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PART C  
Fiscal Year 2020 Annual Report by  
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October 1, 2020

## Introduction

The original Health Care Provider Insurance Availability Act was established by the Legislature in 1976. It contained three principal features that have always remained intact. Those features are: (1) a requirement that all health care providers, as defined in K.S.A. 40-3401, maintain professional liability insurance coverage; (2) creation of a joint underwriting association, the Health Care Provider Insurance Availability Plan, to provide professional liability coverage for those health care providers who cannot purchase coverage in the commercial insurance market; and (3) creation of the Health Care Stabilization Fund to provide excess coverage above the primary coverage purchased by health care providers, and also to serve as reinsurer of the Availability Plan.

In 1978 the constitutionality of the Availability Act was upheld by the Kansas Supreme Court in *State of Kansas v. Byron Timothy Liggett, M.D.* Dr. Liggett challenged the constitutionality of the Act on the grounds that it denied him substantive due process of the law and equal protection under the law. In its decision the Supreme Court wrote, "The original bill did not require mandatory insurance coverage, nor did it require payment of the surcharge. These provisions were added by the legislature at the behest of Insurance Commissioner Fletcher Bell. The mandatory coverage provision, it was alleged, would provide for the financial stability of the insurance availability program and would assure all Kansans they would have a source of recovery for damages resulting from malpractice."

## Statutory Report

The following information is reported on behalf of the Health Care Stabilization Fund Board of Governors in accordance with K.S.A. 40-3403(b)(1)(C). This report is for the fiscal year that ended June 30, 2020.

1. Net premium surcharge collections amounted to \$28,705,874.
2. The highest surcharge rate for a health care professional was \$18,376 for a neurosurgeon with three or more years of Health Care Stabilization Fund liability exposure who selected the highest coverage option (\$800,000 per claim subject to a \$2.4 million annual aggregate limit). If a Kansas resident neurosurgeon was also licensed to practice in Missouri, the 30% Missouri modification factor would result in a total premium surcharge of \$23,889.
3. The lowest surcharge rate for a health care provider was \$100 for a first year provider selecting the

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lowest HCSF coverage option (\$100,000 per claim subject to a \$300,000 annual aggregate limit).

4. There were 12 medical professional liability cases involving 18 health care providers that went to jury trials. Eleven resulted in complete defense verdicts. One case resulted in a verdict for the plaintiff.
5. During the past fiscal year 524 open claims were closed. Of those claims, 13.9% resulted in Fund obligations. Sixty-nine cases involving 73 claims were settled, which resulted in Health Care Stabilization Fund obligations amounting to \$27,121,225. The average Stabilization Fund compensation per claim was \$371,524. These amounts are in addition to compensation paid by primary insurers, typically \$200,000 per claim.
6. Because of periodic payment of compensation and other cash-flow characteristics, the amount reported above in item five was not the same as actual expenditures during FY2020. Total claims expenditures during the fiscal year amounted to \$27,651,536.
7. The balance sheet as of June 30, 2020 accepted by the HCSF Board of Governors indicates total assets amounting to \$299,601,265 and total liabilities amounting to \$271,785,592.

#### The Availability Plan

A major component of the original Health Care Provider Insurance Availability Act was the creation of a joint underwriting association called the Health Care Provider Insurance Availability Plan. The Plan assures that health care providers always have access to a basic professional liability insurance policy (\$200,000 per claim subject to \$600,000 annual aggregate coverage). The existence of the Plan allows commercial insurers to engage in selective underwriting practices. If an applicant appears to be a questionable risk, the insurer can refer the health care provider to the Availability Plan.

During more difficult market conditions, insurers become more selective and are less likely to accept new risks. They may decide to non-renew those health care providers who have had unfavorable claims experience or have been disciplined by their licensing agency. As a result, more health care providers end up participating in the Availability Plan during hard markets. For example, in 2004 there were over 600 health care providers insured by the Availability Plan. This year there are only about half as many insured by the Plan.

The Availability Plan is governed by a Board of Directors appointed by the Commissioner of Insurance, and the Board of Directors has a contract with a servicing carrier. At the Board's most recent meeting, October 21, 2019, it was reported that as of October 1, 2019 there were 287 Plan participants. This included 176 physicians, 7 physician assistants, 13 nurse anesthetists, 2 chiropractors, and 2 nurse midwives as well as 26 professional corporations and 27 facilities. Among the 176 physicians, 33 were residents in training who needed professional liability insurance for "moonlighting" employment. These are all health care providers that would not be able to provide patient care in Kansas were it not

for the Availability Plan.

