

CMPA.

Empowering
better healthcare

2021

FINANCIAL
PERFORMANCE

FULL REPORT



Introduction

THE MEMBERSHIP FEES collected in any given year (e.g. 2021) fund patient compensation costs and medico-legal support costs in that year and, as claims unfold, for the following 30-40 years or more. The reason for this large time window is the Association's commitment to occurrence-based protection. With occurrence-based protection, members are eligible for assistance (and patients are eligible for compensation when harmed by negligent medical care, known as fault in Québec) any time in the future, as long as the physician was a CMPA member when the care occurred.

The financial horizon – or window – to compensate patients and assist physicians from a given year is long. For care delivered in 2021, 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 years to come.

The Association's long-term financial objective is to hold at least one dollar of assets available for claims for each dollar of discounted liabilities. This approach provides physicians and their patients with confidence

that, in the event of harm resulting from negligent medical care (fault in Québec), resources will be available to provide the appropriate protection and compensation to patients on behalf of members well into the future. As of December 31, 2021, we held \$6,410 million in assets against \$4,746 million in liabilities, \$3,997 million of which represents the accumulated provision for outstanding claims.

We strive to ensure the membership fees we collect are used efficiently and appropriately. We contribute from a medical-liability perspective to health policy, including in relation to the medical-liability system, with a view to advocating for system improvements. A more effective and efficient liability protection system is important to provide adequate access to justice for patients and maintain fee stability for CMPA members.

The **consolidated financial statements** include the accounts of the Association and our wholly owned subsidiaries Dow's Lake Court Inc. (operating under the name Saegis) and CMPA Investment Corporation, which hold a number of investment assets.

The Association's long-term financial objective is to hold a least one dollar of assets available for claims for each dollar of discounted liabilities.





Highlights of the CMPA's 2021 financial statements

with comparative figures for the previous four years

(\$ millions)	2021	2020	2019	2018	2017
Statement of financial position					
Assets					
Investment portfolio	\$6,300	\$5,615	\$5,346	\$4,681	\$4,480
Other assets	110	72	78	82	87
Liabilities					
Provision for outstanding claims	3,997	3,864	3,860	3,769	3,682
Investment-related liabilities and payables	379	50	87	87	2
Other liabilities	370	329	297	262	242
Net assets	1,664	1,444	1,180	645	641
Statement of operations					
Revenues					
Membership revenue	504	568	596	637	690
Net investment income	442	249	581	3	415
Expenses					
Compensation to patients on behalf of members	276	206	223	260	250
Legal and expert fees	223	210	209	193	183
Insurance	27	25	24	25	57
Increase in the provision for outstanding claims	133	4	91	87	103
Member services and operations	91	93	88	75	69
Excess of revenues over expenses	\$196	\$279	\$542	\$0	\$443

For more information, see the [consolidated financial statements](#) for the year-ended December 31, 2021, along with the Independent Auditors' Report and related notes.

Investment portfolio

The financial horizon – or window – to compensate patients harmed by negligent medical care (fault in Quebec) delivered by members from a given year is estimated to be 30 to 40 years or more.

The CMPA provides occurrence-based protection, which means that members are eligible for assistance (and patients are eligible for compensation when harmed by negligent medical care, known as fault in Québec) any time in the future, as long as the physician was a CMPA member when the care occurred. We have a responsibility to invest prudently to maintain adequate funding to ensure we can, on behalf of members, compensate patients harmed by negligent care (fault in Québec) and support physicians now and decades into the future. We are also committed to containing growth in medical liability protection costs.

Our portfolio investments are held by the Association to fund the unpaid claims resulting from members' professional practice. The performance objectives of the portfolio are to:

- Provide sufficient investment returns to fund members' medico-legal protection and, as appropriate, compensate patients harmed by negligent care (fault in Québec), by matching or exceeding the long-term return expectation of 5.0%;
- achieve positive value-added returns (over a passive benchmark return) after deducting management fees.

The Association has adopted investment policies, goals, and procedures to manage the investment risk to which it is exposed. Our investment practices are designed to avoid undue risk of loss and impairment of assets and to provide a reasonable expectation of fair return given the nature of the investments. We continue to believe that appropriate diversification is the most effective means of managing investment risk.

The portfolio produced positive returns during the year and the net investment portfolio value of \$5,921 million represents an overall increase of \$356 million over the year-end 2020 position (see "Net Investment Income" for more information).

