



June 2001

Patients Compensation Fund

The Patients Compensation Fund insures health care providers in Wisconsin against medical malpractice claims that exceed primary malpractice insurance levels established in statutes. The Fund is managed by a 13-member Board of Governors, which is chaired by the Commissioner of Insurance. The Office of the Commissioner of Insurance has statutory responsibility for administering the Fund and contracts with firms in the private sector for claims administration, actuarial services, and risk management services.

Most health care providers in Wisconsin, including individual doctors and nurses, hospitals, and other health care institutions and entities, are required to purchase secondary medical malpractice insurance from the Fund: 11,809 health care providers were assessed \$47.9 million for coverage in fiscal year (FY) 1999-2000. The Fund has paid over \$476 million in medical malpractice claims from its inception in 1975 through March 31, 2001. The largest claim paid to date was \$18.0 million, paid in 1993 for an incident that occurred in 1986.

The Fund's Financial Status Has Improved

We provided an unqualified auditor's opinion on the Fund's financial statements for FYs 1999-2000, 1998-99, and 1997-98. Although the Fund has typically received more in assessments and investment income than it has paid out in claims and administrative expenses, financial statements in the past had reported accounting deficits as low as negative \$122.7 million in 1988. The reported accounting deficits reflected loss liabilities that were based on actuarial estimates of claims the Fund could be required to pay for medical malpractice incidents that had occurred but had not yet been settled or even reported.

The Board of Governors and the Legislature have taken steps to improve the Fund's financial position, and the Fund's consulting actuary has decreased estimates of loss liabilities in recent years. As a result, the accounting deficit was eliminated, and the Fund began reporting an accounting surplus in FY 1998-99. As of June 30, 2000, the Fund had an accounting surplus of \$27.2 million, which the consulting actuary projects will increase to \$32.0 million by June 30, 2001.

Actuarial Estimates Have Been Questioned

For nine of the last ten years, the actuary has reduced its estimate of loss liabilities because of more favorable claim experience than originally expected, especially in comparison to national activity. Some interested parties have raised concerns that the actuary may be overly conservative in estimating loss liabilities. The Board of Governors' decisions in establishing assessment levels also appear to be affected by the actuary's recent downward adjustments of estimates. The Board has approved assessment levels lower than those recommended by the actuary for eight of the last ten years.

To address concerns being raised about the actuarial estimates and to promote broader acceptance of the actuarial analyses and related decisions, we have recommended that a comprehensive review of the consulting actuary's methods and assumptions be conducted by an independent actuary. In addition, we have recommended that the Office of the Commissioner of Insurance work with the Board of Governors to provide actuarial representation on the Board's Actuarial and Underwriting Committee, which initially reviews the actuarial analysis completed for the Fund and advises the Board on actions to take in response to the actuary's analysis and recommendations.

[full report, PDF file \(159KB\)](#)