



Health Care Stabilization Fund  
Legislative Oversight Committee Meeting  
December 14, 2005

Members of the Board of Governors

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Larry Shaffer, Vice Chairperson

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Julie Quirin, President & CEO St. Luke's South Hospital		Mike Dorsey, Chief Operating Officer St. Francis Health Center

Presentation by  
Robert D. Hayes  
Executive Director

1

Good morning Mr. Chairman and members of the Committee. I am Bob Hayes, Executive Director of the Health Care Stabilization Fund. I will take this opportunity to express my appreciation to the members of this committee for attending today's meeting. At this time, I am introducing:

Rita Noll, Chief Attorney

Fund Staff: Lorie Anderson, Gary Zook, Kathy Dorst and Laura Ray

Russ Sutter, Actuary for Tillinghast.

And in addition to Our Chairperson, Dr. Snow, who is on this committee. Other Board members are listed on this slide. Our Board Members are appointed by the Commissioner of Insurance from nominees submitted to the Commissioner by the health care provider professional associations. The terms of appointments are staggered. Individual Board Members may serve two consecutive four-year appointments.



## Mission Statement

The Health Care Stabilization Fund will conduct its operations and activities in a manner to:

- assure and facilitate a sound actuarial basis;
- assist health care providers complying with the Health Care Provider Insurance Availability Act;
- aggressively defend the Fund when eligible health care providers become involved in claims or court actions arising from the rendering of or failure to render professional services; and
- safeguard the interests of the Fund through management activities which maximize the efficient operation of the Fund.

2

Our mission statement sets out the intent of the Fund Board of Governors to administer the duties and responsibilities of the Fund in a fair, effective and efficient manner. The mission of the Fund is important to our health care providers, the general public and the legislature.

Included in the Fund's assistance role is maintaining availability and access to the required basic professional liability insurance coverage through its support to the Health Care Provider Insurance Availability Plan, while at the same time providing the excess professional liability coverage set forth in the Fund law.

It is challenging when providing excess professional liability coverage over the basic coverage policies written by more than 30 insurance companies within our state and even a greater number of insurers which may be providing the required coverage for those non-resident providers who practice in Kansas.



## Health care providers

(See HCSF law for a more exact definition of the term "health care provider.")

Physicians and Surgeons (Includes temporary permits)  
Persons engaged in postgraduate training programs  
Podiatrists  
Registered Nurse Anesthetists (Includes temporary permits)  
Dentists certified by Board of Healing Arts to administer anesthetics  
Medical Care Facilities

- Hospitals (general, critical access or special hospital)
- Ambulatory surgical centers
- Recuperation centers

Mental Health Centers and Clinics  
Psychiatric Hospitals  
Chiropractors  
Kansas professional, N-F-P and limited liability corporations  
Kansas health care provider partnerships

3

These are the defined health care providers that are included in the Fund. There have been other groups of providers involved with the Fund . . . Optometrists, Pharmacists, Physical Therapists and HMOs . . . these groups asked the legislature to be removed from the Fund. Those requests were based on the availability of professional liability coverage in the voluntary insurance markets and other coverage considerations.

It is also worthy of a brief comment that nurses, physician assistants and nursing homes are not included in the Fund.

The deletion or addition of any provider group requires legislative action.



## Health Care Stabilization Fund Coverage Provisions

Basic coverage:  
\$200,000/\$600,000

(A 1984 change from the prior \$100,000/\$300,000 basic coverage limits)

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Select one of the  
Health Care Stabilization Fund coverage limits:

\$100,000/\$300,000

\$300,000/\$900,000

\$800,000/\$2,400,000

(A 1989 change from the prior Fund coverage limit of \$3Million/\$6Million)

4

The basics of the Fund professional liability coverage are for each health care provider:

- to maintain basic coverage of \$200,000 per claim with an annual aggregate of \$600,000 for all claims, and
- to select one of the Fund excess coverage limits.

The optional Fund coverage limits are:

- \$100,000/\$300,000
- \$300,000/\$900,000
- \$800,000/\$2,400,000



## Selection Of Fund Coverage Limits

For Coverage Periods With An Effective Date In Each Fiscal Year

### By All Kinds Of Health Care Providers

<u>COVERAGE LIMITS</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
\$800,000/\$2.4M	79%	84%	87%	87%
\$300,000/\$900,000	5%	4%	4%	4%
\$100,000/\$300,000	16%	12%	9%	9%
Total coverage periods	9,992	10,167	10,216	10,292

### Physicians and Surgeons

<u>COVERAGE LIMITS</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
\$800,000/\$2.4M	85%	89%	92%	93%
\$300,000/\$900,000	3%	3%	3%	2%
\$100,000/\$300,000	11%	8%	5%	5%
Total coverage periods	7,049	6,445	6,487	7,500

5

The number and percentage of coverage limit selections during recent fiscal years are shown in these tables.