There is no incentive to participate in the Availability Plan. Individual professional health care providers insured by the Plan pay about 33% more premium for basic coverage than they would if they were insured by a commercial insurance company. They also pay a higher HCSF surcharge rate than they otherwise would, which compounds the difference. As a result, a physician or other health care professional insured by the Plan pays about 36% more than their peers do for the cost of their professional liability coverage.

Similar joint underwriting associations in other states are often funded by way of assessments imposed on commercial insurers. In Kansas, the Health Care Stabilization Fund reinsures the Availability Plan. In those years when the Plan experiences a surplus, the net income is transferred to the HCSF. In those years when losses exceed income, the HCSF is required by law to transfer the net loss to the Availability Plan. For the most recent ten fiscal years, transfers from the Plan to the HCSF have exceeded transfers from the HCSF to the Plan.

### Recent Legislation and Court Decisions

#### 2020, Senate Bill 493

This bill was introduced on behalf of the Kansas Medical Society during the 2020 legislative session and would have increased the amount of required coverage. Currently all defined health care providers are required to maintain professional liability insurance coverage in the amount of \$200,000 per claim. The bill would have increased that requirement to \$500,000 per claim. The bill also would have amended the Fund's three current \$100,000, \$300,000, or \$800,000 limit offerings, to just two offerings of \$500,000 or \$1,500,000. Because of the shortened legislative session due to the pandemic, this bill was not advanced. A similar bill is expected to be introduced during the 2021 legislative session. The Fund is working alongside the Kansas Medical Society and other interested parties in drafting the bill.

#### 2019, House Bill 2119

This bill was signed into law in 2019 and allows business entities to apply for a certificate from the Board of Healing Arts. The certificate would authorize the business to employ physicians and chiropractors for the purposes of providing professional services, commonly referred to as the "corporate practice of medicine." The Fund conducted a study during 2019 to determine the impact this law would have on the Fund. On January 1, 2020 the Board of Governors reported to the legislature that the Fund had two broad concerns and suggested legislation to address these two issues.

1. The law as passed does not require the authorized business entities to participate in the Fund. Language will need to be passed into law for this participation to occur.
2. The new law needs to clearly define the three types of business entities to avoid any unintended consequences related to liability for services delivered out of the state by an entity with locations outside of Kansas.

Because of the shortened legislative session, these concerns were not addressed by the legislature. We will be reintroducing legislation and urging consideration during the 2021 session.

2019, *Hillburn v. Enerpipe Ltd.*

On June 13, 2019, the Kansas Supreme Court “struck down the statutory noneconomic damages cap in personal injury cases other than medical malpractice,” according to a statement from the Public Information Director of the Court. The Board of Governors continues to receive information from various sources and from our actuary regarding how this decision could possibly impact medical malpractice coverage in the future. The Fund continues to monitor the results of this Supreme Court decision.

Health Care to Healthcare

The Revisor of Statutes made a number of other technical amendments in K.S.A. 40-3401 to change the spelling of the phrase “health care” to the single term “healthcare.” As a result, the definition section of the Availability Act now employs the term healthcare, whereas the other 24 sections of the Availability Act use the phrase health care. We plan on introducing legislation during the 2021 legislative session that will make all sections of the Availability Act consistent with one another.

### Contemporary Issues

Historically, members of the Kansas Legislature have been concerned about constituent access to medical care. That is one of the principal reasons the Legislature enacted the Health Care Provider Insurance Availability Act in 1976. At that time, some physicians could not obtain the professional liability insurance they needed in order to practice in Kansas.

Others could obtain insurance, but the coverage limits were inadequate or there were policy exclusions that restricted the scope of their medical practice. The principal purpose of the Health Care Provider Insurance Availability Act was to stabilize the otherwise unreliable medical professional liability insurance market, thus the reason for the name, Health Care Stabilization Fund.

A great deal of thought was given to the details in the 1976 legislation and the Insurance Commissioner provided a number of important recommendations. It was decided to require that all health care providers maintain a policy of professional liability insurance as a condition of rendering professional services in Kansas. In this context, it is important to keep in mind that the statutory definition of health care provider includes out of state licensees as well as those licensees who reside in Kansas.

