

# GRACEY-BACKER, INC.

INSURANCE  
FOUNDED 1925

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## Memorandum

**Date:** November 15, 2008

**From:** Barbara Gracey Backer, MSA, CIC  
Vice-President

**Subject:** Annual Newsletter

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This newsletter follows a meeting between the OMSNIC board and staff and the OMSNIC agents in Seattle, Washington, in conjunction with the annual meeting of AAOMS. We trust you are very pleased with your company, as it continues to dominate the market for professional liability insurance for oral and maxillofacial surgeons. **This is OMSNIC's 20<sup>th</sup> year of excellence in providing (1) comprehensive yet affordable professional liability insurance, and (2) the best possible return on preferred stock investment made by each policyholder.** We have represented many of you since 1982--26 years ago. By 1987, when OMSNIC started, 100 of you were with our agency. Now we have the great privilege of working with slightly over 300 of you, or 96% of the eligible oral surgeons in Florida.

In his comments to the OMSNIC agents, Chairman Lew Estabrooks noted that the **"soft" market for malpractice insurance—marked by declining premiums, healthy companies, and an entrenched flight to quality—is in full swing.** Even though claims severity and the cost of defense still present challenges, the frequency of claims continues to decline rather dramatically. In fact, the decrease in claims frequency more than offsets the increase in severity. No one really knows the reason for this decline. Dr. Estabrooks rejoiced in the continued growth in policyholder count, which now stands at **4,632**, or 82% of the insurance-buying members of AAOMS. He noted that there are still more new-to-practice oral surgeons than retiring ones.

### Significant Change in the Credit/Debit Program

GOOD NEWS!!! OMSNIC has announced a significant change in their credit/debit program, beginning with January 1, 2009 renewals. **The loss-free credit, currently 15%, will be increased to 20%.** Oral surgeons receiving between a 5% and a 15% credit will now receive a 10% to 20% credit (add 5%). The current 1% to 5% credits will be doubled to 2% to 10%. Approximately 65% of all oral surgeons are loss-free, so this will result in an average reduction of about 3.5%.

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When combined with the rate decrease noted next, a totally claims-free oral surgeon will see a 6.5% reduction in his premium.

### **Look for Lower Rates In Florida for 2008**

We are very pleased that OMSNIC **will reduce rates by 1.5%, effective January 1, 2009**. The new annual premiums, with the 20% loss-free credit and the 5% risk management credit are:

2008 Premiums		2009 Premiums	
<u>Entire State</u>		<u>Entire State</u>	
\$1MM/\$3MM	\$17,370	\$1MM/\$3MM	\$16,042
\$2MM/\$6MM	\$20,048	\$2MM/\$6MM	\$18,513

### **"A" Rating maintained**

*A.M. Best & Co.* has maintained OMSNIC's rating at an "A" (Excellent), an amazing feat for a small, single-specialty company.

### **Some Facts**

- (1) OMSNIC policyholder count – 4,632
- (2) Nearly 600 cases have been taken to a verdict. The company has won 94% of the time.
- (3) As of year end 2007:

Total assets	\$272,730,067
Total surplus	\$ 82,950,928
Net earned premium	\$ 68,541,522

### **More Oral Surgeons are choosing with limits of \$2,000,000/\$6,000,000**

Because of the increased severity of claims, and a reduction in the "increased limits factor" by OMSNIC, which makes higher limits more affordable, many of you are increasing your limits of liability to \$2 million per occurrence/\$6 million aggregate. Over 60% of oral surgeons in Florida now carry the higher limits. We consider this a wise move, as the severity of claims and the cost of defense continue to rise. With the higher limits, you will feel more comfortable that, if a big claims hits you, you will have the fire-power to aggressively defend it. And, because of the nature of the claims-made policy, the higher limits extend back to your retroactive date.

### **Stock Value Increase**

As an OMSNIC policyholder, stock ownership makes you an owner in the company. Every insured is required to purchase one share of common stock at the price of \$1.00 and preferred stock in an amount based on where the OMS practices and when he joins OMSNIC. The preferred stock's price

varies, based on the profitability of the company. The common stock allows the OMS to have a voice in OMSNIC. The preferred and common stocks are re-purchased at the current price when the OMS ceases to be a policyholder, with payment for the repurchase made at death or disability. If an OMS retires, he can choose to let the stock continue.

The value of your preferred stock in OMSNIC increased by 13.9% on April 1, 2008. Each share, originally valued at \$100 each, is now worth \$612.75, for a total increase of 569% since 1992. For some charter members of OMSNIC, this increase in value can be as much as 25% of their annual premium, and several long-term policyholders now have more than \$50,000 in stock. As with any stock investment, this investment accrues, tax-deferred, until you sell the stock. The value of the stock will be recalibrated on April 1, 2009.

