New Mexico Patient's Compensation Fund Investment Strategy

OSI Presentation to Investment and Pension Oversight Committee
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PCF Regulatory Overview

The Superintendent of Insurance is the custodian of the Patient's Compensation Fund.

Patient's Compensation Fund

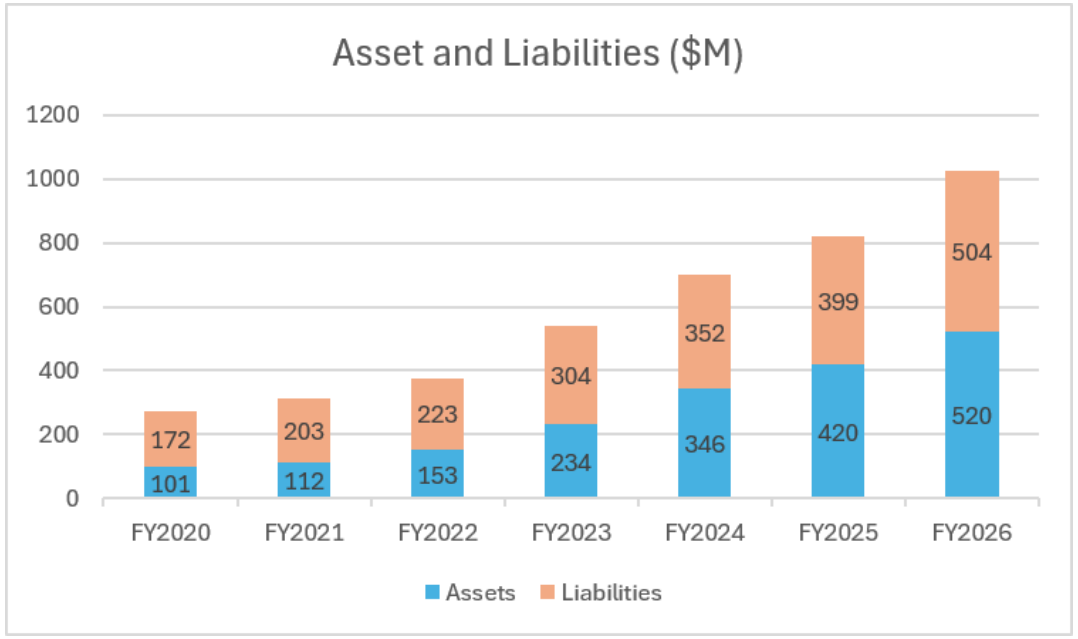
- **Nonreverting fund** established within the state treasury
- Funded through:
  - Surcharges
  - Investment income
  - Other deposited funds
- **Held in trust** and maintained in a segregated treasury account
- Investments managed by the **State Investment Council** and the cash account is managed by the **State Treasurers Office**
- **Does not revert** to the general fund or any other state fund
- Funds may be used **only for purposes authorized under medical malpractice law**

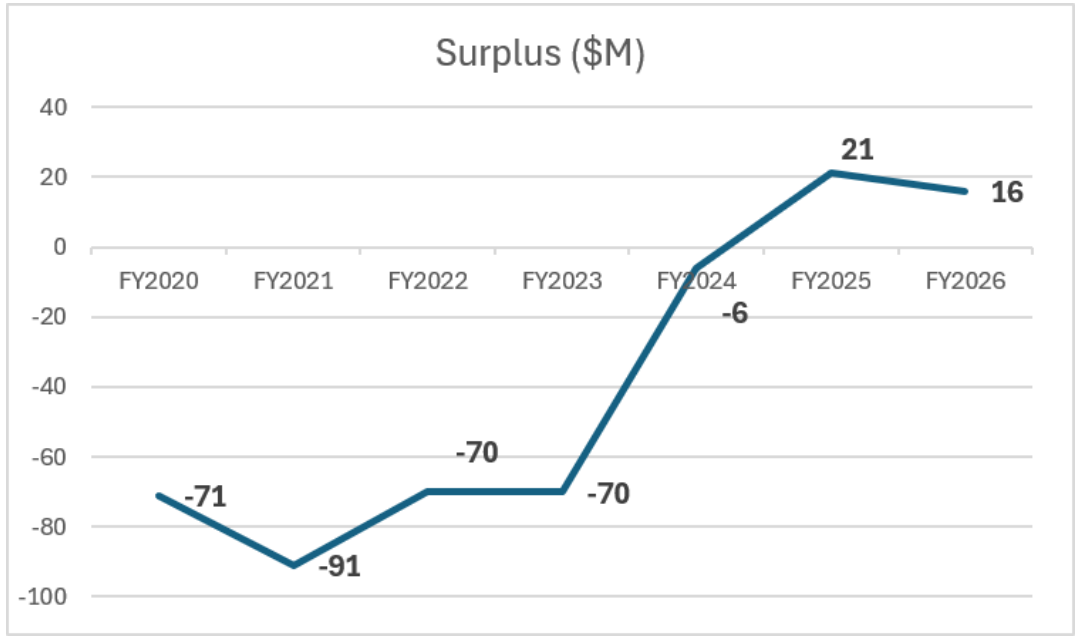
Key Message: The fund is protected, independently maintained, and dedicated exclusively to medical malpractice-related obligations.