Public assets are valued using the closing market price for each security at year end. Private assets (including private debt, equity, and real assets) are valued at their original cost, less any accumulated impairments, or estimated reductions in value. Unrealized gains on private assets are not recorded in the financial statements. It is estimated that net unrealized gains in the value of the private investments totaled \$574 million at December 31, 2021; this is not reflected in the net carrying value of the portfolio until those assets are sold in accordance with CMPA's accounting policies.



Provision for outstanding claims

The provision for outstanding claims is the estimated amount of funds the CMPA needs to, on behalf of members, appropriately compensate patients harmed by negligent care (fault in Quebec) in the future and manage future legal and administrative expenses. For care delivered in 2021, we look ahead and make sure we have finances available to cover any expense related to that care – either to compensate patients or assist members – for the next 3-4 decades.

The provision is prepared annually by the Association's Chief Actuary, leveraging modern data analysis techniques to enhance the accuracy of the provision forecast. The provision is subjected to peer review by external actuaries, and audited by the external auditor. The provision is valued on a discounted basis of 5.0%.

At December 31, 2021, the actuarial estimate for the provision for all accumulated outstanding claims was \$3,997 million, an increase of \$133 million from December 31, 2020.

The **difference** in the provision for outstanding claims represents the year-over-year change in the estimated value of all unpaid claims resulting from the care already provided by our members. The table below illustrates the change in the liability from the beginning of the year to the end of the year, broken down between the updated experience of prior occurrence years, the addition of the current occurrence year, and the impact of insurance contracts used to transfer risk.



Five-year comparison of change in the provision for outstanding claims

(\$ millions)	2021	2020	2019	2018	2017
Provision for outstanding claims, beginning of year	\$3,864	\$3,860	\$3,769	\$3,682	\$3,579
Payments on claims relating to occurrences in prior years	(449)	(412)	(400)	(447)	(416)
Revaluation of the provision for outstanding claims relating to occurrences in prior years	80	(138)	(81)	72	11
Change in provision for outstanding claims in respect of occurrences in current year	540	599	591	537	573
Potential risk transfer from insurance contracts	(38)	(45)	(19)	(75)	(65)
Provision for outstanding claims, end of year	3,997	3,864	3,860	3,769	3,682
Increase (decrease) in provision	\$133	\$4	\$91	\$87	\$103



Net assets

Net assets are the difference between assets and estimated liabilities and provide a point-in-time measure as to whether the Association has the resources necessary to meet its estimated liabilities. The overall net asset position can be expected to change from one year to the next, largely as a result of externally driven factors such as investment returns and/or compensation to patients paid on behalf of members. As of December 31, 2021, the Association had net assets of \$1,664 million; due to the 12.8% return on the investments held

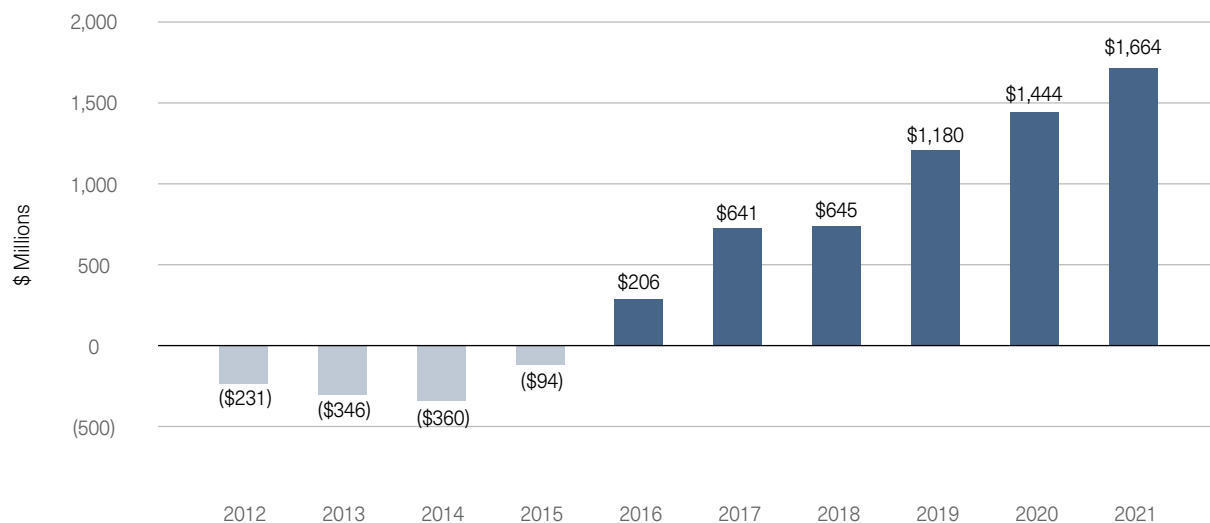
in our portfolio (which significantly exceeded our expected return of 5%), and the net asset position improved by \$220 million over 2020.

