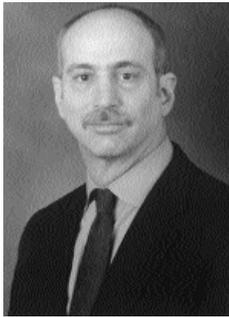




ANNUAL REPORT

Issue No. 83

APRIL 2001



By Ira Zarov
Chief Executive Officer

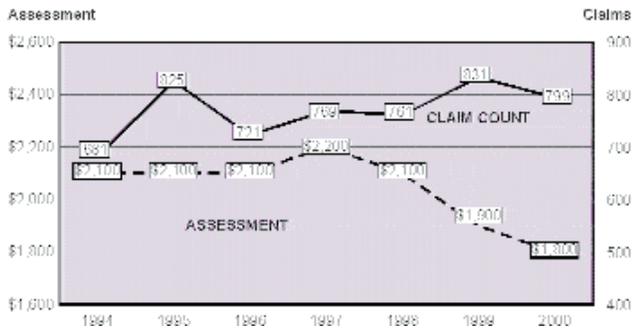
The PLF underwent significant change in the year 2000. Kirk Hall, the PLF's Chief Executive Officer since 1987, left the Fund in June and in November of 2000 I was named the new CEO. Prior to coming to the PLF I was Executive

Director of Legal Aid Services of Oregon (LASO) for eleven years. I started my legal career as a VISTA attorney at the then Coos-Curry Counties Legal Services in 1974 and, except for two years in private practice in 1985-87, held various positions in legal services before taking on the Executive Director position. I am immensely pleased to be at the PLF.

HIGHLIGHTS

- 2000 Financial Report
- PLF Moving in June
- Claims Handling Survey
- PLF Excess Program Remains Stable
- Special Underwriting Assessment (SUA) Remains Unchanged
- Average Cost Per Claim Increasing
- OAAP Open House – May 9, 2001
- Free Practice Aids & CLE Tapes (*inserts*)

PLF Statistics
1994 - 2000



Although I have been at the PLF only five months, I have developed some strong impressions. First, the praise I heard for the PLF from the many lawyers I spoke with during the application process accurately reflected the quality of the PLF staff. I have been continually impressed with the professionalism, knowledge, and respect all staff has for covered parties, claimants and other members of the public. Second, I am equally impressed with the level of commitment of the Board of Directors, who devote

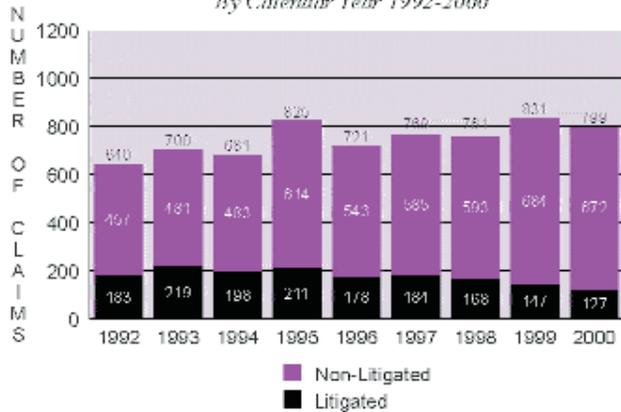
substantial amounts of time dealing with complex and difficult questions relating to individual cases and the overall operation of the PLF. And third, it is clear from my initial contacts with other legal malpractice insurers that the PLF's commitment to loss prevention and the work of the Oregon Attorney Assistance Program is extraordinary and has produced correspondingly extraordinary results.

I am committed to making certain that the PLF continues to honor its commitment to covered parties and to the public. We will continue to professionally, ethically, and legally represent the interests of covered parties. We will continue to make certain that the public is protected by ensuring that malpractice coverage is available for lawyers who have their principal office within the state of Oregon.

