better exemplified than in our efforts to achieve, maintain, and maximize the benefits of effective tort reform. Since September of 2003, Texas physicians and their patients have enjoyed a vastly improved claims environment as a result of the tort reform passed by the legislature that year. TMLT's efforts were instrumental in achieving these reforms. Since then, we have been a mainstay of TAPA, a leading advocate for physicians, and we have provided substantial support for the efforts to resist encroachment on the legislative and constitutional gains that were made in 2003.

With an improved environment and a significant reduction in the volume of non-meritorious lawsuits, Texas has been able to recruit new physicians in record numbers. We know that we need to be vigilant in protecting the tort reform gains, and one way of doing that is by showing how the reforms are working and serving the interests of all Texans.

One of the big benefits of tort reform has been a reduction of claims intake and frequency, which continues today. Since 2004, following the initial substantial post tort reform drop in intake, the number of claims filed has continued to moderate. In 2008, we took in 20% fewer new claims than in 2004. Claim frequency, which reached a high point of over 25% on

non-mass litigation prior to tort reform, ran 8.4% in 2008. This has provided the impetus needed by many physicians to choose Texas as their home. Many previously underserved areas now have access to primary and specialty care. Physicians can devote their time to taking care of

*“Our willingness to resist nuisance settlements also discourages attorneys from filing claims before determining that there is some evidence of negligence involved.”*

patients instead of reading legal documents and preparing for depositions and trials.

Because elements of damage are clearly defined in Chapter 74 language passed in 2003, all parties are better able to evaluate cases and amicable resolutions on meritorious claims are more likely. In 2008, TMLT tried only 23 cases to verdict, of



which only two were lost, compared to 49 cases tried in 2007. This is not because of any change in TMLT's strong defense policy. Rather it can be an indication that changes in the law are working as they should to make a higher percentage of cases resolve earlier. While the law preserves the rights of injured parties to recover all past and future medical expenses and lost wages, it caps the more speculative non-economic damages at \$250,000 for physician defendants and \$250,000 each for up to two hospitals or other institutions, left in the case at the time of trial.

TMLT continues to strongly resist paying indemnity dollars on defensible cases. In 2008, we closed over 85 out of every 100 claims without indemnity payment. Defense costs incurred in these efforts served to protect the records and professional careers of insured physicians practicing within the standard of care. Our willingness to resist nuisance settlements also discourages attorneys from filing claims before determining that there is some evidence of negligence involved. Our statistics show that this philosophy has worked not only in protecting our insureds, but in controlling overall payout as well.

TMLT is all about relationships. Those begin with marketing and underwriting, whose efforts are dedicated to insuring physicians and groups with whom we will have long term relationships. When a physician does get presented with a claim, he or she has the benefit of working with some of the most experienced professionals in the business.

TMLT believes that our people are our greatest asset. Recruiting and keeping the best in the industry on our team enables us to achieve our goal of providing the highest quality claims service and most favorable outcomes for our insured physicians. The claims professional staff, all licensed by the TDI, averages 24 years of claims experience, and 13 years of service with TMLT. We don't have to reinvent the

wheel by training new people. Instead, we are able to keep improving and perfecting, changing with the environment while holding on to procedures and methods that work. Our defense team is talented, dedicated, and highly successful in the defense of medical malpractice lawsuits. As with our staff, TMLT has had long-standing relationships with them, enabling us all to build on years and years of defense and trial experience.



Our Claim Review committee, comprised of TMLT policyholder physicians in 23 different specialties, reviews some of the more complex cases to provide guidance to claims staff on medical issues.

When tort reform lowered our intake and outstanding claims inventories, we responded by stepping up service so that more doctors are visited on a regular basis. Outstanding inventories are at record lows, enabling us to devote even more time to each case and each insured. Our claims statistics and closed claims satisfaction survey forms demonstrate how well this is working. In 2008, we achieved 99.4% positive responses on Closed Claim Satisfaction Surveys, sent out on all files when they close. In fact, our positive responses

on these surveys have exceeded 98% for many years.

TMLT provides many other value added services as well. We provide reimbursements for some of the expenses accrued by physicians as they defend themselves before the Texas Medical Board or other credentialing bodies. We monitor court cases that reach the appellate level. When case law threatens to weaken the gains of tort reform or other-

wise negatively affect the interest of our policyholders and their patients, we often prepare amicus briefs in support of the important legal principles at risk. We assist physicians who have questions or need advice in situations that could result in claims activity, and we provide tools to help physicians understand the law, Texas Medical Board rules, and other information that may be important to their practice.

TMLT is passionate about its mission and purpose, and the staff demonstrates this every day. Every team member at TMLT cares deeply about providing the best possible service to the physicians of Texas and about continuing to be "the standard by which all others are compared."



**JANE HOLEMAN**  
 Vice President  
 Risk Management

**R**isk management services are an integral part of TMLT’s unwavering commitment to protect the practice of medicine, improve the quality of health care, and reduce the risk of potential claims. Providing proactive risk management services to policyholders differentiates the Trust from other medical liability carriers. Our customized services are designed to meet the individual needs of our policyholders.

In 2008 the Risk Management Department maintained its reputation as innovative and progressive in the medical liability industry by providing a wide range of programs and services. Risk management staff identified important, timely risk management topics, developed and implemented new programs, tracked important trends, and enhanced existing services. The Risk Management Department participated in an outcomes measurement study to determine the relationship between physician practice reviews and claims experience and the initial results of the study were positive. We plan on continuing similar studies in other areas of risk management offered by TMLT.

