

PART C
Fiscal Year 2024 Annual Report by
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Introduction

The original Health Care Provider Insurance Availability Act was established by the Legislature in 1976. It contained three principal features that have always remained intact. Those features are: (1) a requirement that all health care providers, as defined in K.S.A. 40-3401, maintain professional liability insurance coverage; (2) creation of a joint underwriting association, the Health Care Provider Insurance Availability Plan, to provide professional liability coverage for those health care providers who cannot purchase coverage in the commercial insurance market; and (3) creation of the Health Care Stabilization Fund to provide excess coverage above the primary coverage purchased by health care providers, and also to serve as the reinsurer of the Availability Plan.

In 1978 the constitutionality of the Availability Act was upheld by the Kansas Supreme Court in *State of Kansas v. Byron Timothy Liggett, M.D.* Dr. Liggett challenged the constitutionality of the Act on the grounds that it denied him substantive due process of the law and equal protection under the law. In its decision the Supreme Court wrote, "The original bill did not require mandatory insurance coverage, nor did it require payment of the surcharge. These provisions were added by the legislature at the behest of Insurance Commissioner Fletcher Bell. The mandatory coverage provision, it was alleged, would provide for the financial stability of the insurance availability program and would assure all Kansans they would have a source of recovery for damages resulting from malpractice."

Statutory Report

The following information is reported on behalf of the Health Care Stabilization Fund Board of Governors in accordance with K.S.A. 40-3403(b)(1)(C). This report is for the fiscal year that ended June 30, 2024.

1. Net premium surcharge collections amounted to \$20,215,254.
2. The highest surcharge rate for a health care professional was \$10,006 for coverage of \$500,000 per claim, subject to a \$1.5 million annual aggregate limit. A Kansas resident neurosurgeon also licensed to practice in Missouri would be subject to the 30% Missouri modification factor resulting in a total premium surcharge of \$13,008.

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3. The lowest surcharge rate for a health care provider was \$200. Primarily this minimum rate is used by non-resident providers who are providing minimum health care services in Kansas.
4. There were 16 medical professional liability cases involving 20 health care providers that went to jury trials. Of those, 15 cases resulted in complete defense verdicts, and 1 case resulted in a mistrial.
5. During the past fiscal year, 503 open claims were closed. Of those claims, 16.3% resulted in Fund obligations. There were 66 cases involving 82 claims settled resulting in Health Care Stabilization Fund obligations of \$36,740,000. The average Stabilization Fund compensation per claim was \$374,878. These amounts are in addition to compensation paid by primary insurers, typically \$200,000 per claim.
6. The balance sheet as of June 30, 2024, accepted by the HCSF Board of Governors, indicates total assets amounting to \$276,898,210 and total liabilities amounting to \$271,180,336.

The Availability Plan

A major component of the original Health Care Provider Insurance Availability Act was the creation of a joint underwriting association called the Health Care Provider Insurance Availability Plan. The Plan assures that health care providers have access to a basic professional liability insurance policy of \$500,000 per claim, subject to \$1.5 million annual aggregate coverage. The existence of the Plan allows commercial insurers to engage in selective underwriting practices. If an applicant appears to be a questionable risk, the insurer can refer the health care provider to the Availability Plan.

The Availability Plan is governed by a Board of Directors appointed by the Commissioner of Insurance, and the Board of Directors has a contract with a servicing carrier. At the Board's most recent meeting, October 28, 2024, it was reported that there were 410 Plan participants. These are health care providers that would not be able to provide patient care in Kansas were it not for the Availability Plan.

Individual professional health care providers insured by the Plan pay about 33% more premium for basic coverage than they would if they were insured by a commercial insurance company. They also pay a higher HCSF surcharge rate. As a result, a physician or other health care professional insured by the Plan pays about 36% more than their peers do for the cost of their professional liability coverage. Similar joint underwriting associations in other states are often funded by way of assessments imposed on commercial insurers. In Kansas, the Health Care Stabilization Fund reinsures the Availability Plan. In those years when the Plan experiences a surplus, the net income is transferred to the HCSF. In those years when losses exceed income, the HCSF is required by law to transfer the net loss to the Availability Plan. For FY 2024, the Fund will transfer \$3,871,247 to the Availability Plan.

