



# Health Care Stabilization Fund Calendar Year 2023 Surcharge Issues

A presentation to the HCSF Oversight Committee  
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### **This presentation will address the following topics:**

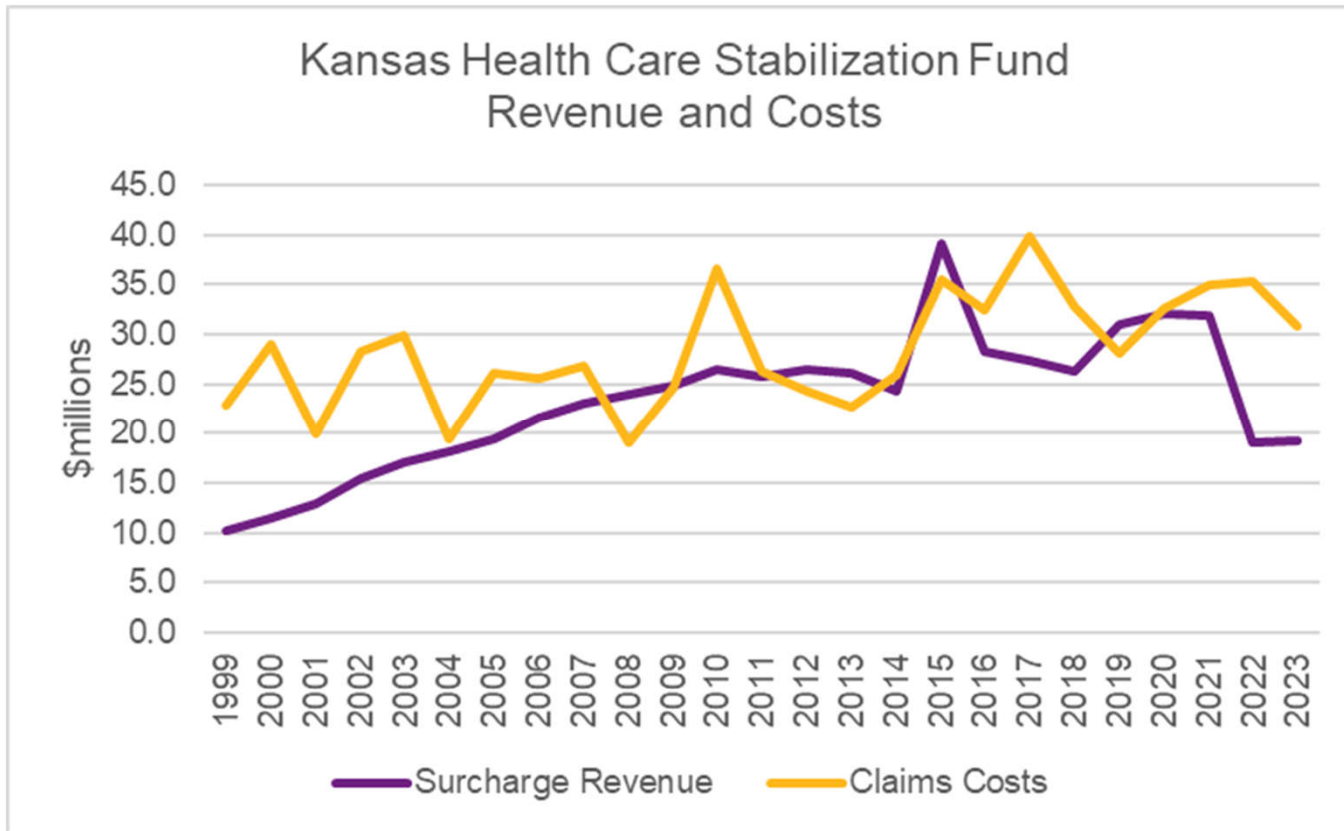
- Fund history of revenue and claims costs
- Our projections of unassigned reserves at June 2022 and June 2023
- Rate level indications for CY23 (January 1, 2023 – December 31, 2023)
- Recent Fund investment income
- The experience and indications by provider class
- CY23 surcharge recommendations

### **Questions are welcome throughout the presentation**

**This presentation is based on our review of Fund experience through December 31, 2021, contained in our report to the Fund dated September 13, 2022. The *Distribution and Use* and *Reliances and Limitations* sections of that report apply to this presentation**

## History of Surcharge Revenue and Claims Costs

The graph below shows Fund history of surcharge revenue and claims costs by program year from 1999 through projected 2023 based on estimates as of December 31, 2021



