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October 7, 2019

Ms. Anna Krylova, ACAS, MAAA
Chief Actuary
New Mexico Office of Superintendent of Insurance
PERA Building, 4th Floor
1120 Paseo de Peralta
Santa Fe. NM 87501

Re: New Mexico Patient's Compensation Fund - Hospital & Outpatient Health Care Facility Rating Plan

Dear Anna,

Enclosed are copies of our report detailing the qualified health care provider facility (QHP facility) rating plan for the New Mexico Patient's Compensation Fund (PCF). This is an addendum to our report dated July 10, 2019 analyzing a variety of issues related to the New Mexico Patient's Compensation Fund and as such are subject to the same conditions, reliances, and limitations as that report. For the PCF data, we have also relied on data provided for that analysis, evaluated as of December 31, 2018.

I am a member in good standing of the American Academy of Actuaries and meet its qualification standards to produce this report.

Please give me a call so we can discuss this report. We enjoy working with you on this assignment and look forward to presenting the results in Albuquerque.

Sincerely,

A handwritten signature in black ink that reads "Robert J. Walling III". The signature is written in a cursive style.

Robert J. Walling III, FCAS, MAAA, CERA
Principal and Consulting Actuary

Actuarial Report Addendum:

**New Mexico Patient's Compensation Fund
Hospital & Outpatient Health Care Facility Rating Plan**

October 2019



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Commitment Beyond Numbers

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New Mexico Patient's Compensation Fund Hospital & Outpatient Health Care Facility Rating Plan

Purpose and Scope

In the past, surcharges for hospitals and outpatient health care facilities (QHP facilities) that participate in the New Mexico Patient's Compensation Fund (PCF) have been determined on an individual basis through an independent actuarial review. The purpose of this rating plan is to provide a consistent framework for rating QHP facilities that participate in the PCF. This rating plan includes both exposure and experience rating portions.

Through a review of a number of both publicly available and confidential data sources, Pinnacle has prepared a QHP facility rating plan consistent with the funding recommendations shown in our analysis of the PCF as of December 31, 2018 and is an addendum to our report dated July 10, 2019. Further discussion of the data and assumptions underlying these recommendations as well as relevant background information on Pinnacle and the PCF and legal disclosures (including information on distribution, use, reliances, and limitations) can be found in our report dated July 10, 2019.

Based on the provisions of the Medical Malpractice Act of New Mexico (Chapter 41, Article 5 NMSA 1978), hospitals and outpatient health care facilities may be admitted to the PCF subject to the superintendent's determination of base coverage and PCF surcharges for each facility. The surcharges shall be determined "based upon sound actuarial principles." Pinnacle was approached by the PCF to provide a consistent rating framework for hospitals and outpatient health care facilities.

Data Sources

Our analyses use a number of data sources. The data sources are categorized as follows:

1. Health System Loss and Exposure Data
2. Industry Rate Filings
3. PCF Actuarial Analysis as of December 31, 2018

A brief description of the data sources utilized in each area along with a description of the key data elements and potential limitations of the data follows for each category.

Health System Loss and Exposure Data

Pinnacle was provided with claim counts and exposure information for two New Mexico health systems (Presbyterian Health Services and Christus St. Vincent) with claims evaluated as of 12/31/2018, as well as claim counts and exposure information for the New Mexico Hospital Risk Purchasing Group (RPG) as a whole evaluated as of 3/31/2018. The claim counts are comprised of claims with indemnity over \$200,000 (i.e. claims that would pierce the PCF layer). These are summarized by year in Exhibit 4.

Exposures include number of beds (for acute care, psychiatric care, extended care, skilled nursing care, personal care, physical rehab, and chemical dependency rehab beds), number of births, number of surgeries (inpatient and outpatient), and number of visits in hundreds (ER, other outpatient, and home healthcare). These exposures are summarized on Exhibit 3.

Industry Rate Filings

In order to develop PCF rates for the different types of QHP facility loss exposures, e.g. emergency room visits, births, outpatient surgeries, Pinnacle reviewed several publicly available filings for medical professional liability insurance (MPLI) providers and government insurance programs in New Mexico and other states in developing appropriate relativities to the acute care bed base rate (i.e. the occupied bed equivalent or OBE rate). Because these rate filings have been through regulatory scrutiny, we are comfortable that the information is appropriate for use in this analysis. These relativities are shown in Exhibit 2.

PCF Actuarial Analysis as of December 31, 2018

The rating plan is based on the funding recommendation provided in our analysis as of December 31, 2018. Further information on methods, data, and assumptions incorporated in this analysis is discussed in our report dated July 10, 2019.

Methods and Assumptions

Pinnacle's developed PCF surcharges for QHP facilities based on the overall funding need for QHP facilities insured by the PCF. The goal of the analysis was to satisfy the overall surcharge need for the PCF through actuarially sound rates by ratable exposure. First, hospital exposures were collected and summarized. These exposures comprise all the hospital systems currently participating in the PCF. The exposures are summarized in Exhibit 3.