The top table shows the Fund coverage limit selections for policies issued to all kinds of health care providers.

The bottom table shows the Fund coverage limit selections for only those policies issued to Kansas physicians and surgeons.

These figures show the established trend of health care providers to select the highest Fund coverage limits.



## Insurance Companies

	Health care provider policy years		
	FY 2003	FY 2004	FY 2005
KaMMCO	2,581	2,914	3,011
Medical Protective Company	1,008	953	916
NCMIC Insurance Company	734	825	777
Health Care Provider Insurance Availability Plan	558	597	574
Intermed Insurance Company	340	197	209
The Doctors' Company, An Inter-Insurance Exchange	236	100	103
Continental Casualty Company	230	232	237
Medical Assurance Company	178	350	439
Chicago Insurance Company	168	0	0
OHIC Insurance Company	194	131	11
National Union Fire Insurance Company	136	160	182
TIG Insurance Company	103	0	0
Other Insurers	422	691	828
	(15 Insurers)	(19 Insurers)	24 Insurers
Total number of policy years in this summary	6,858	7,150	7,287

*(Information for FY 2003 and FY 2004 are from prior year report. Table information does not include postgraduate training and faculty health care providers.)*

6

The Kansas basic professional liability insurance coverage markets have not experienced any major changes in the past year. In Kansas, as in many other states, the exit of the St. Paul, PHICO and OHIC insurance companies two and three years ago continue to have an impact on the competitive makeup of our insurance markets.

Kansas has been fortunate to have the Health Care Provider Insurance Availability Plan to assure the availability of the required basic coverage. During the last year several other states, including Missouri and Oklahoma, have requested information regarding how the Kansas Availability Plan was organized and implemented.

Presently our Availability Plan provides the required basic coverage to about 500 health care providers. This number of providers insured by the Plan has been decreasing but a stronger voluntary market is not rapidly developing.



## Changing number of authorized self insured medical care facilities

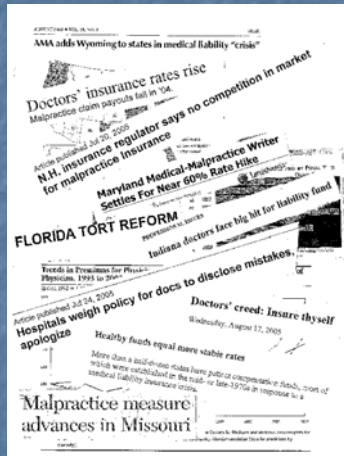
Number of self insured	FY 2000	FY 2004	FY 2005
Hospitals	3	7	9
Ambulatory Surgical Centers	2	2	2
Total	5	9	11

(Does not include the self insurers that are specifically authorized by statute. These are KU Medical School programs, Halsey Hall and Kansas Veterans Home.)

7

Hospitals are eligible to become authorized basic coverage self-insurers. There are now 11 facilities that have been authorized by the Fund Board of Governors. We are anticipating that at least two additional hospitals will request to become self insured this fiscal year.

The self-insurance application, review and authorization process is established. Yet this is a very challenging area of administration because it requires the Fund to become directly involved in basic coverage activities such as rating and experience rating, understanding and reviewing hospital financial administration, provider claims administration and basic coverage administration.



Trade magazine articles and newspaper headlines such as these, indicate the kinds of problems which have been or are impacting other states.

Kansas has not been immune to the recent country wide insurance market contractions; however, because of the Availability Plan and the Fund our health care providers did have access to professional liability coverage.

Our fund is actuarially sound. Health care provider surcharge payments and investment income are the income source of the Fund – that is, the Fund does not receive, and never has received, any state general revenue funding for its operational or coverage responsibilities.



## Overview Of The Fund

Fiscal Year	Fund Balance	Surcharge Income	Investment Income	New Cases Opened	Active or Open Cases	Number of CLAIMS in the Open Cases
2005	\$197.2m	\$19.3m	\$5.9m	336	622	1,145
2004	199.5m	18.2m	6.6m	368	694	1,236
2003	199.4m	17.1m	8.4m	392	646	1,169
2002	199.6m	15.5m	10.3m	361	559	991
2001	199.9m	12.9m	11.6m	342	498	891
2000	198.1m	11.5m	11.2m	294	384	731
1999	200.8m	10.2m	11.6m			

	FY 2005	FY 2004	FY 2003
Loss Payments	\$23.4 Million	\$19.1m	\$22.1m
Loss Expense Payments	3.7 Million	3.2m	2.5m
Total Loss & Loss Expense	27.1 Million	22.3m	24.6m

*(Amounts are Fund payments and do not include reimbursement amounts.)*

9

As of June 30, 2005, the balance of the Fund was \$197.2 million - just below the preceding years. Russ Sutter of Tillinghast will be providing additional information regarding the projected liabilities, unassigned reserves and Fund balance expectations in the actuarial portion of this meeting.

