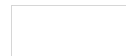
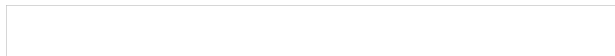
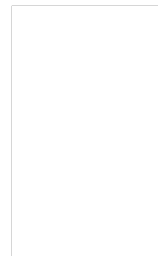
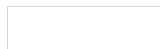
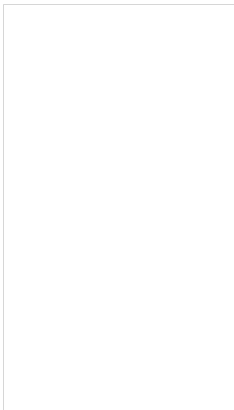


Health Care Stabilization Fund Calendar Year 2017 Surcharge Issues

November 30, 2016



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.*

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Table of Contents

This presentation will address the following topics:

- Our projections of unassigned reserves at June 2016 and June 2017
- Rate level indications for CY17 (January 1, 2017 – December 31, 2017)
- Rating by Years of Compliance
- The experience and indications by provider class
- A history of surcharge rate changes

Questions are welcome throughout the presentation

This presentation is based on our review of Fund data as of December 31, 2015 and is an addendum to our report dated April 19, 2016. 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, 2016 and June 30, 2017, along with our prior estimate for June 2016, are as follows (in \$millions)

	2015 Review June 30, 2016	2016 Study June 30, 2016	2016 Study June 30, 2017
Assets	\$278.22	\$276.49	\$282.98
Liabilities	<u>230.02</u>	<u>228.35</u>	<u>234.40</u>
Unassigned Reserves	\$ 48.20	\$ 48.14	\$ 48.58

Based on our analysis, the Fund could reduce its surcharge rates by 3.2% for CY17 and still maintain its unassigned reserves at the expected year-end CY16 level (approximately \$48 million)

Conclusions – Continued

The forecasts of unassigned reserves assume

- Changes in surcharge rates for CY17 as described on pages 11, 12 and 13
- \$27.8 million in surcharge revenue in the July 1, 2016 – June 30, 2017 period (FY17)
- A 2.0% interest rate for estimating the tail liabilities on a present value basis
- A 3.25% 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 reduction in rates for CY17, perhaps by continuing to lessen the differences in rates by Year of Compliance and making adjustments by specialty

Conclusions – Continued

From our perspective, there were positive and negative developments in the Fund's experience since our last review:

- Positive/Favorable
 - Claims against active providers
 - Defense costs on claims against active and inactive providers
- Negative/Unfavorable
 - Claims against inactive providers
 - Investment income

Specifically on the negative findings:

- Reserves on claims from inactive providers increased from \$5.3 million at April 2015 to \$6.1 million at December 2015
- We estimated the yield on Fund assets was 3.3% in FY15 and 3.1% in the first six months of FY16
 - We dropped our assumption from 3.70% to 3.25% as a result

Liabilities at June 30, 2016

The split of the Fund's estimated liabilities at June 30, 2016 is as follows (in \$millions)

Active Providers – Losses	\$ 79.4
Active Providers – Expenses	13.9
Inactive Providers – Known at 6/30/16	9.1
Inactive Providers – Tail	113.4
Future Payments	11.2
Claims Handling	7.5
Other	<u>-2.5</u>
Subtotal – Gross Liabilities	\$237.0
Reimbursements	<u>-8.7</u>
Total Net Liabilities	\$228.3

Rate Level Indications

The Fund's rate level indications for CY17 are shown below; assumes a break-even target

CY17 Item	Amount (\$000s)	Comments
1. Payments	\$28,934	Net of Reimbursement
2. Change in Liabilities	5,717	
3. Administrative Expenses	1,770	Based on FY15 and first half of FY16
4. Plan and KDHE Transfers	<u>200</u>	Assumes no Plan transfer
5. Total CY17 Costs (1) + (2) + (3) + (4)	\$36,621	
6. Investment Income	<u>8,958</u>	3.25% on average assets
7. Surcharge Needed for Break-Even (5) - (6)	\$27,663	
8. Projected Surcharge Revenue	<u>28,569</u>	At current rates
9. Rate Level Indications (7) / (8) - 1.00	-3.2%	

Findings – Rating by Year of Compliance

The table below shows Fund surcharge rates for Class 2 for \$800,000/\$2,400,000 coverage in 2015 and 2016

Years of Compliance (YOC)

	1	2	3	4	5+
CY15	\$340	\$873	\$1,376	\$1,522	\$1,699
CY16	425	934	1,444	1,614	1,699

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 1-4 providers are, in a relative sense, being undercharged
- We suggested to the Board that they consider continuing to lessen the difference in rates by YOC in CY17