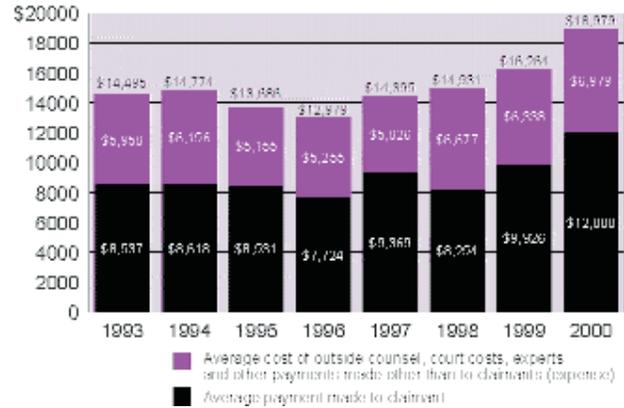
YEAR 2000 FINANCIAL OVERVIEW

The PLF's overall financial performance for 2000 was affected by two negative trends. First, the equity portion of the PLF's investments (approximately 50% of the PLF's investments) lost value. Second, the average cost per claim in 2000 rose

Number of Claims
By Calendar Year 1992-2000



Average Cost Per Claim
By Year of Reporting



\$2,715 to \$18,979 (\$12,000 to claimant, \$6,979 to defense and claim costs). Claim cost is the most influential consideration when developing actuarial constants with which to determine the PLF total liabilities. Based on our estimated claim liabilities, the PLF's financial statement for 2000 shows a loss of \$8 million.

Although this loss is large, the PLF's total economic picture remains healthy. The PLF investment returns for the last few years were extraordinary. These returns enabled the PLF to lower the assessment and still accumulate sufficient reserves to weather negative economic and claim trends. We continue to carefully watch economic and claim trends, and to reserve the PLF's liabilities on a conservative basis.

A summary of the PLF's financial statement for 2000 is shown on page 3 of this report. While these results indicate that the Fund has incurred a substantial loss for the year 2000, the PLF remains fully funded.

HOW IS THE FUND DOING WITH CLAIMS HANDLING?

As in the past, most Oregon attorneys continue to be very happy with the way the PLF handles claims made against them. An evaluation form is sent to each attorney upon the closing of the claim file. There is a very high response rate to these forms. We tabulated 374 responses in 2000, and the results were very good:

How satisfied were you overall with the handling and disposition of your claim?

Very satisfied	82%
Satisfied	17%
Not satisfied	1%

How satisfied were you overall with the services provided by the PLF staff attorney?

Very satisfied	84%
Satisfied	15%
Not satisfied	1%

In both categories 99% of respondents were either very satisfied or satisfied with results. This is the eighth year in which we have received such high marks. We will continue to work hard to obtain these results in the future.

ARE THERE ANY CHANGES TO THE COVERAGE PLAN OR SPECIAL UNDERWRITING ASSESSMENT (SUA)?

There are no changes to the 2001 primary coverage plan, but there is one small change to the PLF Excess Plan. In the past, there was a difference between the primary coverage plan and the PLF Excess Plan. Generally, the primary coverage plan excludes claims by or on behalf of any business enterprise owned by a covered party. (Section 3f.) However, "ownership" does not include an ownership interest held by the covered party so long as the covered party, those controlled by the covered party, the covered party's spouse, parent, child, or member of household, and those engaged in practice with the covered party, collectively now own or previously owned an interest of 10 percent or less of the business enterprise. In the excess plan, (Section 4b) ownership interests as low as 1 percent were previously excluded. The excess plan has now been changed to be consistent with the primary coverage plan.

Continued on page 5

Professional Liability Fund
SUMMARY OF FINANCIAL STATEMENTS (Unaudited)
(Primary and Excess Programs Combined)

