

## Explanation of the Application of the Mcare Fund 2002 Credit and 2003 Discounts

Act 13 of 2002 (“Act 13”) requires the Mcare Fund to apply a discount to the surcharge paid in 2002 to the Pennsylvania Medical Professional Liability Catastrophe Loss Fund. This discount is calculated upon the revenues generated by the 2001 surcharge. Per Section 712(3)(1)(i) and (ii), this discount is to be bifurcated: one-half is to be distributed among hospitals and physicians in the top four highest rated classes of the Joint Underwriting Association (070, 080, 090 and 100), and one-half is to be distributed to all participating health care providers. Additionally, Act 13 specifically directs that only those health care providers who have paid an **undiscounted** 2002 surcharge will receive a credit, and all others will receive a discount from their 2002 surcharge.

In addition, for purposes of the 2003 assessment to be paid to the Mcare Fund, participating health care providers will receive a discount. Calculation of the 2003 discount is similar to the 2002 discount described above.

The Mcare Fund received approximately \$360,000,000 for 2001 surcharge collections. Five percent of this amount equals \$18,000,000, of which \$9,000,000 is to be returned to health care providers in the top four highest rated classes, as well as hospitals; and the remaining \$9,000,000 is to be returned to all participating health care providers.

Consistent with the statutory formula set forth above, your discount percentage has been calculated to reflect the credit amount indicated on the reverse side of this letter.