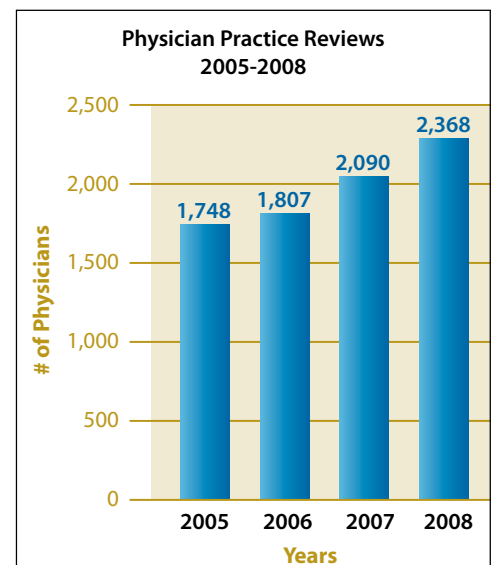
TMLT’s Risk Management Committee is composed of physician leaders who are vigilant in overseeing a wide range of risk management services and activities. This committee identifies specific trends and challenges in the delivery of health care, and shares this information with us so that we can improve our services to better meet the needs of our policyholders. They are also key in helping us keep our policyholders’ medical-legal knowledge current.

**Practice Reviews**

The professional risk management staff completed practice reviews for 2,368 policyholders in 2008, approximately 16% of our policyholder base. This comprehensive office evaluation is designed to assist physicians and their staffs in identifying

areas of risk in their practices. Improved internal electronic processes at TMLT expedite the dissemination of follow-up information to participating physicians. As a result, 94% of physicians submit timely responses, indicating plans for implementing changes in their offices to assist in mitigating risks. Nearly 48% of TMLT policyholders receive the practice review premium credit. The medical record review component of the practice review reflects a trend in the implementation and use of electronic health records (EHR). In 2003 TMLT recognized electronic systems had the potential to assist physicians in decreasing liability exposure in several areas. Appropriate use of an EHR system may decrease diagnostic errors, as well as improve documentation, tracking of diagnostic test results, patient referrals, patient communication, and access to practice guidelines. At that point, TMLT offered an additional premium credit for policyholders participating in practice reviews and utilizing an EHR system.

*“TMLT will continue to monitor and evaluate EHR use in physician practice as a disincentive to lawsuits and enhancement to defensibility.”*



Only 56 physicians received premium credits for EHR use in 2003, compared to 962 in 2008. Forty-one percent of all physicians participating in practice reviews in 2008 were also utilizing an EHR system. As the movement towards the electronic documentation in medical records continues, TMLT will continue to monitor and evaluate EHR use in physician practice as a disincentive to lawsuits and enhancement to defensibility.



Following a request for proposal by the governing board of the Texas Medical Liability Insurance Underwriting Association (JUA), TMLT was selected to provide risk management services to JUA policyholders. The JUA is the Texas-sponsored insurance program for physicians with limited or no access to other sources of professional liability insurance. TMLT practice reviews, CME courses, *the Reporter* newsletter, and individual telephone consultations are currently available to JUA policyholders. In our diligent efforts to continually improve the health care environment and patient safety in Texas, we are proud to offer these services.

#### Education

The Risk Management Department positively impacts the quality of health care for Texans by educating and protecting physicians. Since 1999 TMLT has been a provider of continuing medical education accredited by the Accreditation Council for Continuing Medical Education (ACCME). TMLT is positioned to identify

the educational needs of our policyholders, and respond appropriately, developing education programs to assist our physicians in mitigating their risk.

The course, *You've Received a Letter from the Texas Medical Board: What's Next?*, a one-hour course in 2007, was expanded to a three-hour course in 2008. A need for further education on this topic was identified as a result of input from the Texas Medical Association and county medical societies. Ongoing vigilance by the Texas Medical Board (TMB) impacts our policyholders resulting in a topic that continues to be of particular interest. This course was offered during the spring seminar series with 378 physicians attending. The one-hour course was presented to 30 physician groups and county medical societies. Receiving extremely positive feedback, this course continues to be available upon request in 2009.

TMLT's Risk Management Committee provided valuable input in development of the fall seminar series topics. These included changes in the physician-patient relationship, evolving demographics of medicine, communication among providers, and emerging technology. "Health Care Rock and Roll: Medicine in Transition" was presented in six locations with 699 physicians attending.

The Risk Management Department collaborated with the Claim Department in evaluating the feasibility of accrediting the Claims Review Committee (CRC) for CME. Subsequently, the CRC was accredited for 4.5 hours of CME. During this activity, physicians of various specialties review open claims involving complex medical issues, and evaluate physician risks in diagnosis and treatment.

Responding to the most common policyholder inquiry, we developed a new one-hour CME course. Data gathered from risk management telephone consultations was reviewed, reflecting physician concern regarding the physician-patient relationship. "Complexities in Beginning and

Ending the Physician-Patient Relationship: When Can We Call It Quits?" focuses on the establishment of physician-patient relationships, when it may be necessary



to terminate them, and strategies to avoid patient abandonment allegations.