## Conclusions

### **2021 was generally a favorable year for the Fund:**

- Loss experience was better than expected on both active and inactive claims.
- Assets at December 31, 2021 were \$14 million higher than at December 31, 2020
- Investment yield has flattened out
- Rate inadequacy is high for the hospital and nurse midwife classes

**The Fund's financial position at June 30, 2022 is slightly better than forecasted one year ago. There is a slight positive rate indication for CY23. However, we did not believe that the Board needed to take a significant rate increase for CY23.**

## Conclusions (continued)

**Our forecasts of the Fund's financial positions at June 30, 2022 and June 30, 2023, along with our prior estimate for June 2021, are as follows (in \$millions)**

|                     | 2021 Review<br>June 30, 2021 | 2022 Study<br>June 30, 2022 | 2022 Study<br>June 30, 2023 |
|---------------------|------------------------------|-----------------------------|-----------------------------|
| Assets              | \$303.34                     | \$311.27                    | \$299.54                    |
| Liabilities         | <u>264.71</u>                | <u>270.30</u>               | <u>269.07</u>               |
| Unassigned Reserves | \$ 38.62                     | \$ 40.98                    | \$ 30.46                    |

**Based on our analysis, the Fund needs to raise its surcharge rates by 2.0% in CY23 in order to maintain its unassigned reserves at the level projected based on the rate actions taken in 2021 for CY22**

## Conclusions (continued)

### **The forecasts of unassigned reserves assume**

- No change in surcharge rates for CY23
- \$19.1 million in surcharge revenue in the July 1, 2022 – June 30, 2023 period (FY23)
- A 2.25% interest rate for estimating the tail liabilities on a present value basis
- A 2.70% 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 small increase in rates for CY23, with potentially some variation by class**

## Rate Level Indications

The Fund's rate level indications for CY23 are shown below, compared to plan

| CY23 Item  | Amount (\$000s) | Comments                              |
|--|-----------------|---------------------------------------|
| 1. Payments  | \$36,205        | Net of Reimbursement                  |
| 2. Change in Liabilities                           | -2,330          |                                       |
| 3. Administrative Expenses                         | 2,080           | Based on FY21 and YTD FY22            |
| 4. Plan and KDHE Transfers                         | 200             | Assumes no Plan transfer, \$200k KDHE |
| 5. Planned Investment                              | <u>8,404</u>    | Based on CY22 surcharge decisions     |
| 6. Total CY23 Costs<br>(1) + (2) + (3) + (4) – (5) | \$27,751        |                                       |
| 7. Investment Income                               | <u>8,130</u>    | 2.70% on average assets               |
| 8. Surcharge Needed for Break-Even<br>(6) – (7)    | \$19,621        |                                       |
| 9. Projected Surcharge Revenue                     | <u>\$19,227</u> | At current rates                      |
| 10. Rate Level Indications<br>(8) / (9) – 1.00     | +2.0%           |                                       |

## Fund Investment Income

The Fund's investment yield has flattened out, after several years of decline. We kept our assumed future yield rate at 2.70% unchanged from our 2021 study

| Fiscal Year  | Average Assets (\$millions) | Investment Income (\$millions) | Effective Yield |
|--------------|-----------------------------|--------------------------------|-----------------|
| (1)          | (2)                         | (3)                            | (4)             |
| 2013         | \$259.9                     | \$9.8                          | 3.75%           |
| 2014         | 263.5                       | 9.3                            | 3.53%           |
| 2015         | 269.7                       | 8.8                            | 3.27%           |
| 2016         | 276.1                       | 8.2                            | 2.96%           |
| 2017         | 282.6                       | 8.1                            | 2.86%           |
| 2018         | 288.8                       | 8.0                            | 2.78%           |
| 2019         | 292.5                       | 7.8                            | 2.67%           |
| 2020         | 295.2                       | 8.2                            | 2.77%           |
| 2021         | 306.8                       | 8.6                            | 2.80%           |
| 2022 (6 mo.) | 315.9                       | 4.0                            | 2.53%           |

**A 10 basis point change in the assumed rate causes a 1.5% change in the CY23 indication**



## 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%<br>or<br>Decrease <10%   | Increase >10%                                 |
|---|--|---|
| Class 24 (-29%)<br>Class 13<br>Class 6<br>Class 12<br>Class 11<br>Class 23 (-11%) | Class 7 (-10%)<br>Class 2<br>Class 19<br>Class 18<br>Class 10<br>Class 1<br>Class 16<br>Class 9<br>Class 15<br>Class 21<br>Class 14<br>Class 3<br>Class 4<br>Class 8 (+8%) | Class 5 (+15%)<br>Class 22<br>Class 17 (+32%) |