Recent Legislation and Changes

Effective January 1, 2022, the required basic coverage that defined health care providers must obtain from an insurer, increased from \$200,000 to \$500,000 per claim. Providers are also required to obtain \$500,000 per claim coverage from the Health Care Stabilization Fund. The 2024 surcharge rates recently adopted by the Board of Governors are based on the results of an actuarial study which included analysis of loss experience among the 24 classification groups.

Historical Overview of the Health Care Provider Insurance Availability Act

Historically, members of the Kansas Legislature have been concerned about constituent access to medical care. That is one of the principal reasons the Legislature enacted the Health Care Provider Insurance Availability Act in 1976. At that time, some physicians could not obtain the professional liability insurance they needed in order to practice in Kansas. Others could obtain insurance, but the coverage limits were inadequate or there were policy exclusions that restricted the scope of their medical practice. The principal purpose of the Health Care Provider Insurance Availability Act was to stabilize the otherwise unreliable medical professional liability insurance market.

A great deal of thought was given to the details in the 1976 legislation and the Insurance Commissioner provided a number of important recommendations. It was decided to require that all health care providers maintain a policy of professional liability insurance as a condition of rendering professional services in Kansas. In this context, it is important to keep in mind that the statutory definition of health care provider includes out of state licensees as well as those licensees who reside in Kansas.

It was also decided to require that the insurance policy provide claims-made coverage. The law stipulates minimum coverage limits “for all claims made during the policy period” and goes on to say the policy “shall provide as a minimum coverage for claims made during the term of the policy which were incurred during the term of such policy or during the prior term of a similar policy.” Furthermore, if the health care provider is a Kansas resident, the policy must be issued by an insurance company that has been approved by the Commissioner of Insurance. If the health care provider is not a Kansas resident, the policy may be issued by a non-admitted insurer, but only if the insurance company has agreed to comply with the Health Care Provider Insurance Availability Act. In Kansas, if a health care provider retires or otherwise discontinues his or her Kansas practice, the tail coverage liability is assumed by the Health Care Stabilization Fund. This protects Kansas patients if an injury is discovered and a claim is filed after the health care provider has become inactive.

A lot has changed since 1976, including the health care industry. In the 1970’s some medical practices were sole proprietorships. Other physicians were often employed by a partnership or professional corporation. Normally, physicians were not employed by hospitals. Instead, they were granted medical staff privileges and there was general adherence to the common law corporate practice doctrine.

Today, hospital ownership of medical groups is not unusual and technology has had a remarkable impact on the delivery of medical care. The advent of telemedicine has been dramatic, resulting in the formation of large companies that compete for telemedicine clients all over the country. Because of the changes in the delivery model and the changing employment relationships, professional liability insurance is oftentimes purchased by the employer rather than the physician or medical group. Some of these employers use non-traditional arrangements to insure their network of health care providers.

There are also large interstate companies that employ physicians who are available to serve as locum tenens all over the country. In this case, it makes sense for the employer to purchase a short-term occurrence policy that covers the liability of the locum tenens health care provider for the duration of the assignment. The employer does not want to insure the health care provider's previous liability exposure by purchasing a claims-made policy nor does the employer wish to insure the health care provider when he or she is working for another employer. This is particularly problematic for a Kansas resident health care provider who must maintain continuous claims-made insurance coverage as a condition of active licensure.

One thing that has not changed over the years is the Legislature's continued interest in promoting access to health care services for Kansas constituents. For this reason, several years ago the Kansas Legislature endorsed the concept of interstate medical practice by passing an interstate medical licensure compact law. More recently, our Legislature endorsed the interstate practice of health care by passing the Kansas Telemedicine Act. K.S.A. 40-3403(b)(5) imposes a duty on our Board of Governors to, "study and evaluate the operation of the fund and make such recommendations to the legislature as may be appropriate to ensure the viability of the fund." Our Board of Governors will continue to study these issues in collaboration with the associations that represent physicians, hospitals, and other health care providers. We invite recommendations from health care providers, insurers, locum tenens companies, telemedicine companies, and other interested organizations.

Conclusion

The Health Care Provider Insurance Availability Act is a successful public-private partnership. It creates a favorable environment for responsible professional liability insurance companies. Since 1976, the Availability Act has accomplished legislative intent. It has assured Kansans a reliable source of recovery when it is determined that compensation should be paid for an unintended medical outcome, and it has assured Kansas health care providers that they will always have access to adequate professional liability insurance coverage.