#### Publications

Risk management representatives wrote five one-hour CME articles as well as contributed closed claims studies to each edition of *the Reporter*. Recognizing the importance of timely notification regarding pertinent health care issues, staff monitored FDA notices and specialty society postings for risk alerts related to problems discovered with medicines and other health related products. This information, posted on the TMLT web site, was continuously updated. Current advisories may be found at [www.tmlt.org](http://www.tmlt.org).

We continue to receive positive feedback from physicians across Texas regarding the scope and quality of the value-added risk management services. A family practitioner from Houston completing a practice review survey stated, "Your professionalism and upbeat attitude is refreshing and pleasant. We appreciate your time in assisting us with improving our office processes. We don't get many visitors whose sole purpose is to actually help us. Thank you, Tanya."

## 1979

First TMLT logo. **TMLT** begins issuing policies, Mario Ramirez, MD becomes the first policyholder. TMLT employs 15. **John Lomenzo** is named president.



## 1983

TMLT's fifth anniversary – policyholder count reaches 2,900. First partial return on surplus deposit issued.

## 1988

TMLT's 10th anniversary – policyholder count exceeds 5,000.

## 1991



John Lomenzo retires at the beginning of the year. **Sam Branham** takes reins as president and CEO.

## 1992

TMLT receives full endorsement from the Texas Medical Association (TMA). TMLT receives full endorsement from the Texas Academy of Family Physicians and becomes a charter member of the Golden Circle Educational Grant Program.



## 1994

TMLT's 15th anniversary – policyholder count exceeds 7,500. TMLT earns the endorsement of the Dallas, Tarrant, and Travis county medical societies.



## 1995

TMLT's subsidiary, Texas Medical Insurance Company, is formed. The Texas Department of Insurance (TDI) orders a rate rollback for regulated carriers. TMLT participates. Sam Branham resigns.

## 1996



**Tom Cotten** named president and CEO. TMLT becomes a Gold Corporate Affiliate of the Texas Medical Group Management Association.

## 1997

TMLT web site is launched.

## 1999

TMLT's 20th anniversary – policyholder count exceeds 9,500. TMLT earns the endorsement of the Harris and Bexar county medical societies.



### October 1999

TMLT 2000 campaign launches, alerting TMLT policyholders that a medical liability crisis is looming. TMLT announces rate increases averaging 13%.

### November 1999

TMLT becomes fully accredited by the ACCME.

## 2000

### January 2000

TMLT participates in TMA's first medical liability data study to evaluate the 3 largest carriers in Texas. The study confirms that claim frequency and severity are escalating.

### May 2000

The Texas Department of Insurance (TDI) finds that regulated medical malpractice companies in Texas lost a total

of \$103.5 million in 1999. TMLT posted an \$11 million loss in 1999 as well.

## 2001

### January 2001

TMLT participates in TMA's second data study. Results show 1 in 4 physicians faced a malpractice claim in 2000.

### May 2001

The TDI finds that regulated medical malpractice companies in Texas lost a total of \$229 million in 2000. TMLT lost \$7 million.



### July 2001

TMLT plays a key role in the formation of a medical liability consortium – the Texas Alliance for Patient Access (TAPA) – to pursue medical liability reform in 2003.

## 2002

### January 2002

TMLT policyholder count reaches 10,500. The TDI announces the number of medical liability carriers in Texas has dropped from 17 to 4. TMLT continues writing business for all specialties in all areas of the state.

### Original 1979 TMLT Board Members



R. Vardy

P. Chalmers

E. Schmidt

W. Brooks

C. Castle



M. Davis

C. Landrum

R. Thumwood

R. Zuber

**April 5, 2002**

Texas Governor Rick Perry announces a plan to solve the medical liability crisis in Texas. Among the governor's suggestions, capping noneconomic damages at \$250,000.



**May 6, 2002**

House Committee on Insurance holds a public hearing on medical liability insurance. TMLT staff testify before the committee.

**July 2002**

In the face of a decline in surplus due to claim frequency and severity, TMLT announces surplus call to policyholders.

**Fall 2002**

TMLT staff serve on the TAPA legislative committee to develop a health care liability reform agenda modeled after California's MICRA statute.

**2003**

**January 24, 2003**

Governor Rick Perry declares medical liability reform an emergency issue for the 78th Texas Legislature.



**June 2, 2003**

The Texas Legislature passes House Bill 4, including a \$250,000 cap on noneconomic damages.

**June 2003**

The historic "rush to the courthouse" begins. From June to October 2003, the TMLT claim department received 1,489 lawsuits, compared with 523 lawsuits received June to October 2002.

**Summer 2003**

The Wall Street Journal publishes an editorial calling the Texas medical liability reforms, "Ten-Gallon Tort Reform."



**September 2, 2003**

TMLT announces it will reduce rates by 12% if the voters pass Proposition 12, the constitutional amendment allowing the legislature to set caps on noneconomic damages.

**September 13, 2003**

Proposition 12 passes, ensuring the medical liability reform measures enacted in 2003 will withstand judicial scrutiny. TMLT announces rate reductions of 12%, to take effect January 1, 2004.

**December 31, 2003**

The year ends with 10,922 TMLT policyholders.

**2004**

TMLT's 25th anniversary – policyholder count exceeds 12,000.



**October 2004**

TMLT announces a 5% rate reduction to take effect January 1, 2005. This is the second consecutive year of post tort reform rate reductions.

**2005**

TMLT awards \$35,000 in medical student scholarships in the first TMLT Memorial Scholarship competition.



