



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott McCallum, Governor
Connie L. O'Connell, Commissioner

Wisconsin.gov

March 1, 2002

121 East Wilson Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
Web Address: oci.wi.gov

THE HONORABLE ROGER BRESKE
SENATE COMMITTEE ON INSURANCE, TOURISM
AND TRANSPORTATION
18 SOUTH STATE CAPITOL
MADISON, WI 53707-7882

THE HONORABLE PHIL MONTGOMERY
ASSEMBLY COMMITTEE ON INSURANCE
129 WEST STATE CAPITOL
MADISON, WI 53708-8953

THE HONORABLE ROD MOEN
SENATE COMMITTEE ON HEALTH,
UTILITIES, VETERANS AND MILITARY
AFFAIRS
122 SOUTH STATE CAPITOL
MADISON, WI 53707-7882

THE HONORABLE GREGG UNDERHEIM
ASSEMBLY COMMITTEE ON HEALTH
11 NORTH STATE CAPITOL
MADISON, WI 53708-8953

THE HONORABLE GARY GEORGE
SENATE COMMITTEE ON JUDICIARY AND
CONSUMER AFFAIRS AND CAMPAIGN FINANCE
REFORM
118 SOUTH STATE CAPITOL
MADISON, WI 53707-7882

THE HONORABLE MARK GUNDRUM
ASSEMBLY COMMITTEE ON JUDICIARY
19 NORTH STATE CAPITOL
MADISON, WI 53708-8953

Re: 2001 Functional and Progress Report - Patients Compensation Fund

Dear Senators Breske, Moen and George, and Representatives Montgomery,
Underheim, and Gundrum:

This report is submitted on behalf of the Board of Governors of the Patients
Compensation Fund (Fund) as required by s. 655.27(4)(f), Wis. Stat.

This annual report provides financial data for the fiscal year ending June 30,
2001. In addition, it provides information on the levels of provider
participation in the Fund, claim activity, and major board actions.

Sincerely,

Connie O'Connell
Commissioner

CO:tlw
Enclosure

2001 FUNCTIONAL AND PROGRESS REPORT

The Patients Compensation Fund (Fund) was created in 1975 to provide excess medical malpractice insurance for Wisconsin health care providers. The Fund is governed by a 13-member Board of Governors (Board) which consists of three insurance industry representatives; a member named by the Wisconsin Academy of Trial Lawyers; a member named by the State Bar Association; two members named by the State Medical Society of Wisconsin; a member named by the Wisconsin Hospital Association; four public members appointed by the Governor; and the Commissioner of Insurance who serves as the chair.

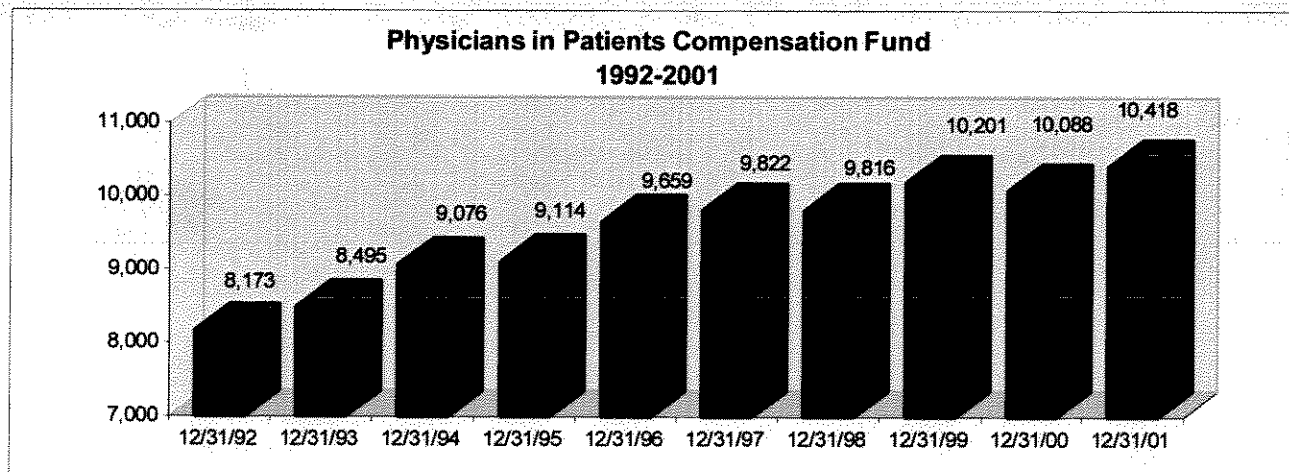
The Fund's Board is assisted in its governance function by the following committees: an Underwriting and Actuarial Committee, a Legal Committee, a Claims Committee, an Investment/Finance and Audit Committee, a Risk Management Steering Committee, and a Peer Review Council. The Board and committees meet quarterly.

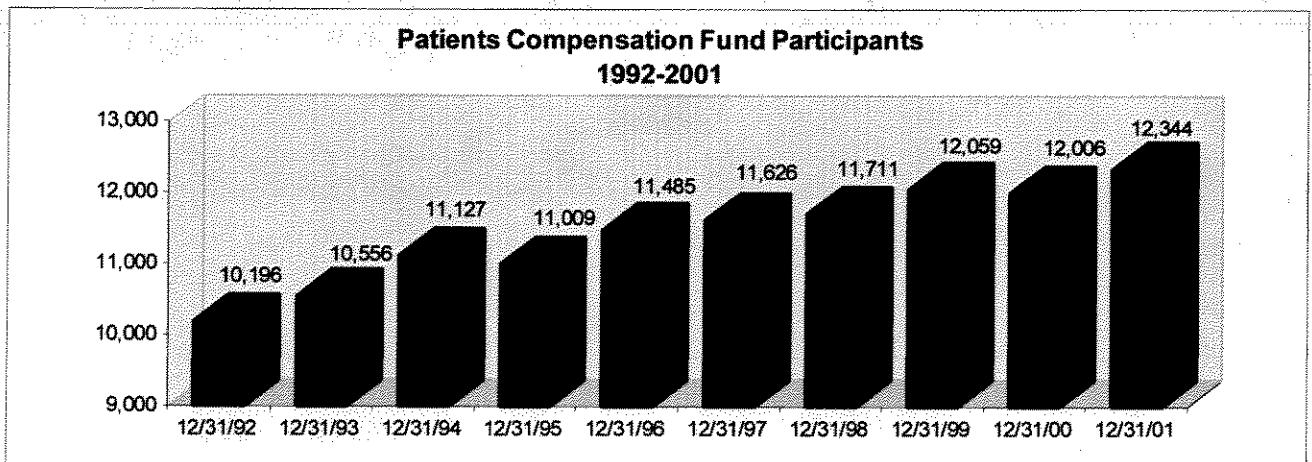
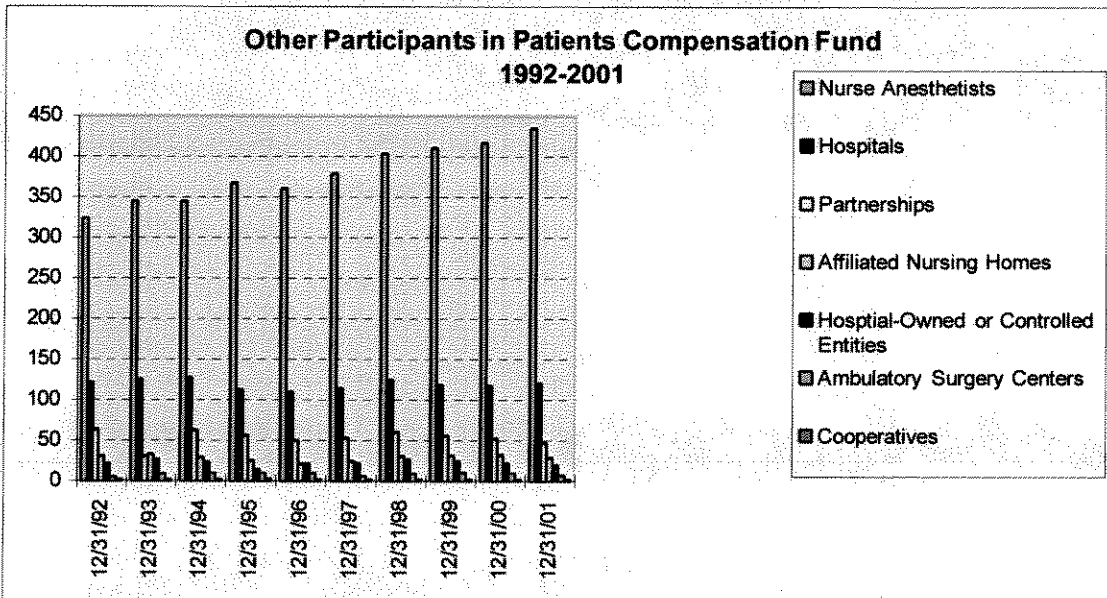
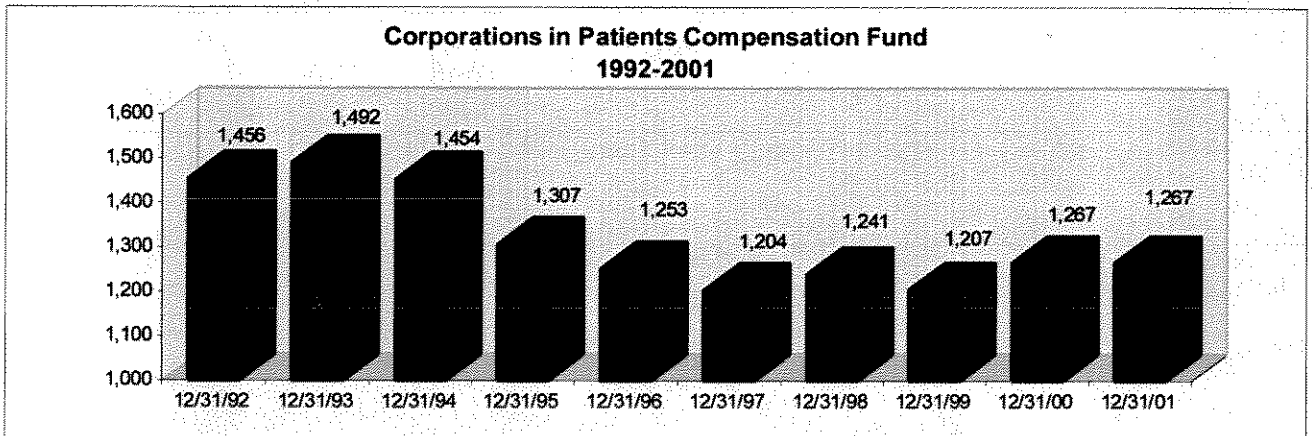
The Fund operates on a fiscal year basis; July 1 through June 30. Administrative costs, operating costs, and claim payments are funded through assessments on participating health care providers.

Fund Participants

As of December 31, 2001, there was a total of 12,344 Fund participants comprised of 120 hospitals with 29 affiliated nursing homes, 10,418 physicians, 434 nurse anesthetists, 19 hospital-owned or controlled entities, 8 ambulatory surgery centers, two cooperatives, 47 partnerships, and 1,267 corporations actively participating in the Fund.

As of December 31, 2001, physicians comprised 85% of the Fund participants and corporations made up 10%. All other participants made up the remaining 5%.





Claims Activity

From July 1, 1975, through December 31, 2001, 4,615 claims had been filed in which the Fund was named. During this period, the Fund's total number of paid claims increased to 585, totaling \$507,692,824. Of the total number of claims in which the Fund has been named, 3,664 claims have been closed with no indemnity payment. Of the remaining reported claims as of December 31, 2001, 32 cases carried aggregate case reserves of \$33,262,860.

Board Committees

Actuarial and Underwriting Committee

The Actuarial and Underwriting Committee advises the Board on actuarial and underwriting issues.

Wisconsin Act 10, which was enacted on May 10, 1995, included a cap on non-economic damages for medical malpractice at \$350,000. The cap is indexed annually as determined by the director of state courts. The current cap for non-economic damages is \$404,657 as most recently indexed on May 15, 2001. Pursuant to the requirements of Act 10, a report as to the effects of the Act was submitted to the legislature in May of 2001. The report concluded that at that time, there had been a savings to the Fund participants of approximately \$60.8 million in Fund fees.

