



Newsletter

**Texas Alliance
Insurance Trust**

March, 2009

Insurance Trust

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Texas Alliance Trust Members Average 39% Savings in Workers' Comp Premiums Before Dividends

Texas Alliance Members participating in the group self-insurance trust have realized on average a 39% reduction in workers' compensation insurance rates and premiums as a result of joining the plan. This reduction in cost is before payment of dividend returns which total more than \$1.3 million in additional savings in the first four years of opera-

tion. "We have effectively reduced the total net cost of workers' compensation insurance for the members in the Trust by about 50%", said Bob McDowell, Secretary of the Board of Trustees, "and it's important to point out that the savings are growing every year. This great result speaks to the excellent safety record of our group."

<u>Member</u>	<u>Before</u>	<u>After</u>	<u>Savings</u>	<u>% Savings</u>
A	1,710,382	722,071	988,311	58%
B	1,092,122	624,064	468,058	43%
C	757,574	509,376	248,198	33%
D	746,826	502,648	244,178	33%
E	668,638	355,494	313,144	47%
F	353,558	196,520	157,038	44%
G	352,148	292,121	60,027	17%
H	335,114	267,880	67,234	20%
I	269,026	161,283	107,743	40%
J	241,875	203,598	38,277	16%
K	211,531	145,527	66,004	31%
L	160,587	134,712	25,875	16%
M	157,730	95,514	62,216	39%
N	118,345	85,146	33,199	28%
O	104,897	67,330	37,567	36%
All Others	337,921	260,575	77,346	23%
Total	7,618,274	4,623,859	2,994,415	39%

Board of Trustees

Johnny Walker, Chairman
J.H. Walker Trucking, Inc.

Bob McDowell, Secretary
W.M. Dewey & Son, Inc.

Warren Ayres
Eagle Oil & Gas

Steven Boyd
Sun Coast Resources, Inc.

J.J. Isbell
Texas TransEastern, Inc.

Mike Elyea
Burk Royalty

Russell Jurk
Bobby Lehman Trucking, Inc.

TA Trust Dividends Exceed \$1.3 Million

Texas Alliance Insurance Trust Earned Premium, Dividends, and Management Reserves at 12-31-2008					
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>Total</u>
Gross Premium Earned	4,890,130	4,666,688	3,568,322	1,282,291	14,407,431
Declared Dividends	609,133	243,143	482,821	29,715	1,364,811
Average Dividend	12.5%	5.2%	13.5%	2.3%	9.5%
Reserves Held For Future Loss Development	402,642	133,005	208,603	76,307	820,558

Board Confirms Payment of 100% of Earnings to Members as Policy Holder Dividends

The Texas Alliance Insurance Trust Board of Trustees at its quarterly meeting in Houston, Texas in February, 2009 reaffirmed that all earnings will be paid back to policyholders as dividends. The Board declared all earnings for the 2008 year as policyholder dividends.

“The Board has taken definitive action to make the Trust’s priorities clear”, said Steve Clark who is CEO of the company that serves as Administrator of the TAEP Trust, Montlake Holdings LLC. “We’re here to produce a sustainable competitive advantage in the cost of workers’ compensation insurance for our members. We are paying 100% of earnings back to members in dividends.”

Participation in the financial results of the Trust is defined by the terms of the Indemnity & Trust Agreement. This agreement provides that each member’s net cost of insurance is primarily driven by its own claims experience, creating a very strong incentive for each participant to control costs.

Each member pays their pro rata share of the fund’s total expenses, each member pays their own losses up to a stipulated maximum value, and each member pays their pro rata share of excess losses of members that exceed the maximum. Members with good loss experience receive greater dividends while members with adverse loss experience may pay up to 40% more than their policy premium. This approach helps to reduce the cost of risk transfer for all members and provides a strong incentive for each member to control their own claims experience.

“We are working very closely with the Trust’s actuary to make sure that we are carrying adequate claims reserves,” said Johnny Walker, Chairman of the Board of Trustees. “We are also paying the dividends out on a staggered basis to make sure we are not caught short and the dividends for each plan year will be recalculated annually until all the claims are closed to make sure all of the actual earnings are accounted for and distributed back to the members as dividends.”

“Our mission is to achieve the lowest possible workers’ compensation insurance cost for the members of the Texas Alliance Insurance Trust.”

Texas Alliance Insurance Trust Receives High Marks in Texas Insurance Department Claims Handling Audit

LaMonte Bryant, Claims Manager for Texas Alliance Insurance Trust, reported the results of the first performance-based claims management audit conducted by the Texas Department of Insurance to the Board of Trustees at the February, 2009 quarterly meeting.

