



January 29, 2014

The Honorable Clark Shultz, Chairperson  
House Committee on Insurance  
Statehouse, Room 521-E  
Topeka, Kansas 66612

Dear Representative Shultz:

**SUBJECT:** Fiscal Note for HB 2516 by House Committee on Insurance

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2516 is respectfully submitted to your committee.

HB 2516 would amend the Health Care Provider Insurance Availability Act. The bill would require the governing board of an association that formed a mutual insurance company that provides health care provider liability insurance to approve by resolution any plan or agreement for the sale, merger, consolidation or change of control of the company.

HB 2516 would increase the Board of Governors membership of the Health Care Stabilization Fund (HCSF) from ten to 11 by adding a representative of adult care homes. All Board members are appointed by the Commissioner of Insurance. HB 2516 would also require HCSF tail coverage to equal the amount of an inactive provider's primary insurance plus the amount of the HCSF coverage selected and in effect at the time of the event resulting in a claim on commercial liability insurance. When a health care provider has retired or otherwise discontinued his or her Kansas practice and had purchased \$200,000 per claim commercial liability insurance and continuously paid surcharges for \$800,000 HCSF coverage, the inactive provider would have \$1.0 million per claim coverage instead of \$800,000 per claim coverage.

HB 2516 would add the following healthcare providers to be covered by the HCSF: licensed physician assistants, licensed advanced practice nurses, licensed nursing facilities, licensed assisted living facilities, and licensed residential health care facilities. The bill would also delete references to HMOs, optometrists, and pharmacists who have not been covered by the HCSF for several years.

Finally, the bill would make several technical amendments such as replacing references to the Director of Accounts and Reports with references to the Secretary of Administration and replacing references to the Secretary of SRS with references to the Secretary of the Department for Children and Families or the Secretary for Aging and Disability Services.

Estimated State Fiscal Effect				
	FY 2014 SGF	FY 2014 All Funds	FY 2015 SGF	FY 2015 All Funds
Revenue	--	--	--	--
Expenditure	--	--	--	\$146,757
FTE Pos.	--	--	--	2.00

Most of the amendments to the Act would not have any fiscal effect for the HCSF, but adding the new health care providers required to comply with the Act would cause a commensurate increase in the agency’s workload. In recent years, the agency has processed compliance documentation and premium surcharge payments for approximately 12,000 health care providers per year. The agency estimates an additional 4,340 health care providers which would result in at least a 36.0 percent increase in workload. Currently there are 6.00 FTE positions performing compliance work. HCSF would require an additional 2.00 FTE positions to perform the additional work at an estimated annual cost of \$134,205 for salaries and benefits plus \$3,500 for other operating expenses. The agency would also have initial expenditures of \$9,052 for workstation construction and computers. The Health Care Stabilization Fund Board of Governors is granted statutory authority to assess premium surcharges on health care providers to fund all operating costs of the agency as well as the cost of claims and expenditures required for defense of claims. Therefore any increase in agency expenditures will be recovered via surcharges collected. However, passage of HB 2516 would require an increase in the agency’s FY 2015 expenditure limitation for state operations.

There will be professional liability claims against the newly covered health care providers in the future. Because the HCSF does not have loss experience attributable to these categories of health care providers, it is not possible to estimate the cost of future claims and related expenses at this time. The actuary employed by the HCSF Board of Governors will recommend appropriate methods to assure that surcharges collected from the health care providers will be reasonable and in accordance with sound actuarial principles in order to assure that accrued liabilities are adequately funded. After loss experience is obtained in future years, the surcharge rates will be refined to assure that each category of health care provider pays an appropriate surcharge based on ratios comparing revenue collections with loss experience. The actuary for the HCSF has also indicated that the additional tail coverage included in HB 2516 for inactive providers would initially increase fund liabilities by approximately \$3.0 million, which would reduce the unassigned reserves by an equal amount. This would require a small increase in

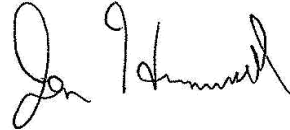
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surcharge rates in the future. Any fiscal effect associated with HB 2516 is not reflected in *The FY 2015 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Hummell". The signature is written in a cursive style with a large initial "J" and "H".

Jon Hummell,  
Interim Director of the Budget

cc: Cathy Brown, Healing Arts  
Zac Anshutz, Insurance  
Debra Billingsley, Pharmacy  
Jan Murray, Optometry  
Mary Blubaugh, Nursing  
Chip Wheelen, Health Care Stabilization Fund