


Health Care Stabilization Fund
Fiscal Year 2013 Surcharge Issues

**A presentation to Health Care Stabilization Fund Oversight Committee
by Russel L. Sutter**

November 30, 2012

*This document was designed for discussion purposes only.
It is incomplete, and not intended to be used, without the accompanying oral presentation and discussion.*

TOWERS WATSON 

© 2012 Towers Watson. All rights reserved.

Table of Contents

This presentation will address the following topics:

- Our projections of unassigned reserves at June 2012 and June 2013
- Our findings regarding Fund loss experience
- The experience and indications by provider class
- A history of surcharge rate changes

Questions are welcome throughout the presentation.

This presentation may be considered an addendum to our report dated March 13, 2012. As such, the **Distribution and Use** and **Reliances and Limitations** sections of that report apply to this presentation.

Conclusions

Our forecasts of the Fund's position at June 30, 2012 and June 30, 2013 were as follows (in \$millions).

Category	June 30, 2012	June 30, 2013
Assets	\$ 253.37	\$ 259.33
Liabilities	<u>189.75</u>	<u>193.05</u>
Unassigned Reserves	\$ 63.62	\$ 66.28

The forecasts were based on a review of Fund data as of December 31, 2011. Relevant developments since our report includes the following:

- Assets at June 30, 2012 were \$5.4 million higher than anticipated
- The Kansas Supreme Court issued its ruling on the Miller v. Johnson case
- The Missouri Supreme Court ruled that caps on non-economic damages are unconstitutional

Conclusions (continued)

The forecasts assume

- An average 5% decrease in surcharge rates for FY2013
- \$25.4 million in surcharge revenue in FY2013
- Continued full reimbursement for KU/WCGME claims, but with reimbursement from the state delayed until FY2014
- No change in current Kansas tort law

We suggested the Board consider maintaining the FY2012 rates for FY2013, or implement an overall decrease involving modest changes by class to improve the rate adequacy in certain classes.

The Board of Governors changed surcharge rates for FY2013 that were an average rate decrease of 5%.

Given the Fund's FY2012 results and the recent Supreme Court decision, we believe the Fund is in the strongest financial position in its 36-year history.

Liabilities at June 30, 2012

The split of the Fund's liabilities at June 30, 2012 is as follows (in \$millions).

Active Providers – Losses	\$ 89.7
Active Providers – Expenses	13.0
Inactive Providers – Known at 6/30/12	8.8
Inactive Providers – Tail	71.2
Future Payments	8.4
Claims Handling	5.5
Other	<u>3.7</u>
Subtotal – Gross Liabilities	\$200.3
Reimbursements	<u>-10.6</u>
Total Net Liabilities	\$189.7

Rate Level Indications

The Fund's rate level indications for FY2013 are shown below; assumes a break-even target.

FY2013 Item	Amount (\$000s)	Comments
1. Payments	\$28,197	Net of Reimbursement
2. Change in Liabilities	3,302	From slide #3
3. Administrative Expenses	1,570	Based on FY11 and FY12
4. Plan and KDHE	<u>200</u>	Assumes no Plan transfer
5. Total FY2013 Costs (1) + (2) + (3) + (4)	\$33,269	
6. Investment Income	<u>10,568</u>	4.25% on average assets
7. Surcharge Needed for Break-Even (5) - (6)	\$22,700	
8. Projected Surcharge Revenue	<u>26,675</u>	At FY2012 rates
9. Rate Level Indications (7) / (8) - 1.00	-14.9%	

Observations on Fund Loss Experience

The table below shows that the Fund's claim volumes have decreased over time while the cost per provider has been relatively stable. Amounts are for active providers only.

Fiscal Years	Average Claims per Year*	Average Losses per Provider**
1999 – 2003	86	\$2,196
2004 – 2007	62	2,003
2008 – 2010	51	2,057
2011	19	2,207
2011 – 2013	NA	2,094

* Claims with a settlement or pending reserve only. The 2011 count is expected to increase as claims develop

** Projected ultimate settlements, less reimbursed amounts, divided by number of provider years

Miscellaneous Observations

From 1999 to 2010, the Fund's surcharge revenue ranged from 23% of basic coverage premium (2005) to 36% of premium (2010). The FY2011 ratio was 37.7%, and the 6th consecutive year with an increase.

Availability Plan insureds increased from 251 in FY2001 to 674 in FY2006, but have dropped since then. In FY2011, there were 438 Plan insureds.