Your stock ownership in OMSNIC is a virtual guarantee that you will never be overcharged for insurance. Any excess profit goes directly into the value of the stock.

### **Frequently Asked Questions**

We are happy to receive your calls every day asking about various aspects of your insurance program. The following are commonly-asked questions:

**Do I have to be a member of AAOMS to be eligible for insurance through OMS National Insurance Company?** Yes. Only oral and maxillofacial surgeons who are Fellows, Members, Life Members and Candidate Members in good standing or current applicants with the American Association of Oral and Maxillofacial Surgeons and who meet the underwriting standards of the Company can be approved for coverage with OMS National Insurance Company. As long as you are a Candidate Member, coverage can be approved.

**Am I eligible to receive a Risk Management Credit on my new policy?** Yes, if you have taken a course no later than 60 days after your effective date, you will receive 5% credit for two policy periods. There are several ways to receive the 5% risk management credit during the first policy year:

- Attend an OMSNIC risk management course within the last two years or within 60 days of the effective date of coverage, or
- Complete OMSNIC's on-line risk management course in the same time period, or
- Attend another approved risk management course within the past twelve months.

**How do I sign up for a Risk Management Course on line?** To access the course, refer to the following website: [dds4dds.com](http://dds4dds.com). Your "user ID" is your OMSNIC policy number. Your password is the last four digits of your social security number. The course takes from 2-3 hours to complete. Questions are offered at points throughout the course. You may pause after each section and come back later. You will know your grade right away. Passing is a grade of 80% or higher. At the same time, OMSNIC will be notified when you have successfully completed the course. The 5% credit will be applied to your policy at that time. The credit will be reflected on your next billing statement. If you do not pass, you will be given another chance.

**What kind of breaks do I receive for being a new-to-practice doctor?** OMSNIC extends a 50% new-to-practice discount off the first year base rate, a 25% new-to-practice discount off the second year

base rate, and a 10% discount off the third year base rate. In addition, a new practitioner is allowed to defer for one year the purchase of stock. At the start of your second year, you will begin receiving separate quarterly billing for your stock purchase obligation. Your stock purchase obligation continues for thirty quarters. All OMSNIC policyholders become stockholders in the company. This is an important step to ensure that the company remains under the control of the surgeons it protects.

**What about tail coverage when I permanently retire from oral surgery?** OMSNIC provides a tail policy at no additional charge to insureds that become totally disabled, to the beneficiaries of an insured who dies and to insureds that retire at any age after having been continually insured with the Company for the previous five years. If an insured has not been continuously insured by OMSNIC for five years, a 20% credit toward the purchase of tail coverage will be applied for each consecutive twelve-month period the OMS has been insured.

**Is there credit for individual claims experience?** OMSNIC has a program that provides a credit or debit to insureds based upon the paid loss experience over the most recent five-year period. The program rewards those insureds that have developed relative low paid loss amounts with a credit of up to 20% (previously 15%). To be eligible for the program, an OMS must be insured a minimum of three continuous years, and rated at an active, full-time mature rate. The risk management course can then give you an additional 5% off that premium.

**Are "Independent Contractors" covered by my corporate policy?** NO. Your corporate policies only cover your employees and then only when they are working with an OMS insured by OMSNIC. Occasionally, a dual-degreed OMS wishes to work outside of the scope of the Dental Practice Act, so he obtains insurance from a company other than OMSNIC. Your corporate policy WILL NOT even cover your corporation or your employees when they are working with that OMS.

**Does OMSNIC offer a part-time policy?** YES. The part-time policy allows an oral surgeon 55 years of age or older, to practice an average of 16 hours per week, no more than 800 hours for the year. There is a 50% discount to the base premium for the part-time policy.

**Does OMSNIC require renewal applications?** Graduating residents will need to complete a supplemental application at the time of their first renewal. All policyholders are asked to complete an underwriting update questionnaire once every three years.