Wisconsin Act 11, which was enacted on July 14, 1997, increased the required primary carrier liability limits retroactive to July 1, 1997, for health care providers who are subject to the Fund. The limits increased from \$400,000 per occurrence to \$1,000,000 and from an annual aggregate limit of \$1,000,000 to \$3,000,000. The Act also allows for a four-year phase-in of the higher per-occurrence primary limit for self-insured plans, if so elected by the plan.

The Committee assisted the Board to promulgate the Fund Fee Rule for fiscal year 2001-2002 fees. Overall, there was a 20% decrease in total fees for fiscal year 2001-2002. Mediation panel fees for physicians (excluding physicians in a residency program) were set at \$38 per physician and \$2 per hospital bed.

Under Act 473, various types of "health care professionals" may be shareholders in the same service corporation, regardless of the fact that they hold different licenses. "Health care professional" is defined to include anyone regulated by the Board of Nursing, Medical Examining Board, Optometry Examining Board, Pharmacy Examining Board, Psychology Examining Board and the Examining Board of Social Workers, Marriage and Family Therapists and Professional Counselors. Act 473 created s. 655.27(3)(a) 4, Wis. Stat., to require the Fund's Board, when setting annual fees for corporations, partnerships, and cooperative HMOs, to take into consideration risk factors and past and prospective loss and expense experience attributable to employees other than physicians and nurse anesthetists. As a result of Act 473, additional fees for corporations, partnerships and cooperative HMOs are included in the fiscal year 2002 annual fee rule and are anticipated to total \$852,021 for the period.

Claims Committee

The responsibility of the Claims Committee (Committee) of the Board of Governors (Board) is to establish claims policies and procedures for the Patients Compensation Fund (Fund) and the Wisconsin Health Care Liability Insurance Plan (Plan).

The functions of the Claims Committee are the following:

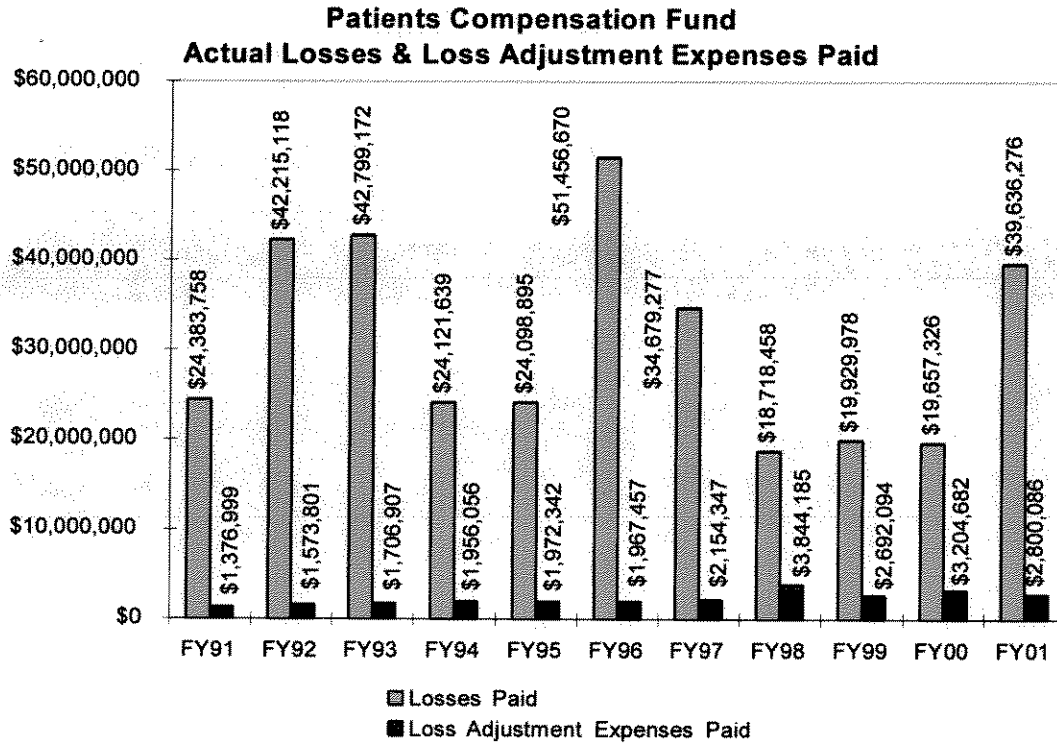
- To establish guidelines for claims management by the contractor and OCI staff of the Fund and the Plan and to review claims to determine if the guidelines need to be revised.
- To provide for the evaluation of the claims contractor no less often than prior to the re-negotiation of each contract to assure that claims are being handled in an appropriate and expeditious manner.
- To review all claims involving alleged sexual misconduct, neurological impairment, quadriplegia, and those claims which the contractor has set reserves of \$500,000 or more and provide settlement authorization and advise on those claims where settlement value exceeds \$1 million or when the contractor has a claim management question.
- To monitor claims and claims administration costs and to make recommendations for possible savings to the board and the contractor.
- To establish guidelines for annuity purchases and to review such purchases periodically.
- To recommend to the board changes in the statutes or administrative rules that are needed to facilitate the claims policies and procedures of the Plan or Fund.
- To refer legal or other issues that come to the committee's attention to the appropriate committees.
- To prepare reports analyzing claims trends for risk management purposes.
- To report to the board quarterly on the committee's activities.

Table 1, on the following page, summarizes quarterly loss payments by amount and number of claims paid, from fiscal 1997 through fiscal 2001. Chart 1 shows the range of annual Fund loss and loss expense payments, beginning with fiscal year 1991. The Fund's fiscal year runs from July 1 to June 30. The Fund made loss payments totaling approximately \$39.6 million during fiscal 2001.

Table 1

AMOUNT AND NUMBER OF LOSSES PAID BY FISCAL YEAR

QUARTER ENDING	1996-97	1997-98	1998-99	1999-2000	2000-2001
	Amount #	Amount #	Amount #	Amount #	Amount #
Sept. 30	\$13,097,771 3	\$2,073,054 4	\$3,950,441 6	\$979,406 3	\$29,365,577 8
Dec. 31	\$11,204,791 5	\$2,810,295 7	\$906,296 3	\$10,563,774 4	\$2,161,785 5
March 31	\$5,303,262 3	\$9,278,946 8	\$7,480,509 13	\$1,555,066 2	\$6,996,875 6
June 30	\$5,073,453 5	\$4,556,163 5	\$7,592,731 6	\$6,559,079 3	\$1,112,039 3
TOTAL	\$34,679,277 16	\$18,718,458 24	\$19,929,978 28	\$19,657,326 12	\$39,636,276 22



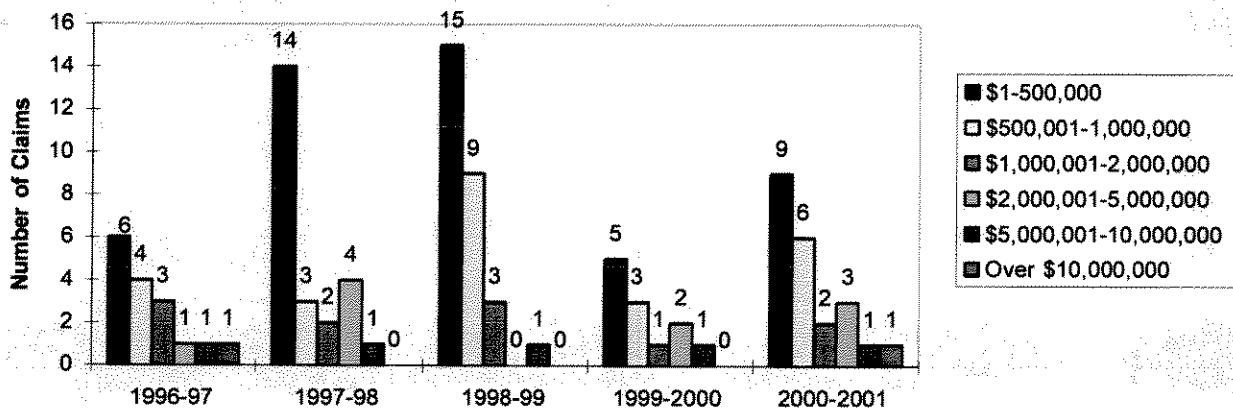
The range of Fund claim payments for the last five fiscal years is summarized below in table 2.

Table 2

RANGE OF FUND CLAIM PAYMENTS

Payment Range	1996-97 # of Claims	1997-98 # of Claims	1998-99 # of Claims	1999-2000 # of Claims	2000-2001 # of Claims
\$1-500,000	6	14	15	5	9
\$500,001-1,000,000	4	3	9	3	6
\$1,000,001-2,000,000	3	2	3	1	2
\$2,000,001-5,000,000	1	4	0	2	3
\$5,000,001-10,000,000	1	1	1	1	1
Over \$10,000,000	1	0	0	0	1
Total Claims Paid	16	24	28	12	22

Range of Claim Payments



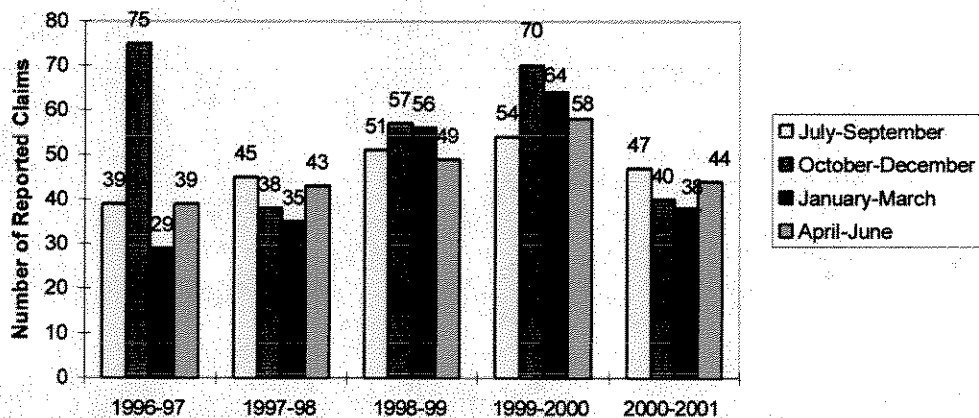
Fund claims reported by quarter by fiscal year are summarized in table 3 below. A total of 169 claims were opened during fiscal 2001.

Table 3

CLAIMS OPENED QUARTERLY BY FISCAL YEAR

Quarter	1996-97	1997-98	1998-99	1999-2000	2000-2001
July 1-September 30	39	45	51	54	47
October 1-December 31	75	38	57	70	40
January 1-March 31	29	35	56	64	38
April 1-June 30	39	43	49	58	44
Totals	182	161	213	246	169

Claims Reported by Quarter by Fiscal Year



Finance/Investment/Audit Committee

The Finance/Investment/Audit Committee's responsibilities include establishing, monitoring, and amending as necessary, the investment strategy for the Fund to ensure obligations are met. The Committee periodically reviews investments for compliance with investment guidelines and evaluates cash flow liquidity needs. In addition, the committee oversees the financial reporting process. Responsibilities include review of financial position and results, as well as correspondence with auditors concerning audit scope, accounting issues, internal controls and management recommendations.

Changes in the Fund's statutory investment authority have had a positive impact on the projected surplus. Legislation enacted in April 1990, which permitted the Fund to invest in long-term financial instruments, has resulted in higher investment earnings. The Fund's actuaries have estimated that during the period October 1, 1990, to September 30, 2001, investment earnings on the long-term portfolio were \$93.5 million higher than what would have been earned had these assets remained in the short-term account.

During 1999, the Investment Committee, with the assistance of an outside investment consultant, developed new investment guidelines. The new investment guidelines provide for investment in equities to maximize investment return. These new guidelines were implemented in 2000 in coordination with the State of Wisconsin Investment Board.