**June 2005**

TMLT and TAPA lead efforts to protect 2003 tort reform during 2005 legislative session.

**October 2005**

TMLT initiates first 5% dividend credit for 2006 renewal based on Trust earnings and strong capital position. The dividend amounts to approximately \$10 million. TMLT again reduces rates by 5% effective January 1, 2006.

**2006**

You've Been Sued: Successfully Navigating the Litigation Process, TMLT's first DVD-based CME program is released by the TMLT Risk Management Department.



**August 2006**

Tom Cotten resigns. Bob Fields is named Acting President and CEO.

**October 2006**

TMLT announces another 20% dividend credit for 2007 renewal. The dividend amounts to approximately \$35 million. TMLT announces another 7.5% rate reduction effective January 1, 2007.

**December 31, 2006**

TMLT ends 2006 by winning 73 of 75 cases taken to trial. This represents the highest win percentage record and the lowest trial loss record in TMLT history. Policyholder count at the end of the year was 14,163.

**2007**

**June 2007**

TMLT, TMA, and TAPA are again successful in protecting 2003 tort reform during 2007 legislative session.

**June 25, 2007**

Bob Fields is named President and CEO.



**September 2007**

TMLT announces a 6.5% rate reduction and 22% dividend credit to be effective January 1, 2008. Policyholder count at the close of 2007 was 14,585.

**2008**

**January 2008**

The IN RE WATSON case was filed in Dallas, marking the first federal constitutional challenge to the Texas \$250,000 damage cap.

**September 2008**

TMLT announced an average 4.7% rate reduction and 22.5% dividend for 2009.



**October 2008**

Stock market drops 40% in less than one year but TMLT surplus grows.





**JOHN ALEXANDER**  
 Sr. Vice President  
 Underwriting Services

For the past 30 years, TMLT's Underwriting Department has been optimizing service and value for its physician policyholders. Today, more Texas physicians choose TMLT to protect their professional reputations and financial assets than any other liability provider. This was evident again in 2008 when the Trust issued more than 1,400 policies to new members, increased its policy count to 14,986 and retained more than 92% of its policyholders through renewals.

Enhancements in policy administration and superior customer service set the theme for performance highlights in 2008. Making over 360 personal visits to groups during the year, the Account Services Team delivered detailed renewals and provided in depth information on market trends and claim experience. Additionally, the Customer Service Team met the day-to-day needs of insured physicians and administrators by providing competent and timely answers to questions

received by telephone. Increasing efficiency and accentuating the ease with which physicians can do business with TMLT are among the top priorities of the underwriting staff.

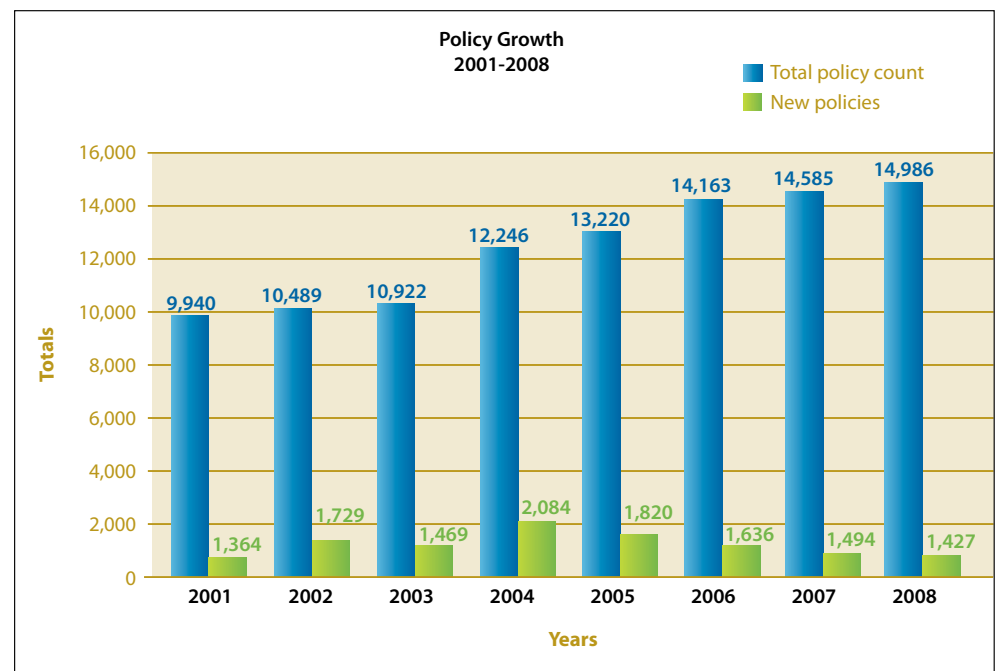
The Texas medical liability marketplace was inundated with carriers bent on securing new business at unsustainably low premium rates in 2008. As a

result, achieving profitable policy growth was challenging, but TMLT found success by adhering to its proven risk selection process. Because recent history is replete with times when medical liability carriers who offered the lowest price quickly abandoned Texas physicians once claim

frequency and severity spiked, buyers should always determine how a carrier will perform and treat them when market conditions experience a downturn.

