

Health Care Stabilization Fund

Calendar Year 2019 Surcharge Issues

A presentation to the Health Care Stabilization Fund
Oversight Committee

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Table of Contents

This presentation will address the following topics:

- Our projections of unassigned reserves at June 2018 and June 2019
- Rate level indications for CY19 (January 1, 2019 – December 31, 2019)
- Observations on Fund experience
- Rating by Years of Compliance
- The experience and indications by provider class
- A history of surcharge rate changes, including CY19

Questions are welcome throughout the presentation

This presentation is based on our review of Fund data as of December 31, 2017 and is an addendum to our report dated March 5, 2018. 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 financial positions at June 30, 2018 and June 30, 2019, along with our prior estimate for June 2018, are as follows (in \$millions)

Category	2017 Review June 30, 2018	2018 Study June 30, 2018	2018 Study June 30, 2019
(1)	(2)	(3)	(4)
Assets	\$290.41	\$292.08	\$296.93
Liabilities	<u>240.95</u>	<u>244.19</u>	<u>249.26</u>
Unassigned Reserves	\$ 49.45	\$ 47.89	\$ 47.67

Based on our analysis, the Fund needs to raise its surcharge rates by 2% for CY19 in order to maintain its unassigned reserves at the expected year-end CY18 level (approximately \$48 million)

Conclusions (continued)

The forecasts of unassigned reserves assume

- Changes in surcharge rates for CY19 as described on page 14
- \$28.4 million in surcharge revenue in the July 1, 2018 – June 30, 2019 period (FY19)
- A 2.0% interest rate for estimating the tail liabilities on a present value basis
- A 3.05% 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 the Board consider a modest increase in rates for CY19, perhaps by continuing to lessen the differences in rates by Year of Compliance and making adjustments by specialty

Liabilities at June 30, 2018

The split of the Fund's estimated liabilities at June 30, 2018 is as follows (in \$millions)

Active Providers – Losses	\$ 75.2
Active Providers – Expenses	13.1
Inactive Providers – Known at 6/30/18	8.8
Inactive Providers – Tail	136.0
Future Payments	11.0
Claims Handling	8.6
Other	<u>1.1</u>
Subtotal – Gross Liabilities	\$253.8
Reimbursements	<u>-9.6</u>
Total Net Liabilities	\$244.2

Rate Level Indications

The Fund's rate level indications for CY19 are shown below; assumes a break-even target

CY19 Item	Amount (\$000s)	Comments
1. Payments	\$30,745	Net of Reimbursement
2. Change in Liabilities	4,924	
3. Administrative Expenses	1,810	Based on FY17 and FY18
4. Plan and KDHE Transfers	<u>200</u>	Assumes no Plan transfer
5. Total CY19 Costs (1) + (2) + (3) + (4)	\$37,679	
6. Investment Income	<u>8,848</u>	3.05% on average assets
7. Surcharge Needed for Break-Even (5) – (6)	\$28,831	
8. Projected Surcharge Revenue	<u>\$28,206</u>	At CY18 rates
9. Rate Level Indications (7) / (8) – 1.00	+2.2%	

Fund Experience

Inflation versus Investment Income

The next three slides show trends in the Fund's loss experience and investment income