Legal Committee

The Legal Committee advises the Board on legal issues, including retroactive coverage requests, appeals, proposed statutory changes, administrative rule changes, and other issues that affect eligibility or Fund participation.

During 2001, the Committee reviewed 30 requests for retroactive coverage of which 27 were approved, two were denied and one was pending at year end.

Peer Review Council

The Peer Review Council (Council) reviews physician claim records to determine whether a surcharge should be imposed against the Fund fee or Wisconsin Health Care Liability Insurance Plan (Plan) premium, if applicable. The surcharge is a percentage of a provider's Fund fee or Plan premium based on the number of closed medical liability claims reported, and the aggregate amount paid for those claims.

During the fiscal year from July 1, 2000, to June 30, 2001, 120 claims paid reports were filed. These included 79 for physicians or nurse anesthetists, 40 for hospitals, corporations or clinics, and one for other types of providers. One provider was subject to possible surcharge.

Since inception of the Council in 1986, 53 providers have been subject to possible surcharge. The status, or disposition, of those providers as of June 30, 2001, was as follows:

- Exemptions from participation in the Fund have been filed by 23 providers, resulting in suspension of the review for surcharge.
- No surcharge was warranted for 11 providers as a result of the Council's review or consultant opinions.
- Two providers have been surcharged for failure to respond to Council requests for information.
- The review for surcharge was pending for the remaining 17 providers.

Risk Management Steering Committee

The purpose of the Risk Management Steering Committee, created in June 1991, is to reduce patient/claimant compensable injuries, reduce Fund losses and associated expenses, improve the general quality of medical care, and reduce the premiums of participating health care providers.

Activities During 2001:

- Continued development of self-study programs for physicians.
- Publication of the quarterly risk management newsletter, *WiscRisk*. The newsletter is now available on the PCF website.

Other Fund Activities

Fund administration, in conjunction with counsel, closely monitored claims filed which challenge the constitutionality of the noneconomic and wrongful death caps. This is an ongoing issue and will be closely monitored.

Fund administration closely monitors the use of outside counsel. Pursuant to a court decision in 2000, the Fund hires separate defense counsel on each claim. Fund staff monitors the claims and the use of these outside counsel to ensure that while the Fund receives the necessary representation, that legal fees are controlled.

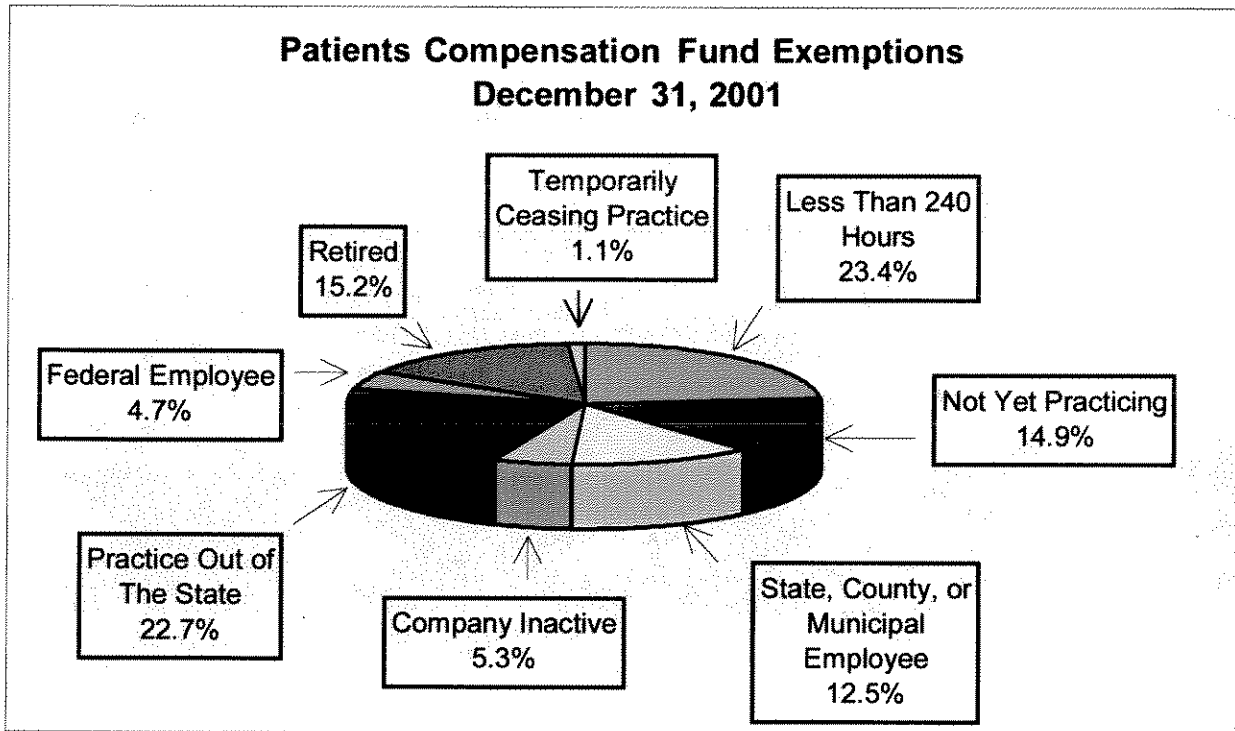
The Fund is in the process of implementing late filing fees which will be charged to primary carriers when certificates are not received timely in accordance with Wis. Adm. Code section Ins 17.28(5).

Extensive work continued during 2001 to verify and process up-to-date exemption status for providers that held a license to practice in Wisconsin but for which a current exemption or certificate was not on file with the Fund. Providers that remain in noncompliance are referred to their respective licensing boards for appropriate enforcement action by that board.

As of December 31, 2001, there were 9,159 providers exempt from participation in the Fund. The exemptions are grouped as follows:

Less Than 240 Hours	2,146
Practice Out of Wisconsin	2,100
Retired	1,391
Not Yet Practicing or Never Practiced in Wisconsin	1,367
State, County, or Municipal Employee	1,141
Company Inactive	483
Federal Employee	431
Temporarily Ceasing Practice	100

**Patients Compensation Fund Exemptions
December 31, 2001**

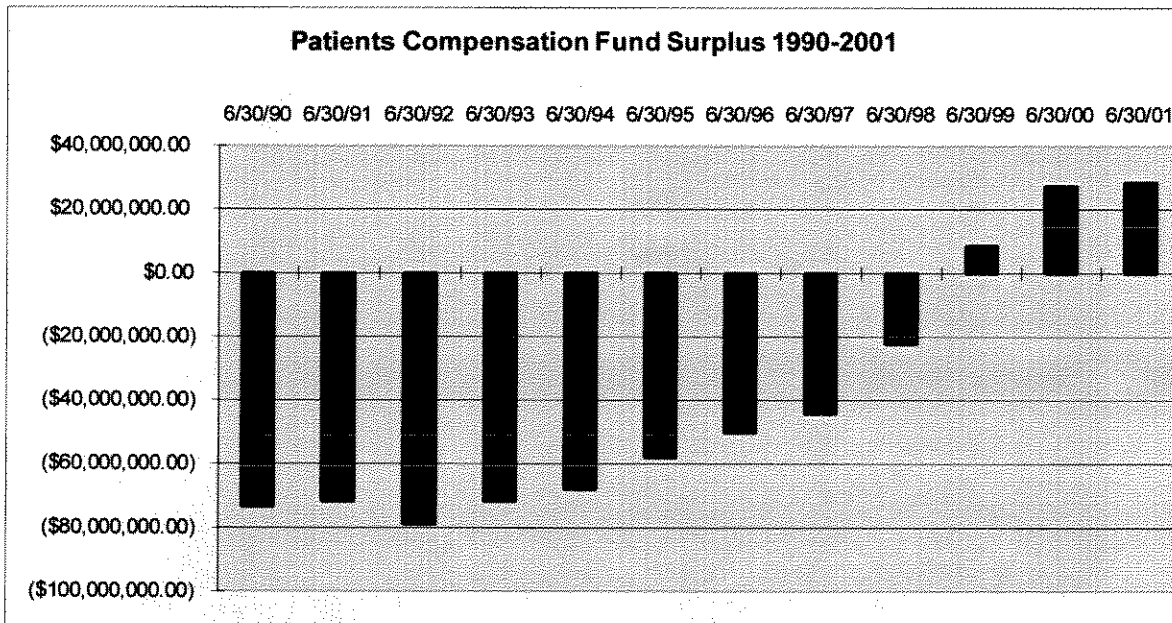


Financial Statistics

Attached as Exhibit 1 is the financial statement for the Fund for the fiscal year ending June 30, 2001.

The Fund reported a surplus of \$28,460,549 as of June 30, 2001.

The following graph reflects the Fund's surplus (deficit) over the last twelve fiscal years.



A word of caution; while the Fund has been able to eliminate the deficit, medical malpractice with its extended reporting and settlement patterns is especially difficult to estimate. This is compounded even further for the Fund, given its relatively short history and the nature of its coverage - unlimited excess liability protection over the primary carriers' limits.

The Fund's Board is happy to report that the deficit has been retired in a relatively short period and acknowledges the role that legislation played in these efforts.

The Fund's next progress report, due March 1, 2003, will include an update on the Fund's activities during 2002.

Attachments

PATIENTS COMPENSATION FUND
Balance Sheet
6/30/01
Unaudited

Assets

Cash	\$47,839
State Investment Fund Shares (market value)	\$7,903,291
Long-term Investments (market value)	\$559,162,359
Bond Investment Income Receivable	\$8,954,422
Short-term Interest Receivable	\$44,991
Assessments Receivable	\$368,401
Less: Allowance for Uncollectible Accounts	(\$966)
Prepaid Items	\$5,995
Furniture & Equipment (net of depreciation)	\$22,500
Office Supplies	\$1,615
Other Receivables	\$13,782

Total Assets	<u><u>\$576,524,228</u></u>
--------------	-----------------------------

Liabilities

Loss Liabilities:

Liability for IBNR	\$701,500,418
Liability for Reported Losses	\$52,516,954
Liability for LAE	\$32,436,465

Estimated Unpaid Loss Liabilities	\$786,453,837
Amount Representing Interest	\$240,654,874

Discounted Loss Liabilities	\$545,798,963
Liabilities for Future Medical Expenses	\$490,725

Total Loss Liabilities	<u>\$546,289,688</u>
------------------------	----------------------

Other Liabilities:

Contributions Being Held	\$1,200,000
Unearned Assessments Levied	\$293,333
Provider Refunds Payable	\$183,123
Medical Mediation Panels Payable	\$4,304
General & Administrative Expense Pay	\$68,052
Vouchers Payable	\$0
Compensated Absences	\$25,179

Total Liabilities	<u>\$548,063,679</u>
-------------------	----------------------

Fund Balance	<u>\$28,460,549</u>
--------------	---------------------

Total Liabilities and Fund Balance	<u><u>\$576,524,228</u></u>
------------------------------------	-----------------------------

PATIENTS COMPENSATION FUND
Statement of Income
6/30/01
Unaudited

Operating Revenues

Assessments Levied (net of unearned)	\$36,806,961
Investment Income	\$33,663,458
Unrealized gain (adjustment to mkt value)	\$5,171,577
Change in Bond Premium (Discount)	\$1,387,387
Assessment Interest Income	\$362,005
Administrative Fee Income	\$46,268
Surcharge Income	\$0
Other Income	\$2,515
Total Operating Revenues	<u>\$77,440,170</u>

Operating Expenses

Underwriting Expenses:	
Net Losses Paid	\$37,322,931
Interest on Loss Payments	\$2,854,493
LAE Paid	\$2,800,086
Risk Mgt Exp	\$55,055
Medical Expense Paid	\$159,112
Change in Liability for IBNR	\$30,683,632
Change in Liability for Reported Losses	\$6,053,669
Change in Liability for LAE	\$1,054,925
Change in Amount Representing Interest	(\$5,575,128)
Change in Liability for Future Med Expenses	\$17,189
Total Underwriting Expenses	<u>\$75,425,964</u>
General and Administrative Expenses	\$777,328
Depreciation Expense	\$6,040
Total Operating Expenses	<u>\$76,209,332</u>
Net Operating Income (Loss)	\$1,230,838