- Surcharge revenue during FY 2005 was \$19.3 Million.
- Our investment income for FY 2005 is down dramatically from FY 2001. Overall, the return on our current investments is 2.8%, with an average maturity period of about 1.8 years.
- 336 case files were opened during the fiscal year and we had 622 open case files.
- In those open case files there were 1,145 claims made against individual health care providers.

The lower portion of this exhibit summarizes the Fund loss payments during fiscal year 2005. That amount was \$27.1 million. In the prior year the total loss and loss expense payments were \$22.3 million.



## Recent transfers between the Health Care Provider Insurance Availability Plan and the Health Care Stabilization Fund

<u>Fiscal Year Of Transfer</u>	<u>From the Plan to the Fund</u>	<u>From Fund to the Plan</u>
2002		\$ 698,062
2003		1,980,858
2004		1,623,116
2004	\$ 714,418	
2005	2,252,327	

10

Each year we provide information regarding the responsibility of the Fund to provide the financial back-up for the Availability Plan. This responsibility is another factor that is unique to Kansas.

Over the years the Availability Plan has experienced 16 “profit” years and 13 “loss” years.



## Health Care Provider Insurance Availability Plan Transfers

(Rounded to the nearest \$1,000)

Fiscal Year Of Transfer	From Plan To Fund	From Fund To Plan	Cumulative
1978	\$140,000		\$140,000
1979	565,000		705,000
1980	103,000		808,000
1981	285,000		1,093,000
1982	364,000		1,457,000
1983		1,063,000	394,000
1984		1,379,000	(985,000)
1985		2,181,000	(3,166,000)
1986		3,286,000	(6,452,000)
1987	46,000		(6,406,000)
1988		2,923,000	(9,329,000)
1989	1,100,000		(8,229,000)
1990	1,616,000		(6,613,000)
1991	25,000		(6,588,000)
1992	1,064,000		(5,524,000)
1993	3,000	3,429,000	(8,950,000)
1994		2,992,000	(11,942,000)
1995	514,000		(11,428,000)
1996	575,000		(10,853,000)
1997	776,000		(10,077,000)
1998		895,000	(10,972,000)
1999		1,878,000	(12,850,000)
2000		808,000	(13,658,000)
2001	247,000		(13,411,000)
2002		698,000	(14,109,000)
2003		1,981,000	(16,090,000)
2004		1,623,000	(17,713,000)
2005	714,000		(16,999,000)
2006	2,252,000		(14,747,000)
<b>Total Amounts</b>	<b>\$8,137,000</b>	<b>\$25,136,000</b>	<b>(\$14,747,000)</b>

11

With this year's transfer from the Availability Plan, the cost of the Plan to the Fund for all year's will be approximately \$14.7 million. If that total is averaged over the last 29 years, the average annual cost of the Availability Plan to the Fund is about \$500,000.

Kurt Scott, of KaMMCO, is here this morning. KaMMCO is the servicing carrier for the Availability Plan and I am sure he will be glad to answer any additional questions you may have about the Availability Plan.



## Surcharge adjustments adopted by the Board

The first surcharge rate increases in four years were adopted by the Board for FY 2006. Overall the increase was 15%. The increase for individual health care provider groups will vary between 5% and 25%

For hospitals, professional corporations, HCPIA Plan insured health care providers the percentage rates returned to the FY 2004 percentages:

Fund Coverage Limits:	FY 2003	FY 2004	FY 2005	FY 2006
\$100,000/\$300,000	22%	20%	20%	20%
\$300,000/\$900,000	33%	30%	26%	30%
\$800,000/\$2,400,000	38.5%	35%	32%	35%

12

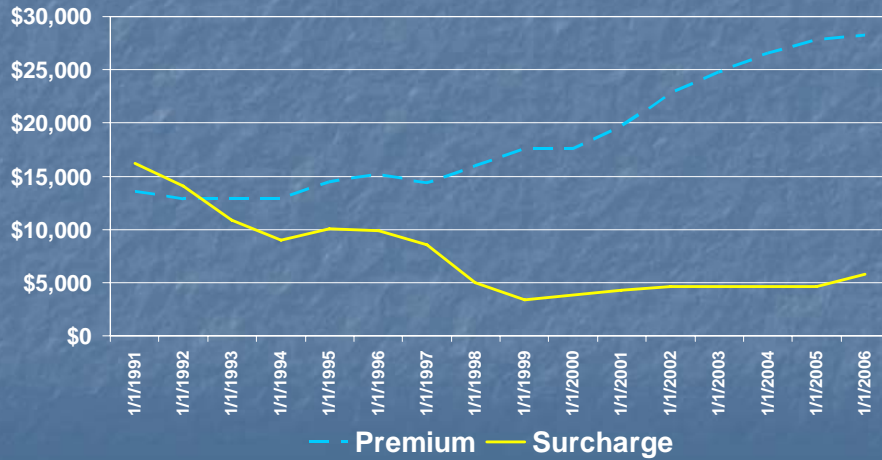
The first surcharge rate increases in four years were adopted by the Board for FY 2006. Overall the increase was 15%. The increase for individual health care provider groups will vary between 5% and 25%. The surcharge rate tables are used for most of our individual health care providers.

