



Health Care Stabilization Fund Calendar Year 2024 Surcharge Issues

A presentation to the HCSF Oversight Committee

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This presentation will address the following topics:

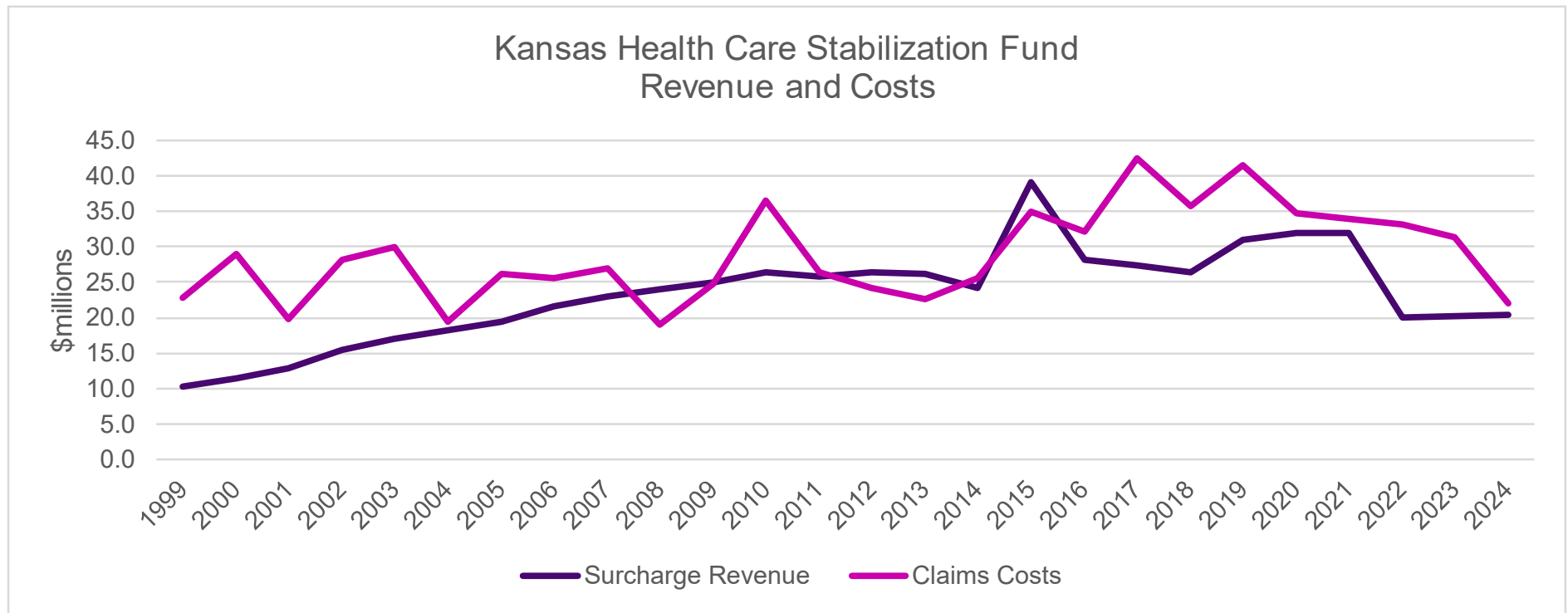
- A history of Fund revenues and claims costs
- Our projections of unassigned reserves at June 2023 and June 2024
- Rate level indications for CY24 (January 1, 2024 – December 31, 2024)
- Recent Fund investment performance
- The experience and indications by provider class
- CY24 surcharge recommendations

Questions are welcome throughout the presentation

This presentation is based on our review of Fund experience as of December 31, 2022 and is an addendum to our report dated September 19, 2023. As such, the *Distribution and Use* and *Reliances and Limitations* sections of that report apply to this presentation.