In August 2008, the Texas Department of Insurance, Division of Workers' Compensation selected the Texas Alliance Insurance Trust along with 141 other self insured groups, insurance carriers and employers for the insurance carrier performance assessment required by Texas labor Code Section 402.075. The audit findings demonstrated that Texas Alliance Insurance Trust is excelling in every measure of efficiency and accuracy in claims processing including timeliness of processing medical bills, timeliness of submitting medical billing data electronically to the division, timeliness of initiating temporary income benefits, and timeliness of submitting

initial temporary income benefits data electronically to the division.

The Texas Alliance Trust had an overall score of 93.62% which placed it in the top 10 percent of the 142 participants in the audit.

LaMonte Bryant said about the audit score, "Most insurance providers would be very pleased to have gotten the score we achieved, but we are not. We fully expected to have a perfect score in this audit and we believe we should have achieved that result. We strive to be the leader in the industry in claims management service. We only do one thing and we should do it better than any other company. We have already taken steps to insure that we achieve an unbeatable score the next time we are selected for a performance audit by the Texas Insurance Department. We expect excellence of ourselves and our members deserve nothing less."

TA Insurance Trust Gains Approval of the Major Oil Companies

Texas Alliance Insurance Trust has obtained the approval of the major oil companies as an authorized insurer in Texas that satisfies their insurance requirements for contractors. This is obviously very important to our members who must know for a certainty that a Trust insurance certificate will not be bounced back by the contract administrators for the major oil companies. In addition, Texas Alliance Insurance Trust's employers' liability coverage is provided by As-

pen Insurance UK, an insurance company with an A.M. Best Rating of A (Excellent) which satisfies the underlying insurance requirements for all the insurance companies writing umbrella policies for our members.

The Aspen employers' liability coverage, in addition to the approval obtained from the major oil companies, provides assurance to our members that their insurance coverage will satisfy any contract-holder you may do business with.

"a Texas Alliance Insurance Trust certificate of insurance will not be bounced back by the major oil companies"

Aspen Insurance UK Limited

(a member of [Aspen Insurance Holdings Limited](#))

A.M.Best #: 84806 AIN #: AA1120337

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London EC3M 3BD, UNITED
KINGDOM

Phone: 44-0-20-7184-8000
Fax: 44-0-20-7184-8500
Web: www.aspen.bm



This rating is assigned to companies that have, in our opinion, an excellent ability to meet their ongoing obligations to policyholders.

Best's Ratings

Financial Strength Ratings [View Definitions](#)
Rating: **A (Excellent)**
Affiliation Code: **g (Group)**
Financial Size Category: **XV** (\$2 Billion or greater)
Outlook: **Stable**
Action: **Affirmed**
Effective Date: **December 19, 2008**

Issuer Credit Ratings [View Definitions](#)
Long-Term: **a**
Outlook: **Stable**
Action: **Affirmed**
Date: **December 19, 2008**

* *Denotes Under Review Ratings. See rating definitions.*

Benefits of Group Self Insurance

- ✓ **ELIMINATE THE FRICTIONAL COSTS** associated with the insurance company's cost of capital and profit margins.
- ✓ Use **INVESTMENT GAIN** on held funds to reduce insurance costs.
- ✓ Gain access to valued-added **CLAIMS MANAGEMENT SERVICE** tailored to your industry.
- ✓ Exert **DIRECT MANAGEMENT CONTROL** over workers' compensation costs through a Board of Trustees you elect.
- ✓ Enjoy **COMPETITIVE RATES AND PREMIUMS.**

For more information please contact Janet Elliott at 210-651-0845 or JanetE@mihco.com.

Managing the Risk of Joint & Several Liability

Texas law requires that each member of a group self-insurance fund must accept the pooled risk of the entire group of participants on a joint and several basis. The Texas Alliance Insurance Trust has carefully evaluated the potential risk of joint & several liability to its members and has taken prudent action to eliminate or mitigate the potential risks assumed by the members.

There are four principal areas of risk associated with group self insurance:

1. An exceptionally large catastrophe claim could exhaust the assets of the Texas Alliance Insurance Trust, leaving the members to make up for the shortfall.

This risk feature has been eliminated by the TAEP Trust by purchasing specific excess insurance that limits the financial risk of the members to just \$350,000 for any loss occurrence, including catastrophe claims in which many employees could be injured in a single catastrophic event. Any losses greater than \$350,000 per occurrence are transferred to very large and financially secure reinsurance companies.

2. The aggregate value of all claims retained by the Trust could exceed the loss paying capacity of the Fund, leaving the members to make up for the shortfall.

