

TRANSCRIPTION/TRANSCRIPTION EVENT/ÉVÉNEMENT

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PRINCIPAL(S)/PRINCIPAUX: Cory Garbolinsky, CPA, CA, Chief Financial Officer, CMPA

SUBJECT/SUJET: Canadian Medical Protective Association's 2021 Annual Meeting and Education Session - English.

2020 Financial Report

00:00

Darcy Johnson:

I will ask our Chief Financial Officer, Cory Garbolinsky, to speak to the 2020 financial report. Over to you, Cory.

00:10

Cory Garbolinsky:

Thank you, Darcy, and good afternoon everyone. Today I'll walk you through a summary of our 2020 finances and explain our financial model. If you're looking for additional detail, the 2020 consolidated financial statements are available on the CMPA website. CMPA's financial model consists of several parts which all work together, membership fees, medico-legal costs, the money needed to pay for future claims and our investment portfolio.

00:48

We must have sufficient funds to assist our over 104,000 members and compensate Canadian patients on behalf of members if the care provided is found to be negligent.

01:01

There are a few key principles that drive our financial model. First, occurrence based protection means that members are eligible for assistance any time in the future as long as they were members when the care was delivered. For example, a retired member could be eligible for assistance related to care they provided early in their career.

01:22

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 35 to 40 years from the time the care was delivered.

01:37

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.

01:52

Third, members pay the full cost of their protection through their fees. This means that in 2020 we collected the fees needed to protect our members for all occurrences taking place in 2020 even though they may not become apparent for up to four decades.

02:11

Fourth, the CMPA's 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.

02:37

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 104,000 members.

03:03

The changing trend in medical legal costs shape the size of the provisions 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. We invest with the aim of funding approximately 1/3 of our members' protection costs through investment returns. Finally, the change in the funded position is the sum of all of the financial items mentioned.

03:40

Now let's look at our 2020 finances. The membership fees collected in 2020 will pay the medical legal costs resulting from care provided in 2020, which could result in medical legal actions over the next 35 to 40 years.

04:00

We invest these funds with the goal of raising 1/3 of the ultimate cost of protection for each year. There is a relationship between the estimated yearly protection costs as calculated by our actuarial team and the membership fees collected. 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.

04:27

If we find ourselves in a positive funded position, we may lower membership fees where appropriate through the application of a fee credit. The CMPA's actuaries calculated the estimated cost of protection for 2020 to be \$608 million dollars. Due to favorable financial positions in the Saskatchewan, Manitoba, Atlantic provinces and territories fee region and the Quebec fee region the Association was able to reduce fees in those

regions by approximately \$40 million.

05:04

The total membership fees collected was approximately \$568 million in line with our estimate. As mentioned, our membership fees are self-correcting. They increase or decrease in a given year based on the health of the other parts of our financial model. In 2021, we reduced membership fees in all regions by \$99.5 million, and Lisa will speak to the 2022 fees shortly.

05:36

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

05:57

Compensation to patients is our single largest expense. Looking back at the past five years, the blue bars show the annual compensation payments and the green bars show the annual legal costs. In 2020 the Association paid \$206 million to patients, this is \$17 million lower than 2019.

06:23

While the total compensation amount varies from year to year, the CMPA has paid over \$1.1 billion in compensation over the past five years. The legal costs over this same period were \$892 million. The slight increase of 1% in legal expenditures since 2019 is primarily due to an increase in legal costs associated with College, hospital and other matters. While actual case count is down, the increase is driven by higher legal hours related to pandemic advice.

07:01

An important point is that the trends in 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 in each region.

07:29

The provision for outstanding claims is the sum of all expected future medical legal costs resulting from the care delivered by members over the past three to four decades. For care delivered in 2020, we need to look ahead and make sure we have funds available to cover any expense related to that care, either to compensate patients or assist members for the next 35 to 40 years.

07:57

The bulk of the provision is for compensation to patients and it's close to \$3 billion. We review the provision each year and we lowered the provision by \$146 million in 2020 based on improved 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. The provision includes an estimated payment pattern, which we use to model the investment portfolio. We target our investment portfolio to reach a 5.5% investment return over the long term.

08:56

There are two objectives in our portfolio. First, we invest membership fees to reduce the amount of fees we will collect in the future by approximately 1/3. And second, to generate an investment return that meets or exceeds our 5.5% target. The purple bars show you the hypothetical return on our investments using the 5.5% target over the past 10 years.

09:26

The green bars show you the actual return on investments. As you can see, we have outperformed the target by approximately \$1.1 billion over the last 10 years due to the favourable performance of the financial markets exceeding our expectations. These excess returns have fuelled the growth in the CMPA's net asset position, which may allow us to lower the cost of membership fees in the future.

09:56

2020's investment return was 4.8%, which is less than our target of 5.5% and likely due to the volatility of the overall financial markets in 2020.

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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.

10:32

We take a long-term approach to the management of our finances. We recognize that our position is based on estimates of costs that will not be fully known for many years. Given this, we take a measured approach to our finances and do not take drastic measures to react to either a temporary shortage or a temporary excess of net assets. You can see this in our funded position over the past 10 years.

11:02

At the end of 2020 our total assets were 134% of the total estimated liabilities, or a positive position of \$1.44 billion. This is a market improvement from 2014 when there

was a \$360 million shortfall. This improvement can be attributed to better than forecast investment performance and lower than anticipated growth in medical legal costs.

11:31

This strong financial position will allow us to weather any further challenges the COVID-19 pandemic may bring to the financial markets as well as any fluctuations in medical legal case volumes. We recognize this funded position is higher than desired and may allow us to reduce membership fees in the future.

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Lisa will return to this theme in a few minutes when she discusses the 2022 membership fees.

12:00

As I conclude my financial update, I'd like to summarize the five key takeaways. First, the various parts of our financial model are interconnected and self correcting. Second, due to our current space protection, the CMPA operates with a long-term time horizon of up to four decades, allowing us to protect members long after they retire. Third, our positive funded position in 2020 should provide confidence to members and their patients that we are there for them when needed.

12:39

Fourth, the increases or decreases are the primary tool used by the CMPA to manage our funded position. And finally, our current strong funded position is primarily a result of strong investment returns over the past 10 years as well as lower than expected medico-legal costs. Mike, I would be pleased to address any questions during the question and answer period at the end of our meeting.