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PRINCIPAL(S):  
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Financial Officer, Financial  
Services

SUBJECT:  
2022 Financial Report

(Video presentation)

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**Cory Garbolinsky:** The CMPA has a responsibility to maintain sufficient funds to support our 109,000 plus members and on their behalf compensate patients proven to have been harmed by negligent care today, tomorrow and well into the future. Today, we will look at the CMPA's unique financial model that supports our long term financial horizon and summarize our 2022 financial performance.

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As we discuss our financial model and financial performance today, there are four key principles to keep in mind. One, the CMPA provides occurrence-based protection. This means that physicians are eligible for CMPA assistance at any time in the future, even when they are no longer active CMPA members, as long as they were members when the care was provided. As a result, we must hold funds to support members and compensate patients up to four decades from the time the care was delivered.

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Two, members pay the expected cost of their protection through yearly membership fees. This means that in 2022, we collected the membership fees needed for the estimated cost of protection for all occurrences taking place in 2022, for the next four decades.

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Three, the CMPA is a not-for-profit member-based organization. As a not-for-profit, we do not seek to generate a profit. Our financial goal is to hold at least \$1 of assets for every dollar of liability to appropriately compensate patients and support physicians.

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Four, the CMPA financial model is self-correcting. Sometimes our actual year-end results differ from our estimates creating an excess or a deficit in our net assets. As a not-for-profit, we are not allowed to pay dividends to our members, but we can increase or decrease our membership fees from year to year to address the difference.

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Our financial model consists of several interconnected components: our net asset position, membership fees, medical legal costs, the assets needed to pay outstanding and future claims, and our investment portfolio. Let's take a look at how they are connected.

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Our net asset position is the difference between the total assets of the Association (which is primarily the investment portfolio) and the total estimated liabilities (which is primarily the amount needed for future and outstanding claims) and is a key factor in determining the membership fees in any given year.

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Membership fees are used to pay the medical legal costs of supporting our 109,000 plus members and compensating patients on their behalf. The changing trends in medico-legal costs, such as the cost per case and volume of new cases, shape the size of the assets needed for future and outstanding claims. This is the amount of money needed to appropriately compensate injured patients and manage future legal and administrative expenses.

Our diversified investment portfolio earns income to ensure we can appropriately compensate patients and fund future medico-legal expenses to support our members.

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Now we'll turn to our financial performance in 2022, starting with our net asset position. As of December 31<sup>st</sup>, 2022, our net asset position decreased by \$560 million from 2021 to \$1.1 billion. This decline was in part by design as we significantly reduced membership fees in 2022 to lower our net asset position, which was higher than ideal in 2021. The decline was also a result of unplanned loss in our investment portfolio caused by an overall decline in global financial markets. We'll look more closely at the investment loss a little later.

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Fee reductions were \$99.5 million in 2021 and \$200 million in 2022. For the current year reductions were \$362 and a half million dollars or a total of \$662 million in membership fee reductions since since 2021. The total membership fees collected in 2022 was \$416.6 million. Through prudent adjustments to membership fees, we aim to stabilize our membership fee structure over time. We strive to maintain long term fee stability, but our ability to do so is in part determined by the performance of our investments which are managed carefully but subject to market fluctuations.

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Membership fees help pay towards medico-legal costs, which we will look at next. Medico-legal costs include compensation to patients injured as a result of proven 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 the Association's single largest expense. In 2022, on behalf of our members, we paid \$279 million in compensation to patients. While the total compensation amount

varies from year to year, the CMPA has paid a total of \$2.29 billion in patient compensation over the last 10 years, or an average of \$229 million per year. The legal costs over this same 10-year period were \$1.8 billion.

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It's important to note that compensation to patients is not equal across our four fee regions. Ontario represents 40% of our members, but this fee region has the highest legal fees and compensation amounts awarded to patients, so it represents more than 50% of our annual costs.

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Due to these regional cost differences, members pay different fees depending on their fee region. Each fee region is independent and there is no subsidization between regions. Therefore, members in Ontario pay higher fees than their colleagues in other fee regions. Similarly, members in Quebec pay the lowest fees in the country due to lower medico-legal costs in that region.

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The assets needed for outstanding and future claims are the sum of the estimated future medico-legal costs resulting from the care provided by our members up to and including 2022. For care delivered in 2022, we ensure we have funds available to cover any expense related to care in that year for up to four decades. As of December 31<sup>st</sup>, 2022, the estimate for all outstanding and future claims was \$4 billion, an increase of \$36 million from 2021 based on updated cost trends. Compensation to patients accounts for approximately two thirds of this \$4 billion amount.

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To provide impartial oversight of our actuarial calculation, we engaged an external peer reviewer, Ernst and Young, to perform an independent calculation which strongly aligned with our own. This was then audited by KPMG as part of their external audit of

the CMPA's financial statements.

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Our investment portfolio is modelled closely on the estimated payment pattern of future and outstanding claims. We target our investment portfolio to match or exceed a 5% investment return over the long term. However, over the past 10 years, we have achieved exceptional returns on our investment portfolio, earning a 7.96% compound annual return.

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In 2022, the investment portfolio had a net value of \$5.4 billion, a decline of \$485 million from 2021. The reduction in our investment portfolio can be attributed to an overall decline in the financial markets and fee reductions in 2022.

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Our positive financial position will help us to weather volatile financial markets, fluctuating medico-legal case volumes and costs, and the recent high inflation environment. We continue to invest responsibly to maintain an appropriate financial position that ensures timely and appropriate compensation to patients on behalf of our members, protection and support to physicians, and safe medical care learning and research to support patient safety. If the financial market volatility continues, our financial position may be further impacted which could lead to future increases in membership fees.

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As I conclude my financial update, I'd like to summarize three key takeaways. First, due to our occurrence-based protection, the CMPA operates with a long-term financial horizon of up to four decades, allowing us to protect members and compensate patients today, tomorrow and well into the future. Second, fee increases or decreases are the primary tool used by the CMPA to manage our overall net asset position. And finally, our positive net asset position in 2022 should provide confidence to members and

their patients that we are there for them when needed. Thank you.

(End of video presentation)