The Fund's investment income continues to show a reasonably high yield (4.6% effective yield in July 2011 – June 2012), given market interest rates.

Period	Net Investment Income (\$mil)
7/1/08 – 6/30/09	\$10.09
7/1/09 – 6/30/10	10.88
7/1/10 – 6/30/11	10.04
7/1/11 – 6/30/12	11.28

Fund assets have increased from \$215.6 million at December 31, 2008 to \$248.3 million at December 31, 2011.

Findings – Indications by Provider Class

Our analysis of experience by Fund class continues to show differences in relative loss experience among classes.

Relative Rate Change Indicated		
Decrease > 10%	Increase < 10%	Increase > 10%
	or Decrease < 10%	
Class 7 (-30%)	Class 19 (-4%)	Class 3 (+13%)
Class 16	Class 5	Class 17
Class 1	Class 2 (+0%)	Class 4
Class 8		Class 11
Class 14		Class 15 (+68%)
Class 6		Class 20 (+70%)
Class 13		
Class 12		
Class 9		
Class 18		
Class 10 (-14%)		

Page 12 has further details on class definitions.

History of Surcharge Rate Changes

The table below shows changes in surcharge rates since 2001. Excludes the implementation of the MO surcharge in 2001 and subsequent increase in 2008.

Fiscal Year	Overall Change	Classes 1-14 Range of Rate Changes		Classes 15-21 % Basic Coverage Premium*
		Low	High	
2001	+10%		+10%	38.5%
2002	+8%		+10%	38.5%
2003	0%		0%	38.5%
2004	-2%		0%	35%
2005	-2%		0%	32%
2006	+15%	+5%	+25%	35%
2007	+6%	0%	+15%	35%
2008	+1%	0%	+5%	35%
2009	+5%	0%	+6%	37%
2010	+5%	0%	+7%	40%
2011	0%	0%	0%	40%
2012	0%	0%	0%	40%
2013	-5%	-10%	0%	40%

*For \$800,000/\$2,400,000 coverage

© 2012 Towers Watson. All rights reserved. Proprietary and Confidential. For Towers Watson and Towers Watson client use only.

10

FY2013 Surcharge Rates

We offered the following for the Board to consider in establishing Fund rates for FY2013.

Option	Specific Changes	Overall Impact	Projected 6/30/13 Unassigned Reserves
1	No Changes	0.0%	\$67.62m
2	Classes 1-14: -5% Classes 15-21: From 40% to 38%	-5.0%	\$66.25m
3	Classes 1, 6-10, 12-14: -10% Classes 2,5: -5% All Other Classes: No Changes	-5.0%	\$66.28m

The Board of Governors elected to implement surcharge changes based on Option 3.

Class Definitions, Distributions and Rates

		FY11 # Providers	FY12 Rate*	FY13 Rate*
Class 1	Physicians, No Surgery. Includes dermatology, pathology, psychiatry	606	\$1,045	\$ 941
Class 2	Physicians, No Surgery	2,683	1,882	1,788
Class 3	Physicians, Minor Surgery	1,424	2,462	2,462
Class 4	Family Practitioners, including minor surgery and OB	175	2,754	2,754
Class 5	Surgery Specialty – Includes urology, colon/rectal, GP with major	260	3,170	3,012
Class 6	Surgery Specialty – Includes ER (no major), ENT	486	3,886	3,497
Class 7	Anesthesiology	341	3,245	2,920
Class 8	Surgery Specialty – Includes general, plastic, ER with major	333	7,459	6,713
Class 9	Surgery Specialty – Includes cardiovascular, orthopedic, traumatic	323	7,484	6,736
Class 10	Surgery Specialty – Includes OB/GYN	249	10,970	9,873
Class 11	Surgery Specialty – Neurosurgery	45	16,552	16,552
Class 12	Chiropractors	975	562	506
Class 13	Registered Nurse Anesthetists	658	1,081	973
Class 14	Podiatrists	108	2,546	2,291
Class 15	Availability Plan Insureds	430	40%	40%
Class 16	Professional corporations, partnerships	1,070	40%	40%
Class 17	Medical care facilities	194	40%	40%
Class 18	Mental health centers	26	40%	40%
Class 19	Psychiatric hospitals	0	40%	40%
Class 20	Residency training program	761	40%	40%
Class 21	Other	0	40%	40%
		11,148		

*\$800,000/\$2,400,000 Fund coverage, 5+ years of Fund compliance

2-16