



Health Care Stabilization Fund
Legislative Oversight Committee Meeting
December 19, 2006

Members of the Board of Governors

Arthur D. Snow, Jr., M.D. Chairperson
Larry Shaffer, Vice Chairperson

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Steve Clifton, CRNA	Steven C. Dillon, M.D.	Elaine L. Ferguson, D.O.
Julie Quirin, President & CEO St. Luke's South Hospital		Mike Dorsey, Providence Hospital

Presentation by
Robert D. Hayes
Executive Director

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

Rita Noll, Chief Attorney

Fund Staff members: Stacey Woolington, Lorie Anderson, Gary Zook, Laura Ray

and

Russ Sutter, Actuary for Tillinghast.

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

Also on your committee are Dr. Rider and Mr. Gene Schmidt who have served on the Fund Board of Governors.



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.

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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.

The Fund's primary responsibility is providing excess professional liability coverage for each defined health care provider. In addition, the Fund law establishes the required basic professional liability coverage and includes financial support from the Fund for the Health Care Provider Insurance Availability Plan.



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 corporations, not for profit corporations and limited liability corporations (as defined in the Fund law)
Kansas health care provider partnerships

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These are the defined health care providers that are included in the Fund. The deletion or addition of any provider group requires legislative action.

As I have pointed out in past years nurses, physician assistants, nursing homes and several other categories of medical care providers are not included in the Fund.

In the last six months, we have been receiving more frequent questions about hospitals that have acquired or now include the ownership of a clinic, assisted living facility or other health service activity. In most of these situations we find that the new activity is not included in the hospital's license and is not covered by the Fund.



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)

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)

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Each health care provider is required:

- 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 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>
\$800,000/\$2.4M	79%	84%	87%	87%	87%
\$300,000/\$900,000	5%	4%	4%	4%	4%
\$100,000/\$300,000	16%	12%	9%	9%	9%
Total coverage periods	9,992	10,167	10,216	10,292	10,680

Physicians and Surgeons

<u>COVERAGE LIMITS</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>
\$800,000/\$2.4M	85%	89%	92%	93%	93%
\$300,000/\$900,000	3%	3%	3%	2%	2%
\$100,000/\$300,000	11%	8%	5%	5%	5%

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The number and percentage of coverage limit selections during recent fiscal years are shown in these tables. As you can see from this review the distribution of selected Fund coverage limits has leveled off.

Total physician and surgeon coverage periods FY02 = 7,049 FY03 = 6,445 FY04 = 6,487 FY05 = 7,500 FY06 = 7,709



Insurance Companies

	Health care provider policy years		
	FY1999*	FY 2005	FY 2006
KaMMCO	1,574	3,011	3,040
Medical Protective Company	462	916	974
NCMIC Insurance Company		777	824
Health Care Provider Insurance Availability Plan	263	574	569
Intermed Insurance Company	48	209	178
The Doctors' Company, An Inter-Insurance Exchange	16	103	146
Continental Casualty Company	851	237	245
Medical Assurance Company	9	439	395
Chicago Insurance Company	140	0	0
OHIC Insurance Company	53	11	0
National Union Fire Insurance Company	2	182	151
TIG Insurance Company	2	0	0
Other Insurers		828	991**
Total number of policy years in this summary	6,890	7,287	7,513

(Information for FY 2005 is from prior year report. Table information does not include postgraduate training and faculty health care providers.)

**Incomplete comparison data for FY 1999 because of changes in the markets. In 1999 St. Paul was 1,552 policy years and PHICO was 1,002 policy years.*

***21 other insurers*

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The Kansas basic professional liability insurance coverage markets have not experienced any major changes in the past year.

For this comparison, the numbers represent policy year equivalents – not the number of individual providers.

The impact of the exit of St. Paul, PHICO, OHIC and other insurance companies between 2000 and 2003 is shown on this chart. During this period many health care providers found it necessary to seek basic coverage with one of the remaining insurers or the Availability Plan.

Kansas has been fortunate to have the Health Care Provider Insurance Availability Plan to assure that our health care providers can obtain the required basic coverage. During the last fiscal year our Availability Plan provided basic coverage to approximately 700 full-time and part-time health care providers.



