THE UNIVERSITY *of* TEXAS SYSTEM

Nine Universities. Six Health Institutions. Unlimited Possibilities.

2011 ANNUAL REPORT

PROFESSIONAL MEDICAL LIABILITY BENEFIT PLAN

SEPTEMBER 1, 2010 – AUGUST 31, 2011

For several years the UT System Board of Regents and the Medical Liability Management Committee's primary goal for the University of Texas Professional Medical Liability Benefit Plan (Plan) has been stability without overfunding. Even with settlement pay outs almost doubling in fiscal year 2011 over last year and with significant premium reductions that reduced Plan revenues, this goal has now largely been accomplished. Continued careful attention, however, is warranted in a volatile economic environment. Actuarial review has determined that the Plan remains solidly funded for the upcoming year to defend health care claims against UT physicians even while returning $24 million to the contributing institutions (and $4 million for patient safety efforts) in FY 2011 and simultaneously reducing premiums. As a result of the balancing efforts, the market value of the fund declined by 15.5% percent from last year. In the past five years alone, the returns and rate changes have been:

	Return	Rate Change
2011	$28.0 million	-35%
2010	$27.0 million	-10%
2009	$12.5 million	-5%
2008	$38.625 million	-40%
2007	$30.0 million	0%

In addition to fund management activities, the year was notable for stability in terms of the numbers of insured and number of new claims. In addition to 10,552 faculty, residents, and fellows, the Plan provided coverage to 170 third and fourth year medical students in out of state externships with California and New York being the primary destination for externships. Despite a stable number of insureds, defense costs for claims, lawsuits and Medical Board defense declined slightly as did administrative costs. In FY 2011 the number of new lawsuits declined by approximately 50%, but pre-suit management of claims resulted in settlement of 14 pre-suit matters for $769,915. Lawsuits resulted in settlements for $1,094,786 this past year. The University of Texas Health Science Center at Houston again topped the list of total amounts paid out with $674,786 paid in settlement while matters from the University of Texas Medical Branch at Galveston cost $532,915 in settlement. Early evaluation and assessment of claims is a continuing focus of claims management. Although the availability of premium data for commercial carriers is limited, the Plan average annual premium of $1,872 remains significantly below the average rates of commercial carriers which are in the neighborhood of $18,000 annually.

In fiscal year 2011, the Plan defended and closed 81 Texas Medical Board disciplinary matters for UT physicians with almost 38% being dismissed in the initial response stage and 96% being ultimately dismissed without disciplinary order. Only four matters proceeded to a hearing panel; none proceeded beyond an informal hearing. The Plan assisted in two licensing matters. The Plan received 57 new actions to defend before the Texas Medical Board on behalf of UT physicians this year. Overall costs of defending Texas Medical Board matters were $135,772 for FY 2011.

The Plan requires five hours of risk management education per year for each person covered under the Plan. This requirement can be met through a variety of means, including on-line education that is available through the Plan. In FY 2011, 2,557 physicians participated in on-line risk management education by completing 18,593 risk management courses the Plan offered.

FY 2011 has been a good year for the Plan but as market place volatility continues, the Plan Management Committee will be challenged to keep premium rates low without a rate increase while maintaining adequate assets to manage claims and lawsuits against UT physicians. Eight years of experience has shown that tort reform has been effective in reducing pay outs and defense costs. UT's increasing efforts in patient safety and quality initiatives should also result in more satisfied patients with fewer justifiable reasons to file claims and lawsuits.

Barry Burgdorf, Chair
Vice Chancellor and General Counsel

Kenneth I. Shine, M.D.
Executive Vice Chancellor for Health Affairs

Scott C. Kelley
Executive Vice Chancellor for Business Affairs

Medical Liability Management Committee

FY 2011 IN SUMMARY

4,649	Faculty Covered
1,045	Fellows Covered
2,056	Residents Covered
2,802	Medical Students Covered
170	Medical Student Externships
11	New Lawsuits
78	New Claims
178	Pending Claims and Lawsuits at August 31, 2011
0	Number of Trials (successful)
81%	Cases Closed with No Plan Payment
$1,194,547	Administrative Costs
$1,079,565	Defense Costs
$1,864,701[1]	Settlement (Indemnity) Costs
$135,772	Texas Medical Board Defense Costs
$1,872	Plan Average Premium Occurrence ($500,000/$1,500,000)
$18,478	TMLT Average Premium Mature Claims-Made Rate ($500,000/$1,000,000)
$18,398	Advocate, MD Average Premium Mature Claims-Made Rate ($500,000/$1,000,000)
$8,189,717	Premiums Collected
$79,636,317	Market Value of Professional Liability Fund

[1] This amount and the amount indicated for Claim Liability Expenses in the Income Statement on page 9 differ slightly due to timing of payments.

