PRISM

Public Risk Innovation, Solutions, and Management

Medical Malpractice Program
Premium Allocation Methodology

Beginning with the 2018/19 year, an entity's premium has been calculated based on an updated premium allocation methodology than what used in the past. The objectives of the premium allocation methodologies are:

- Make premiums more sensitive to each entity's own loss experience. There is a balance between ensuring premiums are equitable and also stable year over year;
- Implement methodologies that are easier to explain to the membership;
- Utilize formulas that are easier for the member to understand in terms of how much their loss experience impacts their premium;
- Develop spreadsheets that are easier to administer with less manual manipulation and room for human error.

Pool Contribution

1) Total pool funding is based on the actuarial study for the coverage year, at a confidence level determined by the Medical Malpractice Committee, discounted for investment income.
2) Pool funding is calculated separately for both Program 1 and Program 2.
3) Each member's contribution will be calculated based partially on Exposure and partially on Experience.
   a) Exposure is based on a five-year rolling average of the Occupied Bed Equivalent (OBE).
      i) An OBE is a composite of the exposures reported annually by the members.
      ii) For a list of the exposures used to calculate the OBEs, see Exhibit 1.
   b) Experience is limited loss data for the last seven years for Program 1 members and five years for Program 2 members, excluding the current year.
      i) Losses used will be Total Incurred on a claims-made basis.
      ii) For Program 2, losses will be limited at $300,000 per loss.
      iii) For Program 1, losses will be the Stratified Losses between $500,000 and $2,000,000 per loss.
4) Members will have Experience Modifiers (Ex-Mods) calculated and applied to their rated premium.
   a) The Ex-Mods use 7 years of loss data and OBE exposures for Program 1 members and 5 years of loss data and OBE exposures for Program 2 members to calculate a loss rate for each member.

b) The individual member loss rates are then divided by the average loss rate of the Program to determine an Ex-Mod.

c) The Ex-Mod is multiplied by a credibility factor to adjust for an individual member's size relative to the rest of the members in the Program.

    i) The adjusted Ex Mod is expressed in the form of a percentage. If the percentage is less than 100%, that means the entity's loss experience is better than average, and they will receive a credit in the premium allocation. If the percentage is greater than 100%, that means the entity's loss experience is worse than average, and they will receive a corresponding surcharge in the premium allocation.

5) The credibility factor applied to each member's Ex-Mod is based on the size of their exposure (OBE) and determines how much of their premium is based on experience.

   a) Smaller members (based on exposure) will be weighted more heavily on exposure and larger members will be weighted more heavily on experience.

   b) No member will be weighted less than 10% or more than 75% on experience.

6) The needed pool funding will be distributed based on each member's credibility-weighted Ex-Mod.

7) A calculation is made to determine the indicated rate for each member. This rate is averaged with the indicated rate from the prior year. That 2-year average rate is applied to the member's exposure (OBE) to determine their contribution of pool premium.

8) The pool premium contribution is prorated back to the needed pool funding based on each member's percentage of the 2-year average pool premium.

9) Notwithstanding the above, the minimum pool premium for new members joining the Medical Malpractice Program is $5,000. The minimum premium will be prorated for members joining the Program mid-term.

10) For new members joining the Program a Claims Made Step-Up Factor will be applied to the resulting pool premium.

   a) The Step-Up Factor takes into account that new members have less history in the Program and thus, from a claims made perspective, there are less years in the member's history in which an older claim can occur and can also be a reportable covered loss.

   b) This factor is determined by the Program's actuary and provides a credit to the member's pool premium, which diminishes each year they remain in the Program.

Insurance Premium

1) The excess insurance premium is divided into two pieces. The total amount of premium to be split between Program 1 and Program 2 is determined based on each Program's percentage of total OBE.

2) The premium is allocated among the members based on their percentage of the total adjusted OBEs (OBEs calculated using a 5-year rolling average).

a) Adjusted OBEs are calculated by multiplying each member's OBE by their deductible or SIR excess discount factor (factors to be provided by the actuary).

3) A calculation is made to determine the indicated excess insurance rate for each member. This rate is averaged with the indicated excess insurance rate from the prior year. That 2-year average rate is applied to the member's exposure (OBE) to determine their contribution of excess insurance premium.

4) The excess insurance premium contribution is prorated back to the needed collection based on each member's percentage of the 2-year average excess insurance premium.

Administrative Costs

Effective 7/1/2022, the Medical Malpractice Program's administrative costs are allocated based on the same percentage as a member's premium to total premium. For example, if a member's total premium makes up 3% of the program's total premium then they will be allocated 3% of the total program administrative costs.

Exhibit 1
OBE Formula

	Category	Weighted Value
Beds	Average Daily Occupied Acute Care Beds	2
	Average Daily Occupied Long Term Care Beds	1
	Average Daily Occupied Psychiatric Care Beds	1
	Average Daily Occupied Cribs/Pediatric Beds	5
Visitations	Annual Emergency Room Visits	.001
	Annual Mental Health Visits	.0001
	Annual Outpatient Public Health Visits	.0001
	Annual Home Health Visits	.0005
	Annual Outpatient Jail Visits	.0005
	Annual Other Visits	.0005
Professional Employees	Physician Group 1	1
	Physician Group 2	2
	Physician Group 3	2
	Physician Group 4	3
	Physician Group 5	3
	Physician Group 6	4
	Physician Group 7	4
	Physician Group 8	5
	Hospital Interns and Residents	1
	CRNA's (Nurse Anesthetists)	3
	Licensed Practical Nurses	.25
	Licensed Vocational Nurses	.25
	Nurse Practitioners	.25
	Physician Assistants	.25
	Midwives	.25
	Registered Nurses	.025