It was also decided to require that the insurance policy provide claims-made coverage. The law stipulates minimum coverage limits “for all claims made during the policy period” and goes on to say the policy “shall provide as a minimum coverage for claims made during the term of the policy which were incurred during the term of such policy or during the prior term of a similar policy.” Furthermore, if the health care provider is a Kansas resident, the policy must be issued by an insurance company that has been approved by the Commissioner of Insurance. If the health care provider is not a Kansas

resident, the policy may be issued by a non-admitted insurer, but only if the insurance company has agreed to comply with the Health Care Provider Insurance Availability Act.

This claims-made coverage is in contrast to occurrence coverage, which covers only those claims that are attributable to professional services rendered during the term of the policy (on or after the effective date and on or before the expiration date). The major difference between claims-made versus occurrence policies is the so-called tail coverage that is needed when an insured health care provider discontinues his or her claims-made policy. In the insurance industry this is often referred to as an extended reporting endorsement and normally there is a significant premium cost.

In Kansas, if a health care provider retires or otherwise discontinues his or her Kansas practice, the tail coverage liability is assumed by the Health Care Stabilization Fund. This protects Kansas patients if an injury is discovered and a claim is filed after the health care provider has become inactive.

A lot of things have changed since 1976, including the health care industry. In the seventies some medical practices were sole proprietorships. Other physicians were often employed by a partnership or professional corporation. Normally, physicians were not employed by hospitals. Instead, they were granted medical staff privileges and there was general adherence to the common law corporate practice doctrine.

Four decades later, hospital ownership of medical groups is not unusual and technology has had a remarkable impact on the delivery of medical care. The advent of telemedicine has been dramatic, resulting in the formation of large companies that compete for telemedicine clients all over the country. Because of the changes in the delivery model and the changing employment relationships, professional liability insurance is oftentimes purchased by the employer rather than the physician or medical group. Some of these employers use non-traditional arrangements to insure their network of health care providers.

There are also large interstate companies that employ physicians who are available to serve as locum tenens all over the country. In this case, it makes sense for the employer to purchase a short-term occurrence policy that covers the liability of the locum tenens health care provider for the duration of the assignment. The employer does not want to insure the health care provider's previous liability exposure by purchasing a claims-made policy nor does the employer wish to insure the health care provider when he or she is working for another employer. This is particularly problematic for a Kansas resident health care provider who must maintain continuous claims-made insurance coverage as a condition of active licensure.

One thing that has not changed in forty years is the Legislature's continued interest in promoting access to health care services for Kansas constituents. For this reason, several years ago the Kansas Legislature endorsed the concept of interstate medical practice by passing an interstate medical licensure compact law. More recently, our Legislature endorsed the interstate practice of health care by passing the Kansas Telemedicine Act. These developments have created some new challenges for

our agency.

If the telemedicine company or locum tenens firm has purchased an occurrence policy or has subscribed to some kind of unique insurance arrangement, then the Kansas licensees in their network may not be in compliance with the Health Care Provider Insurance Availability Act. In other words, the requirements stipulated in the Health Care Provider Insurance Availability Act can sometimes create an obstacle to interstate licensure and the delivery of telemedicine services or the assignment of a locum tenens in Kansas.

There are some rather obvious solutions to these problems but we are concerned about the possibility of unintended consequences. We believe it is important to preserve the basic public policy that when a Kansas patient receives health care services, he or she will have reasonable assurance that the health care provider has professional liability coverage. But we recognize that we may need to update the Health Care Provider Insurance Availability Act or the licensing laws to be more compatible with contemporary insurance practices.

K.S.A. 40-3403(b)(5) imposes a duty on our Board of Governors to, “study and evaluate the operation of the fund and make such recommendations to the legislature as may be appropriate to ensure the viability of the fund.” Our Board of Governors will continue to study these issues in collaboration with the associations that represent physicians, hospitals, and other health care providers. We invite recommendations from health care providers, insurers, locum tenens companies, telemedicine companies, and other interested organizations.

### Conclusion

The Health Care Provider Insurance Availability Act is a successful public-private partnership. It creates a favorable environment for responsible professional liability insurance companies. For over forty years the Availability Act has accomplished legislative intent. It has assured Kansans a reliable source of recovery when it is determined that compensation should be paid for an unintended medical outcome, and it has assured Kansas health care providers that they will always have access to adequate professional liability insurance coverage.