The CMPA strives to maintain a reasonable net asset position. We use fee credits and debits to manage our financial position over time – reducing or increasing membership fees as needed. Our current strong financial position provides an opportunity to stabilize membership fees using fee credits to reduce member fees. It allows us to continue to, on behalf of members, compensate patients harmed by

negligent medical care (fault in Québec) and support members.

During 2021, the Association's Council approved the application of net aggregate fee credits of \$200 million across its four fee-setting regions for 2022. In 2022, the Association's Council approved an aggregate fee credit of \$362.5 million for the 2023 membership year. Moving forward, we will continue to reduce membership fees through the use of fee credits to draw down our net asset position.

Ten-year view of the CMPA net asset position



Membership revenues

The CMPA strives to resolve cases and compensate patients on behalf of members when appropriate as quickly as possible. However, because claims can be initiated long after care was delivered, the full costs of medical liability protection, including patient compensation, will not be known for many years.

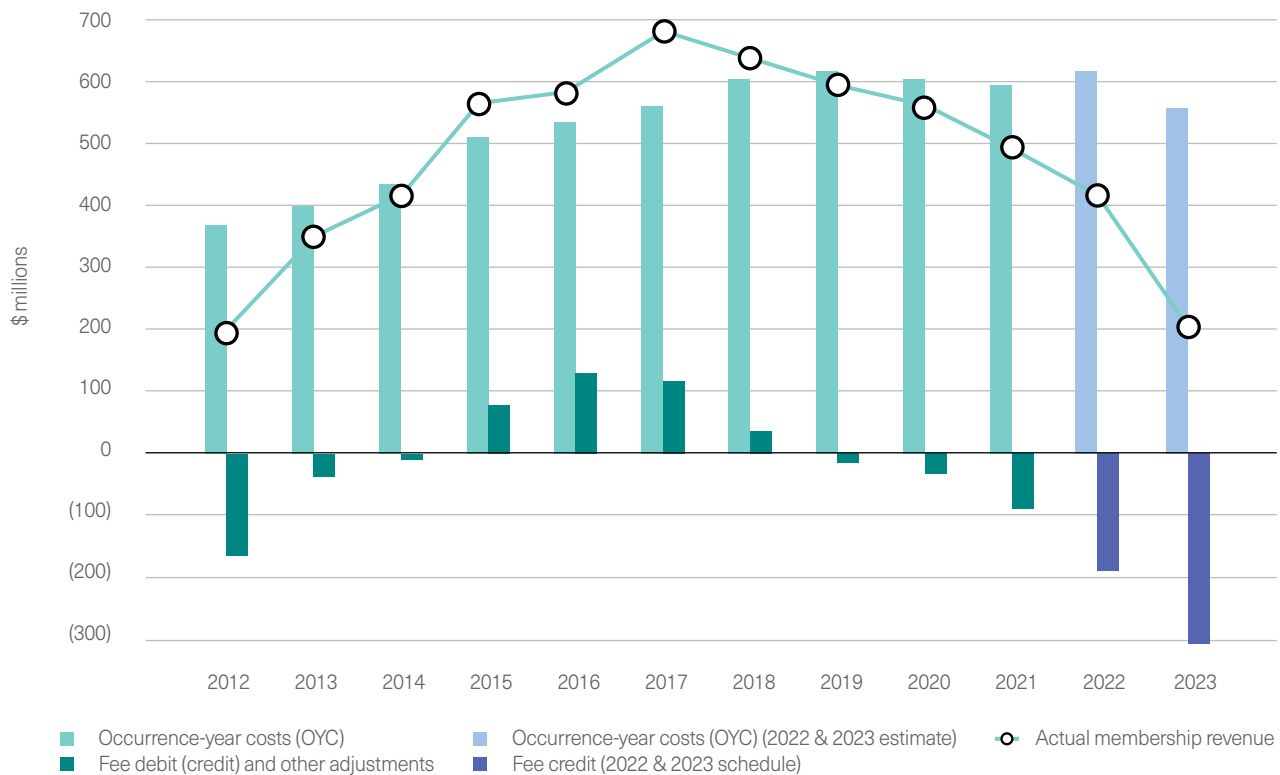
For example, if a baby is compromised at birth in 2000, a lawsuit may not be launched until decades later. This lawsuit may result in a trial and an appeal, which can take significant time to work through the judicial system. In this instance, the full cost of protection will not be known until everything has been settled.