NMSA 41-5-25.1 (A) The "patient's compensation fund advisory board" is created to advise the superintendent and the third-party administrator.

PCF Balance Sheet

- Assets and Liabilities have grown consistently since fiscal year 2020
- Surplus (The Assets minus Liabilities) has turned positive in 2025 for the first time in recent history driven by rate increases, legislative infusions, and hospital deficit surcharges.
- Year end fiscal year 2026 numbers are awaiting DFA review.





Drivers of Increasing PCF Assets

Rate Increases- There have been significant rate increases over the past five years.

	2022	2023	2024	2025	2026
Independent Providers	12.2%	10.0%	10.0%	8.6%	10.0%
Hospitals	19.7%	15.8%	11.8%	-5.7%	2.6%

Legislative Infusions – Contributions have helped eliminate the deficit with an emphasis on independent providers.

	2022	2023	2024	2025	2026
Independent Providers	$30M	$24M	$36M	$0	$0
Hospitals	$0	$8	$0	$0	$0
Total	$30M	$33M	$36M	$0	$0

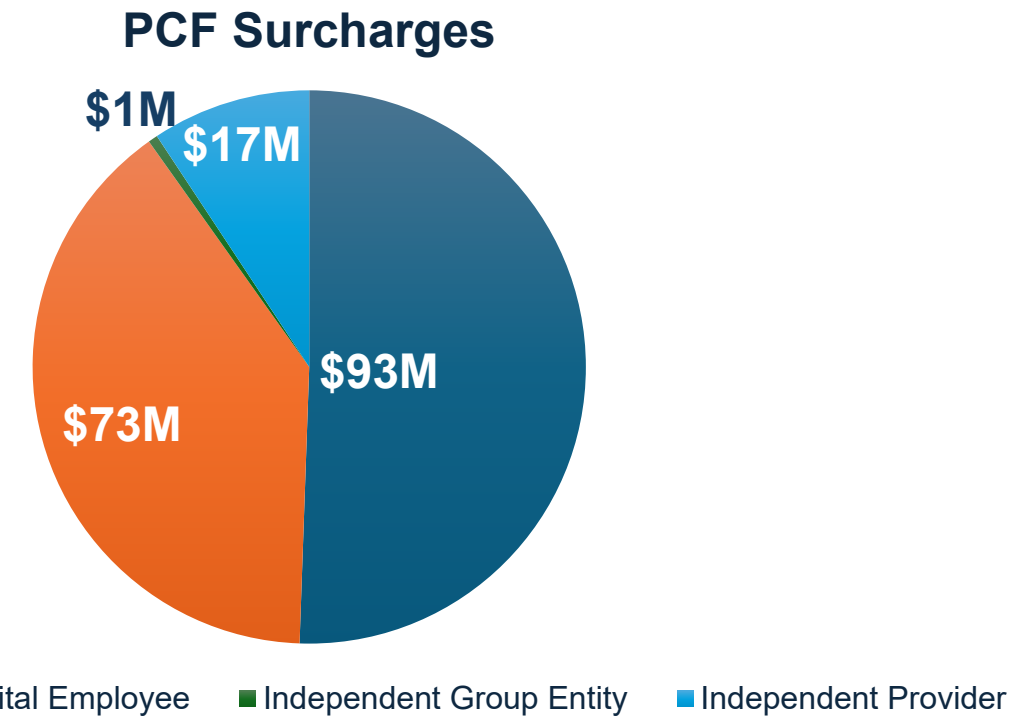
Deficit Surcharges – The hospitals have been assessed through a load in the PCF Surcharge.