Page 11 has further details on class experience and definitions

## History of Surcharge Rate Changes

The table below shows changes in surcharge rates since 2011. Excludes the increases in the MO surcharge in PY2014. The 2016 through 2022 changes also included raising the relativities for YOCs 1-4

| Program Year | Overall Change | Classes 1-14<br>Range of Rate Changes |      | Classes 15-24 % Basic Coverage Premium* |
|--------------|----------------|---------------------------------------|------|---|
|              |                | Low                                   | High |   |
| 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%**                                   |
| 2017         | -3%            | -7%                                   | 5%   | 38%**                                   |
| 2018         | -3%            | -7%                                   | 5%   | 36%**                                   |
| 2019         | +2%            | 0%                                    | 0%   | 36%**                                   |
| 2020         | +6%            | +6%                                   | +6%  | 38%**                                   |
| 2021         | +3%            | +0%                                   | +5%  | 38% - 42%**                             |
| 2022         | -48%           | -48%                                  | -48% | 15% - 17%**                             |

\*For maximum Fund coverage

\*\*Higher for Class 15

## CY23 Surcharge Rates

**We offered the following for the Board to consider in establishing Fund rates for CY23, summarized as follows**

- Option 1 – No changes in rates
- Option 2 – 4% base rate increase on classes 1-14; no rate changes on classes 15-24. Net overall impact is +2.8%
- Option 3 – Selective rate changes by class; raise rates by 3% on classes 3, 4, 8 and 14, by 10% on class 5, by 12% on class 22, and by 13% on class 17. Net overall rate impact is +2.6%

**All of these options ignore the potential Fund revenue increase due to higher basic coverage rates, other than for the impact of SB78, for classes 15-24.**

**The Board chose Option 1. There will be no change in surcharge rates for CY23.**

## Class Definitions, Distributions and Rates

|          |   | CY21<br># Providers | CY22<br>Rate* |
|----------|---|---------------------|---------------|
| Class 1  | Physicians, No Surgery. Includes dermatology, pathology, psychiatry | 1,000               | \$396         |
| Class 2  | Physicians, No Surgery  | 5,912               | 851           |
| Class 3  | Physicians, Minor Surgery   | 1,710               | 1,112         |
| Class 4  | Family Practitioners, including minor surgery and OB                | 141                 | 1,310         |
| Class 5  | Surgery Specialty – Includes urology, colon/rectal, GP with major   | 285                 | 1,505         |
| Class 6  | Surgery Specialty – Includes ER (no major), ENT                     | 714                 | 1,790         |
| Class 7  | Anesthesiology  | 403                 | 1,337         |
| Class 8  | Surgery Specialty – Includes general, plastic, ER with major        | 530                 | 3,032         |
| Class 9  | Surgery Specialty – Includes cardiovascular, orthopedic, traumatic  | 428                 | 3,434         |
| Class 10 | Surgery Specialty – Includes OB/GYN                                 | 307                 | 4,459         |
| Class 11 | Surgery Specialty – Neurosurgery                                    | 71                  | 10,006        |
| Class 12 | Chiropractors   | 1,105               | 229           |
| Class 13 | Registered Nurse Anesthetists                                       | 958                 | 393           |
| Class 14 | Podiatrists   | 110                 | 872           |
| Class 15 | Availability Plan insureds  | 321                 | 20%           |
| Class 16 | Professional corporations, partnerships                             | 1,134               | 15%           |
| Class 17 | Medical care facilities   | 201                 | 16%           |
| Class 18 | Mental health centers   | 24                  | 15%           |
| Class 19 | Psychiatric hospitals   | 1                   | 15%           |
| Class 20 | Residency training program  | 1,879               | 15%           |
| Class 21 | Physician Assistants  | 1,211               | 15%           |
| Class 22 | Nurse Midwives  | 46                  | 17%           |
| Class 23 | Assisted Living and Residential Health Care Facilities              | 128                 | 15%           |
| Class 24 | Nursing Facilities  | 234                 | 15%           |
| Class 30 | Other   | 0                   | 15%           |
|          |   | <b>18,856</b>       |               |

\*\$500,000/\$1,500,000 Fund coverage