PREMIUM COMPARISONS

Plan premium rates are significantly lower than Texas commercial insurance carriers. The chart below compares Plan rates by risk class in Harris County with two commercial carriers, Texas Medical Liability Trust (TMLT) and Advocate, MD. Although variations in risk class structures among carriers prevent a precise comparison, the chart is demonstrative of rate differences.

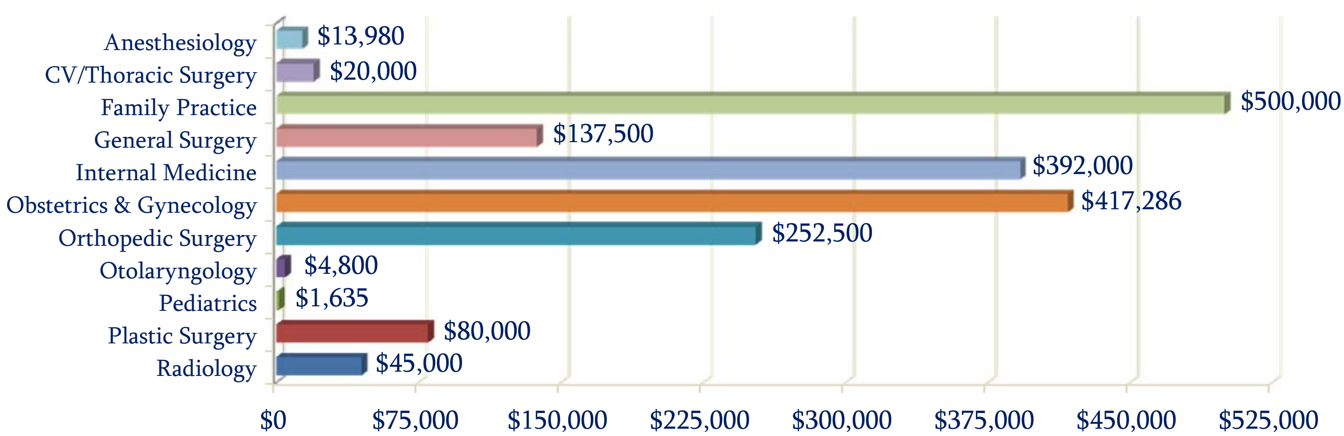
Risk Class		TMLT*	Advocate, MD**	UT Faculty Rates***
I	General Practice No Surgery	$11,294	$10,670	$528
II	General Practice Minor Surgery	$12,314	$13,641	$828
III	Emergency Medicine/Minor Surgery	$16,983	$23,755	$1,320
IV	General Surgery	$31,058	$33,617	$2,460
IV	Anesthesiology	$14,582	$15,065	$2,460
V	Gynecology Minor Surgery	$24,639	$13,641	$3,636

* Mature Claims-Made Rate ($500,000 / $1,000,000 Limits) Effective January 1, 2011
** Occurrence ($500,000 / $1,000,000 Limits) Effective November 1, 2010 (New Business) & February 1, 2011 (Renewal Business)
*** Occurrence ($500,000 / $1,500,000 Limits) Effective September 1, 2011