Non-Operating Revenues and Expenses

Loss on Disposal of Fixed Assets	<u>\$0</u>
Net Gain (Loss)	\$1,230,838

Retained Earnings

Retained Earnings, Beginning of Period	\$27,229,710
Other Adjustments	<u> </u>
Retained Earnings, End of Year	<u><u>\$28,460,549</u></u>

PATIENTS COMPENSATION FUND
Statement of Cash Flows
6/30/01
Unaudited

Cash Flows from Operating Activities

Cash received from:	
Provider fund fees	\$38,124,481
Primary malpractice insurers	\$2,478,597
Other operating activity	\$790,920
Cash payments for	
Losses	\$39,097,635
Interest on losses paid	\$2,858,387
Loss adjustment expenses	\$2,800,086
Medical expenses	-\$171,245
General and administrative expenses	\$913,978
Provider refunds for fund fees	\$1,884,438
Panel fees	\$377,090
	<hr/>
Net cash Provided (used) by Operating Activities	-\$6,366,370

Cash flows from Capital and related Financing Activities

Payments for purchase of fixed assets	\$0
Cash provided (used) by Capital or related financing activities	<hr/> \$0

Cash flows from Investing Activities

Purchase of investment securities	-\$173,874,523
Interest on investments	\$34,329,316
Proceeds from sale of investments	\$137,600,420
Inc (dec) in cash equivalents by chg in mkt value of S-T investments	\$40,813
Net cash provided (used) by Investment Activities	<hr/> -\$1,903,974
Net Increase (Decrease) in Cash and Cash Equivalents	-\$8,270,344
Cash and Cash Equivalents at the Beginning of the Year	\$16,221,473
Cash and Cash Equivalents at the End of the Year	<hr/> \$7,951,129

Reconciliation of Net Operating Income (loss) to Net Cash and Cash Equivalents Provided by Operating Activities

Net Operating Income (Loss) \$1,230,838

Adjustments to reconcile Net Operating Income (Loss) to Net Cash and Cash Equivalents Provider by Operating Activities

Depreciation Expense	\$6,040
Operating Income (Investment Income) Classified as Investing Activity	-\$40,222,422
Expense related to disposal of fixed asset	\$0
Change in other liabilities related to a beg accrual of fixed asset purc	\$0
Change in other liabilities related to a beg accrual of investment inc	\$0
Change in other liabilities related to an accrual of investment inc	\$0
Changes to assets and liabilities:	
Decrease (increase) in assessments receivable	-\$55,666
Decrease (increase) in other receivables	-\$5,923
Decrease (increase) in supplies inventory	\$410
Increase (decrease) in loss liabilities	\$33,364,644
Increase (decrease) in other liabilities	-\$684,291
Total Adjustments	<u>-\$7,597,208</u>
Net Cash and Cash Equivalents Provided by Operating Activities	<u>-\$6,366,370</u>

1. Description of the Patients Compensation Fund (Fund)

The Fund, which is part of the state of Wisconsin financial reporting entity, was created in 1975 for the purpose of paying that portion of a medical malpractice claim that is in excess of the legal primary insurance limit prescribed in s. 655.23 (4), Wis. Stat., or the maximum liability limit for which the health care provider is insured, whichever limit is greater. Each health care provider permanently practicing or operating in the state of Wisconsin is required to pay annual assessments.

Management of the Fund is vested with a 13-member Board of Governors (Board), which is chaired by the Commissioner of Insurance. The Board has designated the Commissioner of Insurance as the administrator of the Fund. Similarly, under s. 655.27 (2), Wis. Stat., the Commissioner shall either provide staff services necessary for the operation of the Fund or, with the approval of the Board, contract for all or part of these services. During 2000/2001 fiscal year, the Board contracted for the Fund's actuarial, risk management and claims administrative services.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Fund are summarized as follows:

Basis of Presentation

The accompanying financial statements have been prepared in a format prescribed by the Board in accordance generally accepted accounting principles

Investment Valuation

Bonds are valued at market. Investments in the state Investment Fund are considered cash equivalents and are also carried at market value. Unrealized gains are included in the investment income account.

Assessments

Assessments are billed and recognized on a fiscal year basis, which is also the policy year. Assessments received for the upcoming fiscal year are deferred revenue and are recorded as unearned assessments levied. Accounts of providers are automatically credited when primary insurance has lapsed.

3. Deposits and Investments

All cash is deposited with the state of Wisconsin Treasurer and is invested by the State of Wisconsin Investment Board (SWIB) through the state Investment Fund. Shares in the state Investment Fund are reported as cash equivalents. All of the Fund's investments are managed by SWIB. SWIB's objectives are to invest money held in the Fund in investments with maturities and liquidity that are appropriate for the needs of the Fund.

Investments of the state Investment Fund consist of direct obligations of the United States government, securities guaranteed by banks, and other investments approved by the trustees of SWIB. Bonds purchased for the Fund consist of U.S. Government obligations, corporate obligations, and public utilities and financial institution obligations. Equity investments purchased for the Fund consist of shares in Barclays Russell 2000 and Barclays Russell 3000 index funds.

All deposits and investments of the state Investment Fund and bonds required to be categorized by the Governmental Accounting Standards Board Statement Number 3 meet the criteria for risk category 1. Cash deposits in risk category 1 are insured or collateralized with securities held by the state or by its agent in the state's name. Investments and bonds in risk category 1 are insured or registered or are held by the state or its agent in the state's name.

The Fund's investments at year-end are shown at market value with accrued interest for FY 2000/2001 as follows:

<u>Equities</u>	<u>Bonds</u>	<u>Shares in State Investment Fund</u>
\$ 72,009,676	\$ 487,152,683	\$ 7,903,291

4. Loss Liabilities

Loss liabilities include individual case estimates for reported losses and estimates for incurred but not reported losses based upon the projected ultimate losses. Individual case estimates of the liability for reported losses and net losses paid from inception of the Fund are deducted from the projected ultimate loss liabilities to determine the liability for incurred but not reported losses as follows:

	<u>FY 2000-2001</u>
Projected ultimate loss liability	\$ 1,237,484,791
Less:	
Net loss paid from inception	(483,467,419)
Liability for reported losses	<u>(52,516,954)</u>
Liability for incurred but not reported losses	\$ <u>707,500,418</u>

Loss liabilities also include a provision for the estimated future payment of costs to settle claims. These ultimate loss adjustment expenses as of June 30, 2001, are estimated at 5% of the projected ultimate loss liabilities. The loss adjustment expenses paid from inception of the Fund are deducted from the projected ultimate loss adjustment expense provision to determine the liability for loss adjustment expense as follows:

	<u>June 30, 2001</u>
Projected ultimate loss adjustment expense liability	\$ 61,874,240
Less:	
Net loss adjustment expense paid from inception	<u>(29,437,775)</u>
Liability for loss adjustment expense	<u>\$ 32,436,465</u>

In establishing the Fund's loss liabilities and liabilities for loss adjustment expense, the Board relies upon the recommendations of a consulting actuary.

Inherent Uncertainty of Loss Liabilities

The uncertainties inherent in projecting the frequency and severity of claims because of the Fund's relatively short history, unlimited liability coverage, and extended reporting and settlement periods make it likely that

the amounts ultimately paid will differ from the recorded estimated liabilities. These differences cannot be quantified.

The loss liabilities and liability for loss adjustment expenses are continually reviewed as adjustments to these liabilities become necessary. Such adjustments are reflected in current operations.

Discounted Loss Liabilities

Section Ins 17.27 (3), Wis. Adm. Code, requires the liability for reported losses, liability for incurred but not reported losses, and liability for loss adjustment expense be maintained on a present value basis with the difference from full value being reported as a contra account to the loss reserve liabilities. The loss reserve liabilities are discounted only to the extent that they are matched by cash and invested assets. If all loss liabilities are discounted, the discounted loss liability would be as follows:

	<u>June 30, 2001</u>
Estimated unpaid loss liabilities	\$ 754,017,372
Estimated unpaid loss adjustment expense	<u>32,436,465</u>
Total estimated loss liabilities	786,453,837
Less:	
Amount representing interest	<u>240,654,874</u>
Discounted loss liabilities	<u>\$ 545,798,963</u>

The actuarially determined discount factor was .694 for FY2000-2001.

5. Future Medical Expense Liability

Section 655.015, Wis. Stat., requires accounts to be established for future medical expense awards in excess of \$25,000 that were entered into or rendered before June 14, 1986, or in excess of \$100,000 that were entered into or rendered on or after May 25, 1995.

6. Medical Mediation Panel

Section Ins 17.27 (3), Wis. Adm. Code, requires the fees collected for administration of the Medical Mediation Panel to be included in the Fund's financial reports, but that they should not be regarded as assets or liabilities or otherwise taken into consideration in determining assessment levels to pay claims.

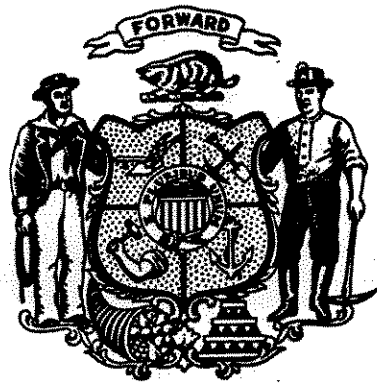
7. Assessment Interest Income

Fund participants choosing a minimum payment plan are assessed interest on the deferred assessment amounts. Section Ins 17.28 (7), Wis. Adm. Code, prescribes the interest rate to be assessed on the deferred assessments as the average annualized rate earned by the Fund for the first three quarters of the preceding fiscal year as determined by SWIB. Interest was assessed at the rate of 5.1428% for FY2000-2001.

8. Claim Annuities

The settlement of a claim may result in the purchase of an annuity. If the annuity company and the reassignment company default on annuity payments, the Fund may be ultimately responsible for the payments under the annuity arrangements. The estimated replacement value of the Fund's annuities as of June 30, 2001 is \$126,800,000.

END



END



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott McCallum, Governor
Connie L. O'Connell, Commissioner

MAR 01 2001

March 1, 2001

Wisconsin.gov

121 East Wilson Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
http://badger.state.wi.us/agencies/oci/oci_home.htm

THE HONORABLE ROGER BRESKE
SENATE COMMITTEE ON INSURANCE, TOURISM
TRANSPORTATION AND CORRECTIONS
18 SOUTH STATE CAPITOL
MADISON, WI 53708

THE HONORABLE PHIL MONTGOMERY
ASSEMBLY COMMITTEE ON INSURANCE
129 WEST STATE CAPITOL
MADISON, WI 53708

THE HONORABLE *Senator* ROD MOEN
SENATE COMMITTEE ON HEALTH,
UTILITIES, VETERANS AND MILITARY
AFFAIRS
8 SOUTH STATE CAPITOL
MADISON, WI 53708

THE HONORABLE GREGG UNDERHEIM
ASSEMBLY COMMITTEE ON HEALTH
11 N STATE CAPITOL
MADISON, WI 53708

THE HONORABLE GARY GEORGE
SENATE COMMITTEE ON JUDICIARY AND
CONSUMER AFFAIRS
118 SOUTH STATE CAPITOL
MADISON, WI 53708

THE HONORABLE MARK GUNDRUM
ASSEMBLY COMMITTEE ON JUDICIARY
19 NORTH STATE CAPITOL
MADISON, WI 53708

Re: 2000 Functional and Progress Report - Patients Compensation Fund

Dear Senators Breske, Moen and George, and Representatives Montgomery,
Underheim, and Gundrum:

This report is submitted on behalf of the Board of Governors of the Patients
Compensation Fund (Fund) as required by s. 655.27(4)(f), Wis. Stat.

This annual report provides financial data for the fiscal year ending June 30,
2000. In addition, it provides information on the levels of provider
participation in the Fund, claim activity, and major board actions.

Sincerely,

Connie O'Connell
Commissioner

CO:tlw
Enclosure

2000 FUNCTIONAL AND PROGRESS REPORT

The Patients Compensation Fund (Fund) was created in 1975 to provide excess medical malpractice insurance for Wisconsin health care providers. The Fund is governed by a 13-member Board of Governors (Board) which consists of three insurance industry representatives; a member named by the Wisconsin Academy of Trial Lawyers; a member named by the State Bar Association; two members named by the State Medical Society of Wisconsin; a member named by the Wisconsin Hospital Association; four public members appointed by the Governor; and the Commissioner of Insurance who serves as the chair.