	2022	2023	2024	2025	2026
Independent Providers	0.0%	0.0%	0.0%	0.0%	0.0%
Hospitals	4.9%	19.8%	46.0%	26.8%	22.5%

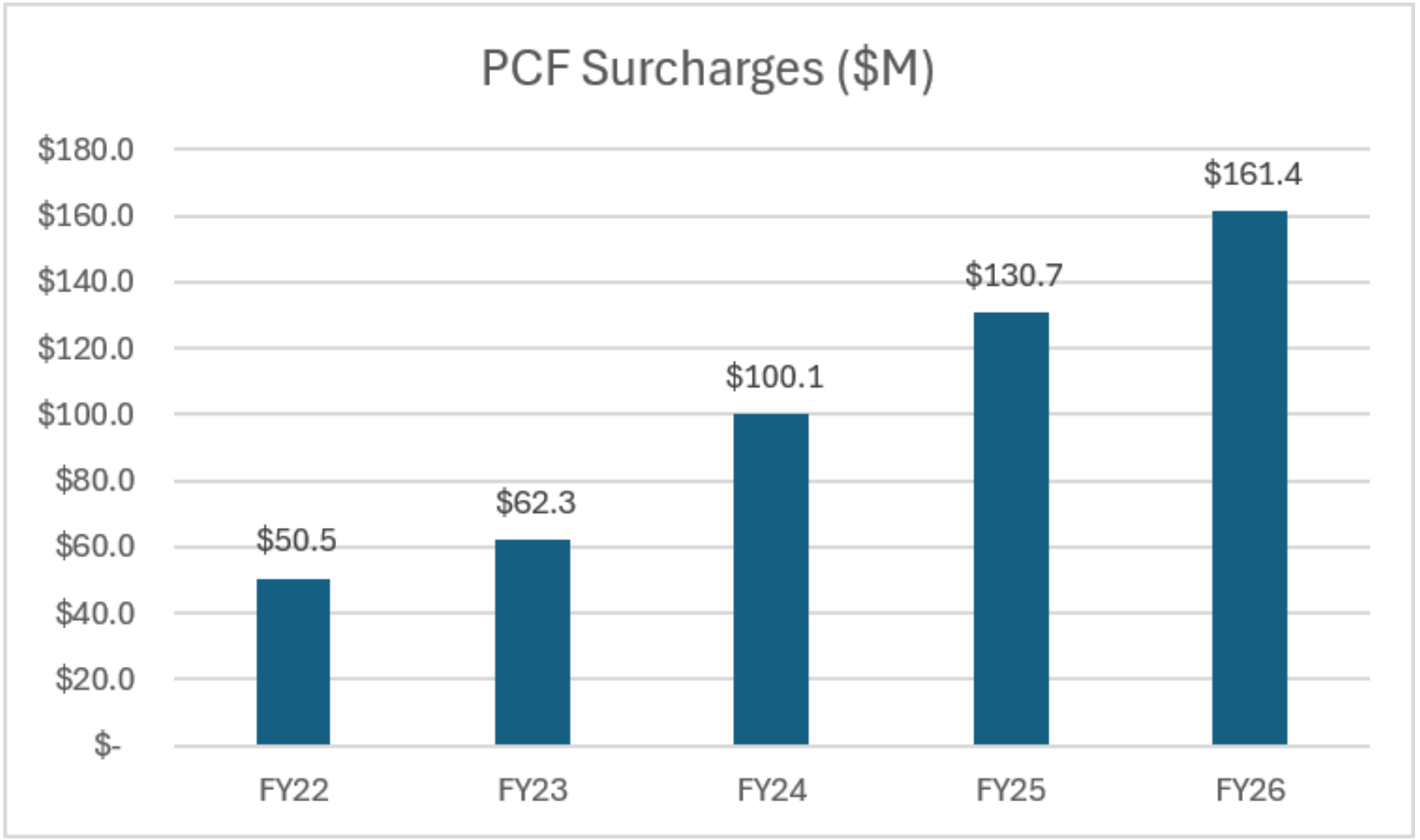
Investments – Investments have been favorable but there is opportunity to optimize the portfolio mix.