History of Surcharge Revenue and Claims Costs

The chart below shows Fund history of surcharge revenue and claims costs by program year from 1999 through projected 2024 based on our estimates as of December 31, 2022



Notes: Costs exclude administrative expenses and transfers. Revenues exclude investment income. Program year 2015 is an 18-month period

Conclusions

2022 was a mixed year for the Fund:

- Payment activity was very high
- Loss performance on active providers was worse than expected
- Loss performance on inactive providers was better than expected
- Investment results were worse than anticipated
- Surcharge revenue was higher than predicted
- Rate inadequacy is high for the hospitals

The Fund's net financial position at June 30, 2023 is similar to the level forecasted in our 2022 study.

Conclusions (continued)

Our forecasts of the Fund's financial positions at June 30, 2023 and June 30, 2024, along with our 2022 estimate for June 2023, are as follows (in \$millions)

	2022 Review June 30, 2023	2023 Study June 30, 2023	2023 Study June 30, 2024
Assets	\$299.54	\$288.00	\$276.93
Liabilities	<u>269.07</u>	<u>258.03</u>	<u>249.40</u>
Unassigned Reserves	\$ 30.46	\$ 29.97	\$ 27.53

Based on our analysis, the Fund needs to raise its surcharge rates by 5.2% in CY24 in order to maintain its unassigned reserves at the expected year-end CY23 level (approximately \$28 million)

Conclusions (continued)

The forecasts of unassigned reserves assume

- No overall rate level change in surcharge revenue for CY24
- \$20.5 million in surcharge revenue in the July 1, 2023 – June 30, 2024 period (FY24)
- A 2.70% interest rate for estimating the tail liabilities on a present value basis
- A 2.70% yield on Fund assets for estimating investment income
- Full reimbursement for KU/WCGME claims
- No change in current Kansas tort law or Fund law

We suggested to the Board that they consider an increase in rates for CY24, particularly for hospitals (class 17)

Rate Level Indications

The Fund's rate level indications for CY24 are shown below: assumes a break-even target

CY24 Item	Amount (\$000s)	Comments
1. Payments in CY24	\$35,699	Net of Reimbursement
2. Change in Liabilities	-8,633	YE24 versus YE23
3. Administrative Expenses	2,128	Based on FY22 and FY23
4. Plan and KDHE Transfers	200	Assumes no Plan transfer, \$200k KDHE
5. Planned Investment	<u>372</u>	Based on CY22 surcharge decisions
6. Total CY24 Costs (1) + (2) + (3) + (4) – (5)	\$29,022	
7. Investment Income	<u>7,477</u>	2.70% on average assets
8. Surcharge Needed for Break-Even (6) – (7)	\$21,545	
9. Projected Surcharge Revenue	<u>\$20,472</u>	At 2023 rates
10. Rate Level Indications (8) / (9) – 1.00	+5.2%	

Fund Investment Income

The Fund's investment yield declined in the last two fiscal years

We have kept our assumed future yield rate at 2.70% unchanged from our 2022 study

Fiscal Year	Average Assets (\$millions)	Investment Income (\$millions)	Effective Yield
(1)	(2)	(3)	(4)
2014	\$263.5	\$9.3	3.53%
2015	269.7	8.8	3.27%
2016	276.1	8.2	2.96%
2017	282.6	8.1	2.86%
2018	288.8	8.0	2.78%
2019	292.5	7.8	2.67%
2020	295.2	8.2	2.77%
2021	306.8	8.6	2.80%
2022	312.0	7.7	2.47%
2023	300.2	7.2	2.41%

A 10 basis-point increase in the assumed rate causes a 1.5% decrease in the CY24 indication

Findings – Indications by Provider Class

Our analysis of experience by Fund class showed large differences in relative loss experience among classes. To illustrate, Class 17 paid 14% of the total surcharge for 2016-2021, but has 22% of the reported losses for those years.

