

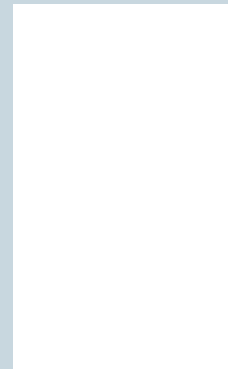
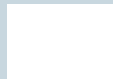
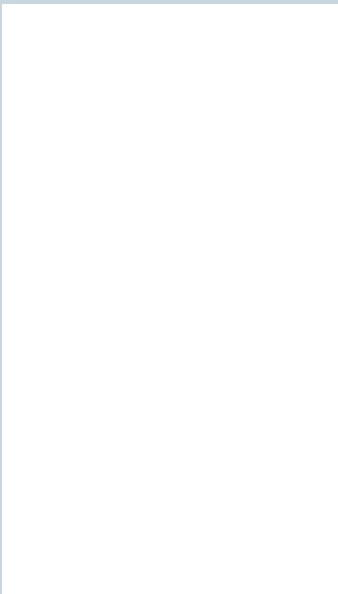
Health Care Stabilization Fund

Calendar Year 2021 Surcharge Issues

October 1, 2020

A presentation to the Health Care Stabilization Fund Oversight
Committee

By Russel L. Sutter



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

Table of Contents

This presentation will address the following topics:

- Our projections of unassigned reserves at June 2020 and June 2021
- Rate level indications for CY21 (January 1, 2021 – December 31, 2021)
- Recent Fund loss experience
- Recent Fund investment results
- The experience and indications by provider class
- Recommended actions for CY21 surcharge

Questions are welcome throughout the presentation

This presentation is based on our review of Fund data as of December 31, 2019 and an addendum to our report dated July 14, 2020. As such, the *Distribution and Use* and *Reliances and Limitations* sections of that report apply to this presentation

Conclusions

2019 was a surprisingly good year for the Fund:

- Surcharge revenue was \$3 million higher than we expected, some due to growth in the number of providers
- Reserves on open cases were \$22 million lower at year-end 2019 than at year-end 2018, with just a modest uptick in payments to offset this

Consequently, the Fund's financial position at June 30, 2020 is stronger than forecasted to be one year ago

We were somewhat cautious in our forecasts, given the recent favorable results and the potential impacts of the Hilburn v. Enerpipe decision

Conclusions (continued)

Our forecasts of the Fund's financial positions at June 30, 2020 and June 30, 2021, along with our prior estimate for June 2020, are as follows (in \$millions)

	2019 Review June 30, 2020	2020 Study June 30, 2020	2020 Study June 30, 2021
Assets	\$289.86	\$296.75	\$302.68
Liabilities	<u>263.20</u>	<u>255.05</u>	<u>261.34</u>
Unassigned Reserves	\$ 26.66	\$ 41.70	\$ 41.34

Based on our analysis, the Fund needed to raise its surcharge rates by 2.3% in CY21 in order to maintain its unassigned reserves at the expected year-end CY20 level (approximately \$41 million)

Conclusions (continued)

The forecasts of unassigned reserves assume

- A 2.6% increase in surcharge rates for CY21
- \$31.7 million in surcharge revenue in the July 1, 2020 – June 30, 2021 period (FY21)
- A 2.25% interest rate for estimating the tail liabilities on a present value basis
- A 2.85% yield on Fund assets for estimating investment income
- Full reimbursement for KU/WCGME claims
- No change in current Kansas tort law or Fund law

In March 2020, we suggested to the Board that they consider a small increase in rates for CY21, with potentially some variation by class and years of compliance. As noted on slide 14, the Board chose to raise surcharge rates by an average of 2.6% effective January 1, 2021.

Liabilities at June 30, 2020

The split of the Fund's estimated liabilities at June 30, 2020 is as follows (in \$millions)

Active Providers – Losses	\$ 77.5
Active Providers – Expenses	15.5
Inactive Providers – Known at 6/30/20	9.3
Inactive Providers – Tail	144.1
Future Payments	13.1
Claims Handling	9.1
Other	<u>0.1</u>
Subtotal – Gross Liabilities	\$268.6
Reimbursements	<u>-13.6</u>
Total Net Liabilities	\$255.1

Rate Level Indications

The Fund's rate level indications for CY21 are shown below; assumes a break-even target