The Patient's Compensation Fund Overview

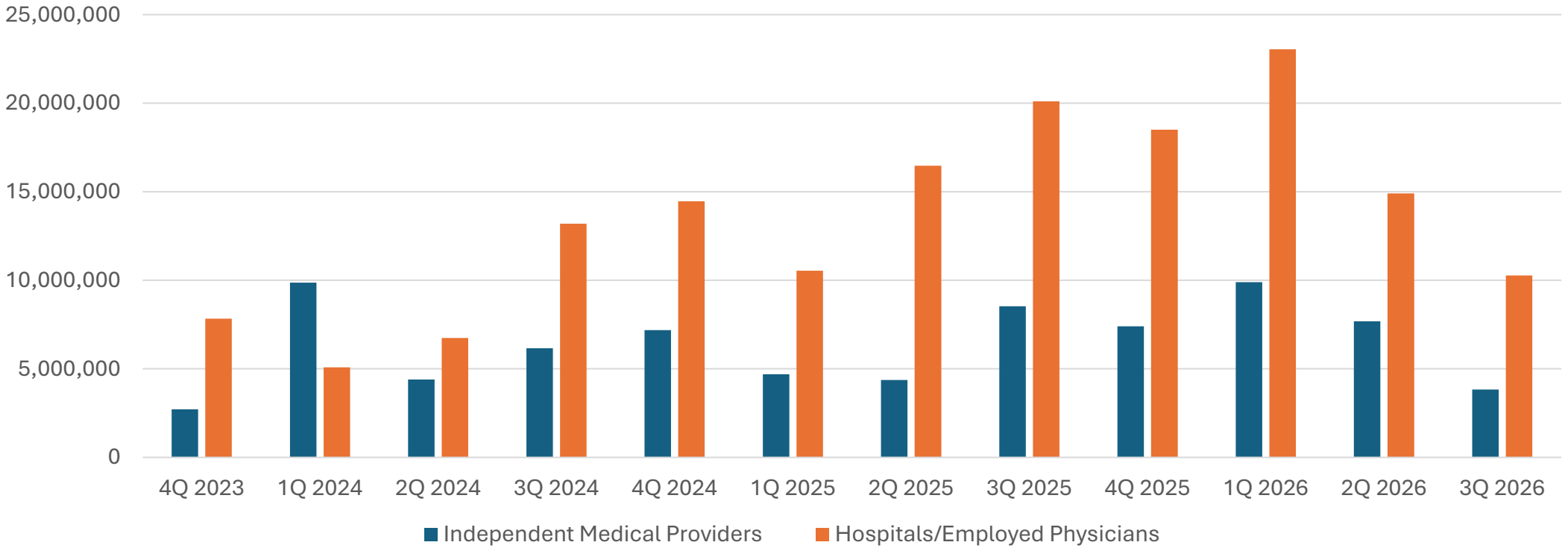
- PCF was established by the NM Professional Liability Fund Act of 1976 for independent providers. Hospitals joined the fund in 2016.
- The PCF participants in 2026 include 13 hospitals, 562 independent group entities, and 5,323 individual providers and hospital employees.
- Two additional hospitals have expressed interest in joining the fund next year. A third hospital that is currently under construction has also inquired about membership in 2027.
- Annual surcharges for 2026 are $184.6M and claim settlement payments were $91.0M. A breakdown of the surcharges by type is below:



Total Annual PCF Surcharge History



PCF Claim Payment History



- Claim payments have been trending upward driven by increasing caps for independent providers and hospital claim frequency
- The PCF paid 123.5M in total expenditures in FY2025 with the majority related to claim settlements.

