ANNUAL REPORT
Per SCR 111 of 2007

BY

LOUISIANA PATIENT'S COMPENSATION FUND OVERSIGHT BOARD

October 1, 2014

BOBBY JINDAL
GOVERNOR

State of Louisiana

PATIENTS' COMPENSATION FUND

DIVISION OF ADMINISTRATION

P.O. BOX 3718
BATON ROUGE, LA 70821
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September 26, 2014

Honorable David Heitmeier, Chairman, Senate Committee on Health and Welfare
Honorable Scott M. Simon, Chairman, House Committee on Health and Welfare
Honorable Dan Morrish, Chairman, Senate Committee on Insurance
Honorable Gregory Cromer, Chairman, House Committee on Insurance

RE: Senate Concurrent Resolution No. 111
Regular Session, 2007

Dear Honorable Chairmen:

In accordance with SCR 111 of 2007, the Louisiana Patient's Compensation Fund Oversight Board (PCF) submits the attached annual report on the status of the PCF. The Resolution mandates a report that contains actuarial data showing growth rates, increases/decreases in exposures and assets, actuarial analysis of the financial health of the fund and the prediction of the unfunded liability be provided to the Legislature by October 1st each year.

The Fund Oversight Board has eliminated the unfunded liability. The current indications show the PCF's level of assets to liabilities far exceeds the statutorily required minimum level. As of December 31, 2013, actuarially estimated liabilities were $788,500,000 and assets were $833,108,462, resulting in a surplus of assets exceeding liabilities of approximately $44,608,462. This represents the first time the Fund has been fully funded in its 39 year history.

As a result of recent legislative and actuarial reforms, many of the health care provider's rates were reduced again in 2014. The current rate reduction should still allow for further increase in assets and maintaining a fully funded balance sheet.

An investment consultant has been retained to advise the Board on increasing investment income to help keep rates lower for the health care providers and to further solidify the financial integrity of the Fund. During the past year all investments were transferred from the State Treasurer to a new custodian, Wells Fargo Bank, and the Fund is fully invested in a conservative portfolio.

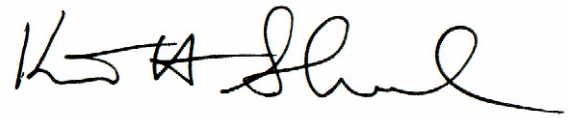
The total surcharges and filing fees last fiscal year totaled $171,637,861. Investment income earned was $17,516,370. The total for administrative and claims expenditures was $132,657,232, which was $2,221,924 below budget. The administrative budget for the current fiscal year is $5,989,151 and the claims budget is $130,000,000. The T.O. for the agency includes 2 unclassified positions and 49 classified positions. There are 9 Board members.

In accordance with Act 182 of the 2011 Regular Session, a copy of the report has been submitted to the David R. Poynter Legislative Research Library for distribution and record keeping. The PCF's website, *doa.louisiana.gov/pcf,* contains more information, including minutes from Board meetings, financial information and rate information.

The Board has made a commitment to continue to manage the PCF as efficiently as possible and to meet all statutory obligations relative to medical malpractice claims. Should there be any other information you feel would be helpful or any questions you may have, please do not hesitate to call.

Sincerely,

Clark R. Cossé III, J.D.
Chairman



Ken Schnauder, CPCU, AIC
Executive Director

c: Members of Senate Committee on Health and Welfare
Members of House Committee on Health and Welfare
Members of Senate Committee on Insurance
Members of House Committee on Insurance
Members of Senate Committee on Judiciary A
Members of House Committee on Civil Law and Procedure

LOUISIANA PATIENT'S COMPENSATION FUND
PCF

During the 1975 legislative session, **Act 817** (R.S. 40:1299.41 *et seq*) was passed which created the Louisiana Patient's Compensation Fund (PCF). The Act was created to provide coverage to private health care providers in Louisiana, ensuring that a stable and affordable market existed for malpractice insurance and thereby keeping practitioners in the state. Second, the Act was to create a viable fund for compensating claimants. The original Act provided a statutory cap on total liability of $500,000. It also provided for the Medical Review Panel process which is the first step in pursuing a claim against a health care provider.

In 1984, the statute was amended to allow for the payment of all related medical expenses. This change allowed those patients with more severe injuries to have medical expenses paid by the PCF on an ongoing basis. This provision also reduced the payments that were being made or could have been made by Medicare and Medicaid, lessening the burden to those programs.