Relative Rate Change Indicated

Decrease > 15%	Increase <9% or Decrease <15%	Increase >9%
Class 2 (-30%)	Class 23 (-12%)	Class 15 (+9%)
Class 24	Class 10	Class 8
Class 13	Class 1	Class 22
Class 6	Class 9	Class 3
Class 16	Class 18	Class 17 (+61%)
Class 12 (-16%)	Class 7	
	Class 21	
	Class 14	
	Class 5	
	Class 4	
	Class 11 (+7%)	

Slide 11 has details on class sizes, rates and definitions

History of Surcharge Rate Changes

The table below shows changes in surcharge rates since 2012. Excludes the increases in the MO surcharge in PY2014. The 2016 through 2023 changes also included raising the relativities for YOCs 1-4

Program Year	Overall Change	Classes 1-14 Range of Rate Changes		Classes 15-24 % Basic Coverage Premium*
		Low	High	
2012	0%	0%	0%	40%
2013	-5%	-10%	0%	40%
2014	-5%	-20%	-5%	38%**
2015	0%	0%	0%	38%**
2016	+2%	0%	5%	38%**
2017	-3%	-7%	5%	38%**
2018	-3%	-7%	5%	36%**
2019	+2%	0%	0%	36%**
2020	+6%	+6%	+6%	38%**
2021	+3%	+0%	+5%	38% - 42%**
2022	-48%	-48%	-48%	15% - 17%**
2023	0%	0%	0%	15% - 17%**

*For maximum Fund coverage

**Higher for Class 15

CY24 Surcharge Rates

We offered the Board several options to consider in establishing Fund rates for CY24 as it debated the issues regarding the variation by rate adequacy by class. All of our recommendations involved an increase to Class 17. The Board decided on the following rate changes for CY24:

- Rate increases on classes 3, 8, 15, 17 and 22, ranging from +2.5% (Class 15) to +9.4% (Class 17).
- Rate decreases for classes 2, 6, 12, 13, 16 and 24, ranging from -4.8% (Class 12) to -6.7% (Classes 16 and 24)
- No change in rates for classes 1, 4, 5, 7, 9, 10, 11, 14, 18, 19, 20, 21 and 23
- The estimated net overall impact of the selected changes is a 0.0% change in rate level.

Class Definitions, Distributions and Rates

		CY22 # Providers	CY23 Rate*
Class 1	Physicians, No Surgery. Includes dermatology, pathology, psychiatry	946	\$396
Class 2	Physicians, No Surgery	4,619	851
Class 3	Physicians, Minor Surgery	1,734	1,112
Class 4	Family Practitioners, including minor surgery and OB	149	1,310
Class 5	Surgery Specialty – Includes urology, colon/rectal, GP with major	287	1,505
Class 6	Surgery Specialty – Includes ER (no major), ENT	776	1,790
Class 7	Anesthesiology	410	1,337
Class 8	Surgery Specialty – Includes general, plastic, ER with major	522	3,032
Class 9	Surgery Specialty – Includes cardiovascular, orthopedic, traumatic	447	3,434
Class 10	Surgery Specialty – Includes OB/GYN	294	4,459
Class 11	Surgery Specialty – Neurosurgery	71	10,006
Class 12	Chiropractors	1,150	229
Class 13	Registered Nurse Anesthetists	985	393
Class 14	Podiatrists	100	872
Class 15	Availability Plan insureds	348	20%
Class 16	Professional corporations, partnerships	1,112	15%
Class 17	Medical care facilities	194	16%
Class 18	Mental health centers	26	15%
Class 19	Psychiatric hospitals	1	15%
Class 20	Residency training program	876	15%
Class 21	Physician Assistants	1,240	15%
Class 22	Nurse Midwives	38	17%
Class 23	Assisted Living and Residential Health Care Facilities	141	15%
Class 24	Nursing Facilities	232	15%
Class 30	Other	4	15%
		16,700	

*\$500,000/\$1,500,000 Fund coverage