INDEMNITY PAYMENTS BY SPECIALTY

All UT System Institutions

September 1, 2010 – August 31, 2011

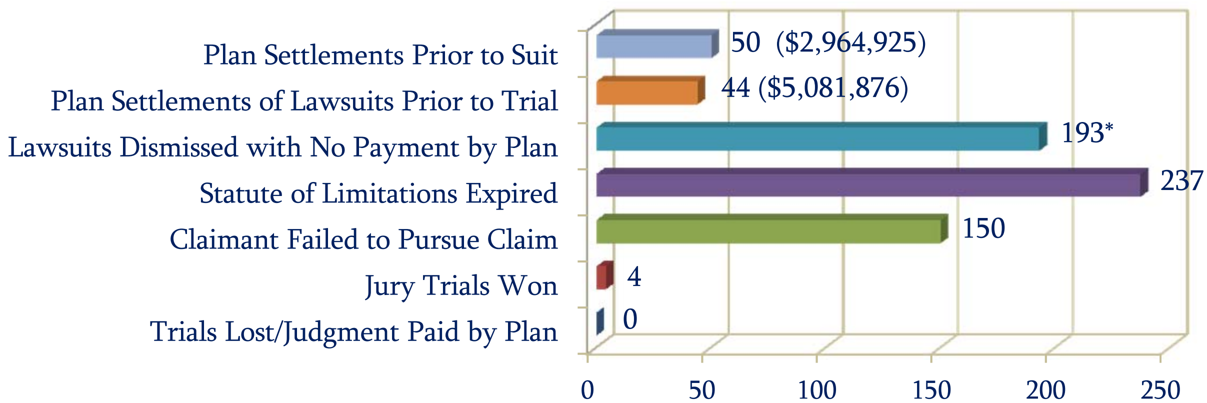


Includes payments made on behalf of both institutions and physicians

CLOSED CASES

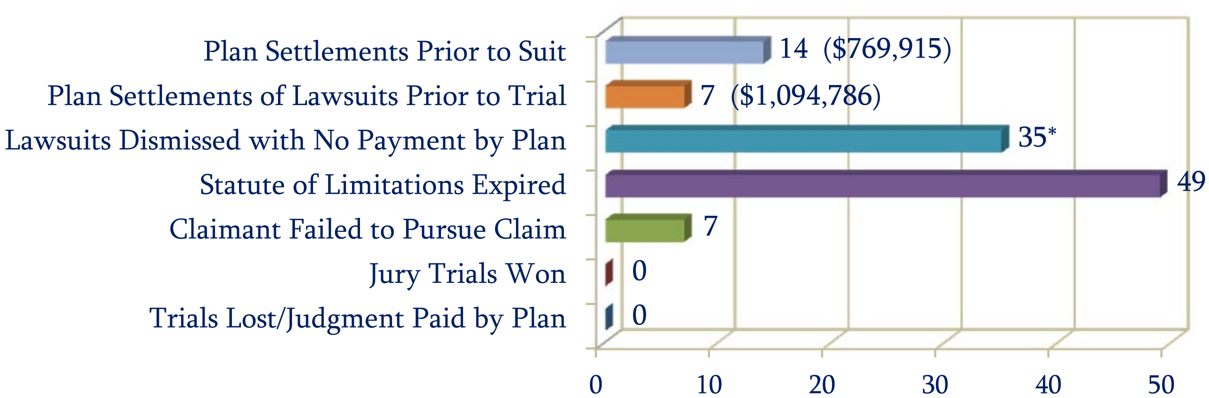
During the last five years, 678 claims and lawsuits filed against UT System physicians and institutions were closed with a total Plan contribution of $8,046,801. Eighty-six percent were closed with no payment by the Plan.

All UT System Institutions
Closed Claims & Lawsuits
September 1, 2006 – August 31, 2011



In FY 2011, 81% of the cases closed required no payment by the Plan, a seven percent decrease from last year.

All UT System Institutions
Closed Claims & Lawsuits
September 1, 2010 – August 31, 2011



*Includes Summary Judgments, Non-Suits, Dismissals, and Settlements by Codefendants at no cost to the Plan.

UT INSTITUTIONS IN SUMMARY

The University of Texas Health Science Center at Houston

	2011	2010	2009	2008
Faculty	971	921	868	770
Fellows	171	166	162	146
Residents*	377	381	373	361
Open Claims & Lawsuits	47	38	33	56
New Claims	17	21	20	15
New Lawsuits	5	6	7	4
Settlements Paid	$674,786	$393,025	$546,000	$574,937
New TMB Matters – Faculty	21	19	10	10
New TMB Matters – Residents	0	1	3	0

*Does not include UT residents on rotation at Memorial Hermann Hospital (in 2011 a total of 437)

The University of Texas Health Science Center at San Antonio

	2011	2010	2009	2008
Faculty*	869	848	809	760
Fellows*	74	85	80	57
Residents*	475	452	481	436
Open Claims & Lawsuits	30	32	29	38
New Claims	11	15	10	19
New Lawsuits	2	7	0	1
Settlements Paid	$75,000	$0.00	$0.00	$355,500
New TMB Matters – Faculty	10	9	7	10
New TMB Matters – Residents	1	1	0	1

*Does not include UT physicians at V.A. Hospital (in 2011 a total of 1 UT faculty, 159 UT residents and 33 fellows)