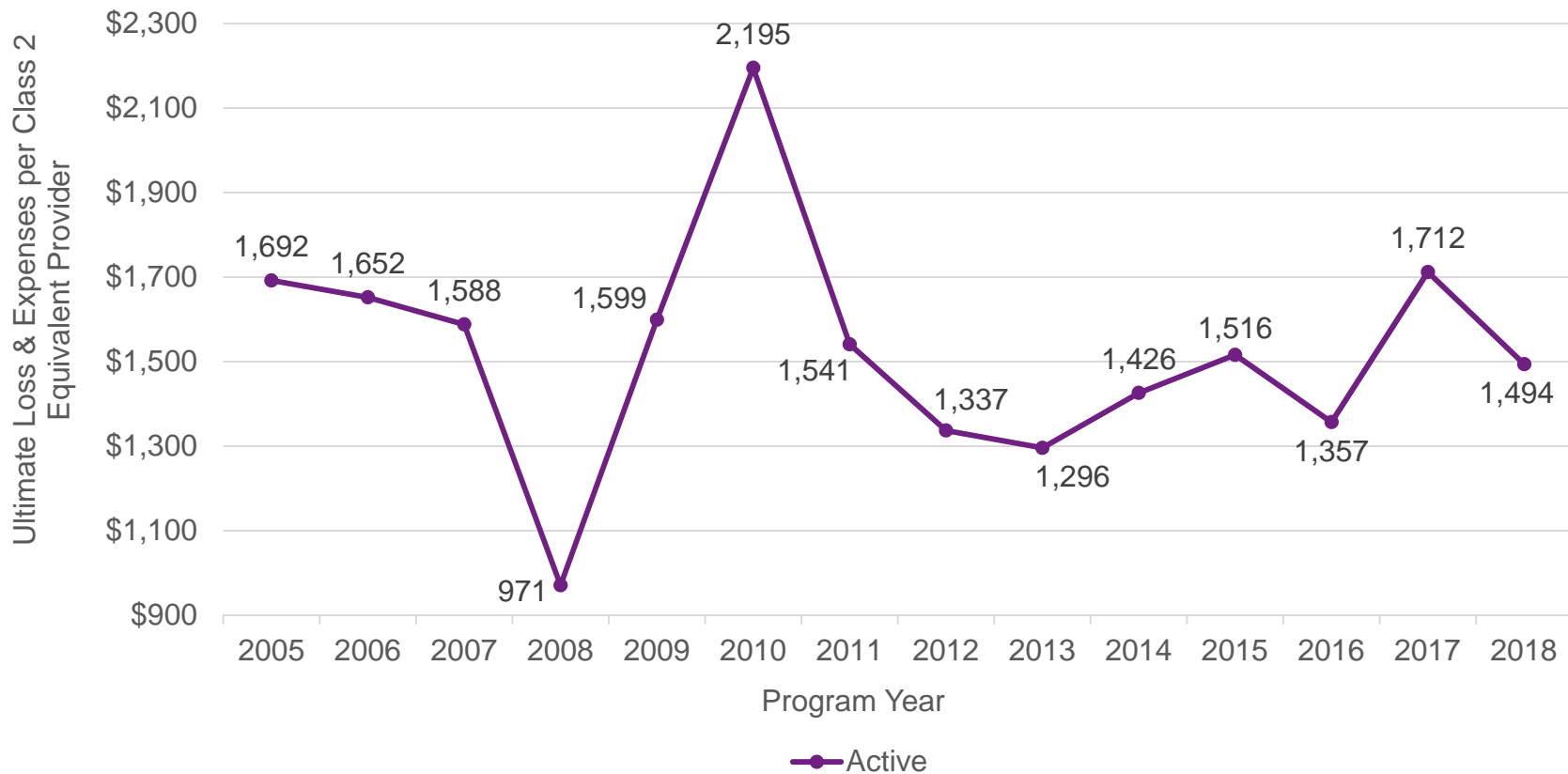
Key to the Fund's favorable financial performance over the last 10 years has been the "spread" of investment yield relative to inflation

- Our current assumption is a +205 basis point spread (investment yield of 3.05%; inflation of 1.0%)
- A narrowing of the spread may put upward pressure on Fund rates for 2020+

