



Health Care Stabilization Fund Calendar Year 2025 Surcharge Issues

A presentation to the HCSF Oversight Committee

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This presentation will address the following topics:

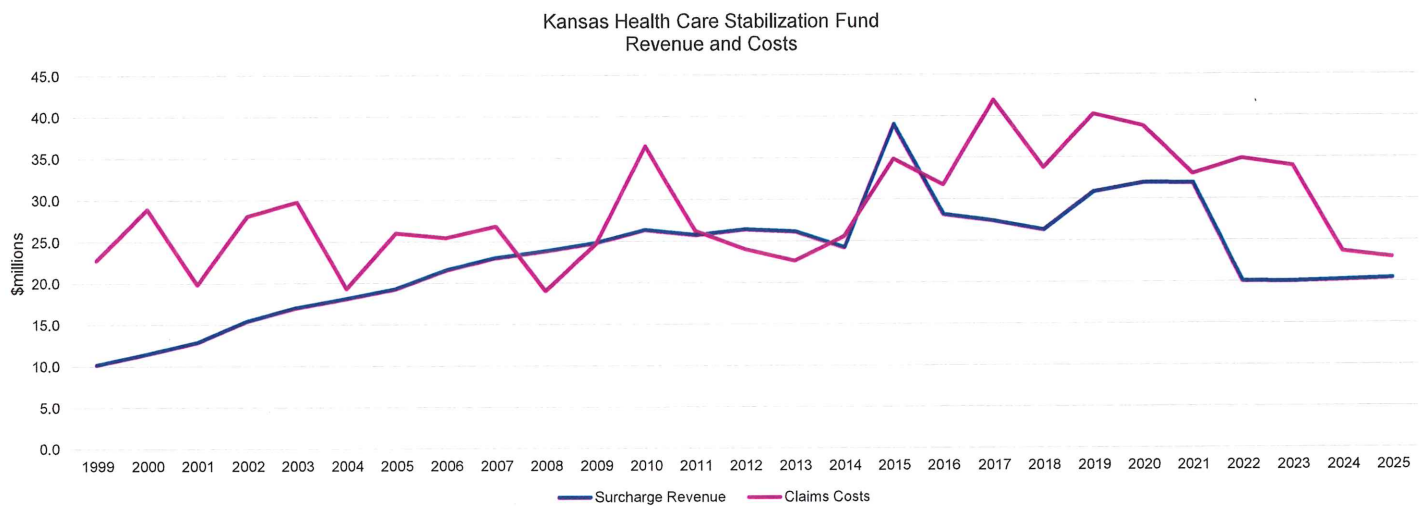
- A history of Fund revenues and claims costs
- Our projections of unassigned reserves at June 2024 and June 2025
- Rate level indications for CY25 (January 1, 2025 – December 31, 2025)
- Recent Fund investment returns
- The experience and indications by provider class
- CY25 surcharge recommendations and Board action

Questions are welcome throughout the presentation

This presentation is an addendum to our report dated July 18, 2024. As such, the *Distribution and Use* and *Reliances and Limitations* sections of that report apply to this presentation

History of Surcharge Revenue and Claims Costs

The chart below shows Fund history of surcharge revenue and claims costs by program year from 1999 through projected 2025 based on our estimates as of December 31, 2023



Notes: Costs exclude administrative expenses and transfers. Revenues exclude investment income. Program year 2015 is an 18-month period

Conclusions

On average, 2023 results were worse than we had predicted for the Fund:

- Payment activity was high
- Loss performance on active providers was worse than expected, particularly on defense costs
- Loss performance on inactive providers was close to the level than expected
- Investment results were worse than anticipated
- Surcharge revenue was close to the level predicted

The Fund's net financial position at June 30, 2024 is \$2.4 million lower than the level forecasted in our 2023 study.

There are four issues of concern to us:

- Overall rate inadequacy is creeping up
- Rate inadequacy for the hospitals remains very high
- Investment returns continue to be lackluster
- Payments from the Fund to the Availability Plan have occurred for seven consecutive years and are eating up a larger portion of Fund surcharge revenue

Conclusions (continued)

Our forecasts of the Fund's financial positions at June 30, 2024 and June 30, 2025, along with our prior estimate for June 2024, are as follows (in \$millions)

	2023 Review June 30, 2024	2024 Study June 30, 2024	2024 Study June 30, 2025
Assets	\$276.93	\$271.77	\$259.03
Liabilities	<u>249.40</u>	<u>246.62</u>	<u>235.63</u>
Unassigned Reserves	\$ 27.53	\$ 25.15	\$ 23.41

Based on our analysis, the Fund needs to raise its surcharge rates by 9.7% in CY25 in order to maintain its unassigned reserves at the expected year-end CY24 level (approximately \$25 million)

Conclusions (continued)

The forecasts of unassigned reserves assume

- An average increase of 3.5% in surcharge rates for CY25, varying by class
- \$20.7 million in surcharge revenue in the July 1, 2024 – June 30, 2025 period (FY25)
- A 2.60% discount rate for estimating the tail liabilities on a present value basis
- A 2.60% 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 recommended to the Board that they implement an increase in rates for CY25, particularly for hospitals (class 17). Given the current rate level indications, we did not believe that no rate change, or an overall 0% change, was reasonable for CY25.