TMLT has a record of staying the course and following a proven discipline

*“Since the passage of tort reform measures in 2003, the average premium for an individual physician policy at TMLT has been lowered from \$23,247 to \$10,656.”*



that augments lasting financial stability and rate integrity. Since the passage of tort reform measures in 2003, the average premium for an individual physician policy at TMLT has been lowered from \$23,247 to \$10,656. That's a reduction of more than 50%! This was accomplished not only through rate decreases, but also by expanding discount opportunities linked to risk management programs and by increasing the credits earned each year for a claims free profile.

To avoid drastic swings in premiums from one year to the next, TMLT annually conducts a careful analysis of its rates with knowledgeable actuarial consultants. The Trust decided to lower rates across all medical specialties in 2008 by 6.5%. For



2009, an overall average reduction of 4.7% was enacted. Under this plan, physician base rates will decrease within a range of 1% to 10%, depending upon the medical specialty and rating territory.

Once a new application has been approved by the Underwriting Department, our goal is to issue the policy as expeditiously as possible. The new business written in 2008 was issued within 15 days of receipt of the completed application 94% of the time. Renewal policies were issued within 30 days of their renewal dates 79% of the time. This difference was a result of increased levels of competition. The volume of alternative quotes and proposals furnished to TMLT policyholders resulted in delays in renewal orders.

The importance of up to date information on a physician's medical practice cannot be overstated. In view of the valuable time required to complete a TMLT renewal application, the Underwriting Department redesigned it and condensed the document from seven pages to one. The new questionnaire format will be utilized in 2009 and soon will be available on the members-only section of the TMLT web site.

In 2009 there will be two enhancements to the TMLT coverage form. First, an endorsement providing limited premises liability coverage that had been available for an additional premium, will be added at no charge to all policies. Although this endorsement of coverage does not eliminate or replace the need for a separate general liability policy, it does potentially fill a gap that may exist between TMLT's medical professional liability coverage and the standard coverage under a general liability policy. Premises claims brought by patients are subject to a limit of \$200,000 and must arise out of your ownership or leasehold interest in the premises.

The second enhancement involves an expansion of coverage for substitute physicians who assume responsibility for

your patients during a scheduled absence. When you request locum tenens coverage on your 2009 policy, you may do so for up to 21 days in each policy period without an additional premium charge. Days requested in excess of 21 will incur a fee of \$500 per day.

The Underwriting Department's contribution to the success of TMLT in 2008 was made possible through the dedicated efforts of its team of high-performing employees. The staff includes 18 members who hold licenses issued by the Texas Department of Insurance. We also received valuable guidance from our physician board members. In particular, the members of the Underwriting Review Committee evaluated our recommendations for underwriting actions and made prudent decisions on accounts that were presented to them in 2008.

Moving forward, we remain committed not only to growing policy count, but also to increasing the value of a partnership with TMLT. Financial stability, operational strength and underwriting discipline all position the Trust for continued prosperity and success. We sincerely appreciate your business and look forward to meeting your professional liability coverage needs in the years ahead.





**DON CHOW**  
 Sr. Vice President  
 Sales and Marketing

The continuation of soft market conditions served to make 2008 another challenging year with the level of competition intensifying. New competitors sought to gain market share at our expense. For start-up carriers, the emphasis has been on top line growth seeking revenue opportunities through aggressive pricing and underwriting practices. At TMLT, strategic decisions regarding rates and dividends have insulated us against the erosion of our policyholder base. Our retention ratio remained a healthy 92.6%.

TMLT is well placed to confront the challenges posed by competitors seeking to impact our leadership position. In spite of aggressive efforts by adversaries to reverse our momentum, we realized a net growth of two percent, ending the year with 14,986 policies. Since the passage of tort reform, more than 14,000 new physicians are reported to have moved into Texas, providing even greater opportunities for the Trust. According to the latest TMA data, our market share—based on TMA members in active practice—exceeds 50%.

Besides retention, the other component necessary to achieve growth is new business and, despite severe conditions, we held our own. In 2008, actual results included 1,427 new policies and written premium totaling \$7.4 million. These results were driven primarily by physicians in solo practice, who continue to be receptive to the value proposition offered by the Trust. Although competitive pricing is an important

component in their purchase decision, so too is the commitment to claims management, risk management, and underwriting services.

With respect to physicians in group practice, market dynamics played a significant factor as incumbent carriers aggressively priced the product to enhance their opportunities for retention. This may have occurred in the form of proactive rate reductions or succumbing to competitive pressures. The challenges were difficult with the incumbent getting “last look.” Achieving successful results in this segment proved difficult in spite of strong efforts by the sales staff. Our emphasis is strengthening the TMLT brand and cultivating relationships with prospective physicians regardless of practice mode, specialty, or geographic location.

Market conditions will change inevitably, providing even greater challenges for Texas physicians. When that occurs, TMLT will be ready to respond.

In the distribution of our insurance product, TMLT depended on the efforts of our agent partners. For 2008, they

*“Data from the Texas Department of Insurance shows that our 2008 written premium base of \$168.9 million is greater than the five closest competitors combined.”*





accounted for 29% of new issues and 37% of new premium. The consensus among agents was less focus on new production and greater emphasis on retention as the soft market yielded minimal success for a great deal of effort. This strategic alliance

since 1998 has served us well and we're grateful the relationship has been beneficial for everyone involved.