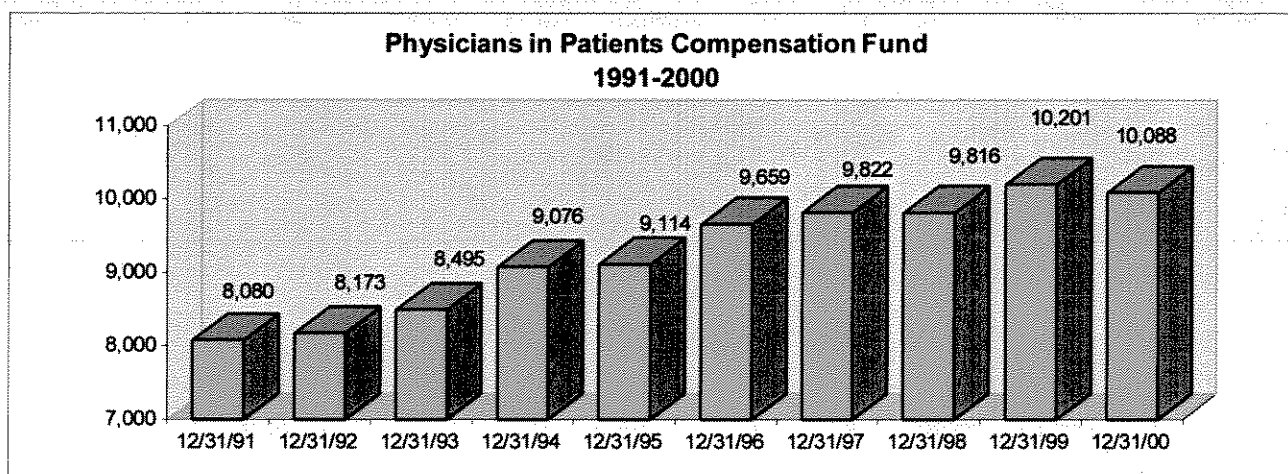
The Fund's Board is assisted in its governance function by the following committees: an Underwriting and Actuarial Committee, a Legal Committee, a Claims Committee, an Investment/Finance and Audit Committee, a Risk Management Steering Committee, and a Peer Review Council. The Board and committees meet quarterly.

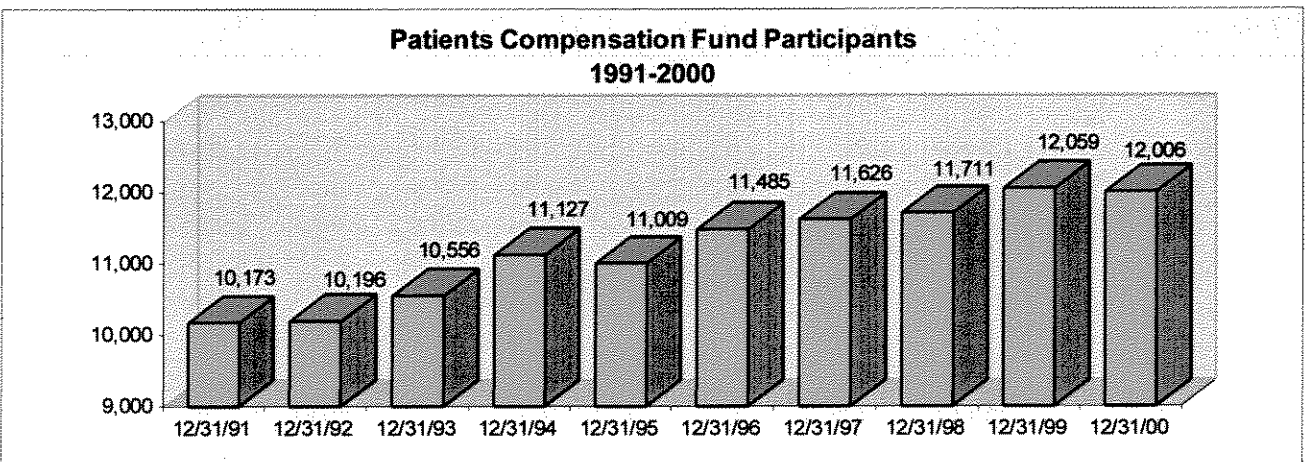
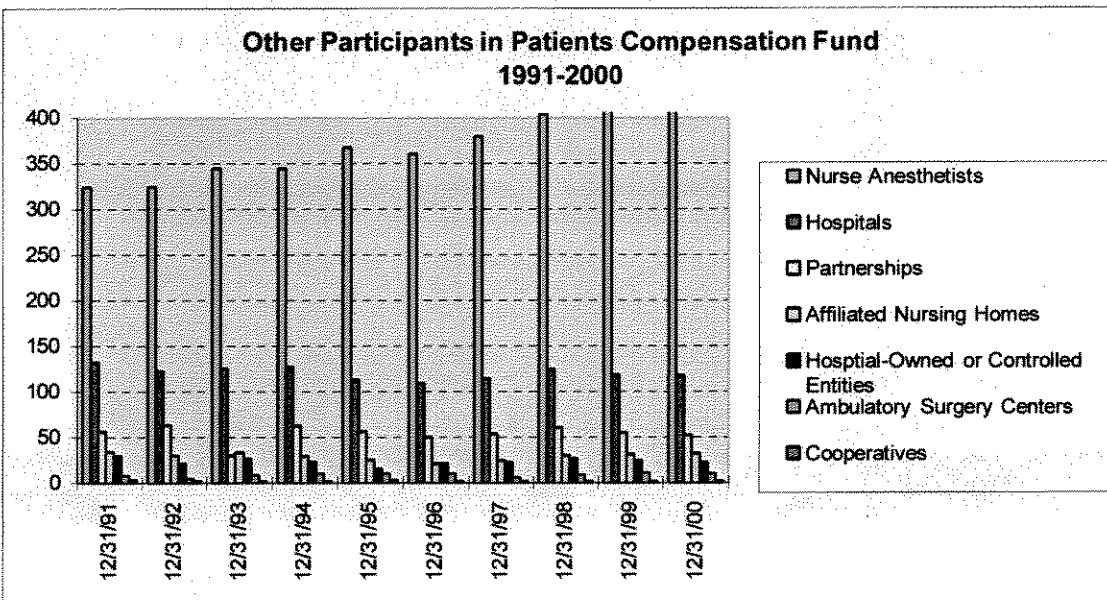
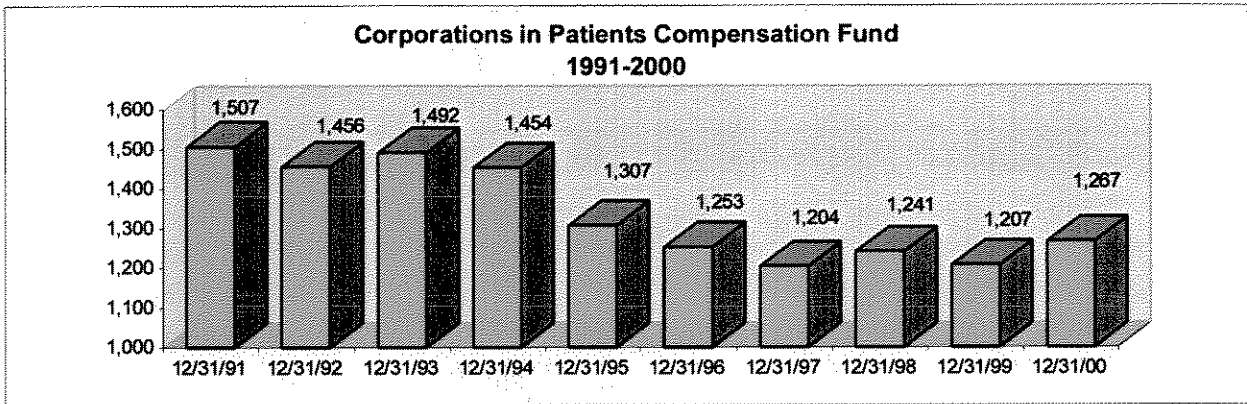
The Fund operates on a fiscal year basis; July 1 through June 30. Administrative costs, operating costs, and claim payments are funded through assessments on participating health care providers.

Fund Participants

As of December 31, 2000, there was a total of 12,006 Fund participants comprised of 117 hospitals with 32 affiliated nursing homes, 10,088 physicians, 416 nurse anesthetists, 22 hospital-owned or controlled entities, 10 ambulatory surgery centers, two cooperatives, 52 partnerships, and 1,267 corporations actively participating in the Fund.

As of December 31, 2000, physicians comprised 84% of the Fund participants and corporations made up 11%. All other participants made up the remaining 5%.





Claims Activity

From July 1, 1975, through December 31, 2000, 4,459 claims had been filed in which the Fund was named. During this period, the Fund's total number of paid claims increased to 568, totaling \$474,894,176. Of the total number of claims in which the Fund has been named, 3,469 claims have been closed with no indemnity payment. Of the remaining reported claims as of December 31, 2000, 41 cases carried aggregate case reserves of \$42,989,079.

Board Committees

Actuarial and Underwriting Committee

The Actuarial and Underwriting Committee advises the Board on actuarial and underwriting issues.

Wisconsin Act 10, which was enacted on May 10, 1995, included a cap on non-economic damages for medical malpractice at \$350,000. The cap is indexed annually as determined by the director of state courts. The current cap for non-economic damages is \$392,871 as most recently indexed on May 15, 2000. Pursuant to the requirements of Act 10, a report as to the effects of the Act was submitted to the legislature in May of 1999. The report concluded that at that time, there had been a savings to the Fund participants of approximately \$60 million in Fund fees.

Wisconsin Act 11, which was enacted on July 14, 1997, increased the required primary carrier liability limits retroactive to July 1, 1997, for health care providers who are subject to the Fund. The limits increased from \$400,000 per occurrence to \$1,000,000 and from an annual aggregate limit of \$1,000,000 to \$3,000,000. The Act also allows for a four-year phase-in of the higher per-occurrence primary limit for self-insured plans, if so elected by the plan.

The Committee assisted the Board to promulgate the Fund Fee Rule for fiscal year 2000-2001 fees. Overall, there was a 25% decrease in total fees for fiscal year 2000-2001. Mediation panel fees for physicians (excluding physicians in a residency program) were set at \$38 per physician and \$2 per hospital bed.

Under Act 473, various types of "health care professionals" may be shareholders in the same service corporation, regardless of the fact that they hold different licenses. "Health care professional" is defined to include anyone regulated by the Board of Nursing, Medical Examining Board, Optometry Examining Board, Pharmacy Examining Board, Psychology Examining Board and the Examining Board of Social Workers, Marriage and Family Therapists and Professional Counselors. Act 473 created s. 655.27(3)(a) 4, Wis. Stat., to require the Fund's Board, when setting annual fees for corporations, partnerships, and cooperative HMOs, to take into consideration risk factors and past and prospective loss and expense experience attributable to employees other than physicians and nurse anesthetists. As a result of Act 473, additional fees for corporations, partnerships and cooperative HMOs are included in the fiscal year 2001 annual fee rule and are anticipated to total \$1,097,322 for the period.

Claims Committee

The responsibility of the Claims Committee (Committee) of the Board of Governors (Board) is to establish claims policies and procedures for the Patients Compensation Fund (Fund) and the Wisconsin Health Care Liability Insurance Plan (Plan).

