

DATE/DATE:

August 17, 2022

LOCATION/ENDROIT:

Client Supplied Audio, OTTAWA, ON

PRINCIPAL(S)/PRINCIPAUX:

Cory Garbolinsky, CPA, CA, Chief Financial Officer, CMPA

SUBJECT/SUJET:

The Canadian Medical Protective Association holds an English information session as part of their annual meeting.

File Name: 2021 Financial report

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Cory Garbolinsky: CMPAs financial model has several interconnected components: membership fees, medical legal costs, the money needed to pay for future claims and our investment portfolio. We must have sufficient funds to assist our 105,000 members and compensate Canadian patients on their behalf if the care provided is found to be negligent.

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These are the key principles that drive our financial model. First, occurrence-based protection means that physicians are eligible for assistance anytime in the future even if they are no longer active CMPA members as long as they remember when the care was delivered. The financial horizon or window to pay out all potential cases from a given year is long. In fact we must hold funds to pay out potential cases up to 30 to 40 years from the time the care was delivered.

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Second, our financial goal is to hold at least \$1 of assets for every dollar of liability to appropriately compensate patients and their families. We do not seek to generate a profit.

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Third, members pay the full cost of their protection through their fees. This means that in 2021 we collected the fees needed to protect our members for all occurrences taking place in 2021 even though they may not become apparent for up to four decades.

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Finally, the CMPAs financial model is self-correcting. Sometimes our actual results differ from our estimated results. This can create a temporary excess or a temporary deficit. As a not-for-profit, we are not allowed to pay dividends to our members, but if we have a temporary excess, we may lower membership fees.

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Let me explain how the various parts of our financial model are connected. Our funded position is the difference between our assets and liabilities and is a key factor in determining the membership fees in any given year. Membership fees are used to pay the medical legal costs of protecting and assisting our 105,000 members. The changing trends in medical-legal costs shape the size of the provision needed for outstanding claims. This provision is the amount of money needed to appropriately compensate injured patients and manage future legal and administrative expenses.

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We also have a solid investment portfolio which earns income to ensure we can appropriately compensate patients and fund future medical legal expenses. Finally, the change in the funded position is the sum of all of the financial items mentioned.

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Now let's look at our 2021 finances. The membership fees collected in 2021 will pay the medical legal costs resulting from care provided in 2021. There is a relationship between the estimated yearly protection costs as calculated by our actuarial team and the membership fees collected.

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The difference between the two lines shows the fee adjustments to reflect our financial position across our four fee regions over the past five years. When we find ourselves in a positive funded position, which is our current situation, we may lower membership fees where appropriate through the application of a fee credit.

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The CMPA's actuaries calculated the estimated cost of protection for 2021 to be \$603 million. Due to favourable financial positions in all fee regions, the Association was able to reduce fees by approximately \$99 and a half million dollars in total. Therefore, the total membership fees collected was \$504 million and in line with our estimate.

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Now we move on to medical legal costs. We collect membership fees to pay medical legal costs. These costs include compensation to injured patients due to negligent care, legal and expert fees, safe medical care education programs and the cost to run the Association.

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Compensation to patients is our single largest expense. Here we see the annual compensation payments and the annual legal costs over the past five years. In 2021, the Association paid \$276 million to patients injured as a result of negligent medical care. While the total compensation amount varies from year to year, the CMPA has paid over \$1.2 billion in compensation over the last five years. The legal costs over this same period were \$939 million.

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An important point is that the trends and expenditure levels are not equal across our four fee regions. Ontario represents 40% of our members, but this region has the highest legal fees and compensation amounts awarded to patients, so they represent more than 50% of our annual costs. These regional cost differences mean members pay different fees as each region is independent and there is no subsidization between regions.

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The provision for outstanding claims is the sum of all the expected future medical legal costs resulting from the care delivered by members up to the end of 2021. For care delivered in 2021, we must look ahead and make sure we have funds available to cover any expense related to that care for the next 30 to 40 years.

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Compensation to patients accounts for approximately two thirds of the \$4 billion provision. We review the provision each year and we increased the provision by \$133 million in 2021 based on updated cost trends.

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In order to provide some additional oversight, we engage an actuarial peer reviewer, Ernst and Young, to perform an independent calculation of the provision. The provision is then audited by KPMG as part of their external audit of the CMPA's financial statements.

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The investments part of our financial model is closely linked to the provision for outstanding claims. The provision includes an estimated payment pattern which we use to model the investment portfolio. We target our investment portfolio to reach a 5% investment return over the long term.

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We are looking at the hypothetical return on our investments using our targets over the past 10 years and the actual return. As you can see, we have outperformed the target by approximately \$1.25 billion over the last 10 years due to the favourable performance of the financial markets exceeding our expectations.

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These excess returns have fuelled the growth in the CMPA's net asset position which may allow us to lower the cost of membership in future years. 2021's investment return was 12.8% which is more than our target of 5% and positively contributed to the funded position.

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Finally, let's look at the funded position which all of the other items in the financial model feed into. The funded position is the difference between the total assets of the Association which is primarily the investment portfolio and the total liabilities of the CMPA which is primarily the provision for outstanding claims. Given our long-term approach to the management of our

finances that involves estimates, we take a measured approach to either a temporary shortage or a temporary excess of net assets.

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You can see this in our funded position over the last 10 years. At the end of 2021, our total assets were 135% of the total estimated liabilities or a positive position of \$1.66 billion. This is a marked improvement from 2014 when there was a \$360 million shortfall. This improvement can be attributed to better than forecast investment performance.

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This strong financial position will help us to weather the unpredictable investment markets, fluctuations in medical legal case volumes as a result of the pandemic and the current high inflation environment. We recognize this funded position is higher than desired and may allow us to reduce membership fees in the future. We will return to this theme when Lisa discusses the 2023 membership fees.

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As I conclude my financial update, I'd like to summarize the key takeaways. The various parts of our financial model are interconnected and self-correcting. Due to our occurrence-based protection, the CMPA operates within a long time horizon of up to four decades, allowing us to protect members long after they retire.

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Our current strong funded position is primarily a result of strong investment returns over the past 10 years. Fee increases or decreases are the primary tool used by the CMPA to manage our funded position.

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And finally, our positive funded position in 2021 should provide confidence to members and their patients that we are there for them when needed. Thank you.