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% or Decrease <10%	Increase >10%
Class 20 (-21%) Class 13 Class 8 Class 10 Class 4 Class 18 Class 14 Class 3 Class 12 (-12%)	Class 9 (-7%) Class 16 Class 19 Class 1 Class 2 Class 5 (+4%)	Class 6 (+12%) Class 11 Class 7 Class 17 Class 15 (+42%)

Page 14 has further details on class definitions

History of Surcharge Rate Changes

The table below shows changes in surcharge rates since 2004. Excludes the increases in the MO surcharge in FY2008 and FY2014. The 2016 changes also included raising the relativities for YOCs 1-4

Program Year	Overall Change	Classes 1-14 Range of Rate Changes		Classes 15+ % Basic Coverage Premium*
		Low	High	
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%
2014	-5%	-20%	-5%	38%**
2015	0%	0%	0%	38%**
2016	+2%	0%	5%	38%**

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

**40% for Class 15

CY17 Surcharge Rates

We offered the following for the Board to consider in establishing Fund rates for CY17, summarized as follows

- Option 1 – No changes
- Option 2 – Selective rate changes by class
- 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, 8-10, 12-14	6,7,11	15	17	16,18+	1	2	3	4	
1	0%	0%	0%	0%	0%	25%	55%	85%	95%	0%
2	-5%	0%	+10%	+5%	0%	25%	55%	85%	95%	-2.0%
3	-7%	0%	+5%	+2.5%	0%	30%	60%	90%	100%	-2.2%

CY17 Surcharge Rates (cont.)

The Board of Governors decided on the surcharge rate changes below. We estimate the overall impact of these changes to be a 2.7% decrease in surcharge revenue

1. Providers with 5+ Years of Compliance – Classes 1-14

Classes 1-5, 8-10, 12-14	-7.0%
Classes 6, 7, 11	No Change

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

	Relativity to YOC5	
	CY16	CY17
YOC 1	25%	30%
YOC 2	55%	60%
YOC 3	85%	90%
YOC 4	95%	100%

CY17 Surcharge Rates (cont.)

3. Providers with <5 Years of Compliance – Classes 16-24

Coverage Limit	Classes 16-24	
	CY16	CY17
\$100,000/\$300,000	23.0%	22.0%
\$300,000/\$900,000	35.0%	33.0%
\$800,000/\$2,400,000	40.0%	38.0%

4. Providers with 5+ Years of Compliance – Class 15

Coverage Limit	Class 15	
	CY16	CY17
\$100,000/\$300,000	23.0%	24.0%
\$300,000/\$900,000	35.0%	37.0%
\$800,000/\$2,400,000	40.0%	42.0%

There are no changes to the percentages for Fund Classes 16-24 for providers with five or more years of compliance, or to providers in Class 15 with less than five years of compliance

Class Definitions, Distributions and Rates

		FY15 # Providers	CY16 Rate*
Class 1	Physicians, No Surgery. Includes dermatology, pathology, psychiatry	676	\$ 753
Class 2	Physicians, No Surgery	3,468	1,699
Class 3	Physicians, Minor Surgery	1,606	2,339
Class 4	Family Practitioners, including minor surgery and OB	159	2,616
Class 5	Surgery Specialty – Includes urology, colon/rectal, GP with major	268	2,861
Class 6	Surgery Specialty – Includes ER (no major), ENT	539	3,322
Class 7	Anesthesiology	392	2,482
Class 8	Surgery Specialty – Includes general, plastic, ER with major	507	6,377
Class 9	Surgery Specialty – Includes cardiovascular, orthopedic, traumatic	371	6,399
Class 10	Surgery Specialty – Includes OB/GYN	260	9,379
Class 11	Surgery Specialty – Neurosurgery	52	16,510
Class 12	Chiropractors	1,044	481
Class 13	Registered Nurse Anesthetists	794	827
Class 14	Podiatrists	104	1,833
Class 15	Availability Plan insureds	347	40%
Class 16	Professional corporations, partnerships	1,148	38%
Class 17	Medical care facilities	194	38%
Class 18	Mental health centers	24	38%
Class 19	Psychiatric hospitals	1	38%
Class 20	Residency training program	808	38%
Class 21	Physician Assistants	838	38%
Class 22	Nurse Midwives	44	38%
Class 23	Assisted Living and Residential Health Care Facilities	150	38%
Class 24	Nursing Facilities	290	38%
Class 30	Other	3	38%
		14,085	

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