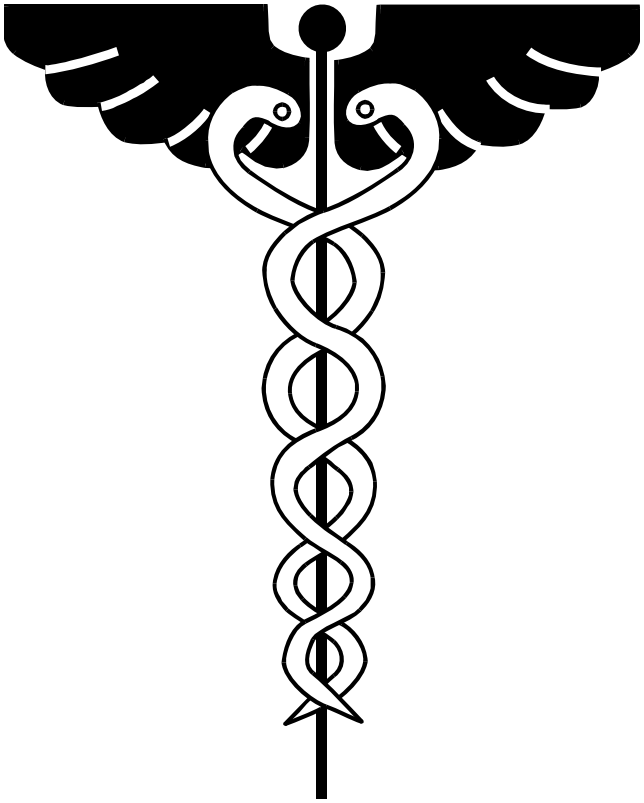
NEBRASKA HOSPITAL-MEDICAL LIABILITY FUND
("Excess Fund")

ANNUAL REPORT



AS OF

DECEMBER 31, 2004

EXCESS FUND COVERAGE LEVELS

The Act requires health care providers to submit proof of financial responsibility in the form of an underlying professional liability policy with specified coverage limits. When established in 1976, these limits were $100,000/300,000 for physicians or nurse anesthetists and $100,000/1,000,000 for hospitals. The Act also established a cap on the amount a plaintiff could recover from a qualified health care provider of $500,000. These amounts have been increased in subsequent years in response to general inflation, medical cost inflation and claims inflation. The following table identifies these changes:

Effective Date	**Legislative Bill**	**Required Limits (per incident / annual aggregate / hospital annual aggregate)**	**Cap**
7/8/1976	Original	$100,000 / $300,000 / $1,000,000	$500,000
1/1/1985	LB 692	$100,000 / $300,000 / $1,000,000	$1,000,000
1/1/1987	LB 1005	$200,000 / $600,000 / $1,000,000	$1,000,000
1/1/1993	LB 1006	$200,000 / $600,000 / $1,000,000	$1,250,000
1/1/2004	LB 146	$200,000 / $600,000 / $1,000,000	$1,750,000
1/2/2005*	LB 998	$500,000 / $1,000,000 / $3,000,000	$1,750,000

* LB 998 involves a unique provision that applies the required underlying limits effective whenever a qualifying health care provider renews coverage or first becomes qualified. This avoids the need for mid-term policy adjustments.

THE HISTORY OF SURCHARGE LEVELS

The Act became effective in 1976. As originally written, the Act placed a limit of $5,000,000 on the assets of the Excess Fund (without allowing any offset for its liabilities). Given incident-to-report and report-to-payment lag times that are each customarily a few years, it was reasonable expect the Excess Fund's assets to grow as very few, if any, claims would be paid in the early years of the Fund's existence. (In fact, the first claim was not paid until 1984, during which 6 claims were paid – perhaps a bit of "catching up" at the time.) As the $5,000,000 limit approached, the surcharge for 1981 was reduced. A further reduction of the surcharge to a token 1% value was made for 1982 as the amount in the Excess Fund exceeded the maximum assets that the Fund was intended to have.

LB 692 passed during the 1984 Legislature modified this provision to allow for consideration of future claim costs. Following that and subsequent to an actuarial study conducted in 1984, the surcharge was raised to 50% for all categories effective January 1, 1985. This amount was reduced in succeeding years as experience was favorable and the total assets of the Excess Fund increased. This practice was reversed starting with January 1, 2001 as it became apparent that losses were increasing significantly and past loss reserves were developing upward. The current surcharge is 50%, the maximum allowed by the Act.