In the 1990 legislative session, the statute was revised to create the Patient's Compensation Fund Oversight Board (Board). The creation of the Board gave providers greater input, and also greater responsibility, in the operation of the PCF since members represent the provider groups that pay into the PCF.

The financial status of the PCF has significantly improved since 1990 under the leadership of the Board. There have been large premium increases over the past 20 years to ensure the fiscal integrity of the PCF. From 1990 to present, there were 17 rate increases, resulting in rates going up by about 540%.

Health care providers who choose to enroll in the PCF remain responsible for the first $100,000 of each claim, either through an insurance company or as a self-insured provider. Coverage is provided for the second layer of $400,000 plus all related medical expenses with the payment of the proper surcharge to the PCF. Participation in the PCF is not mandatory. There are over 20,000 private health care providers enrolled in the PCF.

An annual actuarial study is done to determine the adequacy of rates compared to current and expected liabilities. The recommendations of the actuary are utilized by the Board to establish the rates necessary to cover estimated liabilities for the upcoming year and to ensure the statutory asset level is maintained.

This year the PCF has eliminated the unfunded liability. The actuary has estimated the PCF's liabilities, both claims already filed and those expected to be incurred in 2014, at approximately $788,500,000. Currently the PCF's assets as of August 31, 2014, are approximately $875,000.000. The Board's actions have resulted in a steady and impressive increase in funds and a decrease in the unfunded liability while at the same time have attempted to keep surcharge rates at predictable and affordable levels for private health care providers. This effort is vital to this State as the Board continues to guarantee a source of medical malpractice coverage that is reasonable and thus encouraging health care providers to continue to practice in Louisiana and serve our citizens.

BOBBY JINDAL
GOVERNOR

State of Louisiana

PATIENTS' COMPENSATION FUND

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July 18, 2014

From: Ken Schnauder, CPCU, AIC
Executive Director

RE: New Rates for PCF effective 9/2/14

In accordance with the annual actuarial study, the PCF Oversight Board determined there was justification to lower the PCF surcharge rates for physicians, advanced practice nurses, nursing homes, chiropractors and optometrists. Hospitals, dentists and oral surgeons will see an increase.

The actual percentage changes as of 09/02/2014 will be as follows:

Hospitals +9.7%

Nursing Homes -1.4%

CRNA - 10%

Dentists and Oral Surgeons +14.1%

Advanced Practice Nurses -8.4%
(Nurse Practitioner, Nurse Midwife, Physician's & Surgeon's Assistant, Clinical Nurse Specialist)

Chiropractors and Optometrists -8.4%

Physicians Class 1A -10.7%

Physicians Class 1, 2, 2A, 3, 5, 7 -8.4%

Physicians Class 4, 6, 8 -6.1%

The "other" classes will remain 93% of the primary premium.

The minimum rate is still $250.

The overall rate decrease is -3.8%.

October 1, 2014

EXHIBITS

AND

EXPLANATIONS

Exhibit 1

Unfunded Liability

Prior to August 15, 2010, the calculation of the Statutory minimum funding level found in La R.S. 40:1299.44.A.(6)(a) required a surplus of 30% of the total of the surcharges collected, expenses and reserves (estimated amount of exposures pending and occurred but not reported). The Fund met this requirement for the last several years. This formula treated revenue as a liability and thus the UAL was felt to be exaggerated.

The statute now requires the PCF to maintain assets sufficient to provide at least 30% of the actuarially calculated liabilities and eliminated the treatment of revenue as a liability. As of December 31, 2013, based on actuarially calculated liabilities, the Fund has over 100% of the necessary assets to cover these estimated liabilities.

The chart shows the estimated PCF liability, according to annual actuarial reports, compared to the funds and investments held at Wells Fargo Bank. The difference for the first time in Fund history shows a fully funded PCF with assets exceeding liabilities by $75,000,000.

ESTIMATED LIABILITIES	**ASSETS**	**Unfunded Liabilities**
(Claim & legal reserves + IBNR)	(Cash & investments)	(Difference)
12/2000: $383,600,000	$ 84,880,890	$298,719,110
12/2005: $675,300,000	$253,275,810	$422,024,190
12/2006: $737,500,000	$364,752,401	$372,747,599
12/2007: $756,200,000	$431,217,706	$324,982,294
12/2008: $738,000,000	$494,585,500	$243,414,500
12/2009: $773,400,000	$576,373,243	$197,026,757
12/2010: $771,400,000	$633,745,844	$137,654,156
12/2011: $777,000,000	$669,576,202	$107,423,798
12/2012 $787,000,000	$776,325,715	$10,674,285
12/2013 $788,500,000	$833,108,462	$44,608,462
06/2014 $788,500,000	$864,382,697	$75,882,697

*all figures as of December 31st of each year.