Rate Level Indications

The Fund's rate level indications for CY25 are shown below: assumes a break-even target

CY25 Item	Amount (\$000s)	Comments
1. Payments in CY25	\$35,411	Net of Reimbursement
2. Change in Liabilities	-9,125	YE25 versus YE24
3. Administrative Expenses	2,522	Based on FY23 and FY24
4. Plan and KDHE Transfers	<u>300</u>	Assumes \$100k for Plan, \$200k for KDHE
5. Total CY25 Costs (1) + (2) + (3) + (4)	\$29,109	
6. Investment Income	<u>6,724</u>	2.60% on average assets
7. Surcharge Needed for Break-Even (5) – (6)	\$22,384	
8. Projected Surcharge Revenue	<u>\$20,406</u>	At CY24 rates
9. Rate Level Indications (7) / (8) – 1.00	+9.7%	

Fund Investment Income

The Fund's investment yield has declined in the last 3 years

We lowered our assumed future yield rate from 2.70% in our 2023 study to 2.60%

Fiscal Year	Average Assets (\$millions)	Investment Income (\$millions)	Effective Yield
(1)	(2)	(3)	(4)
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	312.0	7.7	2.47%
2023	300.2	7.2	2.41%
2024	283.6	7.0	2.47%

A 10 basis point increase in the assumed rate causes a 1.4% decrease in the CY25 indication

Findings – Indications by Provider Class

Our analysis of experience by Fund class continues to show differences in relative loss experience among classes. To illustrate, Class 17 paid 14% of the total surcharge for 2016-2022, but has 24% of the reported losses for those years.

Relative Rate Change Indicated

Decrease > 15%	Increase <10% or Decrease <15%	Increase >10%
Class 2 (-35%)	Class 12 (-13%)	Class 11 (+13%)
Class 24	Class 23	Class 15
Class 13	Class 4	Class 5
Class 6	Class 19	Class 3
Class 7	Class 20	Class 17 (+46%)
Class 16	Class 8	
Class 18	Class 22	
Class 1 (-15%)	Class 10	
	Class 21	
	Class 14	
	Class 9 (+2.0%)	

Slide 11 has further details on class experience and definitions

History of Surcharge Rate Changes

The table below shows changes in surcharge rates since 2012. 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		Classes 15-24 % Basic Coverage Premium*
		Range of Rate Changes		
		Low	High	
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%**
2023	0%	0%	0%	15% - 17%**
2024	0%	-5%	+9%	14% - 18%**

*For maximum Fund coverage

**Higher for Class 15

CY25 Surcharge Rates

We offered the Board several options to consider in establishing Fund rates for CY25. All of our recommendations involved an increase to Class 17. The Board decided on the following rate changes for CY25, resulting in an expected increase in rate level of +3.5%:

- Rate increases to 15 classes, ranging from 2.0% (Classes 1, 4, 12 and 23) to 10.0% (Class 17)
- Rate decreases of 2.5% for Classes 2 and 24
- No changes in rates for seven classes

Class Definitions, Distributions and Rates

		CY23 # Providers	CY24 Rate*
Class 1	Physicians, No Surgery. Includes dermatology, pathology, psychiatry	891	\$396
Class 2	Physicians, No Surgery	4,724	808
Class 3	Physicians, Minor Surgery	1,788	1,168
Class 4	Family Practitioners, including minor surgery and OB	134	1,310
Class 5	Surgery Specialty – Includes urology, colon/rectal, GP with major	292	1,505
Class 6	Surgery Specialty – Includes ER (no major), ENT	754	1,701
Class 7	Anesthesiology	491	1,337
Class 8	Surgery Specialty – Includes general, plastic, ER with major	511	3,123
Class 9	Surgery Specialty – Includes cardiovascular, orthopedic, traumatic	464	3,434
Class 10	Surgery Specialty – Includes OB/GYN	311	4,459
Class 11	Surgery Specialty – Neurosurgery	68	10,006
Class 12	Chiropractors	1,165	218
Class 13	Registered Nurse Anesthetists	1,117	373
Class 14	Podiatrists	106	872
Class 15	Availability Plan insureds	383	20.5%
Class 16	Professional corporations, partnerships	1,136	14.0%
Class 17	Medical care facilities	199	17.5%
Class 18	Mental health centers	24	15.0%
Class 19	Psychiatric hospitals	1	15.0%
Class 20	Residency training program	936	15.0%
Class 21	Physician Assistants	1,251	15.0%
Class 22	Nurse Midwives	44	18.0%
Class 23	Assisted Living and Residential Health Care Facilities	127	15.0%
Class 24	Nursing Facilities	211	15.0%
Class 30	Other	3	14.0%
		17,129	

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