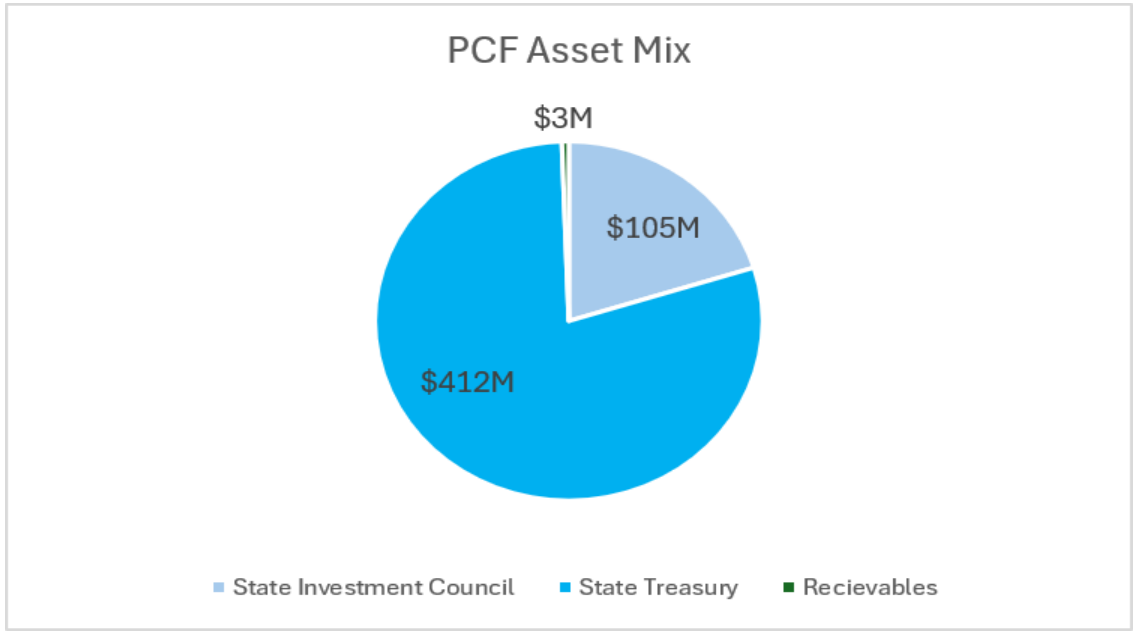
Medical Malpractice is Long Tailed

Distribution of Years between Accident Date and Closed Date									
1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	5 to 6 Years	6 to 7 Years	7 to 8 Years	8 to 9 Years	9 to 10 Years	10 to 15 Years
0.8%	2.3%	9.7%	17.3%	25.8%	21.3%	14.7%	4.4%	0.9%	2.8%

- The time between the malpractice event occurring and the claim payment reaching the injured party is significant.
- Most claims are closed between 4 and 8 years after the accident occurs.
- There are a handful of claims open 15 years after the accident occur.
- The surcharges collected in 2027 are intended to cover malpractice events that occur in 2027. Claims for these events will be paid out through 2042.
- Because the time between surcharge collection and claim payment is long, keeping nearly all of the funds in liquid assets is not necessary.

PCF Assets and Investments

- The OSI subsequently met with State Treasury to understand the liquidity and investment mix of the total portfolio.
  - There are approximately $520M in total assets.
  - $105M is invested with the State Investment Council with approximately a 14% annual return ($13M).
  - $412M is in liquid interest earning assets with the State Treasury with a 2.4% annual return ($19M over the last two years).



Wisconsin Patient's Compensation Fund and Investment Governance

WISCONSIN

- WPCF Board- Directors with financial, actuarial and industry experience.
- Superintendent is the Chair.
- Formal Investment Committee which approves the investment policy and reviews portfolio management performance.

NEW MEXICO

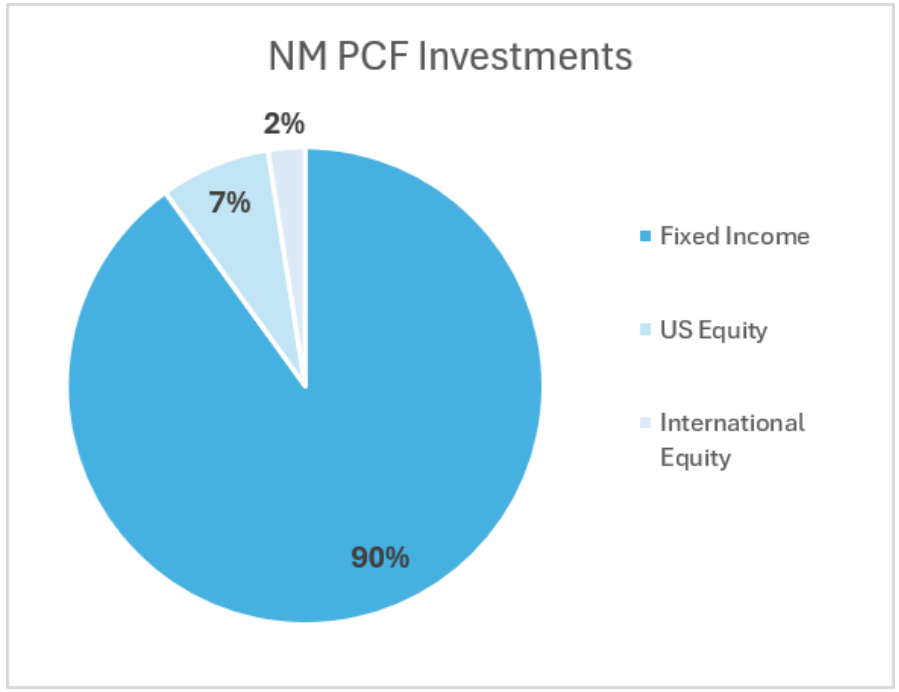
- New Mexico PCF has an advisory board.
  - No investment committee or formal investment policy.
  - There are no industry, financial, investment or actuarial professionals.