Exhibit 2a & 2b

Financial Summaries

These two exhibits are documents that are posted on the PCF website each month, along with the general minutes from each Board meeting. They show the monthly expenditures and collections, interest earned, and fund balance at the end of the month. These items as well as other information can be found on the PCF website as our part of being a transparent state agency.

FINANCIAL DATA FOR BOARD
Current Year FY 2015
September 3, 2014

REVENUE	SURCHARGE	FILING FEES
FY Gross Collection	$28,287,863	$43,600
FY Refunds Issued	-$465,775	-$5,400
FY Net	**$27,822,088**	**$38,200**

Prior Year Cash Carryover	**$863,116,037**
YTD Investment Income	$1,868,049
YTD Net Surcharge Collected	$27,822,088
YTD Net Filing Fees Collected	$38,200
YTD Operating Expenses	-$841,795
YTD Claim Expenses	-$17,357,099
YTD Fund Balance	**$874,645,480**

Operating Services - Budget:	$5,989,151
Expended	-$841,795
Balance	**$5,147,356**

Claims Settlement- Budget:	$130,000,000
Expended	-$17,357,099
Balance	**$112,642,901**

CLAIM SETTLEMENTS:	
All prior Month Approved Claims Not Paid	$3,888,766.00
Current Month Approvals	$7,405,100.00
Total	$11,293,866.00