As such, the CMPA seeks to collect, as membership fees, sufficient funds from our members to cover the anticipated liabilities arising from care they will have delivered in that year. Given the nature of our occurrence-based protection, the membership fees collected in 2021 will be used to pay out protection costs (including appropriate compensation to patients on behalf of members) resulting from care provided in 2021 over the next three to four decades. With the goal of members paying the costs of protection for the year in which the care was delivered, the CMPA estimates the expected occurrence-year costs¹ as a basis for membership fees.

In the event the actual experience is different from the predicted values, future membership fees may be adjusted (either increased or reduced) to address the difference. As illustrated in the graph below, the growth of occurrence year costs is flattening. This flattening has resulted in slower growth in the provision for outstanding claims which, along with strong investment returns, has resulted in our current positive net asset position and will lead to an increase in fee credits in 2022 and 2023.

¹ Expected occurrence-year costs are actuarially estimated costs for compensation to patients on behalf of members, and legal and administrative expenses arising from medical events in the year of occurrence.

Twelve-year review of occurrence-year costs and membership revenues



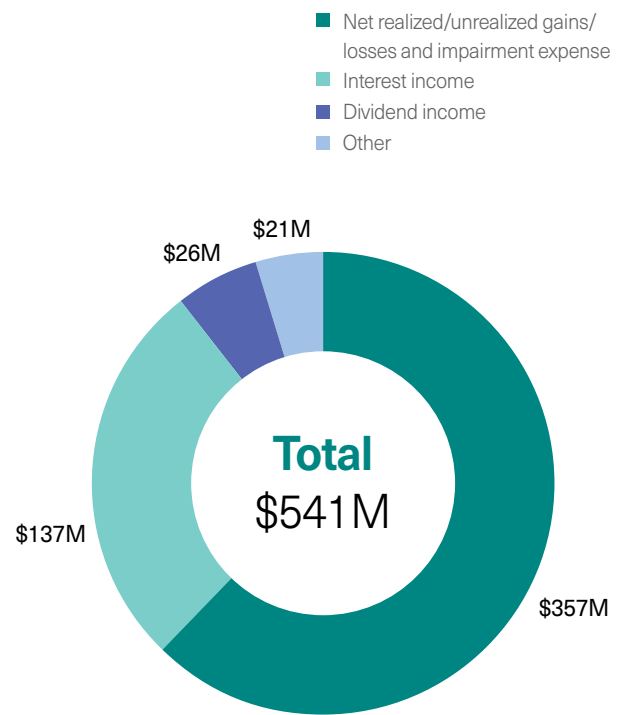


Net investment income

The Association earns investment income on its portfolio through interest, dividends, and changes in value on the assets it holds to pay future medico-legal expenses. Historically, when we have had an excess of assets over liabilities, we have provided fee credits to partially offset the annual membership fees paid by members.

In 2021, the total investment income was \$541 million. After deducting \$99 million in investment expenses, the net investment income was \$442 million.

Portfolio investment income (\$ millions)



Portfolio investment income

5-year average	10-year average	Long-term return assumption
8.2%	9.1%	5.0%

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
10.2%	17.5%	11.2%	7.8%	3.4%	11.4%	0.7%	11.3%	4.8%	12.8%

Compensation to patients, and legal, expert, and insurance costs

The CMPA provides occurrence-based protection, which means that members are eligible for assistance (and patients are eligible for compensation when harmed by negligent medical care, known as fault in Québec) any time in the future, as long as the physician was a CMPA member when the care occurred.

The financial horizon – or window – to compensate patients and assist physicians from a given year is estimated to be 30 to 40 years or more.