The functions of the Claims Committee are the following:

- To establish guidelines for claims management by the contractor and OCI staff of the Fund and the Plan and to review claims to determine if the guidelines need to be revised.
- To provide for the evaluation of the claims contractor no less often than prior to the re-negotiation of each contract to assure that claims are being handled in an appropriate and expeditious manner.
- To review all claims involving alleged sexual misconduct, neurological impairment, quadriplegia, and those claims which the contractor has set reserves of \$500,000 or more and provide settlement authorization and advise on those claims where settlement value exceeds \$1 million or when the contractor has a claim management question.
- To monitor claims and claims administration costs and to make recommendations for possible savings to the board and the contractor.
- To establish guidelines for annuity purchases and to review such purchases periodically.
- To recommend to the board changes in the statutes or administrative rules that are needed to facilitate the claims policies and procedures of the Plan or Fund.
- To refer legal or other issues that come to the committee's attention to the appropriate committees.
- To prepare reports analyzing claims trends for risk management purposes.
- To report to the board quarterly on the committee's activities.

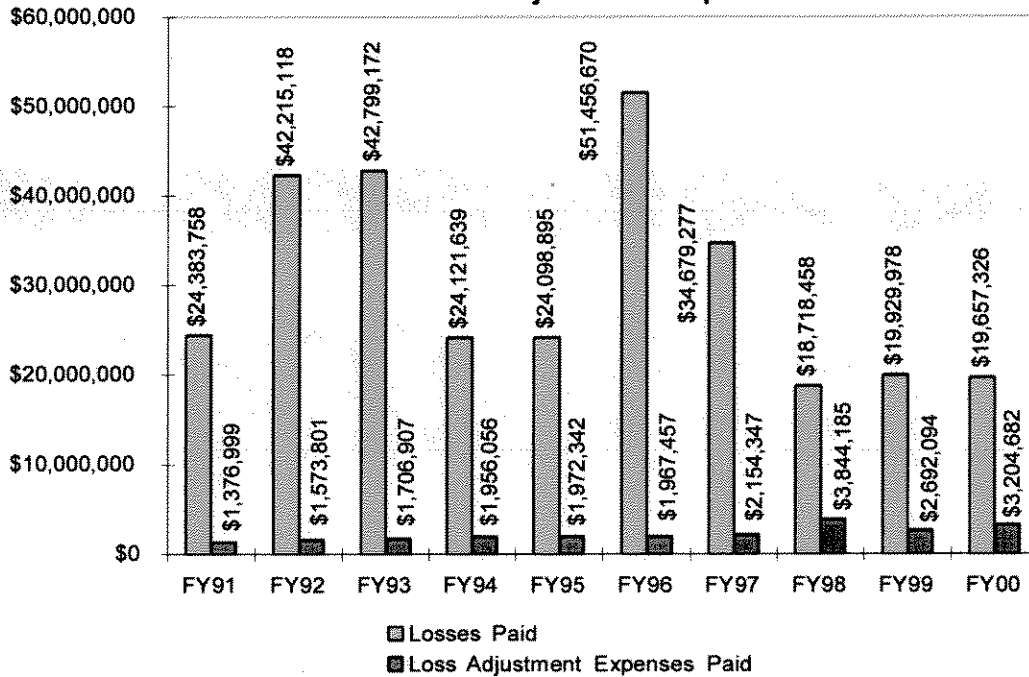
Table 1, on the following page, summarizes quarterly loss payments by amount and number of claims paid, from fiscal 1996 through fiscal 2000. Chart 1 shows the range of annual Fund loss and loss expense payments, beginning with fiscal year 1991. The Fund's fiscal year runs from July 1 to June 30. The Fund made loss payments totaling approximately \$19.7 million during fiscal 2000.

Table 1

AMOUNT AND NUMBER OF LOSSES PAID BY FISCAL YEAR

QUARTER ENDING	1995-96	1996-97	1997-98	1998-99	1999-2000
	Amount #	Amount #	Amount #	Amount #	Amount #
Sept. 30	\$25,144,312 8	\$13,097,771 3	\$2,073,054 4	\$3,950,441 6	\$979,406 3
Dec. 31	\$6,474,503 5	\$11,204,791 5	\$2,810,295 7	\$906,296 3	\$10,563,774 4
March 31	\$18,656,642 11	\$5,303,262 3	\$9,278,946 8	\$7,480,509 13	\$1,555,066 2
June 30	\$1,181,212 4	\$5,073,453 5	\$4,556,163 5	\$7,592,731 6	\$6,559,079 3
TOTAL	\$51,456,670 28	\$34,679,277 16	\$18,718,458 24	\$19,929,978 28	\$19,657,326 12

Patients Compensation Fund
Actual Losses & Loss Adjustment Expenses Paid



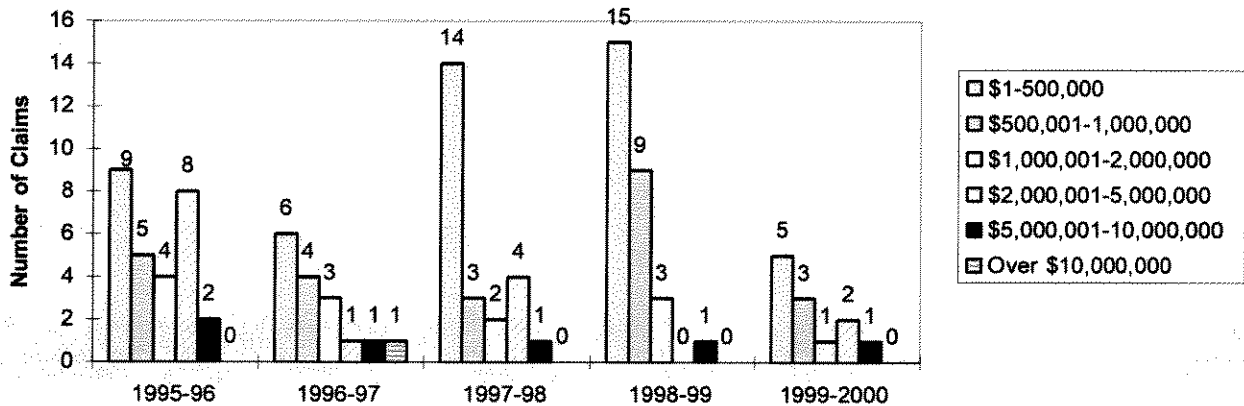
The range of Fund claim payments for the last five fiscal years is summarized below in table 2.

Table 2

RANGE OF FUND CLAIM PAYMENTS

Payment Range	1995-96 # of Claims	1996-97 # of Claims	1997-98 # of Claims	1998-99 # of Claims	1999-2000 # of Claims
\$1-500,000	9	6	14	15	5
\$500,001-1,000,000	5	4	3	9	3
\$1,000,001-2,000,000	4	3	2	3	1
\$2,000,001-5,000,000	8	1	4	0	2
\$5,000,001-10,000,000	2	1	1	1	1
Over \$10,000,000	0	1	0	0	0
Total Claims Paid	28	16	24	28	12

Range of Claim Payments



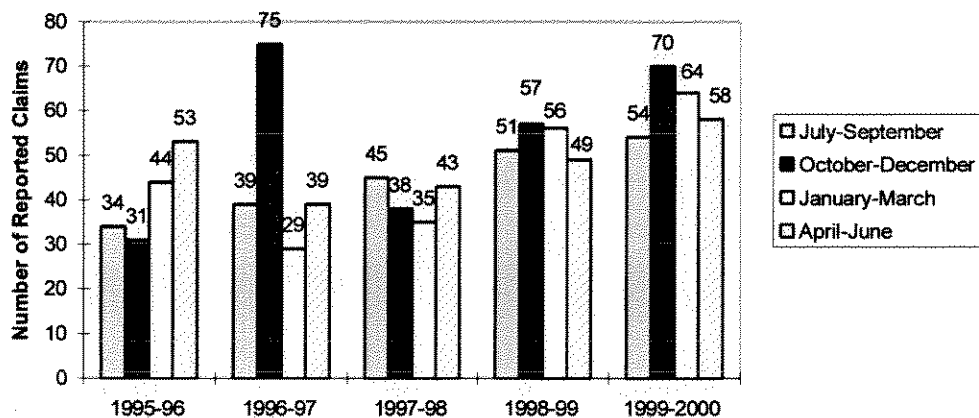
Fund claims reported by quarter by fiscal year are summarized in table 3 below. A total of 246 claims were opened during fiscal 2000.

Table 3

CLAIMS OPENED QUARTERLY BY FISCAL YEAR

Quarter	1995-96	1996-97	1997-98	1998-99	1999-2000
July 1-September 30	34	39	45	51	54
October 1-December 31	31	75	38	57	70
January 1-March 31	44	29	35	56	64
April 1-June 30	53	39	43	49	58
Totals	162	182	161	213	246

Claims Reported by Quarter by Fiscal Year



Finance/Investment/Audit Committee

The Finance/Investment/Audit Committee's responsibilities include establishing, monitoring, and amending as necessary, the investment strategy for the Fund to ensure obligations are met. The Committee periodically reviews investments for compliance with investment guidelines and evaluates cash flow liquidity needs. In addition, the committee oversees the financial reporting process. Responsibilities include review of financial position and results, as well as correspondence with auditors concerning audit scope, accounting issues, internal controls and management recommendations.

Changes in the Fund's statutory investment authority have had a positive impact on the projected surplus. Legislation enacted in April 1990, which permitted the Fund to invest in long-term financial instruments, has resulted in higher investment earnings. The Fund's actuaries have estimated that during the period October 1, 1990, to September 30, 2000, investment earnings on the long-term portfolio were \$76.6 million higher than what would have been earned had these assets remained in the short-term account.

During 1999, the Investment Committee, with the assistance of an outside investment consultant, developed new investment guidelines. The new investment guidelines provide for investment in equities to maximize investment return. These new guidelines were implemented in 2000 in coordination with the State of Wisconsin Investment Board.

The Committee reviewed and recommended transfers from the short-term account to the long-term equity account throughout the year. Attached as Exhibit 1 is a summary of recent investment returns.

Legal Committee

The Legal Committee advises the Board on legal issues, including retroactive coverage requests, appeals, proposed statutory changes, administrative rule changes, and other issues that affect eligibility or Fund participation.

During 2000, the Committee reviewed 32 requests for retroactive coverage of which 28 were approved and four were denied.

Peer Review Council

The Peer Review Council (Council) reviews physician claim records to determine whether a surcharge should be imposed against the Fund fee or Wisconsin Health Care Liability Insurance Plan (Plan) premium, if applicable. The surcharge is a percentage of a provider's Fund fee or Plan premium based on the number of closed medical liability claims reported, and the aggregate amount paid for those claims.

During the fiscal year from July 1, 1999, to June 30, 2000, 125 claims paid reports were filed. These included 59 for physicians or nurse anesthetists, 63 for hospitals, corporations or clinics, and 3 for other types of providers. No providers were subject to possible surcharge.

Since inception of the Council in 1986, 52 providers have been subject to possible surcharge. The status, or disposition, of those providers as of June 30, 2000, was as follows:

- Exemptions from participation in the Fund have been filed by 23 providers, resulting in suspension of the review for surcharge.
- No surcharge was warranted for 11 providers as a result of the Council's review or consultant opinions.
- Two providers have been surcharged for failure to respond to Council requests for information.
- The review for surcharge was pending for the remaining 16 providers.

Risk Management Steering Committee

The purpose of the Risk Management Steering Committee, created in June 1991, is to reduce patient/claimant compensable injuries, reduce Fund losses and associated expenses, improve the general quality of medical care, and reduce the premiums of participating health care providers.

Activities During 2000:

- Continued development of self-study programs for physicians.
- Publication of the quarterly risk management newsletter, *WiscRisk*. The newsletter is now available on the PCF website.

Other Fund Activities

The Fund successfully completed the transition of bringing the IT services in-house. This will provide more control by Fund administration and is expected to bring better service to Fund participants with IT staff being on hand to assist Fund administration in systems development.

The Fund is currently in the process of implementing late filing fees which will be charged to primary carriers when certificates are not received timely in accordance with Wis. Adm. Code section Ins 17.28(5).

