



Committee: Finance and Audit

Date Filed: November 9, 2006

Title: Commercial Professional Medical Liability Insurance Endorsement

Background:

In 2005, UNT Health Science Center (“UNTHSC”) contracted with the Tarrant County Hospital District (“TCHD”) to provide physician services in obstetrics and gynecology, psychiatry, and orthopedic surgery. These services are provided pursuant to four Professional Services Agreements (“PSAs”) that are expected to generate revenue in excess of \$32 million per year. These agreements benefit UNTHSC by providing increased revenue and clinical faculty, as well as supplying a valuable training site for current and future medical and post graduate students.

In order to meet our obligations under the PSAs, UNTHSC contracted with a majority of the providers then practicing with North Texas Affiliated Medical Group (“NTAMG”). To address their future professional liability insurance needs, the new providers were given the option to elect coverage under the UNTHSC Self Insured Plan (“Plan”) or to maintain commercial coverage under their current carrier, American Physicians Insurance Exchange (“APIE”). NTAMG’s professional liability insurance with APIE expired on January 1, 2006 at which time all but 12 of the new providers selected coverage under the Plan.

During the negotiations with the NTAMG providers, UNTHSC determined that it would be necessary to obtain insurance to cover possible future claims arising from patient care provided by the NTAMG providers prior to their affiliation with UNTHSC. However, NTAMG had insufficient resources to purchase extended reporting period coverage for their providers. In addition, UNTHSC’s Plan cannot by law provide coverage for prior acts. As such, and as a part of the consideration of the NTAMG providers becoming UNTHSC employees, UNTHSC elected to purchase extended report period coverage from APIE.

The actuary for the Plan reviewed NTAMG’s medical malpractice loss history and developed an actuarially sound program that would enable UNTHSC to create an investment account in the Self Insured Fund to finance the extended reporting period or “tail” coverage with APIE in consideration for the NTAMG providers agreeing to work for UNTHSC. This program protects UNTHSC by ensuring that any future claims involving patient care provided by the NTAMG providers prior to January 1, 2006 will be covered by APIE. Furthermore, NTAMG providers were required to agree in their faculty contracts that this contractual consideration in the form of additional coverage would be repaid if their employment with the University ended before their individual tail debt was retired.

UNTHSC initially elected to purchase a one-year tail (January 1, 2006 - December 31, 2006) for \$865,016. In order to further protect the interests of the UNTHSC, an unlimited extended reporting period for those physicians can be acquired for an additional \$702,043. This amount could change depending on the number of providers who elect coverage, and as a consequence,

UNTHSC seeks approval to expend an amount not to exceed \$710,000 to obtain the endorsement.

There are sufficient and unencumbered reserves to complete this transaction from the UNTHSC Self Insured Plan. However, given that the total of the two payments is in excess of \$1 Million, Board of Regents approval is required before coverage for the unlimited extended reporting period can be acquired.

Financial Analysis/History:

The UNT Health Science Center has provided the following information:

Based on the most recent actuarial study, the UNTHSC Self Insurance Plan is sufficiently funded for known claims as of August 31, 2006. The Plan currently has \$3,653,319 in restricted use assets (for claim defense costs and potential indemnity payments) and has projected liabilities of \$1,646,258. Additionally, their actuary recommends that an additional \$931,805 be reserved for unexpected claims development and any eventual plan shut-down expenses (i.e., UNTHSC goes back to commercial coverage and closes the Plan). Based on these figures, the Plan has fully funded its known liabilities, has set funding aside for contingencies, and has \$1,075,256 in additional funds. UNTHSC expects to use \$702,043 of these additional funds to purchase an unlimited extended reporting endorsement for the former NTAMG physicians who are now UNTHSC faculty and have those faculty members repay this debt through higher monthly professional liability premiums. Former NTAMG physicians have retired \$387,431 of the initial "loan" that was made on their behalf in January 2006.

This Plan has been reviewed and approved by the independent actuary (Fred White & Associates) who reviews the UNTHSC Self Insurance Plan on an annual basis. His approval of this "loan" concept is shown in the attached letter.

Vice Chancellor for Finance

Legal Review:

This board item has been reviewed by the Office of General Counsel.

Vice Chancellor/General Counsel

Schedule: Prior to January 31, 2007

Recommendation:

Authorize UNTHSC to covert the one-year extended reporting endorsement with APIE to an indefinite reporting endorsement with APIE for an amount not to exceed \$710,000.

Submitted By: Marc B. Hahn, Senior Vice President for Clinical Affairs & Dean, TCOM

President

Chancellor

Attachments Filed Electronically:

1. White Risk Management Letter, dated September 2, 2005
2. White Risk Management Letter, dated October 24, 2006



Title: Commercial Professional Medical Liability Insurance Endorsement

Board of Regents Order 2006-70

At an official meeting of the Board of Regents of the University of North Texas System properly posted and held on November 30, 2006, pursuant to a motion made by Regent Craft and seconded by Regent Pettit, the Board approved the motion presented below:

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Whereas, the University of North Texas Health Science Center at Fort Worth has entered into professional service agreements with the Tarrant County Hospital District (“TCHD”) to provide physician services in community medicine, internal medicine, orthopedic surgery, podiatry, psychiatry, and obstetrics and gynecology, and

Whereas, the University of North Texas Health Science Center at Fort Worth had the business necessity to hire the majority of the physicians formerly associated with the now dissolved North Texas Affiliated Medical Group (“NTAMG”) and these newly hired physicians’ former employer lacked sufficient resources to fund a commercial extended reporting endorsement for their professional liability insurance, and

Whereas, as part of the consideration for employment of the former NTAMG physicians, the University of North Texas Health Science Center at Fort Worth created an actuarially sound investment program that funded a one-year commercial extended reporting endorsement on behalf of these newly hired physicians, and

Whereas, the University of North Texas Health Science Center at Fort Worth now desires to use the same actuarially sound investment program to covert this one-year commercial extended reporting endorsement to an indefinite extended reporting endorsement on behalf of these newly hired physicians,

Now, Therefore, The Board of Regents authorizes and approves the following:

1. The University of North Texas Health Science Center at Fort Worth to convert its existing commercial one-year extended reporting endorsement for professional liability insurance to an indefinite extended reporting endorsement for professional liability insurance with American Physicians Insurance Exchange in an amount not to exceed \$710,000.

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| VOTE: 6 ayes 0 nays 0 abstentions

| **BOARD ACTION:** This item was approved, as presented.

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Attested By:

Approved By:

| Jana Dean, Secretary
Board of Regents

Gayle Strange, Vice Chairman
Board of Regents

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