Supporting the distribution effort was an integrated marketing strategy involving advertising, direct mail, Internet-based programs, and participation in organized medicine events. TMLT advertises in eighteen publications reaching over 40,000 physicians. The multiple contacts during the course of the year provide reinforcement to our brand with existing and prospective clients. Direct mail affords us the opportunity to reach more than 20,000 prospective physicians while making multiple contacts throughout the year. As more physicians prefer to transact business electronically, development of the web site is a priority. From researching information about the Trust to submitting on-line applications, it is clear our resources need to be devoted in this area to keep us on the cutting edge of technology.

TMLT's support of medical conferences conducted by the county and

specialty societies provides exposure for the TMLT brand and enhances our goodwill. This format allows TMLT the opportunity to engage and interact with our policyholders throughout the state and demonstrates our support for their medical society. Furthermore, a number of the county medical societies have elevated their marketing programs, offering greater exposure to their constituents. TMLT is in the unique position of being a primary sponsor that is exclusively endorsed by many of these societies. The combination serves to strengthen our brand and differentiate us in the market. Our relationship with organized medicine remains strong and affords us a competitive advantage in our marketing development efforts.

One of the benchmarks in assessing performance is comparing our results to the competition. Data from the Texas Department of Insurance shows that our 2008 written premium base of \$168.9 million is greater than the five closest competitors combined. The \$7.4 million in new premium led all carriers. These results were achieved in spite of numerous rate reductions since 2004. This is validation of the confidence and trust Texas physicians have in TMLT. Be assured we are not complacent and realize the confidence and trust must be continually earned.

There is no expectation market conditions will change in 2009. The medical liability industry will continue to reap the benefits of a benign environment with volatility under control. Companies will continue their drive to increase market share at our expense. TMLT will strive to remain one step ahead of the competition while responding to the needs of Texas physicians. Ours is a long-term perspective and we seek to align ourselves with physicians who recognize the value and difference the Trust brings to the table...not for one year but for many years to come.





**GAIL NICHOLS**  
 Vice President  
 Human Resources &  
 Admin. Services

As with all departments at TMLT, the Human Resources/Administrative Services Department is dedicated to extending quality customer service to our valued policyholders as well as to all of our internal customers – the TMLT employees. Our ongoing mission is to ensure that each employee has the tools, training, and quality environment in which to perform his or her individual job successfully and that TMLT remains an “Employer of Choice.” One indicator of achievement in this area in 2008 was TMLT once again ranked as a top finalist in the Austin Business Journal’s Best Places to Work in Central Texas contest. We were elated to learn that as a result of the responses our employees gave in a workplace survey, we placed number four among medium sized companies in Central Texas participating in the independent survey.

One particular area of concentration for our HR team in 2008 was enhancing wellness activities and programs. The Weight Watchers® at Work program, originally introduced in 2007, continued to be popular among a number of employees who dedicated their lunch hours once a week for a 17-week period to learning

healthy ways to eat, as well as participating in discussions on how to lose weight and keep it off. A total of three 17-week sessions were held during the year with very positive results by year end – an astonishing combined weight loss of more than 1200 pounds.

To provide additional incentive and a convenient way to maintain physical fitness, TMLT purchased several fitness machines for employees to utilize before or after work or during lunch hours. For many who wouldn’t normally have access to this type of equipment, this small investment is just one way that we can promote a healthy environment and lifestyle. Another healthy initiative introduced in November was an incentive to help stop smoking by offering a limited reimbursement for the cost of a smoking cessation program or for the purchase of tools to help stop smoking.

TMLT employees have always given generously to local charities by donating their time and/or money. In 2008 Human Resources joined with the Communications and Advertising Department to coordinate and promote several fundraising activities within TMLT. As a result of a raffle in June, our employees were proud to present a check to Family Eldercare for almost \$1300. In what has become an annual Halloween tradition, departments challenged each other to see which department could put together the best gift basket or baskets. Staff members donated all of the items that went into making the baskets, which we then raffled off in-house on Halloween. Proceeds of \$1,137 were donated to the People’s Community Clinic, which offers medical care to those with little or no health insurance. Ending up the year, everyone pulled together to provide holiday gifts to ten homeless and/or at-risk families recovering from crisis or emotional distress through the Lifeworks Holiday Help Project. Other areas of employee participation in 2008 included food donations to the Capital

Area Food Bank, Komen Race for the Cure, Heart Walk of Austin, United Way, and quarterly blood drives benefiting the Blood and Tissue Center of Central Texas. Giving back to our community is something that all TMLT employees do proudly.

The Human Resources/Administrative Services department will always have as its top priority providing quality customer service as well as an environment in which our valued employees can thrive and do their very best to consistently meet the needs of every policyholder. We not only want TMLT to be an “Employer of Choice” but also to continue to be your “Provider of Choice” for your professional liability coverage.



**DANA LEIDIG**  
 Vice President  
 Communications &  
 Advertising

In business, effective communication may not appear as a line item in the financial statement, but it is vital to the bottom line and overall success of any organization.

Businesses and organizations that clearly and consistently communicate their products and services to their constituencies have a decided advantage over their competitors. Telling your story in a way that is memorable or communicating value through excellent customer service by phone or email can result in a lasting

impression that garners a steady stream of referrals and renewal business.

At TMLT, our governing board and executive management are committed to excellence in communication. In 2008 the communications staff collaborated with each department at TMLT to help design the most effective communication plans for strategic projects. These included the web site, [www.tmlt.org](http://www.tmlt.org), and the internal web site, iTMLT; the print and electronic advertising campaigns, *the Reporter* and other newsletters, marketing collaterals and exhibit materials, and special projects such as the TMIC dental program. We worked internally with the Human Resources staff to help position TMLT as an organization that cares about its community by developing a community service plan where employees could get involved.