The University of Texas Health Science Center at Tyler

	2011	2010	2009	2008
Faculty	59	61	62	68
Fellows	1	1	0	1
Residents	32	27	25	24
Open Claims & Lawsuits	3	2	3	6
New Claims	1	2	2	2
New Lawsuits	0	0	0	0
Settlements Paid	$0.00	$0.00	$0.00	$1,618
New TMB Matters – Faculty	1	0	0	2
New TMB Matters – Residents	0	0	0	0

UT INSTITUTIONS IN SUMMARY

The University of Texas M.D. Anderson Cancer Center

	2011	2010	2009	2008
Faculty	810	787	785	767
Fellows	347	346	365	325
Residents	3	2	1	3
Open Claims & Lawsuits	14	17	17	26
New Claims	8	12	14	15
New Lawsuits	0	2	0	2
Settlements Paid	$352,000	$350,000	$310,604	$293,497
New TMB Matters – Faculty	10	9	8	5
New TMB Matters – Residents	0	0	0	0

The University of Texas Medical Branch at Galveston

	2011	2010	2009	2008
Faculty	529	533	640	651
Fellows	58	71	66	103
Residents	491	463	443	612
Open Claims & Lawsuits	32	36	42	51
New Claims	16	11	13	17
New Lawsuits	2	5	3	5
Settlements Paid	$532,915	$50,000	$15,750	$770,000
New TMB Matters – Faculty	2	9	8	19
New TMB Matters – Residents	2	1	1	6

The University of Texas Southwestern Medical Center

	2011	2010	2009	2008
Faculty*	1,379	1,345	1,236	1,125
Fellows	391	386	353	352
Residents*	678	694	650	643
Open Claims & Lawsuits	50	39	52	87
New Claims	25	22	26	28
New Lawsuits	2	4	6	14
Settlements Paid	$230,000	$172,624	$29,000	$91,000
New TMB Matters – Faculty	10	14	10	10
New TMB Matters – Residents	1	1	1	3

*Does not include UT physicians at Parkland Hospital (in 2011 a total of 3 UT faculty physicians and 295 UT residents)

The University of Texas at Austin

	2011	2010	2009	2008
Faculty	28	28*	27*	28
Fellows	0	0*	0*	0
Residents	0	0	0	0
Open Claims & Lawsuits	2	2	1	1
New Claims	0	1	1	0
New Lawsuits	0	0	0	0
Settlements Paid	$0.00	$0.00	$0.00	$77,766
New TMB Matters – Faculty	0	0	0	0
New TMB Matters – Residents	0	0	0	0

*Adjusted from previous years due to an error in reporting the number of fellows for 2009 and 2010.

FINANCIAL STATEMENTS

Balance Sheet

	8/31/2011	8/31/2010
Assets		
Operating Cash	$ 1,797,203	$ 2,289,060
Investments	77,438,976	91,729,701
Accounts Receivable	400,138	241,282
Total Assets	$ 79,636,317	$ 94,260,043
Liabilities		
Accounts Payable	3,600	91,422
IBNR	16,454,961	19,409,054
Total Liabilities	16,458,561	19,500,476
Net Assets	63,177,756	74,759,566
Total Liabilities and Net Assets	$ 79,636,317	$ 94,260,043

Income Statement

	8/31/2011	8/31/2010
Revenue		
Premium Income	$ 8,189,717	$ 12,247,178
Investment Income	2,677,208	3,018,784
Total Revenue	10,866,925	15,265,963
Less Premium Refund	(24,000,000)	(23,000,000)
Net Revenue	(13,133,075)	(7,734,037)
Expenses		
Legal Expenses	1,079,565	1,310,739
Claim Liability Expenses	2,053,034	1,210,649
Medical Board Expenses	135,772	141,762
Administrative Expenses	1,194,547	1,362,739
Other Expenses	16,216	24,240
Total Expenses	4,479,134	4,050,128
Change in IBNR	(2,954,093)	(4,532,394)
Net Expenses	1,525,041	(482,266)
Excess Revenue Over Expenses	(14,658,117)	(7,251,772)
Other Changes in Net Assets		
Investments Market Value Increase (Decrease)	7,076,306	7,321,454
Transfer to special funds	(4,000,000)	(4,000,000)
Total Other Changes	3,076,306	3,321,454
Change in Net Assets	(11,581,810)	(3,930,318)
Beginning Net Assets	74,759,566	78,689,884
Ending Net Assets	$ 63,177,756	$ 74,759,566