Trends in HCSF Experience

Active Providers

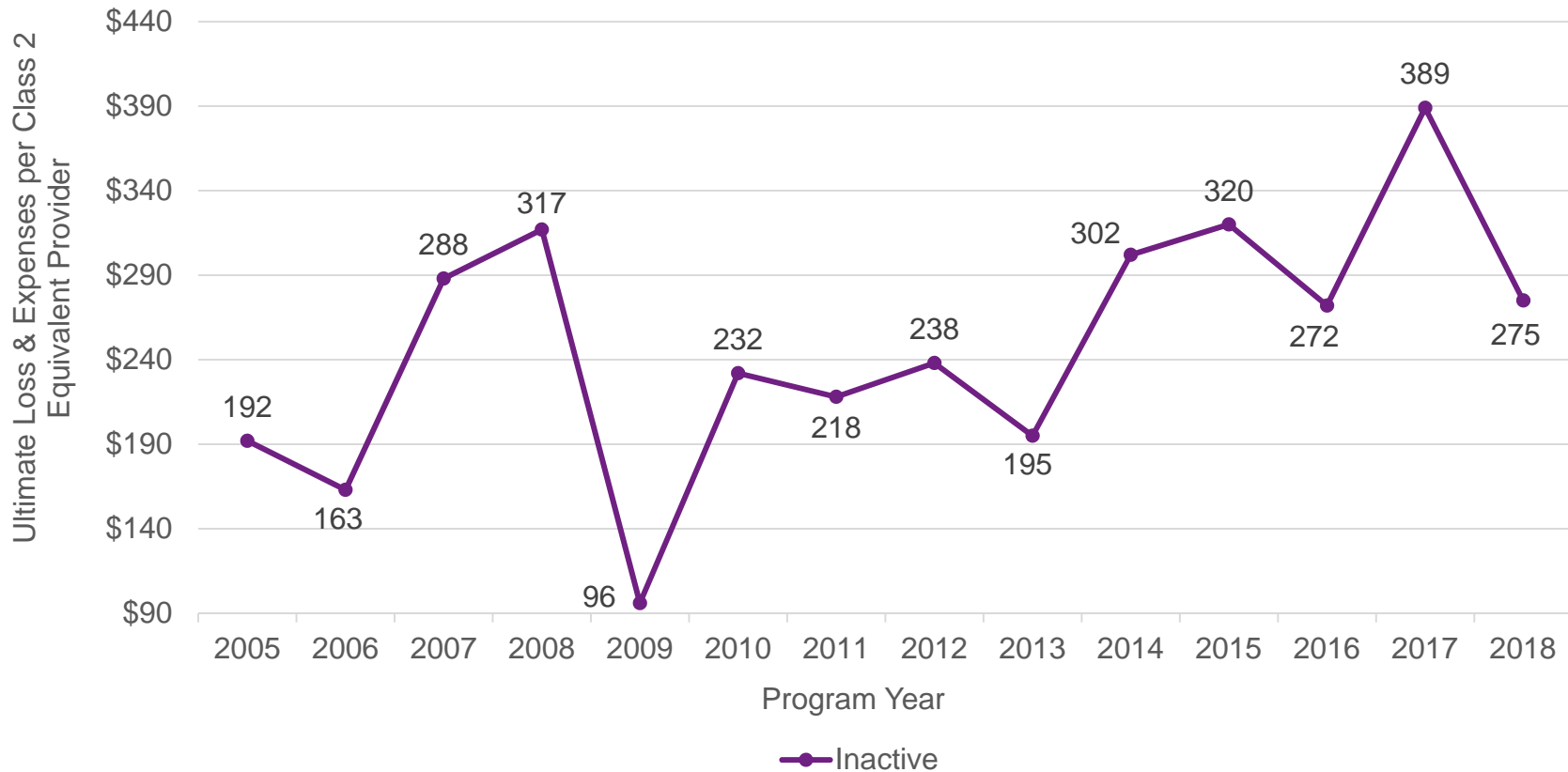
The table below shows the trends in the Fund's experience for active providers by program year. Amounts are converted to a losses-per-class-2-equivalent basis



Trends in HCSF Experience

Inactive Providers

The table below shows the trends in the Fund's experience for inactive providers by program year. Amounts are converted to a losses-per-class-2-equivalent basis



Fund Investment Income

The Fund's investment yield continues to have a gradual decline. We lowered our assumed future yield rate from 3.10% in our 2017 study to 3.05% in our 2018 review

Fiscal Year	Average Assets (\$millions)	Investment Income (\$millions)	Effective Yield
(1)	(2)	(3)	(4)
2011	\$237.6	\$10.0	4.23%
2012	251.6	11.3	4.48%
2013	259.9	9.8	3.75%
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	288.9	8.0	2.78%

A 10 basis point change in the assumed rate causes a 1% change in the CY19 indication

Findings

Rating by Year of Compliance (YOC)

With the passage of HB2516 in 2014, the Fund now provides tail coverage at no additional cost to all providers upon becoming inactive

- Effectively converts Fund coverage from claims-made to occurrence

Consequently, the incremental cost of providing coverage to providers with less than 5 YOC is no longer lower than the cost of providing coverage to providers with YOC 5+