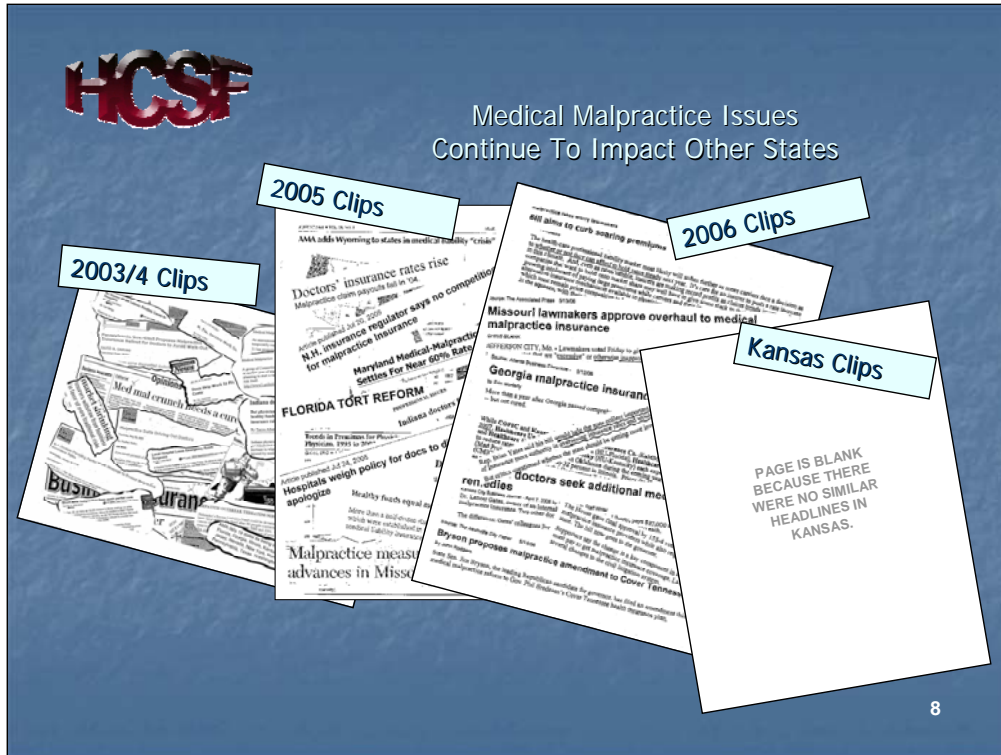
Changing Number Of Authorized Self Insured Medical Care Facilities

Number of self insured	<u>FY 2000</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
Hospitals	3	7	9	9
Ambulatory Surgical Centers	2	2	2	3
Total	5	9	11	12

(Does not include the self insurers that are specifically authorized by statute (e.g., medical school programs, Halsey Hall and Kansas Veterans Home.)

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Another portion of the Fund law provides for qualified health care providers to become authorized basic coverage self-insurers. There are now 12 facilities that have been authorized by the Fund Board of Governors.



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 experienced the lack of adequate availability or the extreme rate increases which have been taking place in other states. When our health care providers could not locate the required basic coverage from one of the insurance companies, our Availability Plan provided that coverage.



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
2006	\$199.9m	\$21.6m	\$5.7m	457	707	1,266
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 2006 Fund Loss and Loss Expense Payments \$25.9 million

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As of June 30, 2006, the balance of the Fund was \$199.9 million – a little less than the 1999 Fund balance. 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 2006 was \$21.6 million.
- Investment income for FY 2006 was \$5.7 million.
- There were 457 new case files during FY 2006 and at the end of that fiscal year we had 707 open case files.
- In the open case files there were 1,266 claims made against individual health care providers.

Noted at the bottom of this exhibit is the FY 2006 Fund loss and expense payment amount of \$25.9 million.

Our Fund is actuarially sound. Health care provider surcharge payments and investment income provide the revenue for the Fund. The Fund does not receive any state general revenue funding for its operational or coverage responsibilities.

Fund loss & expense payments for: 2005 were \$27.1m; 2004 were \$23.9m (last year's slide at \$22.3m+\$1.6m Plan); 2003 were \$24.7m
Missing from the table numbers are the Plan transfer of \$2.3m and administrative expenses of \$1.0m.
The overall yield to maturity on our investments at the end of FY 2006 was 3.8%. WAM was 2.4 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)
2007	1,494,000		(13,253,000)
Total Amounts	\$11,883,000	\$25,136,000	(\$13,253,000)

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Each year we provide information regarding the responsibility of the Fund to provide the financial back-up for the Availability Plan.

With this year's transfer of about \$1.5 million from the Availability Plan, the cost of the Plan to the Fund for all year's will be approximately \$13.3 million.

The average annual cost of the Availability Plan to the Fund is about \$442,000.



Surcharge Adjustments Adopted By The Board

A 5.9% surcharge rate increase adopted by the Board for FY 2007. The increase for individual health care provider groups will vary between 3% and 15%

For hospitals, professional corporations, HCPIA Plan insured health care providers the percentage rates were not changed from FY 2006:

<u>Fund Coverage Limits:</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
\$100,000/\$300,000	22%	20%	20%	20%	20%
\$300,000/\$900,000	33%	30%	26%	30%	30%
\$800,000/\$2,400,000	38.5%	35%	32%	35%	35%

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For the current fiscal year, Fund surcharge rates for our surcharge rate tables were increased 5.9%. 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.