We collaborated with the governing board on the TMLT Memorial Scholarship Program which completed its fourth year of conferring eight \$5,000 medical student scholarships in 2008.

The 2008 work of TMLT's small team of professional communicators was recognized in several communication evaluation programs this year. Our *Case Closed* series—volumes 1, 2, and 3—won an Award of Excellence from the Society for Technical Communicators. This series of books features actual closed claims, details the legal allegations, how the case resolved, and the risk management lessons for each scenario. *Case Closed Volume 3* won a Bronze Award for Best Overall Editorial from the Publications Management Magnum Opus Awards. The article "Potential pitfalls, risk management for the EMR" received a Silver Award for Best Feature Article from the Magnum Opus Awards. In the 2008 International Association of Business Communicators Bronze Quill competition, the 2007 annual report *Trust* and *the Reporter* received Awards of Merit, and TMLT's internal web site iTMLT received the Bronze Quill Award.

The most valued awards, however, come from policyholders who have called, written, or emailed us that TMLT publications were well researched and written, that the topics were timely and interesting, and that they found the information helpful. As the author Rudyard Kipling said, "Words are, of course, the most powerful drug used by mankind." Communicating effectively with Texas physicians, organized medicine, the legislature, and other business associates is our priority and we are dedicated to it.



**TREG RUSSELL**  
Vice President  
Management  
Information Systems

Over the course of 2008, our primary focus was to complete the conversion of Texas Medical Insurance Company (TMIC), our wholly owned subsidiary, to our new insurance processing system. Capitalizing on the experience gained during our 2006 conversion of Texas Medical Liability Trust (TMLT) data, we were able to reduce the conversion time down to one fifth of that required by the TMLT conversion. This shortened timeframe helped minimize the impact to our policyholders during this period of transition. In all, 734 reports, forms, and letters were created or modified to support the needs of TMIC. We also continued to improve the insurance system to better

meet our requirements at TMLT, completing 163 separate enhancements and other projects during the year.

With the advent of our dental liability coverage program this year, we added the necessary functionality to our systems to support that business. We developed the ability to process those policies in our insurance processing system. Collaborating with the Communications & Advertising Department, we developed a web presence for the dental program with features such as quote requests, online application, and payment processing. This reinforced our goal of making it simple and cost effective for us to process dental business without taking our attention away from providing the best physician support we can.

In the spring of this year we completed the implementation of a new phone system. This system has features that will let us more effectively route calls which will ultimately allow us to improve responsiveness to our policyholders. Other features will allow us to better determine who is available to take a call and provide capabilities that will allow for remote use of our phone system.

Along with planning for the new phone system, we reviewed our local, long distance, and Internet services. We were able to bundle these services in order to take advantage of lower rates. We anticipate an expense reduction of over \$1,500 a month while reducing our exposure to phone outages and increasing our Internet capacity.

As part of our cost control efforts, we reviewed outstanding projects to reassess their value to TMLT and our policyholders. Two large projects were discontinued resulting in over \$200,000 in savings.

We also began working to reduce our dependency on the insurance system vendor for programming support. As we gain expertise in-house, we will be able to substantially reduce support fees over the next couple of years.



**RAY DEMEL**  
 Sr. Vice President  
 Chief Financial Officer

**TMLT** had an outstanding year in 2008. Our financial condition continued to improve as reflected in the accompanying summary financial data for 2008 and 2007. Our 2008 results, achieved in the face of intense marketplace competition and unprecedented turmoil in the financial markets, demonstrate the power of our operating strategy and long-term focus. We believe that continuing to execute the same strategies that produced these excellent results will benefit our policyholders. Total assets and surplus have grown to all time highs. Surplus grew to \$275 million at the end of 2008 and net income for 2008 was \$31 million compared to \$24 million for 2007. Our financial strength has afforded us the flexibility to declare a \$33 million dividend to our policyholders as they renew in 2009. We also lowered our rates in 2008 for the fifth consecutive year.

Investments in fixed maturity securities and equities comprise the largest single asset class on our balance sheet. In September 2008, unprecedented events occurred in the financial markets that affected our investment results. As a result of this turmoil in the U.S. credit markets, the overall market value of our fixed maturity securities declined in 2008. We believe that this decline in market value is temporary because we have the intent and the ability to hold the securities to maturity

and recover our cost. We do not believe that we have a material exposure to any losses in our fixed maturity securities due to subprime issues. The equity markets were extremely volatile in 2008 and this volatility has carried over into 2009. We evaluated all of our equity investments at the end of 2008 and determined that some of these investments have been “other than temporarily impaired,” meaning that they have declined

in value enough to be written down as if they had been sold. We believe that these realized and unrealized losses will not have a material impact on our financial condition. Liquid and high quality fixed maturity securities comprise our investment portfolio with more than 95% of these investments represented by investment grade securities rated A or higher as determined

by national rating agencies. Our total investment in equities at the end of 2008 represented approximately 10% of surplus.

During 2008, we purchased the building where TMLT has been headquartered for the past ten years. Purchasing the building

*“During 2008, we have sustained and increased our financial stability during difficult market conditions through responsible pricing and loss reserving practices and through conservative investment practices.”*



will allow us to have the needed space in the future for additional growth as well as afford us the advantage of controlling future rent increases. With a reduction of quality investment opportunities in 2008, the building purchase was a sound alternative investment for TMLT.