Second, appropriate relativities for each exposure type were selected based a review of relativities for two primary carriers in the state of New Mexico (MMIC Insurance, Inc. and The Continental Insurance Company; these rate filings were accessed as of May 2, 2019) as well as the Indiana Patient Compensation Fund, a state program that offers excess coverage in a similar manner to the PCF. Selections were made based on these relativities. See Exhibit 2 for more detail.

Finally, we calculate the acute care bed base rate by balancing the calculated funding (using the results of Exhibits 2 and 3) to the overall funding recommendation for hospitals in the PCF. In calculating the base rate, we developed the projected 2019-2020 assessments based on an 80% confidence level shown in the hospital funding.

For the experience rating portion of the plan, we used the total hospital claims with over \$200,000 in indemnity and current exposures to estimate an estimated frequency of claims per bed. The estimated frequency can then be applied to the OBE exposures of a facility to determine expected claim counts. A facility's ratio of its actual claim counts to expected claim counts over the five years of the experience period is then credibility-weighted using the maximum of statewide claims summarized over the past five years as the full credibility standard to provide an experience modification factor to the facility's surcharge.

Exhibits and Appendices

- Exhibit 1. Proposed Hospital & Outpatient Health Care Facility Rates
 - Exhibit 2. Proposed Hospital & Outpatient Health Care Facility OBE Relativities
 - Exhibit 3. Current Health System Exposures
 - Exhibit 4. Expected Claims Estimate
 - Exhibit 5. Patient's Compensation Fund – Rules and Rating Manual for Owners/Operators of New Mexico Hospitals and Outpatient Health Care Facilities
-
- Supplemental Exhibit Experience Rating Adjustment Example

New Mexico Patient's Compensation Fund
Proposed Hospital & Outpatient Health Care Facility Rates

Exhibit 1

<u>Exposure Type</u>	<u>Exposure Basis</u>	<u>Proposed PCF Rate</u>	<u>Indicated Hospital Premium</u>
(1)	(2)	(3)	(4)
Acute Care Bed	Per bed	4,957	7,473,425
Psychiatric Care Bed	Per bed	4,957	23,150
Extended Care Bed	Per bed	496	13,384
Skilled Nursing Care Bed	Per bed	1,735	-
Personal Care Bed	Per bed	744	-
Physical Rehab Bed	Per bed	2,479	31,874
Chemical Dependency Rehab Bed	Per bed	1,239	-
Births	Per birth	248	4,090,131
Inpatient Surgeries	Per 100 surgeries	8,675	3,447,757
Outpatient Surgeries	Per 100 surgeries	991	781,783
ER visits	Per 100 visits	744	4,831,786
Other Outpatient visits	Per 100 visits	248	3,167,760
Home Healthcare	Per 100 visits	248	-
			23,861,051

Column / Row

(3)

(4)

Note

Based on current hospital & outpatient health care facility surcharge indication and proposed relativities from Exhibit 2, Col (3)

Col (3) x Exhibit 3, Col (6)

New Mexico Patient's Compensation Fund
Proposed Hospital & Outpatient Health Care Facility OBE Relativities

Exhibit 2

Exposure Type (1)	Exposure Basis (2)	Proposed Relativity to Acute Care Beds (3)	MMIC (4)	IN PCF (5)	CNA (6)
Acute Care Bed	Per bed	1.0000	1.0000	1.0000	1.0000
Psychiatric Care Bed	Per bed	1.0000	1.0000	0.5005	0.7000
Extended Care Bed	Per bed	0.1000	0.1501	0.0501	0.1000
Skilled Nursing Care Bed	Per bed	0.3500	0.3000	0.5005	0.5000
Personal Care Bed	Per bed	0.1500	0.1000	0.1996	
Physical Rehab Bed	Per bed	0.5000	0.5000		
Chemical Dependency Rehab Bed	Per bed	0.2500	0.2500		
Births	Per birth	0.0500	0.0501	0.0400	0.0400
Inpatient Surgeries	Per 100 surgeries	1.7500	1.2501	2.0000	1.5997
Outpatient Surgeries	Per 100 surgeries	0.2000	0.4000	0.1000	0.4001
ER visits	Per 100 visits	0.1500	0.1501	0.1000	0.1500
Other Outpatient visits	Per 100 visits	0.0500	0.0501	0.0500	0.0700
Home Healthcare	Per 100 visits	0.0500	0.0125	0.0500	0.0300

Column / Row

(3)

(4), (6)

(5)

Note

Proposed based on Cols (4) - (6)