Hospital Surcharge	Time Period	Surcharge for Physicians & Others
15%	Original	50%
10%	1-1-81	25%
1%	1-1-82 - 12-31-84	1%
50%	1-1-85 - 12-31-87	50%
50%	1-1-88	45%
45%	1-1-89	45%
40%	1-1-90	40%
35%	1-1-91	35%
40%	1-1-92 - 12-31-93	40%
30%	1-1-94 - 12-31-94	30%
15%	1-1-95 - 12-31-95	30%
10%	1-1-96 - 12-31-96	10%
5%	1-1-97 - 12-31-00	5%
20%	1-1-01 - 12-31-01	20%
35%	1-1-02 - 12-31-02	35%
50%	1-1-03 – Current	50%

Financial Status of the Excess Fund as of December 31, 2004

Balance January 1, 2004	$57,052,261
Excess Fund Surcharges (net refunds)	10,796,758
Residual Premiums (net refunds)	622,226
Interest/Dividends Earned	1,780,516
Investment Gain (Loss) less Investment Expense	(541,741
Claims Payments during 2004	(11,142,384)
Claims Expenses during 2004	(163,141)
General Expenses during 2004	(294,726)
Balance December 31, 2004	$58,109,769

Liabilities of the Excess Fund

While this report presents the financial condition of the Excess Fund as of 12/31/2004, the actual date that this report is being written and released is in early October 2005. This late release date allowed this report the benefit of substantial 20-20 hindsight. This hindsight results in loss reserve estimates as of 12/31/2004 that are significantly different (lower) than they would have been if they would have been determined in the first few weeks of January.

In spite of this late publication date, the aggregate liabilities of the Excess Fund as of 12/31/2004 remain subject to significant uncertainties. Many of these sources of uncertainty are the same as those faced by insurers of medical professional liability – the long time to settlement and the uncertain outcome of cases. For the Excess Fund, the relatively small number of cases paid each year increases variability for purely statistical reasons. The Excess Fund has also faced uncertainties based on attempts to change the Excess Fund's coverage through litigation. And finally, since the second half of 2002, the Excess Fund has been involved with a multiple-defendant action involving Hepatitis "C" and a Fremont oncology clinic. The uncertainty in loss reserves attributable to the Hepatitis "C" cases is now largely gone due to the late release date of this report. Some of these cases were settled in 2004 and a large number of them were settled in early 2005, which has taken a great deal of the guesswork out of estimating loss reserves for the year ending 12/31/2004.

The Department's casualty actuary, Alan Wickman, has estimated unpaid losses and unpaid loss adjustment expenses on a following-form basis, undiscounted for prospective investment income, of $45MM as of 12/31/2004. Unearned premiums and surcharges as of 12/31/2003 are approximately $6MM. The reader will note that this aggregate liability of approximately $51MM is substantially less than the aggregate liability of $60MM estimated as of 12/31/2003. It is also $7MM less than the assets of the Excess Fund as of the same date, which provides the Excess Fund with a necessary safeguard against adverse development of loss reserves. While the development of loss reserves from 12/31/2003 to 12/31/2004 was exceptionally favorable, this should be viewed as an unusual one-time occurrence. With current hindsight, it can be seen that Excess Fund reserves established in the late 1990s were below what they should have been, and that the large cushion that the Fund appeared to have during that period of time was necessary (or illusory, depending on how you view it).

The dramatic reduction in liabilities primarily arose from closure of a significantly larger than expected number of open claims with excess reserves of some nature. The loss exhibit shown on the page 7 of this report is the same as the exhibit contained in the 2003 report, except that the data for the complete year of 2004 has now been added.

The following table (shown vertically instead of horizontally) shows similar information (and excludes the Hepatitis "C" cases as well), except that the first column of data shows the average results for 5 previous years (as a baseline); the second data column shows the results through 9/30/2004 as if it was an entire year, and the third data column shows the period from 10/1/2005 through 8/15/2005 as if it was an entire year:

"Year"	Average 5 prior years	1/1/2004 – 9/30/2004	10/1/2004 – 8/15/2005
Unpaid claim counts – start of year	n/a	160.18	163
New claim counts reported	55.6	37	58
Development of old claim counts	-14.6	-20	-68
Net claim counts incurred	41	17	-10
Number of claims paid	23.164	15.18	19
Claim counts unpaid – end of year	n/a	163	134
Unpaid claim $$ -- start of year	n/a	$45,515,000	$46,025,001
$$ for new claims reported this year	$15,629,238	$10,540,001	$16,165,000
Development of old claim reserves	-$1,128,806	-$3,268,311	-$11,989,537
Net $$ incurred	$14,500,432	$7,271,690	$4,175,463
Claims paid	$8,782,432	$6,761,689	$7,910,463
Claim $$ unpaid end of year	n/a	$46,025,001	$42,290,001

These numbers are not easy to understand. First, one needs to understand what they mean. In this regard, one should first look to the explanations following the larger table. Next, it takes an understanding of the reserving and payment process to understand how things work, what looks "normal", and what is unusual.