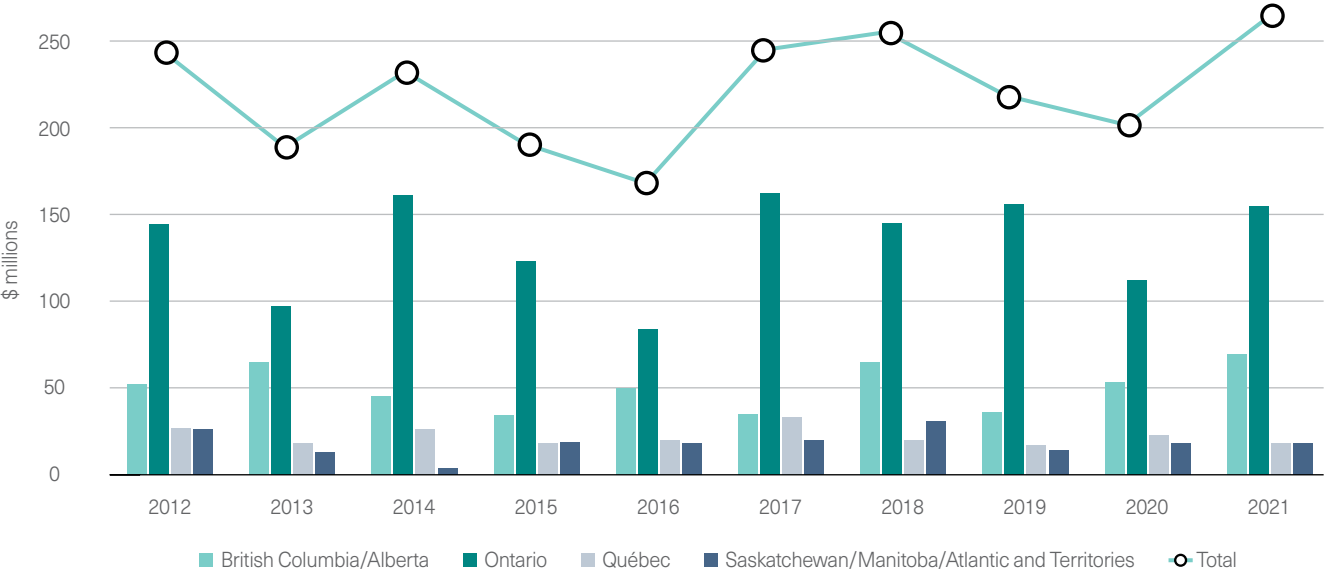
Payments made on behalf of members to patients harmed by negligent care (fault in Québec), along with the cost of legal services, peer experts, and insurance are CMPA's largest expenditures, accounting for 85% of annual expenditures in 2021 (excluding the change in provision for outstanding claims). The specific timing of individual patient compensation payments can be difficult to predict and the totals may fluctuate from year to year as cases work through the civil liability system.

The level of patient compensation on behalf of members varies greatly from year to year due to a number of factors such as: the number of high value cases settled, the balance of medico-legal outcomes towards physicians or patients, and the

timing and duration of those cases. Cumulatively over the last 5 years, the CMPA has provided **\$1.2 billion** in compensation to patients on behalf of members. In 2021, the \$276 million in payments to patients was \$70 million more than in 2020. When compared to the prior year, this increase was driven largely by an increase in the number of cases greater than \$5 million which contributed to higher average value per case. The 2021 average payment per case increased by 25% and the number of cases closed with payments decreased slightly by 1% from the 5-year average.

The following graph highlights the year-over-year variability in payment totals, both at the regional level and when considered nationally.

Compensation to patients by region



With the objective of reducing the volatility inherent in the compensation to patients component of the provision for outstanding claims, the CMPA has an insurance program to help protect the Association from unexpected costs for occurrences prior to December 31, 2021. At the end of 2021, the Association held insurance policies that provide \$943 million of protection against rising costs, subject to policy limits and thresholds.

Legal fees and disbursements are broken down into two categories: legal costs related to civil actions and threats (i.e. those that might lead to compensation to patients), and non-civil matters, which include advice, College complaints, hospital matters, and other forms of medical-legal assistance. Legal expenditures increased in 2021, and much of this increase can be attributed to greater activity in the civil and medical liability systems as the COVID-19 pandemic has evolved.

The count of civil legal cases has been relatively consistent over the past decade whereas it has increased for non-civil cases. Meanwhile the average legal costs per case have remained constant for non-civil cases (denoted as "Other") and are starting to rise for civil legal cases as illustrated in the following graph.

Average legal costs per civil case and other



Excess of revenue over expenses

In 2021, due to greater than expected investment returns, the Association's revenues exceeded expenses by \$196 million.

Financial summary

The CMPA's net asset position stands at \$1,664 million, an improvement of \$220 million from 2020 that was mainly driven by strong returns from our investment portfolio. This positive funded position should provide members and their patients with confidence that the CMPA has the resources to meet the medical liability protection needs of our over 105,000 members and the compensation requirements of patients injured as a consequence of negligent medical care (fault in Québec). This strong financial position will also allow us to continue to support the sustainability of the medical liability system.