From New Mexico rate filings PERR-131779736 and CNAC-125268857 respectively

From 2019 surcharges bulletin for Indiana Patient Compensation Fund

**New Mexico Patient's Compensation Fund
Current Health System Exposures**

Exhibit 3

<u>Exposure Type</u> (1)	<u>Exposure Basis</u> (2)	<u>Hospital RPG</u> (3)	<u>PHS</u> (4)	<u>St. Vincent</u> (5)	<u>Total - All Hospitals</u> (6)
Acute Care Bed	Per bed	795	583	130	1,508
Psychiatric Care Bed	Per bed			5	5
Extended Care Bed	Per bed		27		27
Skilled Nursing Care Bed	Per bed				-
Personal Care Bed	Per bed				-
Physical Rehab Bed	Per bed			13	13
Chemical Dependency Rehab Bed	Per bed				-
Births	Per birth	8,630	6,569	1,303	16,502
Inpatient Surgeries	Per 100 surgeries	245	120	32	397
Outpatient Surgeries	Per 100 surgeries	490	224	75	789
ER visits	Per 100 visits	3,376	2,634	489	6,498
Other Outpatient visits	Per 100 visits	7,338	4,068	1,375	12,781
Home Healthcare	Per 100 visits				-

Column / Row

- (3)
- (4), (5)
- (6)

Note

From 2018 actuarial study of New Mexico Hospital Risk Purchasing Group
From 2018 surcharge analyses
Sum of Cols (3) - (5)

New Mexico Patient's Compensation Fund

Expected Claims Estimate

Exhibit 4

<u>Policy Year</u> (1)	<u>Hospital RPG PCF Layer Claims</u> (2)	<u>PHS PCF Layer Claims</u> (3)	<u>St. Vincent PCF Layer Claims</u> (4)	<u>Total</u> (5)	<u>5-Year Total</u> (6)
2009	12	15	1	28	
2010	25	19	4	48	
2011	23	20	8	51	
2012	27	33	2	62	
2013	23	17	2	42	231
2014	25	22	0	47	250
2015	15	19	1	35	237
2016	8	11	0	19	205
2017	0	3	0	3	146
2018	0	0	0	0	104
Total (excl. 2017 and 2018)	158	156	18	332	
	(7)	Expected Claims per Year (excl. 2017 and 2018)		41.500	
	(8)	Acute Care Bed Equivalent Exposures		4,813	
	(9)	Expected Claims per Exposure		0.009	

Column / Row

Note

(2)	From 2018 actuarial study of New Mexico Hospital Risk Purchasing Group
(3), (4)	From 2018 surcharge analyses
(5)	Sum of Cols (2) - (4)
(6)	Sum of prior 5 years of Col (5)
(7)	Col (5) Total / 8
(8)	Sum of Exhibit 3, Col (6) x Exhibit 2, Col (3)
(9)	Row (7) / Row (8)

PATIENT'S COMPENSATION FUND

RULES AND RATING MANUAL

FOR OWNERS/OPERATORS OF NEW MEXICO HOSPITALS AND OUTPATIENT HEALTH CARE FACILITIES

INTRODUCTION

This manual contains the rules and rating procedures governing the underwriting of hospitals and outpatient health care facilities (QHP facilities) for participation in the New Mexico Patient Compensation Fund (PCF).

This manual shall be used to calculate PCF surcharges. Any exceptions to this manual must be approved by the Superintendent of Insurance.

PCF COVERAGE TERM

PCF coverage is coextensive with the underlying coverage term, but not to exceed 1 year.

LIMITS OF LIABILITY

A. Required Underlying Coverage

QHP facilities are required to hold professional liability policies covering up to \$200,000 per occurrence. Annual aggregate limits are determined on a case-by-case basis by the Superintendent of Insurance.

B. PCF Coverage

The PCF provides coverage excess of the required underlying coverage of \$200,000 per occurrence with awards capped at \$600,000 per occurrence (excluding medical care costs, which are uncapped). Punitive damages are not covered by the PCF.

RATING

Patient Compensation Fund Surcharge

A. Basis of Surcharge

The surcharge is calculated based on the following:

1. Occupied Bed: When overnight care is provided, a charge is made for the number of annual average occupied beds, which is defined as the total annual inpatient days divided by 365.

2. Inpatient Surgeries: The total number of surgeries performed for patients who remain in the facility overnight or longer. The rates apply per 100 inpatient surgeries.
3. Outpatient Surgeries: The total number of surgeries performed for patients who do not remain in the facility overnight. The rates apply per 100 outpatient surgeries.
4. Births: Total annual number of births. The rates apply per birth.
5. Visits: The number of ER visits, Other Outpatient visits and Home Health Care visits. The rate apply per 100 visits.