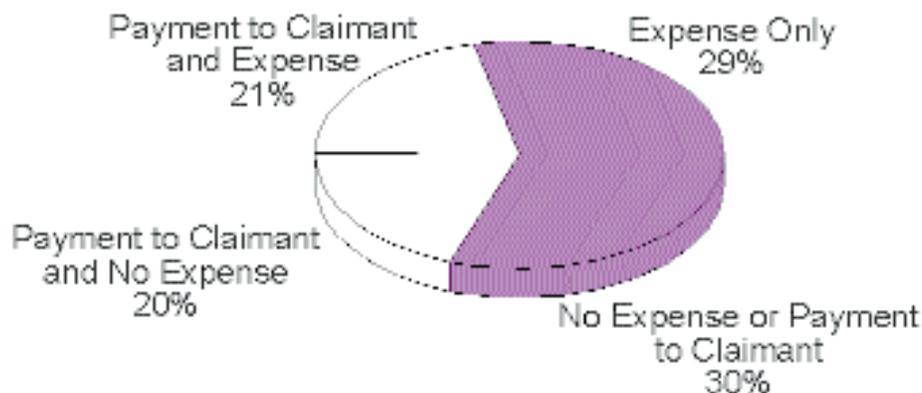
	<u>12-31-2000</u>	<u>12-31-1999</u>
ASSETS		
Cash and Investments at Market	\$35,639,957	\$41,943,776
Other Assets	<u>1,224,760</u>	<u>1,180,123</u>
TOTAL ASSETS	<u>\$36,864,717</u>	<u>\$43,123,899</u>
LIABILITIES AND FUND EQUITY		
Estimated Liabilities for Claim		
Settlements and Defense Costs	\$26,700,000	\$25,310,000
Other Liabilities	1,185,850	1,107,928
Fund Equity	<u>8,978,867</u>	<u>16,705,971</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$36,864,717</u>	<u>\$43,123,899</u>

	For the Year Ending December 31	
	2000	1999
REVENUE		
Assessments	\$10,547,279	\$11,039,268
Investment and Other Income	<u>1,438,403</u>	<u>4,912,327</u>
TOTAL REVENUE	<u>\$11,985,682</u>	<u>\$15,951,595</u>
EXPENSE		
Administrative	\$3,568,079	\$3,367,813
Provision for Settlements	9,497,000	6,439,664
Provision for Defense Costs	<u>6,647,710</u>	<u>5,310,910</u>
TOTAL EXPENSE	<u>\$19,712,789</u>	<u>\$15,118,417</u>
NET INCOME	<u>(\$7,727,107)</u>	<u>\$833,178</u>

These statements have been adjusted to remove prepaid assessments; e.g., payments of the 2000 assessment received in December of 1999. A complete copy of the latest audit report prepared by the Secretary of State is available upon request.

Closed Claims

January 1, 1990 - August 31, 2000

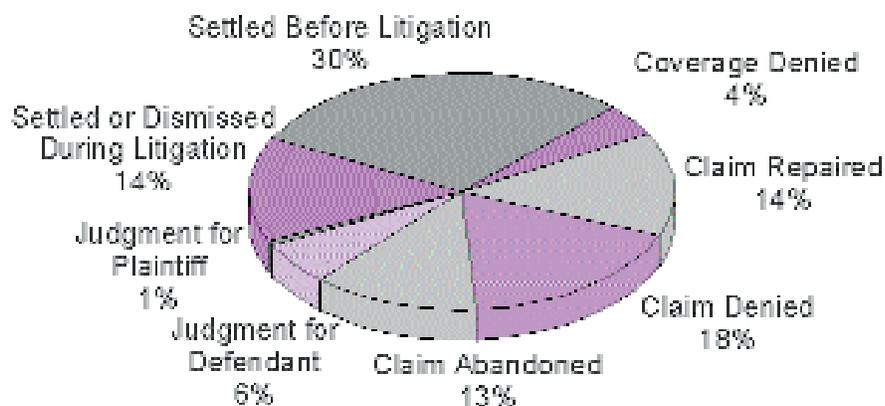


Shaded Areas Indicate No Payment Made to Claimant

Expenses = Cost of Outside Counsel, Court Costs, Experts and Other Payments Made Other Than to Claimants

Disposition of Closed Claims

January 1, 1990 - August 31, 2000



FREQUENCY OF CLAIMS BY AREA OF LAW

January 1, 1990 to August 31, 2000

AREA OF LAW	PERCENT	COUNT
Personal Injury	10%	1,205
Domestic Relations/Family Law	14%	873
Business Transactions/Commercial Law	13%	915
Bankruptcy & Debtor-Creditor	13%	899
Real Estate	10%	607
Estate Planning & Estate Tax	8%	510
Criminal	6%	394
Workers' Compensation/Administrative	6%	387
Tax	1%	64
Securities	1%	71
Other	8%	489
	100%	5,789