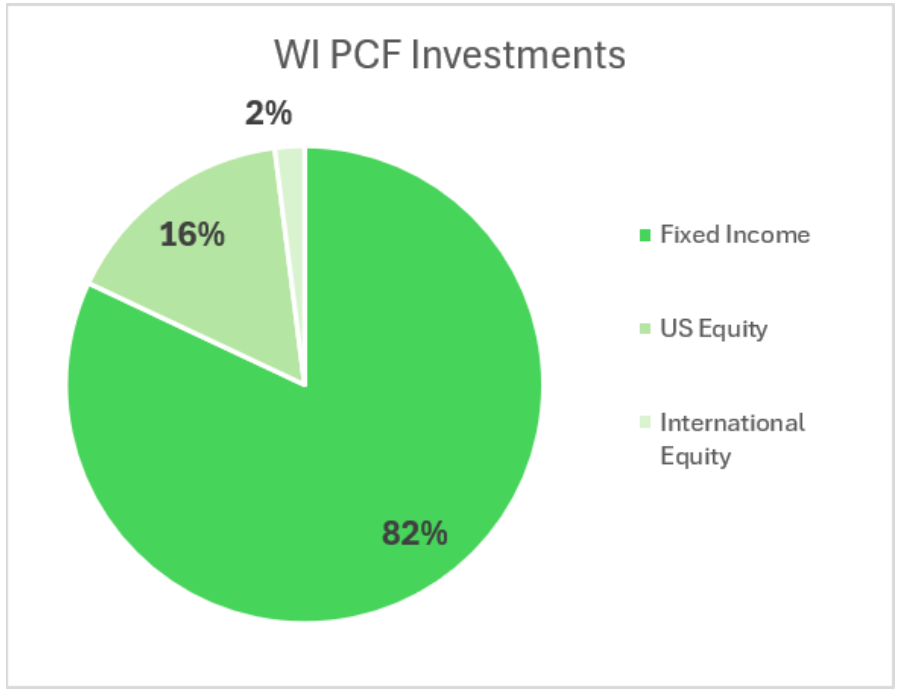
Wisconsin Patient's Compensation Fund Investment Objectives

- **Primary Objective:** Manage fund assets prudently for the benefit of participants and claimants
- **Preservation First:** Emphasizes protection of principal and long-term financial stability
- **Balanced Strategy:**
  - Capital appreciation
  - Preservation of capital
  - Current income generation
- **Risk Management Focus:**
  - Views risk primarily as the long-term erosion of aggregate capital
  - Prioritizes minimizing portfolio volatility
- **Conservative Investment Philosophy:**
  - Reduce the likelihood of substantial loss of principal
  - Seek capital growth only after preserving fund stability

Key Takeaway: Wisconsin's investment policy prioritizes capital preservation and steady income, with growth pursued only after minimizing investment risk and volatility.

NM and WI PCF Investment Mix





- New Mexico has a larger portion of investments in fixed income.
- Wisconsin has a larger portion of their investments in US equities.
- The mix of international equities is similar between funds.
- The NM OSI is in the process of finalizing an RFP for resources to perform asset liability duration matching and asset allocation analysis.

Investment Return and PCF Surcharges

- The rate change for the PCF is determined by:
  - Selecting the expected losses by reviewing 10 years of historical claims
  - Discounting the losses based on an assumed investment return
  - Projecting loss adjustment and admirative expenses
  - Comparing the discounted losses and expenses to the surcharge collected last year.
  - If the discounted losses and expenses are greater than the surcharges collected last year, there is a need for a rate increase.
- Investment return is a direct input to the PCF surcharge calculation
- Each additional 0.5% of investment income reduce the surcharges by 2.5%.

Consultation Update

Office of State Treasurer

- Recommended a professional to perform a cash forecast analysis.

State Investment Council

- Recognized the need for an asset liability professional analysis
- Approved of our approach and will assist us going forward.
- Agreed there is a mismatch between long term duration of the liabilities and the short term maturation of the assets.

Both offered assistance in crafting an RFP for the asset liability analysis.

Conclusion

- The PCF is growing and has a surplus.
- There is opportunity for investment income due to the long tailed nature of the line of business.
- OSI is finalizing an RFP to seek guidance for portfolio mix.
- The OSI would like to develop a PCF investment policy and establish an investment committee to monitor performance.