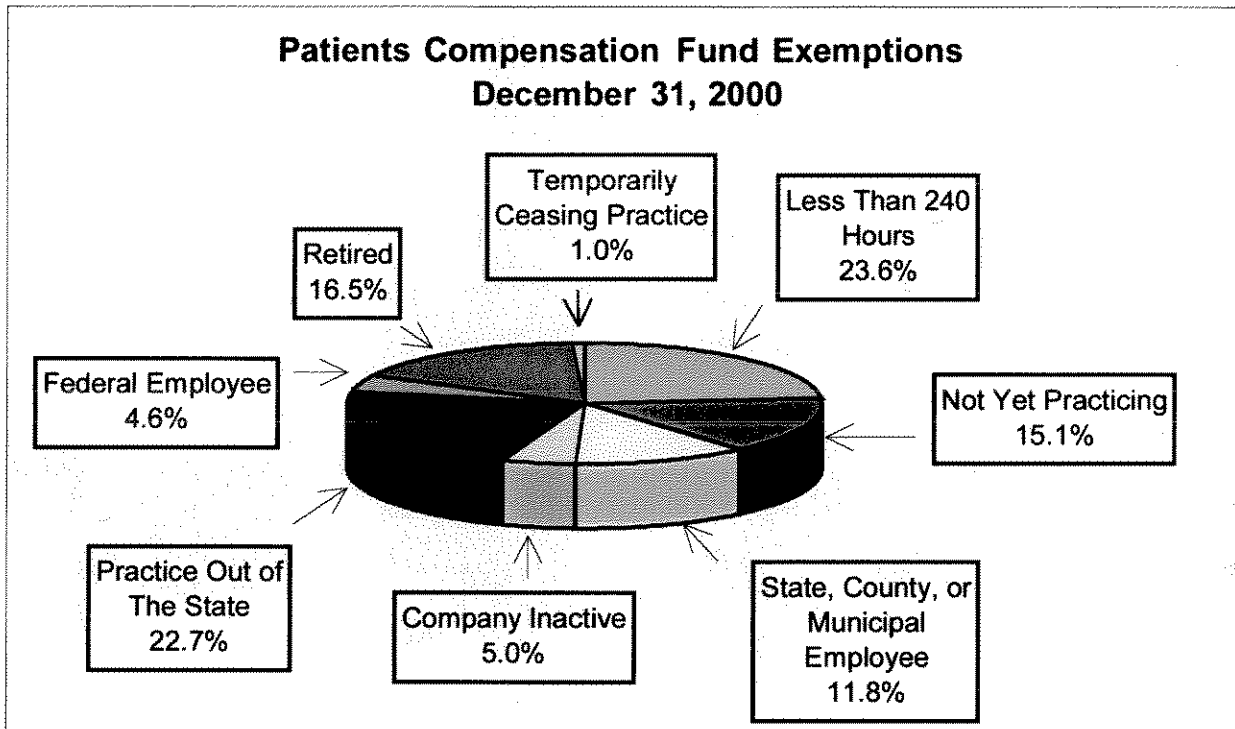
Fund administration, in conjunction with counsel, closely monitored claims filed which challenge the constitutionality of the noneconomic and wrongful death caps. This is an ongoing issue and will be closely monitored.

Extensive work continued during 2000 to verify and process up-to-date exemption status for providers that held a license to practice in Wisconsin but for which a current exemption or certificate was not on file with the Fund. Providers that remain in noncompliance are referred to their respective licensing boards for appropriate enforcement action by that board.

As of December 31, 2000, there were 9,795 providers exempt from participation in the Fund. The exemptions are grouped as follows:

Less Than 240 Hours	2,309
Practice Out of Wisconsin	2,199
Retired	1,615
Not Yet Practicing or Never Practiced in Wisconsin	1,475
State, County, or Municipal Employee	1,158
Company Inactive	494
Federal Employee	451
Temporarily Ceasing Practice	94

**Patients Compensation Fund Exemptions
December 31, 2000**

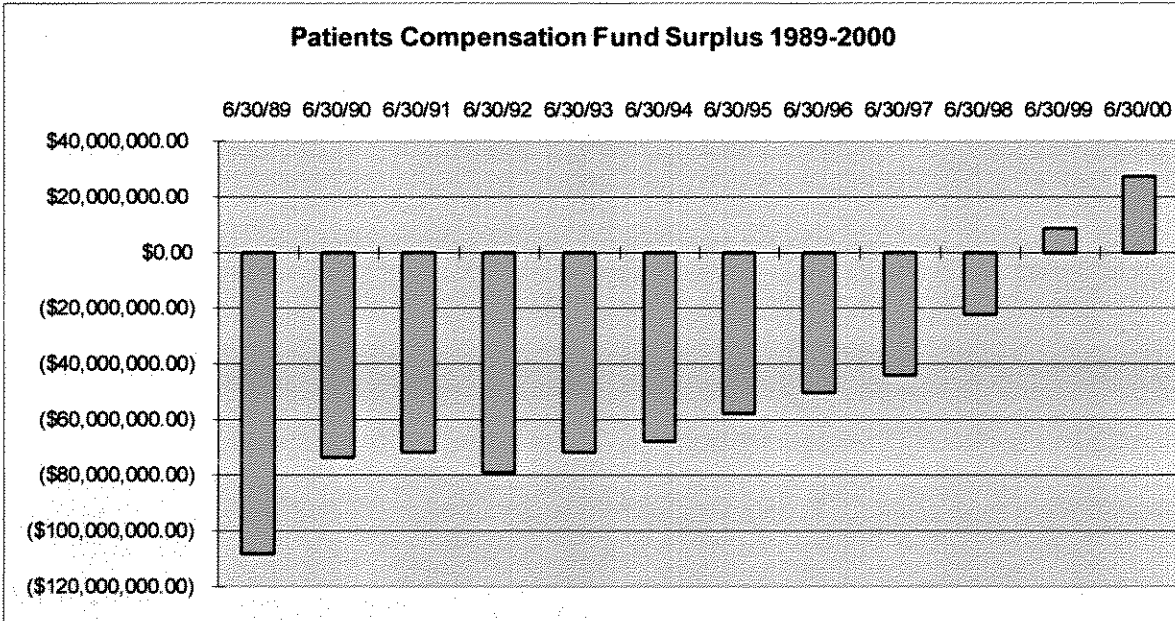


Financial Statistics

Attached as Exhibit 2 is the financial statement for the Fund for the fiscal year ending June 30, 2000.

The Fund reported a surplus of \$27,210,974 as of June 30, 2000.

The following graph reflects the Fund's surplus (deficit) over the last twelve fiscal years.



A word of caution; while the Fund has been able to eliminate the deficit, medical malpractice with its extended reporting and settlement patterns is especially difficult to estimate. This is compounded even further for the Fund, given its relatively short history and the nature of its coverage - unlimited excess liability protection over the primary carriers' limits.

The Fund's Board is happy to report that the deficit has been retired in a relatively short period and acknowledges the role that legislation played in these efforts.

The Fund's next progress report, due March 1, 2002, will include an update on the Fund's activities during 2001.

Attachments

**WISCONSIN PATIENTS COMPENSATION FUND
SUMMARY OF RECENT INVESTMENT RETURNS**

1. **HISTORY OF TRANSFERS:** In September of 1990, the State of Wisconsin Investment Board (SWIB) constructed a long-term portfolio of \$127.8 million for the Wisconsin Patients Compensation Fund (Fund). Since the creation of the long-term portfolio SWIB has transferred assets from the Fund's short-term account to the long-term portfolio at the direction of Fund management. In conjunction with the transfers, SWIB performs an annual rebalancing of the long-term portfolio which has generated realized capital gains. The table below summarizes the history of transfers from the Fund's short-term account to the long-term portfolio as well as the realized capital gains:

Fiscal Period	Assets Transferred from Short-Term Account to Long-Term / Equity Accounts	Realized Capital Gains
7/1/92 - 6/30/93	\$29,416,739	\$4,697,654
7/1/93 - 6/30/94	44,017,541	710,384
7/1/94 - 6/30/95	57,182,278	93,893
7/1/95 - 6/30/96	9,941,627	2,930,120
7/1/96 - 6/30/97	49,478,267	40,569
7/1/97 - 6/30/98	54,991,882	0
7/1/98 - 6/30/99	62,749,031	11,740
7/1/99 - 6/30/00	46,076,417	(82,517)
7/1/00 - 12/31/00	32,000,000	0
Total	\$385,853,782	\$8,401,843

MILLIMAN & ROBERTSON, INC.

**WISCONSIN PATIENTS COMPENSATION FUND
SUMMARY OF RECENT INVESTMENT RETURNS**

II. **LONG-TERM ACCOUNT:** The table below summarizes the Fund's investment returns on the long-term account (fixed income) over the last eight quarters, where the amounts shown exclude realized capital gains.

Fiscal Period	Average Long-Term Account*	Investment Income	Actual Yield During Quarter
10/1/98 - 12/31/98	\$458,166,514	\$8,007,208	7.2%
1/1/99 - 3/31/99	465,972,217	8,134,613	7.2%
4/1/99 - 6/30/99	477,098,425	8,279,455	7.1%
7/1/99 - 9/30/99	494,116,187	8,563,391	7.1%
10/1/99 - 12/31/99	513,958,060	9,000,631	7.2%
1/1/00 - 3/31/00	505,158,950	8,860,219	7.2%
4/1/00 - 6/30/00	486,887,556	8,498,171	7.2%
7/1/00 - 9/30/00	482,209,583	8,603,022	7.3%
10/1/00 - 12/31/00	476,850,661	8,550,960	7.4%

*Based on amortized value.

MILLIMAN & ROBERTSON, INC.

**WISCONSIN PATIENTS COMPENSATION FUND
SUMMARY OF RECENT INVESTMENT RETURNS**

III. **SHORT-TERM ACCOUNT:** The Fund's remaining assets are invested in a short-term account. The table below summarizes the Fund's investment returns on the short-term account over the last eight quarters:

Fiscal Period	Average Short-Term Account Balance	Investment Income	Annualized Yield During Quarter
10/1/98 - 12/31/98	\$13,396,059	\$163,843	4.9%
1/1/99 - 3/31/99	15,181,024	174,943	4.7%
4/1/99 - 6/30/99	12,714,184	145,198	4.6%
7/1/99 - 9/30/99	24,159,081	288,920	4.7%
10/1/99 - 12/31/99	14,042,917	177,452	5.0%
1/1/00 - 3/31/00	14,733,051	199,547	5.4%
4/1/00 - 6/30/00	20,742,211	308,886	6.0%
7/1/00 - 9/30/00	22,559,900	360,991	6.3%
10/1/00 - 12/31/00	12,994,026	183,708	5.6%

MILLIMAN & ROBERTSON, INC.

**WISCONSIN PATIENTS COMPENSATION FUND
SUMMARY OF RECENT INVESTMENT RETURNS**

IV. **LONG-TERM & SHORT-TERM ASSETS:** The table below summarizes the Fund's total investment return on its long-term and short-term invested assets (excluding equity accounts) over the last eight quarters:

Fiscal Period	Average Invested Assets*	Investment Income**	Annualized Yield During Quarter
10/1/98 - 12/31/98	\$471,562,573	\$8,171,051	7.1%
1/1/99 - 3/31/99	481,153,241	8,309,556	7.1%
4/1/99 - 6/30/99	489,812,609	8,424,653	7.1%
7/1/99 - 9/30/99	518,275,269	8,852,311	7.0%
10/1/99 - 12/31/99	528,000,977	9,178,083	7.1%
1/1/00 - 3/31/00	519,892,001	9,059,766	7.2%
4/1/00 - 6/30/00	507,629,767	8,807,057	7.1%
7/1/00 - 9/30/00	504,769,484	8,964,013	7.3%
10/1/00 - 12/31/00	489,844,686	8,734,668	7.3%

*Based on amortized value
**Excluding realized capital gains

MILLIMAN & ROBERTSON, INC.