- YOC 1-2 providers are, in a relative sense, currently being undercharged
- We suggested that the Board consider continuing to lessen the difference in rates by YOC in CY19

The table below shows Fund relativities for rating by YOC for coverage in 2015 through 2019

Years of Compliance (YOC)

	1	2	3	4	5+
CY15	0.20	0.51	0.81	0.90	1.00
CY16	0.25	0.55	0.85	0.95	1.00
CY17	0.30	0.60	0.90	1.00	1.00
CY18	0.35	0.70	1.00	1.00	1.00
CY19	0.50	0.90	1.00	1.00	1.00

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 > 15%	Increase <15% or Decrease <15%	Increase >15%
Class 8 (-25%) Class 3 Class 13 Class 18 Class 20 Class 21 Class 24 (-16%)	Class 12 (-14%) Class 23 Class 19 Class 10 Class 2 Class 11 Class 6 Class 14 Class 16 Class 5 Class 7 Class 4 Class 17 (+13%)	Class 22 (+19%) Class 1 Class 9 Class 15 (+50%)

Page 15 has further details on class definitions

History of Surcharge Rate Changes

The table below shows changes in surcharge rates since 2007. Excludes the increases in the MO surcharge in PY2008 and PY2014. The 2016-2018 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	
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%
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%**

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

**Higher for Class 15

CY19 Surcharge Rates

We offered the following for the Board to consider in establishing Fund rates for CY19, summarized as follows

- Option 1 – No changes
- Option 2 – Selective rate changes by class; further compression of YOC factors for classes 1-14
- Option 3 – More significant rate changes by class; further compression of YOC factors for classes 1-14

Option	YOC 5+ Rate Changes by Class				YOC 1-4 Factors (Classes 1-14)				Rate Impact
	1, 9	4	15	All Other	1	2	3	4	
1	0%	0%	0%	0%	35%	70%	100%	100%	0%
2	+2%	+1%	+2.3%	0%	40%	80%	100%	100%	+1.2%
3	+4%	+2%	+4.5%	0%	40%	80%	100%	100%	+1.9%

CY19 Surcharge Rates (continued)

The Board of Governors decided on the surcharge rate changes below. We estimate the overall impact of these changes to be a 2.4% increase in surcharge revenue

Providers with <5 Years of Compliance – Classes 1-14

	Relativity to YOC5	
	CY18	CY19
YOC 1	35%	50%
YOC 2	70%	90%
YOC 3	100%	100%
YOC 4	100%	100%

Class Definitions, Distributions and Rates

		CY17 # Providers	CY18 Rate*
Class 1	Physicians, No Surgery. Includes dermatology, pathology, psychiatry	796	\$ 686
Class 2	Physicians, No Surgery	3,983	1,548
Class 3	Physicians, Minor Surgery	1,527	2,023
Class 4	Family Practitioners, including minor surgery and OB	154	2,384
Class 5	Surgery Specialty – Includes urology, colon/rectal, GP with major	301	2,608
Class 6	Surgery Specialty – Includes ER (no major), ENT	632	3,256
Class 7	Anesthesiology	358	2,432
Class 8	Surgery Specialty – Includes general, plastic, ER with major	475	5,516
Class 9	Surgery Specialty – Includes cardiovascular, orthopedic, traumatic	402	5,951
Class 10	Surgery Specialty – Includes OB/GYN	261	8,111
Class 11	Surgery Specialty – Neurosurgery	61	17,336
Class 12	Chiropractors	1,070	416
Class 13	Registered Nurse Anesthetists	815	715
Class 14	Podiatrists	105	1,586
Class 15	Availability Plan insureds	327	44%
Class 16	Professional corporations, partnerships	1,142	36%
Class 17	Medical care facilities	200	36%
Class 18	Mental health centers	20	36%
Class 19	Psychiatric hospitals	1	36%
Class 20	Residency training program	828	36%
Class 21	Physician Assistants	1,021	36%
Class 22	Nurse Midwives	48	38%
Class 23	Assisted Living and Residential Health Care Facilities	163	36%
Class 24	Nursing Facilities	287	36%
Class 30	Other	4	36%
		14,982	

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