B. Surcharge Calculation

1. Computation
 - i. Compute the surcharge at coverage inception using the rules, rates and rating plan in effect at that time. At each renewal, compute the surcharge using the rules, rates and rating plan then in effect.
 - ii. Pro-rate the surcharge when coverage is issued for other than a whole year.
2. Exposure Changes

If there is a change to the exposures of a QHP facility that would result in a surcharge increase of more than 10% of the initial surcharge paid, the revised exposure must be reported to the PCF, and the surcharge restated for the remainder of the coverage period.

SUPPLEMENTARY RULES

A. PCF Experience Rating Plan

Refer to the PCF Experience Rating Plan for details.

B. Surcharge Change Rules

1. Pro-rate all changes requiring additional surcharge.
2. Apply the rates and rules in effect on the effective date of the coverage. Charge the additional surcharge applicable to the change.

C. Coverage Cancellation

1. Compute return surcharge pro-rata, at the rates used to calculate the original surcharge, when coverage is canceled at the request of the QHP facility.
2. Refund checks will not be issued, unless approved by the Superintendent. Return surcharge will be credited.

Patient Compensation Fund Surcharge Rates

Occupied Beds:	Exposure Type	Proposed PCF Rate
Acute Care	Per bed	4,957
Psychiatric Care	Per bed	4,957
Extended Care	Per bed	496
Skilled Nursing Care	Per bed	1,735
Personal Care	Per bed	744
Physical Rehab	Per bed	2,479
Chemical Dependency Rehab	Per bed	1,239
Births	Per birth	248
Inpatient Surgeries	Per 100 surgeries	8,675
Outpatient Surgeries	Per 100 surgeries	991
ER visits	Per 100 visits	744
Other Outpatient visits	Per 100 visits	248
Home Healthcare	Per 100 visits	248

Sample Calculation:

A hospital with 20 acute care beds and 55 births a year that performs 50 inpatient surgeries annually would pay an annual surcharge of:

$$20 \times \$4,957 + 55 \times \$248 + (50/100) \times \$8,675 = \$117,112$$

PCF Experience Rating Plan

General Rules and Eligibility

A QHP facility that develops an annual manual surcharge of \$1.5 million or more for its rated exposures shall be subject to Experience Rating.

Experience Period

The experience period is determined as the five years immediately preceding the effective date of the coverage period prior to the current coverage period.

Experience Rating Rules

The experience rating modification shall be calculated based on the following formula:

$$\left(\frac{A}{E}\right) * \sqrt{\frac{E}{S}} + 1.0 * \left(1 - \sqrt{\frac{E}{S}}\right)$$

Where

A = Actual PCF Claims in Experience Period

E = Expected Claims in Experience Period

S = Statewide 5 – Year Claim Maximum

For years in the experience period where the QHP facility was not covered by the PCF, actual claims (A) shall be counted as any claims with incurred indemnity in excess of \$200,000. Expected claims shall be calculated as

$$0.009 * (\text{Experience Period Occupied Bed Equivalent Exposure})$$

Where the *Occupied Bed Equivalent Exposure* is the acute care bed equivalent exposure for the experience period calculated using the relativities provided in Exhibit 2, Column (3).

Sample Calculation:

An entity with 5 Acute Care beds, 70 Extended Care beds, 600 Inpatient Surgeries and 1,000 ER visits, would have 24 acute-care-equivalent occupied beds:

Occupied Bed Equivalent Exposure =

$$5 \times 1 + 70 \times 0.1 + (600/100) \times 1.75 + (1,000/100) \times 0.15 = 24$$

The Experience Period Occupied Bed Equivalent Exposure would then be the sum of the Occupied Bed Equivalent Exposures for the five years of the experience period.

The Statewide 5-Year Claim Maximum is calculated as the maximum over the past ten years of the sum of the prior five years of claim counts, as shown in Exhibit 4, Col (6).

New Mexico Patient's Compensation Fund

Experience Rating Adjustment Example

Supplemental Exhibit

Presbyterian Health Services

(1)	Expected Claims (5 years):	80
(2)	Actual Claims (5 years):	102
(3)	Statewide Claims (5 years):	250
(4)	Emod:	1.16
(5)	Manual Surcharge:	8,764,689
(6)	Adjusted Surcharge:	10,167,039
(7)	Difference:	1,402,350

Column / Row

Note

(1)	Exhibit 4, Row (9) x [Sum of Exhibit 3, Col (4) x Exhibit 2, Col (3)]
(2)	Exhibit 4, Col (3) Sum of 2012 - 2016
(3)	Max of Exhibit 4, Col (6)
(4)	$[\text{Row (2) / Row (1)}] \times [\text{Row (1) / Row (3)}]^{0.5} + 1.0 \times \{1 - [\text{Row (1) / Row (3)}]^{0.5}\}$
(5)	Sum of Exhibit 3, Col (4) x Exhibit 1, Col (3)
(6)	Row (5) x Row (4)
(7)	Row (6) - Row (5)