Monthly LAPCF Revenue Collections

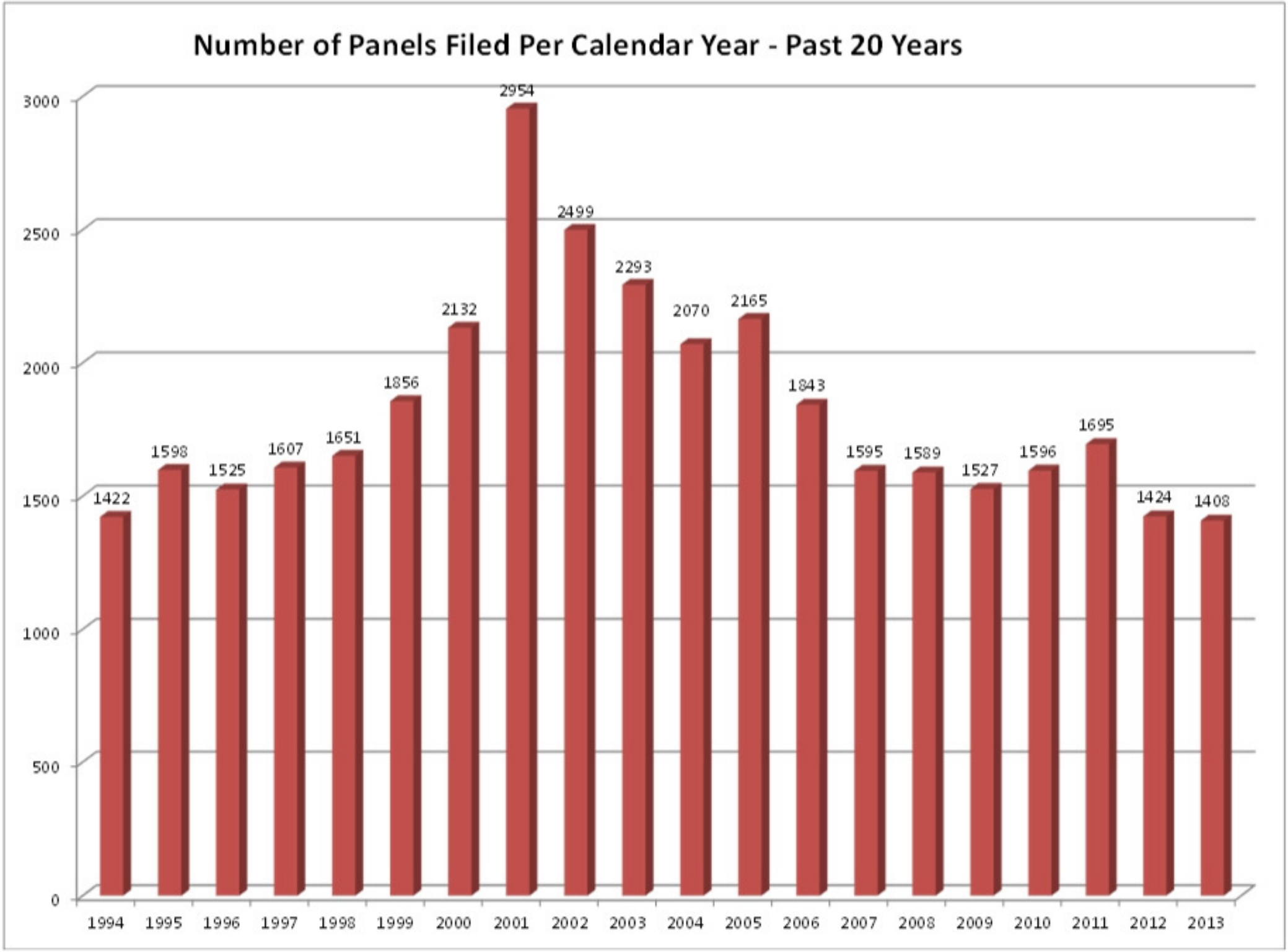
FISCAL YEAR	FY 2013 - 2014	FY 2012 - 2013
	NET SURCHARGE COLLECTIONS	
JULY	18,269,762.58	13,109,094.69
AUGUST	8,348,975.97	7,537,161.91
SEPTEMBER	9,674,978.50	6,596,046.67
OCTOBER	15,092,734.05	17,129,468.95
NOVEMBER	15,456,772.12	13,996,384.10
DECEMBER	15,029,947.87	24,193,771.31
JANUARY	34,924,053.63	34,044,813.62
FEBRUARY	26,958,597.36	21,215,182.83
MARCH	3,694,957.42	3,354,155.87
APRIL	6,546,969.23	7,083,289.13
MAY	4,559,522.35	4,631,737.44
JUNE	12,784,790.04	12,836,342.81
TOTAL	**171,342,061.12**	**165,727,449.33**
	NET FILING FEE COLLECTIONS	
JULY	22,100.00	23,300.00
AUGUST	28,500.00	22,000.00
SEPTEMBER	25,500.00	18,600.00
OCTOBER	25,200.00	25,100.00
NOVEMBER	21,400.00	19,000.00
DECEMBER	21,105.00	14,400.00
JANUARY	20,595.00	23,600.00
FEBRUARY	26,100.00	19,700.00
MARCH	28,200.00	22,000.00
APRIL	22,000.00	26,600.00
MAY	28,700.00	26,400.00
JUNE	26,400.00	24,500.00
TOTAL	**295,800.00**	**265,200.00**
	MONTHLY INVESTMENT INCOME	
JULY	1,028,318.53	966,335.63
AUGUST	1,118,155.35	386,179.50
SEPTEMBER	1,332,159.59	792,792.00
OCTOBER	1,121,307.74	1,596,686.00
NOVEMBER	1,107,453.91	1,477,130.08
DECEMBER	4,047,506.06	571,237.10
JANUARY	1,073,179.44	994,332.10
FEBRUARY	1,072,037.67	412,229.79
MARCH	1,672,811.02	670,249.00
APRIL	1,058,718.18	12,318,548.42
MAY	1,630,717.34	14,187,754.09
JUNE	1,254,005.57	567,464.33
TOTAL	**17,516,370.40**	**34,940,938.04**
Total Collections	**189,154,231.52**	**200,933,587.37**

Exhibit 3

Medical Review Panels

The number of requests for medical review panels received by the PCF during each calendar year is shown in this exhibit. As you will note, the numbers steadily increased from 1977 through 2000, then in 2001 there was a spike. This was the result of 750 filings dealing with prescribing a drug and all were dismissed within a year without payments by the PCF. In August 2003, a filing fee was instituted. Since that time there has been a decrease in panels filed. Hurricane Katrina also appears to have had an impact on the number of panel requests filed. Overall, the number of requests filed and the number of individual providers named in requests have decreased during the past five years. Frequency seems to have leveled out at this time. In 2013 there were the fewest panels filed since 1994.

The average panel filings over the last five years is approximately 1600 per year.