The process first involves the establishment of reserves on new claims when information has been provided by the plaintiff's attorney about the nature of the alleged injury (but this has not truly been verified) and we know little about the defenses that may be available to the health care providers. Thus, it is common for these early reserves to be established showing exposure to the Excess Fund when, in fact, subsequent development of the case shows that a good defense is available for a large number of the cases. As such, it is reasonable to expect that subsequent development of the case reserves will show a lot of dropouts. It is relatively uncommon for a case without previously identified excess potential to develop into a case where an Excess Fund payment occurs.

The ¾ year in 2004 looked fairly typical in comparison to prior years. The new claim counts reported and the number and amount of claims paid were just about what one would expect from looking at the prior 5 years. The downward development of prior claim count was somewhat larger than the 5-year average, but there were actuarial reasons to expect this. (As a larger number of excess claims had been opened in recent years, it was reasonable to expect that a relatively larger number of cases would start to "drop out" after a few years.) The net dollars incurred were down slightly, and the development of old claim reserves was also down slightly, but certainly not enough to grab one's attention.

The partial year that followed, however, was remarkable. The new claims reported and the claims paid were very consistent with results of the prior 5+ years, so it's not like the Fund is seeing any major changes there. But the old claim count developed downward by 68 claims, when an expected value based on the pattern in preceding years would be more like 20 claims downward. The total downward development in claim dollars was almost $12MM, when $2MM or $3MM might have been the expected downward development. The total unpaid losses (reported case-basis reserves) were *down* about $4MM, when the average in previous years would have led one to look for this to be *up* $5MM or $6MM. On balance, things were in the ballpark of $10MM less than one would have expected, and this had implications for future development as well.

For this reason, the total loss reserves against the Excess Fund as of 12/31/2004 (mostly on account of development that manifested itself after that date) are down $10MM from those previously established as of 12/31/2003. Total reserves are down $9MM (as unearned premium reserves are somewhat higher).

SYNOPSIS OF RECEIPTS AND HEALTH CARE PROVIDERS PARTICIPATING UNDER THE NEBRASKA HOSPITAL-MEDICAL LIABILITY ACT

Excess Fund

	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2004
Physicians	2,878	2,966	3,107	3,675	3,712
Hospitals	69	75	85	94	101
CRNA	183	171	193	215	234
D.O.	42	47	48	51	71
Total	3,172	3,259	3,259	4,059	4,118
Excess Fund Surcharge Collected	$889,202	$3,683,419	$5,901,357	$9,354,126	$10,796,758

Residual Fund

	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2004
Physicians	1	8	22	21	17
Hospitals	0	0	1	0	0
CRNA	0	0	0	3	2
O.D.	0	0	0	0	0
Total	1	8	23	24	19
Premium Collected	$12,233	$169,995	$542,876	$687,426	$622,226

Note that the allocation of total collections between Excess Fund surcharges and Residual Fund premiums collected for 2003 represents a corrected reallocation for that year. As such, while the total receipts of the Fund are consistent between this year's report and last year's, the Residual Fund receipts shown for 2003 are higher in this report than they were in last year's report.