Also on this slide are changes that have been made to the surcharge percentage rates. These rates are used for hospitals, professional corporations and those providers insured by the Availability Plan.



## Premium And Surcharge Cost

For a General Surgeon with \$800,000/\$2.4m HCSF Coverage  
(FY 2006 premium is estimated)



13

This graph provides the premium and surcharge costs for a Kansas general surgeon. The FY 2006 premium estimate is \$28,253 and the surcharge will be \$5,828. The Fund surcharge rate had been \$4,662 for four consecutive years.

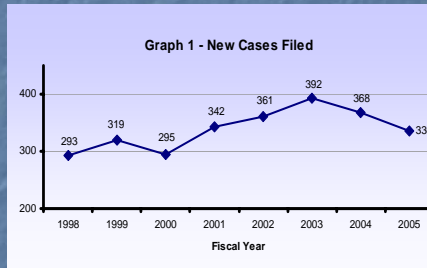
The FY 2006 Fund surcharge cost is equivalent to about 21% of the estimated premium for this doctor's basic coverage. In Fiscal Year 1991 this doctor's surcharge was equal to 135% of the doctor's basic coverage cost.



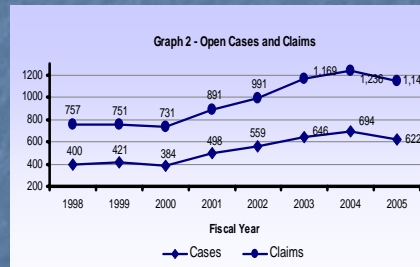
## Fund Case and Claim Statistics

(By Fiscal Year)

Changes in the number of cases filed each year



Changes in the number of open cases and claims



14

The number of new cases filed each year had been steadily increasing during the Fiscal Years of 2000 through 2003, when we reached 392 cases, then down to 368 in Fiscal Year 2004 and 336 for FY 2005.

At this time, we anticipate that our FY 2006 case and claim counts will increase due to the number of new cases filed in Missouri which involve Kansas resident health care providers practicing in that state.

The bottom graph shows the corresponding number of open case and claim files for the same fiscal year periods. As shown, last year was the first reduction in these numbers since the 2000 - 2001 period.



## Recent Fund Activities

- Additional Investment authority for high grade corporate bonds added.
- Maintain an effective and accessible database and computer reporting system.
- Board of Governors review of methods to improve timely coverage documentation and surcharge submissions, as well as the appropriate level of basic coverage limits.
- Included a new legal assistant position in this year's budget submission.

15

During this year's legislative session, a change to include high grade corporate bonds was added to the investment authority of the Fund. Those investments, like other Fund investments, are handled through the State Pooled Money Investment Board.

We have also undertaken the task of migrating our database system into a Microsoft Access based system.

The Fund Board of Governors is reviewing methods to improve the timely submission of basic coverage documentation and surcharge payments, as well as the appropriate level of basic coverage limits. The support of this Oversight Committee would be appreciated should the Board of Governors determine the need for legislation of this nature. We will, of course, keep this committee aware of the status the Board's review.

Also, in this year's budget submission we have requested the addition of a new legal assistant position due to the increase in our claim related activities.



## Major activities of the Fund

- Provides access to excess professional liability for defined health care providers
- Resolves professional liability insurance “tail” problems for active and eligible inactive health care providers
- Provides support funding for the Health Care Provider Insurance Availability Plan
- Utilizes its actuarially sound basis as part of its current surcharge management activities

16

Providing excess coverage, resolving “TAIL” coverage problems, supporting the Availability Plan and its surcharge management activities are among the many important features of the Fund.



## Outlook

Maintain A Reasonable Fund Balance To Assure:

- Fiscal Strength of the Fund
- Reasonable Surcharge Costs
- Efficient and Effective Operations

17

In closing my portion of today's presentation, the outlook of the Fund is the continued maintenance of a reasonable balance that will assure its fiscal strength, reasonable surcharge costs and the efficient and effective management of its operations.

I am pleased to stand for any questions the committee may have at this time or during any part of today's meeting.