Number of Panels Filed Per Calendar Year - Past 20 Years
3000
2500
2000
1500
1000
500
0
1422
1598
1525
1607
1651
1856
2132
2954
2499
2293
2070
2165
1843
1595
1589
1527
1596
1695
1424
1408
1994
1995
1996
1997
1998
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2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013

Exhibit 4

Claims

The PCF claims staff is limited in what they can do relative to a complaint since the PCF is not involved in the initial litigation. The PCF only becomes involved if there is a settlement in which additional monies are demanded from the PCF or when a judgment exceeds the primary layer of $100,000. Defense attorneys are only assigned when an adjuster is unable to reach a settlement with the plaintiff or when litigation or discovery through the court is necessary. Less than 5% of the PCF claims incur any defense costs. The working relationship between all parties helps to reduce legal costs associated with claims and often reduces the time necessary to complete the process and compensate the injured parties.

The claims report shows the number of claims open, closed, closed without payment, pending by year and future medical claims pending by year. It also shows the amount spent in legal defense costs and judicial interest. Updated reports are put on the PCF's website following the monthly Board meeting.

The pending claims in January 2004 totaled almost 12,000. Since then, the PCF has been proactive in obtaining the information necessary to close older claims. Pending claims are now under 4800. It generally takes about 2 years for a claim to complete the medical review panel process and an additional 2 to 3 years for a final conclusion of the claim. The PCF's goal is to shorten the timeframe by at least a year through increased communication and cooperation between the other parties and the PCF.

Panel and Claim Report through August 2014

Report Run: 9/2/2014

Claims and Panels - Opened and Closed

	August	Average Month*	This Year
Panels Filed	109	115	944
Panels Closed	104	118	992
Claims Opened	79	104	817
Claims Closed	87	113	955

Claims Closed With Payment - 8

*Average Month based on calendar year 2013

Estimated Exposures

Reserve Type	Current	Past Month	EOY 2013
Future Medical	$67,207,241	$65,886,498	$73,726,121
Litigation	$5,353,583	$5,441,172	$5,343,208
General Damages	$148,702,827	$154,189,708	$143,826,494
Total	**$221,263,651**	**$225,517,378**	**$222,895,823**

Future Medical Claims By Year

Date Filed	Open Claims
1977	1
1981	1
1984	3
1985	8
1986	5
1987	4
1988	4
1989	4
1990	5
1991	10
1992	4
1993	3
1994	3
1995	9
1996	4
1997	3
1998	8
1999	10
2000	7
2001	7
2002	8
2003	9
2004	14
2005	8
2006	8
2007	6
2008	7
2009	5
2010	5
2011	3
2012	1
2013	1
Total Open Future Med:	178

Open Claims By Year Filed

Date Filed	Open Claims	Percentage of Total
1989	1	0.02 %
1992	3	0.06 %
1994	3	0.06 %
1995	1	0.02 %
1996	2	0.04 %
1997	4	0.09 %
1998	7	0.15 %
1999	12	0.26 %
2000	15	0.32 %
2001	19	0.41 %
2002	37	0.79 %
2003	36	0.77 %
2004	40	0.85 %
2005	73	1.56 %
2006	95	2.03 %
2007	100	2.13 %
2008	161	3.43 %
2009	262	5.59 %
2010	488	10.40 %
2011	687	14.65 %
2012	866	18.46 %
2013	1101	23.47 %
2014	677	14.43 %
Total Open Claims:	4691	100.0%

Litigation and Interest Payment Breakdown

	August	Current Year	Prior Year Total
Interest	$11,475	$1,761,757	$5,290,240
Litigation	$316,654	$2,591,073	$3,821,530

For the month of August

22 claims are presented

for approval at a total of

$7,405,100

Exhibit 5

Claim Payments

The following chart shows the payments made for the calendar years indicated. As shown, the number of claims paid and the total amount paid peaked in 2010 and showed a significant decline in 2012. Delays in resolving claims by the primary parties (plaintiff attorneys, defense attorneys and insurance companies) often result in the PCF paying a substantial amount in judicial interest, and also unnecessarily delays compensation to the injured party. To avoid such increased costs, the PCF encourages mediations and joint settlements as a means of resolving claims expeditiously and reducing costs.