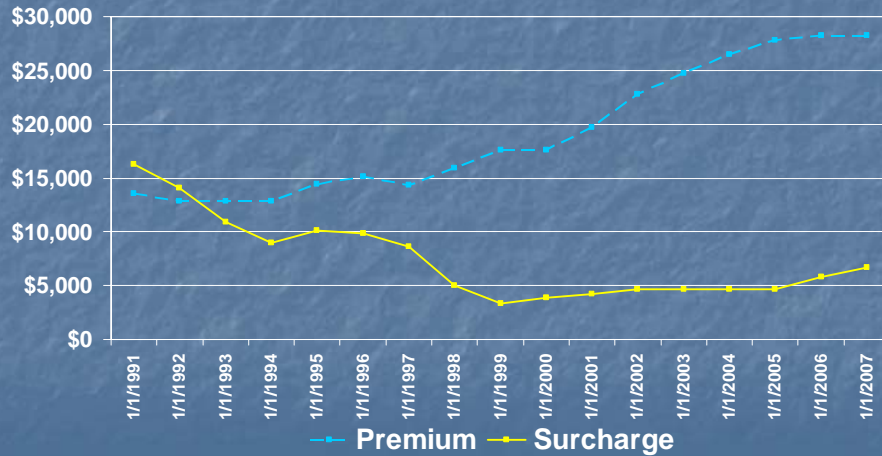
The increase for individual health care provider groups varies between 3% and 15%. See the April 2006 newsletter for the surcharge rate change information.

While the Fund has implemented increases in its surcharge rates during the past and current year, the impact of those increases have been within a reasonable range and those rate changes were not disruptive or controversial.



Premium And Surcharge Cost

For a General Surgeon with \$800,000/\$2.4m HCSF Coverage
(FY 2007 premium is estimated)



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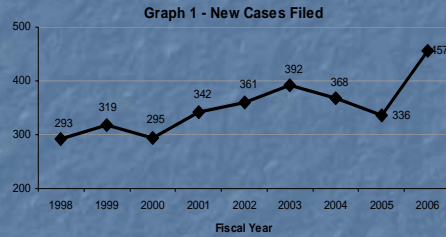
This graph provides the premium and surcharge costs for a Kansas general surgeon. The FY 2007 premium estimate is \$28,252 and the surcharge would be \$6,702.

In FY 1991 this doctor's surcharge was equal to 135% of the doctor's basic coverage cost.

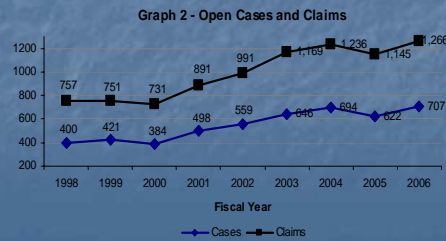


Fund Case and Claim Statistics (By Fiscal Year)

Changes in the number of cases filed each year



Changes in the number of open cases and claims



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As shown on these graphs the number of new cases, open cases and open claims have been increasing since 1998.

The FY 2006 cases in the top chart reflects an increase of Missouri cases in which a Kansas health care provider was named. This increase resulted from cases being filed before some Missouri law changes became effective in August of 2005.

The bottom graph shows the corresponding number of open case and claim files for the same fiscal year periods.



Review Of Basic And Fund Coverage Limits

- The present \$200,000/\$600,000 basic limits were established in 1984
- The same year the Fund coverage limits were set at \$3,000,000/\$6,000,000
- The present optional Fund coverage limits became effective July 1, 1989
- The conceptual changes considered were to increase the basic coverage limits with offsetting reductions in the Fund coverage limits
 - Change basic coverage limits to \$300,000/\$900,000
 - Change Fund coverage limits to \$200,000/\$600,000 or \$700,000/\$2,100,000
- Because these coverage limit changes would result in overall increased to health care providers, no changes are being pursued.

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The possibility of making changes to the basic and Fund coverage limits was reviewed by the Board of Governors. The Kansas Medical Society expressed interest in making this kind of change to keep the basic coverage limits in a reasonable relationship with typical loss settlement values.

The key factor in pursuing such changes would be the cost impact on individual health care providers. Information reviewed indicated there would be an increase of 10% to 15%* in those costs if the basic and Fund coverage limits were changed.

Other implementation procedures involving differences in basic coverage policy forms were also discussed.

Because of these factors, the Board of Governors decided that no legislative change would be requested.

*Increase basic coverage limits to \$300,000/\$900,000. Change Fund coverage limits to \$100,000/\$300,000; \$200,000/\$600,000; and \$700,000/\$2,100,000.



Recent Fund Activities

- Continuing our efforts to work with the State Pooled Money Investment Board to attain the effective and efficient investment of Fund monies.
- Continue to develop our database record keeping system.
- Revised existing staff positions, allowing the hire of a Chief Financial Officer.
- After gaining approval for one additional claim staff full time employee during this year's legislative session, the Fund staff size is now seventeen.

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During last year's legislative session, a change to include high grade corporate bonds was added to the investment authority of the Fund. Corporate bonds are now about 23% of our total investments. Those investments, like other Fund investments, are handled through the State Pooled Money Investment Board.

We are continuing to develop our database system.

We now have 17 authorized full-time positions. One of these positions is a designated Chief Financial Officer. Until last week all 17 positions had been filled. Last Friday one employee retired and a staff attorney resigned his position with the Fund.



Outlook

Maintain A Reasonable Fund Balance To Assure:

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

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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.