This risk feature has been mitigated by the Trust by purchasing aggregate excess insurance that limits the financial risk of the members for all claims in the aggregate to a

defined sum. Aggregate losses in excess of this stop loss are transferred to very large and financially secure reinsurance companies.

3. A member company may become insolvent and be unable to pay its financial obligations to the Trust, leaving the other members to make up the shortfall.

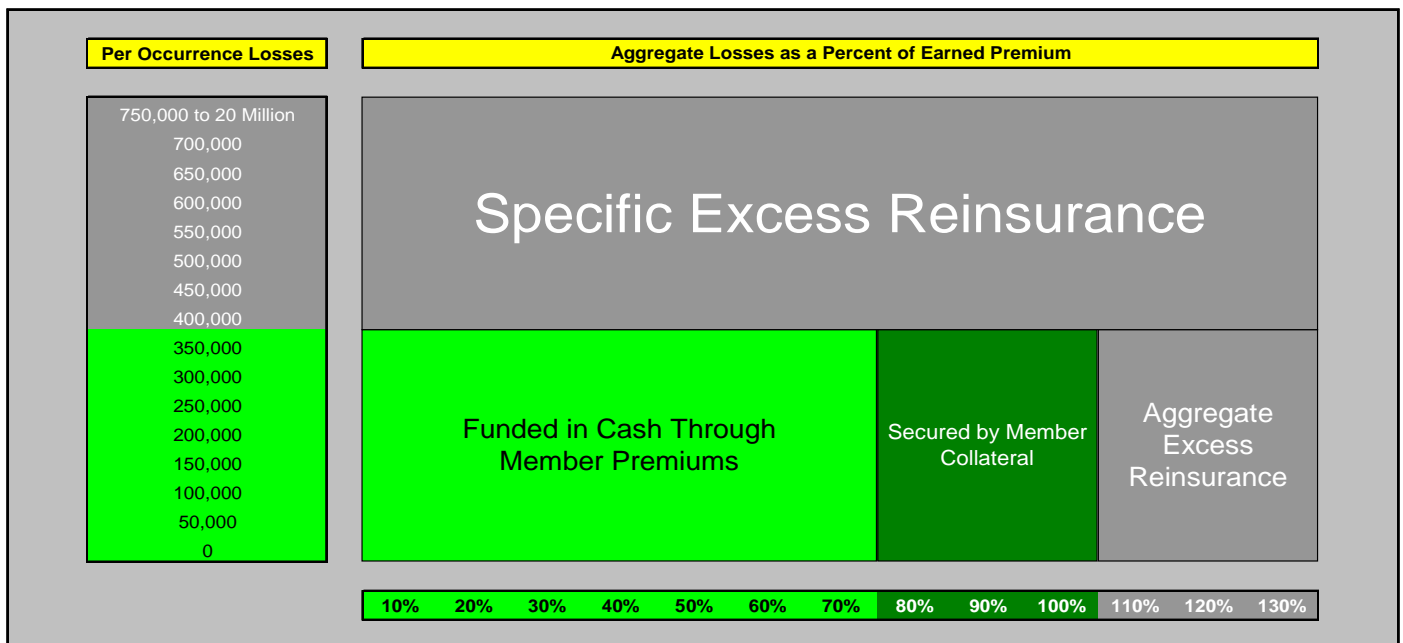
Each member's funding obligation up to the aggregate stop loss is secured in cash and Clean & Irrevocable Letters of Credit so that no member is exposed to the risk of insolvency of any other member.

4. An excess insurer of the Trust could become insolvent, leaving the members without protection from catastrophe or excess of aggregate losses.

The Trust has mitigated this risk feature by purchasing its excess insurance coverages from large and financially secure reinsurance companies. All of Texas Alliance Insurance Trust's excess insurers are A rated by A.M. Best Company and have billions of dollars in assets. Furthermore, the Trust purchases its excess coverage on a subscription basis in which the risk is spread to many financially sound carriers on a pooled basis, thereby reducing the exposure to the financial failure of any one reinsurance company.

The Texas Alliance Insurance Trust's risk transfer design provides our members with seamless protection from catastrophe losses, aggregate losses, and credit risk, thereby taking the bite out of joint and several liability.

TA Trust's Seamless Risk Transfer Design Takes the Bite Out of Joint & Several Liability



Meet Carol Nord
Administrative Manager
Texas Alliance Insurance Trust



Carol Nord is Administrative Manager for Montlake, the Administrator of the Texas Alliance Insurance Trust. Carol manages the processing of all policy-driven underwriting department transactions for our members, including policy issuance, payroll reporting, premium billings, policy management, and dividend payments. Carol joined Montlake in 2000 as an Underwriter. She was promoted to Administrative Manager in 2007. Carol and her husband Mike live in Mill Creek, Washington.