CY21 Item	Amount (\$000s)	Comments
1. Payments	\$32,186	Net of Reimbursement
2. Change in Liabilities	6,036	
3. Administrative Expenses	1,900	Based on FY19 and YTD FY20
4. Plan and KDHE Transfers	<u>500</u>	Assumes \$300k Plan transfer, \$200k KDHE
5. Total CY21 Costs (1) + (2) + (3) + (4)	\$40,622	
6. Investment Income	<u>8,423</u>	2.85% on average assets
7. Surcharge Needed for Break-Even (5) – (6)	\$32,199	
8. Projected Surcharge Revenue	<u>\$31,484</u>	At current rates
9. Rate Level Indications (7) / (8) – 1.00	+2.3%	

Trends in HCSF Loss Experience – By Calendar Year of Activity

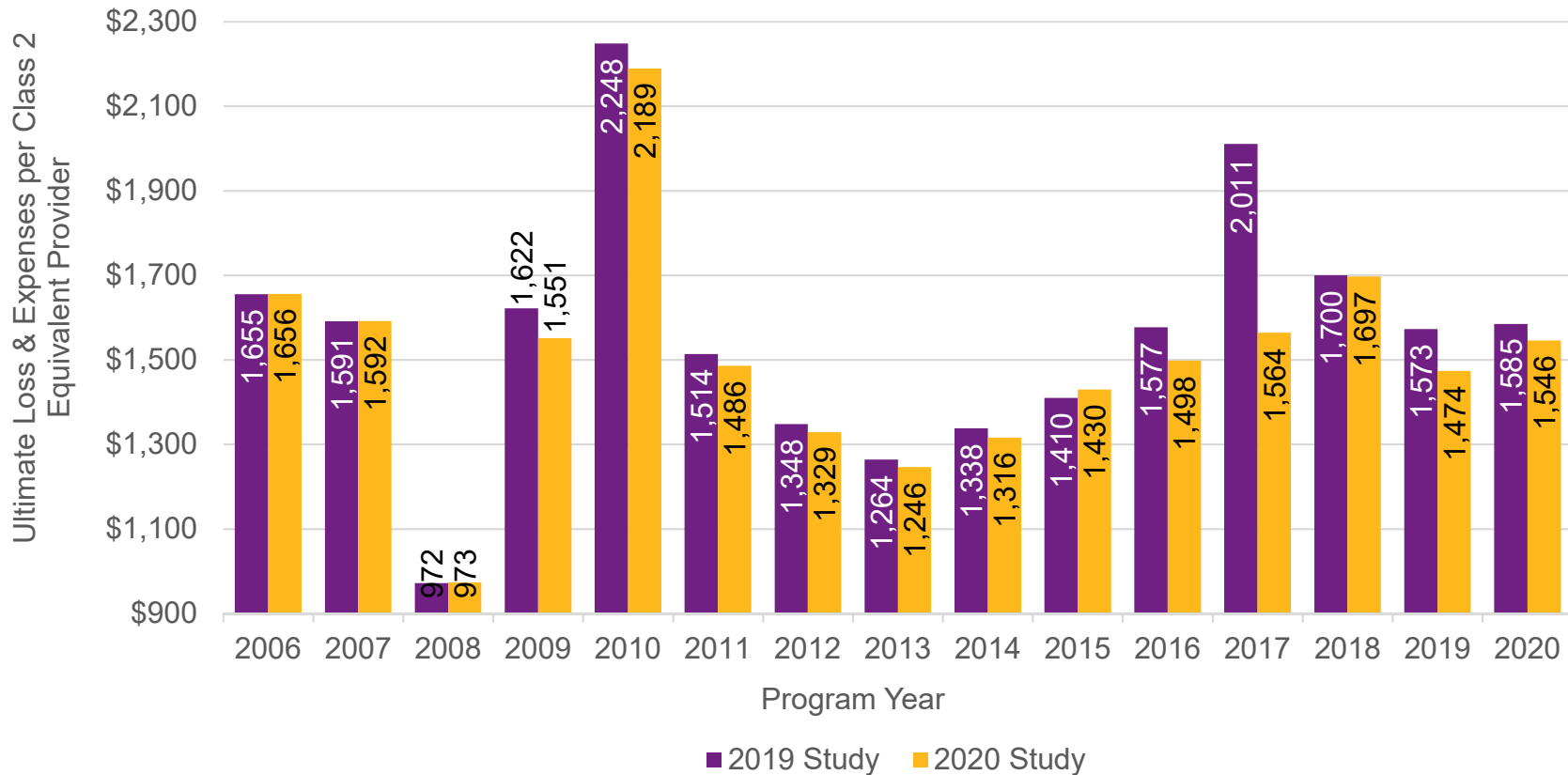
The table below shows loss activity for the Fund in the last five calendar years

