



Legislative Fiscal Bureau

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June 1, 2005

Joint Committee on Finance

Paper #451

Injured Patients and Families Compensation Fund -- Actuarial Services Audit (Insurance)

[LFB 2005-07 Budget Summary: Page 312, #3]

CURRENT LAW

The injured patients and families compensation fund (IPFCF) provides excess medical malpractice coverage for medical malpractice claims that exceed the provider liability limits of \$1 million per claim and \$3 million per policy year in the aggregate. Health care providers must obtain primary medical malpractice insurance up to the liability limits. Funded through annual assessments paid by providers, the IPFCF is managed by a Board of Governors, and administered by OCI.

Annual provider assessments are determined based on actuarial estimates of the IPFCF's loss liabilities, which include estimates of amounts that may be required to pay for incidents of malpractice that may have occurred but not yet reported or settled. Medical malpractice claims may be filed years after an incident, and the IPFCF provides unlimited coverage of economic losses. Each year, the actuary reviews and revises loss liability estimates based on experience and other relevant information.

GOVERNOR

Provide \$75,000 SEG from the IPFCF in 2005-06 to contract for an audit of the actuarial methods and assumptions used in estimating the loss liabilities for the IPFCF.

DISCUSSION POINTS

1. As noted in an October, 2004, Legislative Audit Bureau (LAB) report, some interest

groups are concerned that the actuary for the IPFCF has been overly conservative in estimating the IPFCF's loss liabilities. In nine of the ten years between 1993-94 and 2002-03 the actuary's initial estimate of loss liabilities has been decreased one year later, following review of subsequent information and experience.

2. On the other hand, the IPFCF actuary indicates that annual adjustments related to the estimated loss liability have been within the normal range of variability for actuarial projections, especially given the many uncertainties surrounding medical malpractice claims.

3. In June, 2001, the LAB recommended that OCI contract for an audit of the actuarial methods and assumptions used in estimating the IPFCF loss liabilities. The LAB has noted that an actuarial audit may be especially useful for the IPFCF because of the long-term nature of medical malpractice claims, increased unpredictability resulting from the fund's coverage, and the significant effect actuarial analyses have on the fund's financial decisions and operations. Although OCI contracted with an actuarial firm in August, 2002, to conduct this work, OCI later concluded that the contractor's work did not meet the original intent of the LAB's recommendation and that it lacked critical analysis and discussion about the IPFCF's nature, structure, and funding. OCI concluded business with the actuarial firm in March, 2004, after paying the firm a total of \$23,183. No final report was completed or released.

4. OCI issued another request for proposals for an audit of the actuarial methods in April, 2004. OCI eventually received proposals from actuarial firms it determined to be experts in the area of medical malpractice. In late February, 2005, OCI contracted with a firm for an audit of the actuarial methodologies and assumptions used by the IPFCF's outside actuarial firm. According to the terms of the agreement, total compensation for the firm's services may not exceed \$50,000. OCI will pay the contractor within 30 days of billing. OCI expected to receive a written report from the firm by the end of April, 2005, but has yet to receive the report. The audit and payment, if performed according to the agreement, will each take place in state fiscal year 2004-05.

5. The IPFCF Board of Governors established a policy directing OCI staff to obtain an actuarial audit of the IPFCF every three years.

6. The 2003-05 biennial budget did not provide OCI additional funding for the agency to contract for the audit scheduled to be completed by the end of April, 2005. Consequently, to accommodate the payment, the agency may have to delay until 2005-06 payments on such items as contracts for actuarial or investment services that would otherwise have been paid in 2004-05. Although \$50,000 represents approximately 10 percent of the base budget for supplies expenditures for the IPFCF program, OCI indicates that it represents the entire discretionary portion of its supplies budget. Continuing contracts for such things as actuarial and investment services, information technology expenditures, rent, postage, and internal OCI charge-backs compose the remainder of supplies expenditures for the IPFCF program.

7. OCI would like to schedule the next actuarial review in 2006-07 in an effort to comply with what OCI has described as the IPFCF Board's original timeframe for actuarial reviews,

which called for the first review in 2003-04 and a review every three years thereafter. To accommodate that timeline, funding for a review would be required in 2006-07. Additionally, OCI expects the next actuarial review to cost \$75,000. If a second review were commissioned in 2006-07, however, the first two reviews would be separated by only two years.

8. On April 4, 2005, Aon Risk Consultants published an actuarial report of the IPFCF at the request of the administration. This review and report are in addition to the pending review commissioned by the IPFCF Board. The Committee may decide that, given the attention paid to the actuarial review of the IPFCF in the current fiscal year, it is not necessary to commission another review within the 2005-07 biennium.

ALTERNATIVES

1. Modify the Governor's recommendation by: (a) reducing funding in the bill by \$75,000 SEG in 2005-06; (b) increasing funding in the bill by \$75,000 SEG in 2006-07 to provide one-time funding for OCI to contract for an audit of the actuarial methods and assumptions used in estimating the loss liabilities for the IPFCF.

2. Modify the Governor's recommendation by: (a) reducing funding in the bill by \$25,000 SEG in 2005-06 so that \$50,000 SEG would be provided to support supplies and services related expenses that OCI incurred in 2004-05, but for which OCI delayed payment until 2005-06, because OCI instead made a \$50,000 payment to purchase actuarial auditing services in 2004-05.

<u>Alternative 2</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	- \$25,000

3. Delete provision.

<u>Alternative 3</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	- \$75,000

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