Settlements and Judgments Over the Years

Calendar Year	Claims Settled	Claim Payments (Minus Legal)	Average Per Claim
2000	162	63,697,356	393,194
2001	176	64,581,499	366,940
2002	209	71,222,084	340,776
2003	201	76,686,165	381,523
2004	202	66,297,524	328,206
2005	199	71,989,900	361,758
2006	295	107,023,124	362,790
2007	317	103,363,305	326,067
2008	325	105,438,808	324,427
2009	343	109,619,643	319,591
2010	356	114,086,409	320,467
2011	284	106,549,917	375,176
2012	286	99,875,425	349,215
2013	276	101,828,300	368,943

Exhibit 6

Future Medicals

The Act was amended in 1984 to "uncap" related medical expenses and benefits.

Currently the PCF pays ongoing medical expenses on 180 patients in the amount of approximately $1,900,000 per month.

The PCF began using a fee schedule in November 2001 which has resulted in significant savings to the PCF at no cost to the patients or their families. The reductions by the PCF are born by the health care providers that are providing the services.

Medical expenses include not only physician visits, prescriptions and hospitalizations but also handicapped-equipped vehicles, specialized wheelchairs, adaptive computer equipment, home modifications and payments to family members and others for providing care in the home**.**

Since the addition of unlimited Future Medical expenses, the PCF has paid approximately $360,000,000 in medical expenses.

10 Years of Past and Future Medical Payments

Calendar Year	Past Medical	Future Medical	Grand Total
2004	10,375,379	12,234,595	22,609,974
2005	8,200,623	13,108,270	21,308,892
2006	16,879,656	16,599,432	33,479,088
2007	16,912,980	13,733,611	30,646,591
2008	26,960,700	16,182,093	43,142,794
2009	27,077,707	17,474,868	44,552,575
2010	19,729,194	19,257,698	38,986,893
2011	20,700,324	20,808,070	41,508,394
2012	23,143,778	18,018,971	41,162,749
2013	31,191,636	22,525,600	53,717,236
10 Year Totals:	**201,171,978**	**169,943,209**	**371,115,187**

Exhibit 7a & 7b

Rates & Enrollments

The Oversight Board assumed management of the PCF in late 1990. The recommendations of the annual actuary studies have been implemented since that time resulting in significant increases in rates. Rate changes from 1989 to present have resulted in huge increases amounting to an increase of 540% in what private health care providers must pay for coverage. In 2010 the annual actuarial study revealed rates could be reduced for the first time; the decrease would provide additional funds to further reduce the unfunded liabilities. The overall rate reduction for all classes of providers combined was 13% in 2010. The 2011 actuarial report revealed rates could be reduced further, although only an overall 4.3%. This reduction provided funds that would be applied to lower the unfunded liabilities. In 2012 the actuarial study indicated an overall increase of just 1.3% with the physician average increase being 3.6%; hospitals had a 5.6% decrease. In 2013 and 2014 the rates were reduced overall 3.7% and 3.8% respectively.

The Fund is now fully funded; therefore, the goal will be to reduce rates whenever actuarially sound to do so.

It should be noted the number of enrolled providers shown in the chart does not include medical support staff such as nurses or lab & x-ray techs or individual providers if they are included in a group that work part-time, such as emergency physician groups. The actual number of health care providers covered by the PCF would be substantially larger if these individual providers were included in the totals.

Sample Rates Over the Years (for PCF Layer only)

Occurrence Coverage

Specialty	1990	2007	2014
Hospital (per bed)	$ 591	$ 2,843	$ 3,108
Internist	2,261	8,164	7,344
Gen.Surg	7,856	28,294	26,092
OB/GYN	10,273	41,349	33,699

Enrolled Providers in the Louisiana Patient's Compensation Fund

	Physicians	Dentists	RN's	Nursing Homes	Hospitals	All Other	Grand Total
1985	3269	904	200		104	1918	6395
1990	7256	1563	532	6	152	2848	12357
2000	8728	1686	1561	98	206	1496	13775
2010	9624	1876	2668	297	226	2348	17039
2014	10848	1894	3816	260	229	3340	20387

Louisiana Patient's Compensation Fund

For more information please go to
www.doa.louisiana.gov/pcf

The PCF web site will contain the report to the legislature as mandated by SCR 111

For more information, you can also contact:

- Ken Schnauder, CPCU, AIC, Executive Director
  ken.schnauder@la.gov
  Phone 225-362-5262

- Mr. Clark Cossé III, J.D. PCF Board Chairman
  ccosse@lhaonline.org
  Phone 225-928-0026

Louisiana Patient's Compensation Fund
Annual Report per SCR 611 of the 2007 Regular Session
October 1, 2014

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