CLAIMS MADE AGAINST THE EXCESS AND RESIDUAL FUND

(see notes on the following pages)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Year	Unpaid Claim Counts -- Start of Year	New Claim Counts Reported	Development of Old Claim Counts	Net Claim Counts Incurred	Number of Claims Paid	Claim Counts Unpaid -- End of Year	Unpaid Claim $$$ -- Start of Year	$$$'s for New Claims Reported this Year	Development of Old Claim Reserves	Net $$$'s Incurred	Claims Paid	Claim $$$'s Unpaid End of Year
1976	0.00	0.00	0.00	0.00	0.00	0.00	0	0	0	0	0	0
1977	0.00	0.00	0.00	0.00	0.00	0.00	0	0	0	0	0	0
1978	0.00	0.00	0.00	0.00	0.00	0.00	0	0	0	0	0	0
1979	0.00	0.00	0.00	0.00	0.00	0.00	0	0	0	0	0	0
1980	0.00	2.00	0.00	2.00	0.00	2.00	0	305,000	0	305,000	0	305,000
1981	2.00	2.00	0.00	2.00	0.00	4.00	305,000	265,000	0	265,000	0	570,000
1982	4.00	3.00	0.00	3.00	0.00	7.00	570,000	625,000	0	625,000	0	1,195,000
1983	7.00	8.00	0.00	8.00	0.00	15.00	1,195,000	2,389,500	0	2,389,500	0	3,584,500
1984	15.00	12.00	0.00	12.00	6.00	21.00	3,584,500	1,865,957	0	1,865,957	1,293,231	4,157,226
1985	21.00	9.00	0.00	9.00	4.00	26.00	4,157,226	1,961,985	0	1,961,985	1,030,787	5,088,424
1986	26.00	10.00	0.00	10.00	9.00	27.00	5,088,424	2,181,887	0	2,181,887	1,840,844	5,429,467
1987	27.00	17.00	-1.00	16.00	5.00	38.00	5,429,467	2,373,161	(650,000)	1,723,161	953,117	6,199,511
1988	38.00	21.00	-6.00	15.00	6.00	47.00	6,199,511	3,075,000	181,385	3,256,385	1,460,896	7,995,000
1989	47.00	18.00	-9.00	9.00	8.00	48.00	7,995,000	2,275,000	(307,836)	1,967,164	1,867,164	8,095,000
1990	48.00	9.00	-13.00	-4.00	7.00	37.00	8,095,000	995,000	(684,931)	310,069	1,695,069	6,710,000
1991	37.00	22.00	-2.00	20.00	10.00	47.00	6,710,000	3,410,000	367,308	3,777,308	4,297,308	6,190,000
1992	47.00	39.00	-15.00	24.00	10.00	61.00	6,190,000	7,230,000	(161,903)	7,068,097	1,953,097	11,305,000
1993	61.00	34.00	-19.00	15.00	9.00	67.00	11,305,000	6,400,000	(2,653,999)	3,746,001	2,001,001	13,050,000
1994	67.00	29.00	-16.00	13.00	10.00	70.00	13,050,000	5,265,000	(3,648,459)	1,616,541	3,016,541	11,650,000
1995	70.00	27.00	-20.00	7.00	10.00	67.00	11,650,000	3,840,001	(893,221)	2,946,780	2,861,779	11,735,001
1996	67.00	32.00	-16.00	16.00	15.46	67.54	11,735,001	6,825,000	(2,116,802)	4,708,198	2,693,198	13,750,001
1997	67.54	41.00	-19.00	22.00	10.54	79.00	13,750,001	7,750,000	(450,403)	7,299,597	3,324,598	17,725,000
1998	79.00	28.00	-24.00	4.00	11.00	72.00	17,725,000	4,650,000	(2,589,572)	2,060,428	2,860,428	16,925,000
1999	72.00	52.00	-8.00	44.00	12.82	103.18	16,925,000	9,310,000	(275,178)	9,034,822	4,659,822	21,300,000
2000	103.18	66.00	-15.00	51.00	24.00	130.18	21,300,000	18,291,188	4,167,250	22,458,438	9,318,438	34,440,000
2001	130.18	45.00	-11.00	34.00	23.00	141.18	34,440,000	12,775,000	(1,155,000)	11,620,000	8,060,000	38,000,000
2002	141.18	66.00	-22.00	44.00	28.28	156.90	38,000,000	23,110,000	(3,902,600)	19,207,400	10,837,400	46,370,000
2003	156.90	48.00	-17.00	31.00	27.72	160.18	46,370,000	13,960,000	(4,478,500)	9,481,500	11,036,500	44,815,000
2004	160.18	57.00	-45.00	12.00	23.18	150.00	45,515,000	17,895,001	(6,940,348)	10,954,653	10,687,912	45,781,741

Notes to the Table showing Claims Made

This table shows Excess Fund results using undeveloped case-basis (i.e., "claims-made") reserves. It also includes Residual Fund claims. Residual claims are still a relatively minor factor, even though the number of providers covered under the Residual Fund has increased.

Most of the coverage provided by the Excess Fund follows primary coverage written on a claims-made basis. Nevertheless, the existence of "tail" and occurrence coverages means that the liabilities of the Excess Fund are greater than those expressed a claims-made basis. A small percentage of the medical professional liability coverage written by private insurers is on an occurrence basis; coverage written in the Residual Fund is on an occurrence basis, and we provide excess coverage for health care providers with "tail" coverage.