PATIENTS COMPENSATION FUND
Balance Sheet
6/30/00
Unaudited

<u>Assets</u>	
Cash	\$140,996
State Investment Fund Shares (market value)	\$16,080,477
Long-term Investments (market value)	\$516,370,104
Bond Investment Income Receivable	\$9,555,800
Short-term Interest Receivable	\$90,736
Assessments Receivable	\$324,441
Less: Allowance for Uncollectible Accounts	(\$817)
Prepaid Items	\$1,999
Furniture & Equipment (net of depreciation)	\$30,565
Other Receivables	\$0
	<hr/>
Total Assets	<u><u>\$542,594,300</u></u>
 <u>Liabilities</u>	
Loss Liabilities:	
Liability for IBNR	\$670,816,786
Liability for Reported Losses	\$46,463,285
Liability for LAE	\$31,381,540
	<hr/>
Estimated Unpaid Loss Liabilities	\$748,661,611
Amount Representing Interest	\$235,079,746
	<hr/>
Discounted Loss Liabilities	\$513,581,865
Liabilities for Future Medical Expenses	\$143,179
	<hr/>
Total Loss Liabilities	<u>\$513,725,044</u>
 Other Liabilities:	
Contributions Being Held	\$400,000
Unearned Assessments Levied	\$472,728
Provider Refunds Payable	\$514,092
Medical Mediation Panels Payable	\$2,148
Vouchers Payable	\$249,343
Compensated Absences	\$19,970
	<hr/>
Total Liabilities	<u>\$515,383,326</u>
Fund Balance	<u>\$27,210,974</u>
Total Liabilities and Fund Balance	<u><u>\$542,594,300</u></u>

PATIENTS COMPENSATION FUND
Statement of Income
6/30/00
Unaudited

<u>Assessments Levied (net of unearned)</u>	\$47,879,282
<u>Less Underwriting Expenses:</u>	
Net Losses Paid	\$19,650,226
Interest on Loss Payments	\$106,957
LAE Paid	\$3,204,682
Risk Mgt Exp	\$98,428
Medical Expense Paid	\$0
Change in Liability for IBNR	\$36,796,957
Change in Liability for Reported Losses	\$18,211,361
Change in Liability for LAE	\$534,976
Change in Amount Representing Interest	(\$29,916,724)
Change in Liability for Future Med Expenses	\$7,188
	<hr/>
Total Underwriting Expenses	\$48,694,052
	<hr/>
Net Underwriting Gain (Loss)	(\$814,770)
Investment Income	\$31,830,459
Unrealized gain (adjustment to mkt value)	(\$15,882,228)
Change in Bond Premium (Discount)	\$3,971,000
Assessment Interest Income	\$389,990
Administrative Fee Income	\$41,821
Surcharge Income	\$0
Other Income	\$17,272
Depreciation Expense	(\$6,040)
Loss on Disposal of Fixed Assets	(\$4,758)
Less Gen and Admin Expenses-PCF	(\$860,758)
Less Gen and Admin Expenses-Peer Review	(\$50,783)
	<hr/>
Net Gain (Loss)	\$18,631,207
	<hr/>
Fund Balance, Beginning of Period	\$8,579,767
Net Gain (Loss)	\$18,631,207
Other Adjustments	
	<hr/>
Fund Balance, End of Year	\$27,210,974
	<hr/>

PATIENTS COMPENSATION FUND
Statement of Cash Flows
6/30/00
Unaudited

Cash Flows from Operating Activities

Cash received from:	
Provider fund fees	\$48,052,982
Primary malpractice insurers	\$983,194
Other operating activity	\$598,135
Cash payments for	
Losses	\$20,521,226
Interest on losses paid	\$119,151
Loss adjustment expenses	\$3,204,682
Medical expenses	\$0
General and administrative expenses	\$955,195
Provider refunds for fund fees	\$2,966,875
Panel fees	\$160,133
	<hr/>
Net cash Provided (used) by Operating Activities	\$21,707,048

Cash flows from Capital and related Financing Activities

Payments for purchase of fixed assets	-\$30,202
Cash provided (used) by Capital or related financing activities	<hr/> -\$30,202

Cash flows from Investing Activities

Purchase of investment securities	-\$171,639,942
Interest on investments	\$31,168,930
Proceeds from sale of investments	\$128,892,193
Inc (dec) in cash equivalents by chg in mkt value of S-T investments	-\$22,998
Net cash provided (used) by Investment Activities	<hr/> -\$11,601,816
Net Increase (Decrease) in Cash and Cash Equivalents	\$10,075,030
Cash and Cash Equivalents at the Beginning of the Year	\$6,146,443
Cash and Cash Equivalents at the End of the Year	<hr/> \$16,221,473

Reconciliation of Net Operating Income (loss) to Net Cash and Cash Equivalents Provided by Operating Activities

Net Operating Income (Loss)	\$18,631,207
Adjustments to reconcile Net Operating Income (Loss) to Net Cash and Cash Equivalents Provider by Operating Activities	
Depreciation Expense	\$6,040
Operating Income (Investment Income) Classified as Investing Activity	-\$19,919,232
Expense related to disposal of fixed asset	\$4,758
Change in other liabilities related to a beg accrual of fixed asset purc	\$30,202
Change in other liabilities related to a beg accrual of investment inc	\$1,664
Change in other liabilities related to an accrual of investment inc	\$0
Changes to assets and liabilities:	
Decrease (increase) in assessments receivable	\$123,565
Decrease (increase) in other receivables	\$0
Decrease (increase) in supplies inventory	-\$34
Increase (decrease) in loss liabilities	\$25,633,759
Increase (decrease) in other liabilities	-\$2,804,881
Total Adjustments	<u>\$3,075,841</u>
Net Cash and Cash Equivalents Provided by Operating Activities	<u>\$21,707,048</u>

NOTES TO FINANCIAL STATEMENTS - June 30, 2000

1. Description of the Patients Compensation Fund (Fund)

The Fund, which is part of the state of Wisconsin financial reporting entity, was created in 1975 for the purpose of paying that portion of a medical malpractice claim that is in excess of the legal primary insurance limit prescribed in s. 655.23 (4), Wis. Stat., or the maximum liability limit for which the health care provider is insured, whichever limit is greater. Each health care provider permanently practicing or operating in the state of Wisconsin is required to pay annual assessments.

Management of the Fund is vested with a 13-member Board of Governors (Board), which is chaired by the Commissioner of Insurance. The Board has designated the Commissioner of Insurance as the administrator of the Fund. Similarly, under s. 655.27 (2), Wis. Stat., the Commissioner shall either provide staff services necessary for the operation of the Fund or, with the approval of the Board, contract for all or part of these services. During 1999/2000 fiscal year, the Board contracted for the Fund's actuarial, provider assessment system, risk management and claims administrative services.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Fund are summarized as follows:

Basis of Presentation

The accompanying financial statements have been prepared in a format prescribed by the Board in accordance generally accepted accounting principles

Investment Valuation

Bonds are valued at market. Investments in the state Investment Fund are considered cash equivalents and are also carried at market value. Unrealized gains are included in the investment income account.

Assessments

Assessments are billed and recognized on a fiscal year basis, which is also the policy year. Assessments received for the upcoming fiscal year are deferred revenue and are recorded as unearned assessments levied. Accounts of providers are automatically credited when primary insurance has lapsed.

3. Deposits and Investments

All cash is deposited with the state of Wisconsin Treasurer and is invested by the State of Wisconsin Investment Board (SWIB) through the state Investment Fund. Shares in the state Investment Fund are reported as cash equivalents. All of the Fund's investments are managed by SWIB. SWIB's objectives are to invest money held in the Fund in investments with maturities and liquidity that are appropriate for the needs of the Fund.

Investments of the state Investment Fund consist of direct obligations of the United States government, securities guaranteed by banks, and other investments approved by the trustees of SWIB. Bonds purchased for the Fund consist of U.S. Government obligations, corporate obligations, and public utilities and financial institution obligations. Equity investments purchased for the Fund consist of shares in Barclays Russell 2000 and Barclays Russell 3000 index funds.

All deposits and investments of the state Investment Fund and bonds required to be categorized by the Governmental Accounting Standards Board Statement Number 3 meet the criteria for risk category 1. Cash deposits in risk category 1 are insured or collateralized with securities held by the state or by its agent in the state's name. Investments and bonds in risk category 1 are insured or registered or are held by the state or its agent in the state's name.

The Fund's investments at year-end are shown at market value with accrued interest for FY 1999-2000 as follows:

<u>Equities</u>	<u>Bonds</u>	<u>Shares in State Investment Fund</u>
\$ 44,122,571	\$ 472,247,533	\$ 16,080,477

4. Loss Liabilities

Loss liabilities include individual case estimates for reported losses and estimates for incurred but not reported losses based upon the projected ultimate losses. Individual case estimates of the liability for reported losses and net losses paid from inception of the Fund are deducted from the projected ultimate loss liabilities to determine the liability for incurred but not reported losses as follows:

	<u>FY 1999-2000</u>
Projected ultimate loss liability	\$ 1,160,384,576
Less:	
Net loss paid from inception	(443,104,505)
Liability for reported losses	<u>(46,463,285)</u>
Liability for incurred but not reported losses	\$ <u>670,816,786</u>

Loss liabilities also include a provision for the estimated future payment of costs to settle claims. These ultimate loss adjustment expenses as of June 30, 2000, are estimated at 5% of the projected ultimate loss liabilities. The loss adjustment expenses paid from inception of the Fund are deducted from the projected ultimate loss adjustment expense provision to determine the liability for loss adjustment expense as follows:

	<u>June 30, 2000</u>
Projected ultimate loss adjustment expense liability	\$ 58,019,229
Less:	
Net loss adjustment expense paid from inception	<u>(26,637,689)</u>
Liability for loss adjustment expense	\$ <u>31,381,540</u>

In establishing the Fund's loss liabilities and liabilities for loss adjustment expense, the Board relies upon the recommendations of a consulting actuary.

Inherent Uncertainty of Loss Liabilities

The uncertainties inherent in projecting the frequency and severity of claims because of the Fund's relatively short history, unlimited liability coverage, and extended reporting and settlement periods make it likely that

the amounts ultimately paid will differ from the recorded estimated liabilities. These differences cannot be quantified.

The loss liabilities and liability for loss adjustment expenses are continually reviewed as adjustments to these liabilities become necessary. Such adjustments are reflected in current operations.

Discounted Loss Liabilities

Section Ins 17.27 (3), Wis. Adm. Code, requires the liability for reported losses, liability for incurred but not reported losses, and liability for loss adjustment expense be maintained on a present value basis with the difference from full value being reported as a contra account to the loss reserve liabilities. The loss reserve liabilities are discounted only to the extent that they are matched by cash and invested assets. If all loss liabilities are discounted, the discounted loss liability would be as follows:

	<u>June 30, 2000</u>
Estimated unpaid loss liabilities	\$ 717,280,071
Estimated unpaid loss adjustment expense	<u>31,381,540</u>
Total estimated loss liabilities	748,661,611
Less:	
Amount representing interest	<u>235,079,746</u>
Discounted loss liabilities	<u>\$ 513,581,865</u>

The actuarially determined discount factor was .686 for FY1999-2000.

5. Future Medical Expense Liability

Section 655.015, Wis. Stat., requires accounts to be established for future medical expense awards in excess of \$25,000 that were entered into or rendered before June 14, 1986, or in excess of \$100,000 that were entered into or rendered on or after May 25, 1995.

6. Medical Mediation Panel

Section Ins 17.27 (3), Wis. Adm. Code, requires the fees collected for administration of the Medical Mediation Panel to be included in the Fund's financial reports, but that they should not be regarded as assets or liabilities or otherwise taken into consideration in determining assessment levels to pay claims.

7. Assessment Interest Income

Fund participants choosing a minimum payment plan are assessed interest on the deferred assessment amounts. Section Ins 17.28 (7), Wis. Adm. Code, prescribes the interest rate to be assessed on the deferred assessments as the average annualized rate earned by the Fund for the first three quarters of the preceding fiscal year as determined by SWIB. Interest was assessed at the rate of 4.964% for FY 1999-2000.

8. Claim Annuities

The settlement of a claim may result in the purchase of an annuity. If the annuity company and the reassignment company default on annuity payments, the Fund may be ultimately responsible for the payments under the annuity arrangements. The estimated replacement value of the Fund's annuities as of June 30, 2000 is \$120,400,000.

9. Pension Plan

Permanent full-time employees of the Fund are participants in the Wisconsin Retirement System, a cost-sharing, multiple-employer, defined benefit plan. Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the retirement system. Prior service costs are amortized over 40 years, beginning January 1990. The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. The relative position of the Fund in the Wisconsin Retirement System is not available since the System is a statewide, multiple-employer plan.