(\$000s)

Calendar Year	Settlements	Paid Expenses	Year-end Loss Reserves	# Open Claims
(1)	(2)	(3)	(4)	(5)
Active Providers				
2015	\$18,163	\$2,392	\$40,700	141
2016	18,809	3,320	41,140	114
2017	19,605	3,095	40,680	127
2018	23,488	4,350	59,000	238
2019	26,616	3,368	40,830	136
Inactive Providers				
2015	\$4,527	\$989	\$6,100	32
2016	3,484	761	4,145	22
2017	3,878	1,084	5,850	27
2018	2,480	1,796	6,450	27
2019	3,462	945	2,235	19

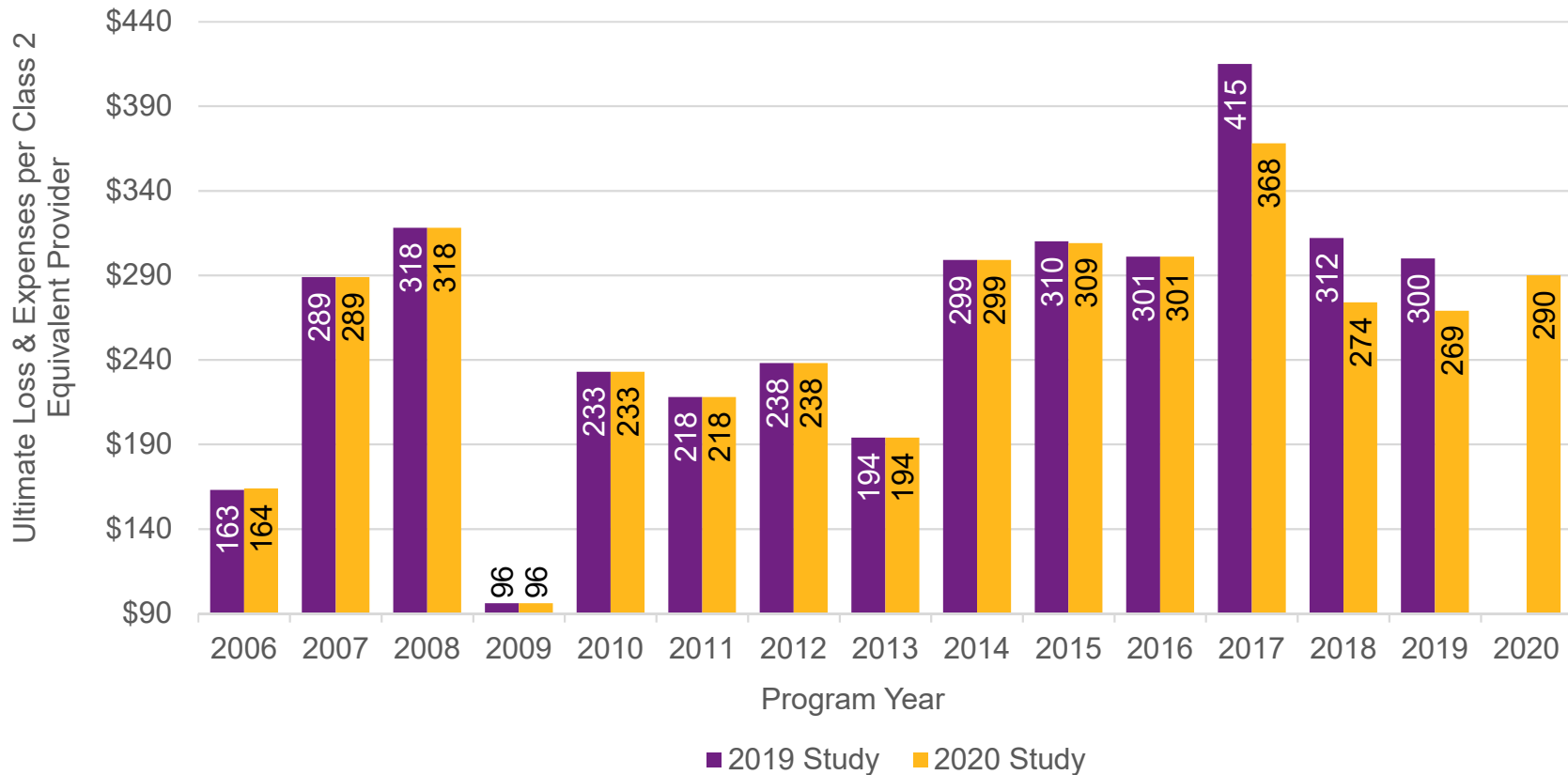
Trends in HCSF Loss Experience – Active Providers