COST OF CLAIMS BY AREA OF LAW

January 1, 1990 to August 31, 2000

AREA OF LAW	PERCENT INDEMNITY PAID	INDEMNITY PAID	PERCENT EXPENSES PAID	EXPENSES PAID
Business Transactions/Commercial Law	19%	\$10,174,918	27%	\$8,247,498
Personal Injury	22%	\$11,928,191	13%	\$1,070,891
Real Estate	12%	\$6,281,380	11%	\$1,101,695
Estate Planning & Estate Tax	11%	\$5,033,895	7%	\$2,297,304
Bankruptcy & Debtor-Creditor	8%	\$1,613,618	11%	\$8,398,090
Domestic Relations/Family Law	9%	\$4,925,594	9%	\$2,308,031
Workers' Compensation/Administrative	5%	\$2,719,918	4%	\$1,107,135
Securities	4%	\$2,238,919	0%	\$1,011,801
Tax	2%	\$1,250,280	2%	\$168,375
Criminal	1%	\$550,316	0%	\$600,050
Other	7%	\$3,331,421	7%	\$2,218,099
	100%	\$63,817,978	100%	\$30,573,370

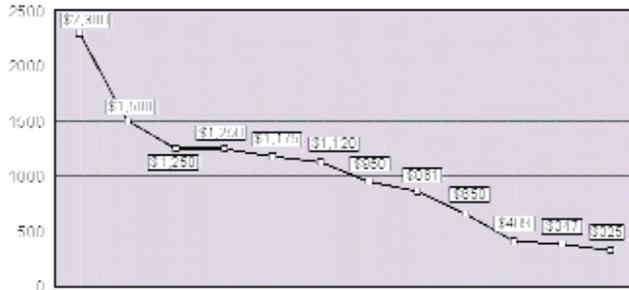
The Special Underwriting Assessment (SUA) remains unchanged. An attorney's annual SUA is calculated as 1 percent of defense costs and indemnity paid on a claim in excess of \$25,000. A SUA is assessed each year for five years after the closing of the claim file.

WHAT IS THE PLF DOING IN THE AREAS OF LOSS PREVENTION AND ATTORNEY ASSISTANCE?

The PLF continues to provide free and confidential personal and practice management assistance to lawyers. These services include legal education, on-site practice management assistance (through the PLF's Practice Management Advisor Program) and personal assistance (through the Oregon Attorney Assistance Program).

The PLF loss prevention programs endeavor to provide diverse help to lawyers. Loss prevention seminars in 2000 included programs on career change, time management, retirement planning, financial and ethical responsibilities, law office software, partner compensation systems, practice management, addiction, avoiding malpractice, and practical skills for new lawyers. In addition, we continue to offer free audio and videotapes (currently 18 programs are available), newsletters (*In Brief* and *In Sight*), over 90 practice aids, and handbooks including *A Guide to Setting Up and Running Your Law Office (1999)*, *A Guide to Protecting Your Clients' Interests in the Event of Your Disability or Death (1999)*, and the *Oregon Statutory Time Limitations Handbook (1999)*. These practice aids are all available for free. If you would like a copy, call the PLF at 503-639-6911 or 1-800-452-1639.

Cost of Excess Coverage 1990 - 2001



Graph shows cost of \$700,000 excess coverage above primary PLF limits.

Figure for 1990 is the price charged by commercial carriers for excess coverage of \$1 million above primary PLF limits prior to the inception of the PLF Excess Program in 1991. Other figures are the cost per attorney of \$700,000 PLF excess coverage above the primary limits. Figures for 1999-2001 include the full continuity credit and investment earnings credit granted to firms which have carried PLF excess coverage since 1991.

In 2000, the PLF began working with the Joint Bench-Bar Commission on Professionalism. The PLF added a section on Professionalism to its "Learning the Ropes" seminar for lawyers who are beginning a private practice. The program included three videotaped scenarios that raised ethical and professionalism questions that became the springboard for discussion by a panel of experts and the audience.

The PLF also offers free practice management assistance. Our Practice Management Advisors, Carol Wilson, Dee Crocker, and Beverly Michaelis, answer questions and provide information about effective systems for conflicts of interest, mail handling, billing, trust accounting, general accounting, time management, client relations, file management, and software. In a recent survey about our practice management advisors, one hundred percent of those who answered said they would recommend the PLF's practice management advisor services to others. One hundred percent also said that they were very satisfied or satisfied with how they were treated and how helpful the information was that was provided to them.