### OMSNIC's Commitment to the OMS

OMSNIC is a powerful advocate and aggressive defender of your oral surgery practice. OMSNIC's strategy is to keep your practice safe and successful. The company does just that with its superior defense strategies, superior knowledge of the OMS field, and product features such as:

- New-to-Practice Discounts:
  - 50% first year
  - 25% second year
  - 10% third year
  - Loss free credits up to 20% after three years in the program and at mature premium
  - 5% credit for attendance at an OMSNIC risk management seminar

Other policy features include:

- Waiver of tail premium at any age upon five years at retirement
- Free corporation/partnership coverage
- Stock ownership
- EPL defense only coverage (for such things as wrongful hiring or dismissal, alleged sexual harassment, discrimination, etc.)
- Medicare/medicaid fraud and abuse defense only coverage
- DPR defense-only coverage
- Reduced hourly coverage such as part-time, volunteer, and consultation only coverage
- On-line risk management
- Return on investment through the preferred stock program

**Fortress Subsidiary Achieves Significant Growth**

We are very very pleased with the success of the OMSNIC subsidiary for general dentists, Fortress Insurance Company. As you probably know, Fortress came into Florida in 2002. To date, Fortress writes over 13,000 dentists in 46 states—with over \$21 million in premium. Fortress insures over 12% of the dentists in Florida. Fortress is endorsed by the 5<sup>th</sup>, 7<sup>th</sup>, 8<sup>th</sup> Dental Districts in New York, the Oklahoma Dental Association, the Connecticut State Dental Association, the Louisiana Dental Association, the Mississippi Dental Association and the Dallas Texas Dental Society.

As of September 30, 2008, the largest states for Fortress, by policy count, were:

Texas—2,707  
Oklahoma—1,351  
New York—1,278  
Florida—972  
Connecticut—926

**If you know of any general dentists in your area who would be good candidates for Fortress, please have them call us.** We are always so happy when you refer your dental friends to our office for coverage by Fortress Insurance Company. We are happy when Florida dentists are able to benefit from the same strong defense culture you as a member of OMSNIC have known for years. You, as a shareholder in OMSNIC, also benefit from the success of Fortress, your wholly-owned subsidiary.

Fortress is a separate entity from OMSNIC, with its own board of directors and employees. Fortress' claims are maintained in separate accounts and are paid from the premiums generated by Fortress. The net value of Fortress is an asset on the books of the parent company, OMSNIC. Fortress not only offers the potential of a good return on its investment by OMSNIC, but is also contributing to better dentistry in general. For example, Fortress is encouraging accurate use of referral slips for extractions. It is hoped that this step will reduce the incidence of wrongful extraction, a leading

cause of loss at OMSNIC. Another benefit of Fortress is that a common defense strategy can be employed whenever a Fortress-insured dentist is included in litigation against an OMSNIC policyholder. This “common defense” approach will be more efficient and cost-effective than a situation in which two insurance carriers are involved.

**Now may be the time to include yourself in Workers’ Compensation Insurance**

Rates have come down rather significantly for dental offices, from .74/\$100 payroll to .57/\$100 payroll. It is now much less expensive to include a corporate officer (\$718 per year) or a partner or sole proprietor (\$293 per year) in this valuable coverage, which provides medical benefits and loss of income if you are injured or become ill on the job. In addition, some health insurance plans exclude work-related injury and sickness. Please call Barbara or Ron Backer if you have questions or wish to add yourself.

The market for Workers’ Compensation insurance is competitive. If you are not insured by a company offering a dividend plan, please contact us. Dividends are the only mechanism whereby you can realize savings on this valuable insurance protection.

**News from GRACEY-BACKER, INC.**

We are very grateful that 2008 continued to be a solid year for OMSNIC in Florida, with relatively stable rates and aggressive claims handling. Since claims frequency is down significantly, we hope the trend will continue. Claims severity and high defense costs continue to be a problem for all the major carriers of malpractice insurance, including OMSNIC. We never take for granted that malpractice is a risky venture and an insurer who creates a climate of stability for insured doctors is to be cherished. OMSNIC continues to be that company for oral surgeons nationally and in Florida.

All of this is in stark contrast to the physician malpractice carriers, who are only now seeing rate reductions after many years of wild volatility and unstable carriers. GRACEY-BACKER, INC. has a physician malpractice insurance department. We would greatly appreciate it if you would refer your physician and surgeon peers.

The personal insurance market is also heating up. We have some very competitive companies in our office and would love to offer you a no-obligation quote. We have an especially interesting company, PURE, devoted to high-valued homes—a company which offers you a piece of future profits. It is a very competitive and also very selective company. Please call us for a quote if you are interested.

On a personal note, we enjoy seeing you at the Florida Society meetings in the fall and summer, as well as at the annual meeting of AAOMS. For those we don’t see, please never hesitate to ask us to come to your office for a visit—to review your entire insurance program or just your professional liability program with OMSNIC. Please know that we offer very competitive products for your **office, worker’s compensation, homeowner’s and personal auto.**

## OMSNIC Newsletter 2008

Wendy Ring, Ann Marie Chamberlain, Trish Warren, Kathy Warne, Lynn Casey, Karen Liljedahl and Paula Ewing continue to handle the OMS and Dental Malpractice Insurance Department of Gracey-Backer, Inc. We are very grateful for their expertise and concern for each and every one of you.