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 Loss 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

Through FY20 the Fund's investment yield was starting to flatten out, after several years of decline. We lowered our assumed future yield rate from 2.95% in our 2019 study to 2.85%

Fiscal Year	Average Assets (\$millions)	Investment Income (\$millions)	Effective Yield
(1)	(2)	(3)	(4)
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	288.8	8.0	2.78%
2019	292.5	7.8	2.67%
2020	295.2	8.2	2.77%

A 10 basis point change in the assumed rate causes a 1% change in the CY21 indication

Findings – Indications by Provider Class

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

Relative Rate Change Indicated

Decrease > 10%	Increase <10% or Decrease <10%	Increase >10%
Class 13 (-20%) Class 12 Class 24 Class 8 Class 10 Class 7 Class 6 (-12%)	Class 2 (-8%) Class 19 Class 3 Class 4 Class 18 Class 23 Class 14 Class 20 Class 21 Class 16 Class 9 (+9%)	Class 22 (+11%) Class 11 Class 5 Class 1 Class 15 Class 17 (+27%)

Page 15 has further details on class experience and definitions

History of Surcharge Rate Changes

The table below shows changes in surcharge rates since 2009. The 2014 changes also included increases in the MO surcharge. The 2016 through 2019 changes also included raising the relativities for providers with years of compliance (YOCs) 1-4

Program Year	Overall Change	Classes 1-14 Range of Rate Changes		Classes 15-24 % Basic Coverage Premium*
		Low	High	
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%**
2019	+2%	0%	0%	36%**
2020	+6%	+6%	+6%	38%**

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

**Higher for Class 15

CY21 Surcharge Rates

In March 2020, we offered the following for the Board to consider in establishing Fund rates for CY21, summarized as follows

- Option 1 – No changes in rates or YOC factors
- Option 2 – 2% base rate increase; no changes in YOC factors
- Option 3 – Selective 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
	1,5,9,11	15,17,22	All Other	1	2	3	4	
1	+0%	+0%	+0%	50%	90%	100%	100%	+0.0%
2	+2%	+2%	+2%	50%	90%	100%	100%	+2.0%
3	+5%	+5%	+0%	55%	100%	100%	100%	+2.6%

- The Board elected to implement Option #3 for the CY21 rates

Class Definitions, Distributions and Rates

		CY19 # Providers	CY20 Rate*
Class 1	Physicians, No Surgery. Includes dermatology, pathology, psychiatry	925	\$ 727
Class 2	Physicians, No Surgery	4,476	1,641
Class 3	Physicians, Minor Surgery	1,713	2,144
Class 4	Family Practitioners, including minor surgery and OB	150	2,527
Class 5	Surgery Specialty – Includes urology, colon/rectal, GP with major	273	2,764
Class 6	Surgery Specialty – Includes ER (no major), ENT	776	3,451
Class 7	Anesthesiology	430	2,578
Class 8	Surgery Specialty – Includes general, plastic, ER with major	531	5,847
Class 9	Surgery Specialty – Includes cardiovascular, orthopedic, traumatic	450	6,308
Class 10	Surgery Specialty – Includes OB/GYN	256	8,598
Class 11	Surgery Specialty – Neurosurgery	61	18,376
Class 12	Chiropractors	1,123	441
Class 13	Registered Nurse Anesthetists	961	758
Class 14	Podiatrists	113	1,681
Class 15	Availability Plan insureds	291	47%
Class 16	Professional corporations, partnerships	1,157	38%
Class 17	Medical care facilities	202	38%
Class 18	Mental health centers	19	38%
Class 19	Psychiatric hospitals	1	38%
Class 20	Residency training program	850	38%
Class 21	Physician Assistants	1,128	38%
Class 22	Nurse Midwives	44	40%
Class 23	Assisted Living and Residential Health Care Facilities	176	38%
Class 24	Nursing Facilities	281	38%
Class 30	Other	1	38%
		16,426	

*\$800,000/\$2,400,000 Fund coverage, 3+ years of Fund compliance