The OAAP program attorneys Meloney Crawford Chadwick, Mike Long, Shari R. Pearlman, and Michael Sweeney continue to provide assistance with alcohol and chemical dependency; burnout; career change and satisfaction; depression, anxiety, and mental health issues; gambling addiction; procrastination; relationship issues; stress management; and time management. The OAAP is recognized worldwide for its program innovation and for the extensive and excellent service provided to bar members. We

are grateful for the membership and Bar/PLF leadership support for these programs. The OAAP moved in 2000 and is now located at 520 SW Yamhill, Suite 1050. This new space is across the street from Pioneer Courthouse Square, and is only a few blocks from the OAAP's former location. The new space provides additional meeting facilities for OAAP support groups and workshops. Please join the OAAP staff on May 9th from 4 p.m. to 6 p.m. for a tour and open house festivities.

THE PLF IS MOVING IN JUNE

The PLF will move June 1, 2001 to Kruse Woods II. Kruse Woods II is kitty-corner from the current Bar building – across the street and two buildings west. The new address will be:

Professional Liability Fund
5335 S.W. Meadows Rd., Suite 300
Lake Oswego, Oregon 97035.

The phone number and post office box number will remain the same.



OPEN HOUSE OREGON ATTORNEY ASSISTANCE PROGRAM

The Oregon Attorney Assistance Program (OAAP) staff: Meloney Crawford Chadwick, Mike Long, Shari R. Pearlman, Michael Sweeney and Liisa Gardner invite you to join them for refreshments and a tour of the new OAAP space.

May 9, 2001
4:00 p.m. – 6:00 p.m.

Oregon Attorney Assistance Program
520 SW Yamhill
Suite 1050
Portland, Oregon 97204
503-226-1057

The move was necessitated by the OSB's long-standing need for additional space, and the PLF's growing need for space. The new space was chosen after an extensive review of the available space measured against certain criteria. The criteria included proximity to the current Bar building (the PLF Board and the OSB Board of Governors felt that close proximity to the Bar would benefit the membership), cost, and the overall quality and physical layout of the space.

We are quite excited about the upcoming move. The new location will relieve the scarcity of space experienced by both the OSB and the PLF and will provide ample room for expansion.

WHAT IS THE FORECAST FOR THE FUTURE?

The frequency of claims seems to be steady. However, the average cost per claim appears to be increasing. The increasing complexity of claims is the most likely explanation for the increase in defense costs and expenses. Cost per claim and defense costs are the two primary criteria, along with claims history, that determine the reserves needed to meet the PLF's liabilities. If the current trend continues, it is likely that a rate increase will be necessary. The end of the extraordinary investment returns we have seen over the four years prior to 2000 is another factor likely to influence next year's assessment.

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IN BRIEF

Published by the
Professional Liability Fund
Ira Zarov, *Chief Executive Officer*

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Director of Loss Prevention
503-639-6911 or 1-800-452-1639

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Last year the cost of the PLF's Excess Program was stable and we have not seen a significant increase in claims within the program. In fact, the excess program continues to be extremely successful and assuming our record continues, we do not foresee a rate increase in the near future. However, the percentage reduction extended to firms that stay with the PLF Excess Program for multiple years will be capped at ten years. (At the end of the ten year period the total reduction is 40%.)

I have already heard from many Oregon attorneys concerning their praise or suggestions for improving the PLF and I encourage all Oregon attorneys to call me at any time.

Ira Zarov, Chief Executive Officer
Oregon State Bar Professional Liability Fund
(503) 639-6911 or (800) 452-1639



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- Depression, Anxiety, & Mental Health Issues
- Gambling Addiction
- Procrastination and Time Management
- Relationship Issues
- Stress Management

Call the Oregon Attorney Assistance Program (OAAP) today.
It's confidential. It's free. It's for you.

Meloney Crawford Chadwick, Mike Long
Shari R. Pearlman, Michael Sweeney
503-226-1057
1-800-321-OAAP (10 page)

It's free, confidential program for you

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Practice Management Advisors of the Professional Liability Fund

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law office systems assistance from
the practice management advisors
of the Professional Liability Fund.

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