In the second half of 2003, we became aware of a situation involving Hepatitis "C" for multiple defendants arising out of an oncology clinic in Fremont. The reserves and activities for that situation are not reflected in this table. Their inclusion would skew the results. (A limited disclosure and discussion of the results of this set of claims is contained towards the end of this report.) With the exception of the Hepatitis "C" claims, no claims or payments have been omitted from this table.

The following comments explain the meaning of each of the columns in the table:

1. Year:

2. Unpaid Claim Counts – Start of Year: This column shows, according to our reserves at the start of the year shown, the number of claims for which we had established a reserve. For example, if a claim alleged chipped dental work on account of a clumsy anesthesiologist, we wouldn't show a reserve, even though we might surmise that the plaintiff will win an award. The reason is that, on an excess claim, the Excess Fund doesn't contribute anything to a settlement unless the judgment is at least $200,001 (which will be $500,001 on future claims). This column (and other columns) would include, however, a claim for the clumsy anesthesiologist if he/she was insured under the Residual Fund, because then the Fund would be obligated to pay from the first dollar.

3. New Claim Counts Reported: This column shows the number of claims reported during the year on which there was either an excess reserve at the end of the year or on which there had been a payment made during the year.

4. Development of Old Claim Counts: This column shows how the claim counts in column 2 developed during the year. This number is consistently negative, although a positive value would be perfectly valid. In practice, we get claims newly reported to us with a fairly good description by the plaintiff as to the nature of the alleged injury, but we don't have defense reports and we don't know the extent of negligence. As such, our initial reserves are often overestimates. There will be underestimates as well, but the number of overestimates will typically exceed the number of underestimates.

5. Net Claim Counts Incurred: These might be viewed as "incurred claim counts" on a "calendar year basis," which is a term familiar to those that engage in insurance accounting. It is to be distinguished from being on an "occurrence" basis. Nothing on this table is on an "occurrence" basis. This column can be calculated by summing the numbers from columns 3 and 4.

6. Number of Claims Paid: As also shows up in columns 2 and 7, some of these values are fractional because the Fund has had claims with part of the payment in one year and the rest of the payment in another year.

7. Claim Counts Unpaid – End of Year: When figures for the next year are given, it will be seen that this is the same number as the unpaid claim counts at the start of the next year. It can be calculated by taking the prior year claim counts (column 2), adding the net claim counts incurred (column 5) and subtracting the number of claims paid (column 6).

Columns 8 through 13 are the dollar values that "mirror" the claim counts given in columns 2 through 7. Columns 4, 10 and 13 deserve a little extra explanation, however.

The column 4 and 10 values would make it appear that the Excess Fund had no loss development prior to 1987. One would get the impression that someone was very effective at establishing reserves back then. In fact, the Excess Fund didn't regularly reserve claims on a case basis until the mid-1980s. The figures from prior to that time were entered into the computer database when the database was created in the mid-1980s, but the claims were shown as being opened with case reserves exactly equal to the final settlement value. This makes it appear, prior to 1987, that we reserved claims with perfect foresight. Such was not the case. Newly opened claims were not consistently set up with reserves until December 1987.

With regard to column 13, the reader will note that the last value in this column indicates case-basis reserves of $45,781,741, while our total loss reserves (indicated in the discussion on page 3 of this report) are $45 MM. The two figures are different in a number of ways. The column 13 case-basis reserves are undeveloped (and their development is downward); the $45,781,741 figure does not include IBNR for the Excess Fund or IBNR for primary Residual policies written in recent years (that are on an occurrence basis); the case-basis reserves don't include anticipated loss adjustment expense (which is relatively small) and the $45,781,741 figure does not include any of the liabilities of the Excess Fund arising out of the Hepatitis "C" cases.

Hepatitis "C" Cases

Since the second half of 2002, the Excess Fund has been involved with a multiple-defendant action involving Hepatitis "C" and a Fremont oncology clinic. At this writing (in early October), 78 of the 91 Hepatitis "C" cases have been closed. As of 8/15/2005, a total of $5,757,190 had been spent on legal expenses and the settlement of the 78 claims. (While small amounts of legal expense have been incurred between 8/15/2005 and this writing in early October, no additional claims have been settled.) With 78 claims settled and only 13 open, the uncertainty to the Fund represented by the Hepatitis "C" claims does not warrant any special caveats. The ultimate settlement amounts for these claims are still uncertain, but this uncertainty is not anticipated to be greater than the uncertainty for other open claims.

Questions?

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