We also took the opportunity to commute a portion of our reinsurance coverage attributable to the continued favorable results of Texas tort reform. Commuting reinsurance relieves the reinsurers from their obligation for future claim reimbursement to TMLT in return for a partial refund of premium to TMLT. Taking on this additional risk shows how confident we are in the results of tort reform and how confident we are in the financial strength of TMLT to weather any unforeseen uncertainties.

The decline in written premiums for 2008 was primarily the result of rate reductions based on diminishing claim trends and competitive pressures. These rate reductions are partially offset by our strong retention ratio of 92.6%. Throughout 2008 we experienced better than expected loss trends which had a favorable impact on current year earnings. Even with this favorable loss reserve

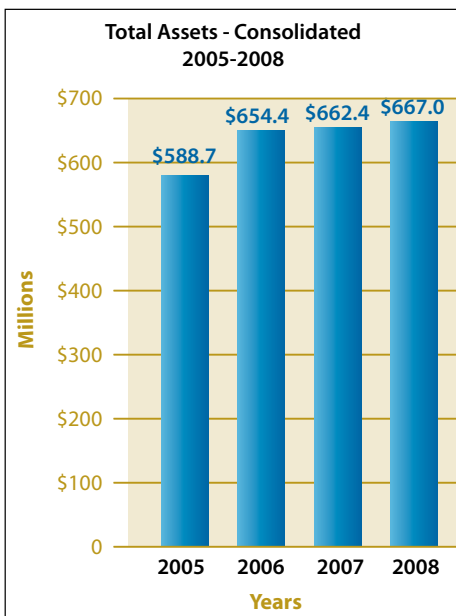
*“Our financial strength has afforded us the flexibility to declare a \$33 million dividend to our policyholders as they renew in 2009. We also lowered our rates in 2008 for the fifth consecutive year.”*

development, we remain committed to careful reserving practices.

Investment income remained fairly stable in 2008. While our total amount of investments increased during 2008, overall interest rates declined because of market conditions. Also, a significant amount of money was withdrawn from the fixed maturity investments during the year in order to fund the purchase of the building, which also contributed to lower interest income. During the year, TMLT incurred net realized capital losses primarily owing to declines in market

values of a portion of our equity investments which were considered to be other than temporarily impaired.

During 2008, we have sustained and increased our financial stability during difficult market conditions through responsible pricing and loss reserving practices and through conservative investment practices. While premium rates have declined in recent years and reduced interest rates and the economic markets have had an impact on our earnings, we believe that 2009 will be another good year for TMLT – especially if the current claim trends and premium pricing remain stable. As mentioned above, our year-end 2008 surplus was \$275 million. Maintaining a proper level of surplus is critical to the success of TMLT as surplus represents a cushion that can absorb the impact whenever liabilities increase unexpectedly or investments lose value. We are committed to maintaining prudent operating and financial results and conservatively investing our assets. We realize that our policyholders value an insurance organization with financial strength and we intend to manage our business to protect that financial strength and security.



## Condensed Consolidated Financial Information

(Unaudited, In Thousands)

	December 31	
	2008	2007
<b>Financial Highlights</b>		
Total Assets	\$666,974	\$662,384
Reserve for Losses	267,044	257,348
Direct Premiums Written	168,851	175,968
Policyholders' Surplus	275,075	254,042
<b>Balance Sheets</b>		
<b>Assets</b>		
Fixed Maturity Securities	\$398,702	\$404,672
Equity Securities	29,443	49,144
Cash and Short-Term Investments	43,487	45,542
Premiums Receivable	50,536	57,063
Reinsurance Receivable	61,200	49,824
Other Assets	83,606	56,139
<b>Total Assets</b>	<b>\$666,974</b>	<b>\$662,384</b>
<b>Liabilities</b>		
Reserve For Losses	\$267,044	\$257,348
Unearned Premiums	78,706	83,222
Policyholder Dividends Payable	32,949	33,982
Other Liabilities	13,200	33,790
<b>Total Liabilities</b>	<b>391,899</b>	<b>408,342</b>
<b>Policyholders' Surplus</b>	<b>275,075</b>	<b>254,042</b>
<b>Total Liabilities and Policyholders' Surplus</b>	<b>\$666,974</b>	<b>\$662,384</b>
<b>Income Statements</b>		
<i>Year Ended December 31</i>		
	<b>2008</b>	<b>2007</b>
Net Premiums Earned	\$162,609	\$137,356
Net Investment Income	19,549	19,524
Realized Gain (Loss) on Investments	(9,529)	7,826
Other	1,665	34
<b>Total Revenue</b>	<b>174,294</b>	<b>164,740</b>
Loss and Loss Adjustment Expenses	60,955	66,041
Policyholder Dividends	34,118	35,127
Other Operating Expenses	34,848	32,227
<b>Total Expenses</b>	<b>129,921</b>	<b>133,395</b>
Income Before Income Tax	44,373	31,345
Income Tax Expense	13,316	7,140
<b>Net Income</b>	<b>\$31,057</b>	<b>\$24,205</b>

The foregoing unaudited condensed consolidated financial information has been derived from the audited consolidated financial statements. These statements are available upon request.



**From the entire TMLT staff**

***Thank you for 30 wonderful years!***

