



# Policy Research Perspectives

## Medical Professional Liability Insurance Premiums: An Overview of Data from 2005 to 2014

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### Introduction

This Policy Research Perspective (PRP) presents information on changes in medical professional liability insurance (PLI) premiums from the Annual Rate Survey Issues of the *Medical Liability Monitor* (MLM), including the latest from October 2014. Considered the most comprehensive source for a national perspective on PLI premiums, the MLM conducts an annual survey of major U.S. liability carriers and reports manual<sup>1</sup> premiums for Obstetrics/Gynecology, General Surgery and Internal Medicine in each state in which they provide PLI coverage. Premiums for those specialties generally provide a good sense of the highest, middle and lowest liability premiums faced by physicians. In some states, PLI carriers price their policies differently across geographic areas within the state. In those cases, survey participants report premiums to MLM for each sub-state area.

The Rate Survey Issues of the MLM list the current and previous year manual premiums of participating carriers in each specialty and sub-state area for which they reported data. The percentage change in an insurer's premium from the previous year to the current year is also provided. In recent editions of its Rate Survey Issue, the MLM has also provided a table that summarizes the distribution of those changes.<sup>2</sup>

Table 1 of this PRP reproduces this distributional information for the period from 2005 to 2014.<sup>3</sup> The data collection method mentioned above suggests some caution should be taken in their interpretation. The table does not reflect all insurers or all specialties, and the data underlying the table is for *manual* premiums, which could differ from the final premiums physicians pay. Finally, because some insurers report premiums at the sub-state level, both insurers and states with more rating areas are overrepresented in the MLM data.

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<sup>1</sup> A "manual" premium does not reflect credits, debits, dividends, or other factors that may reduce or increase the actual premiums that individual physicians pay for coverage. The manual premiums that insurers report to MLM are typically for policies with \$1 million/\$3 million limits.

<sup>2</sup> For example, the table might show that 25 percent of premiums reported to MLM were higher than in the previous year, 50 percent stayed the same, and 25 percent were lower.

<sup>3</sup> The information reported in Table 1 of this PRP is only based on non-compensation fund states.

## Changes in Premiums, 2005-2014

Table 1 presents distributions of annual changes in PLI premiums. The latest data shows that premiums were largely stable in 2014. Sixty-five percent of premiums reported to the MLM were unchanged from the previous year. This follows a trend of general stability which began in 2006, when almost 47 percent of premiums were the same as in 2005. Since then this share has remained relatively high—reaching 67 percent in 2010. In contrast, in 2005 less than a quarter of premiums were the same as in the prior year.

In 2014, close to 23 percent of reported premiums were lower than they were in 2013. This share is down from its peak in 2008, when almost 43 percent of premiums fell from the previous year.

Twelve percent of premiums increased in 2014. Importantly for physicians, premium increases are much less common than they were a decade ago. While 65.5 percent of premiums rose in 2005, by 2009 this percentage had fallen to only 6.3 percent. Since 2010, 12 percent to 15 percent of reported premiums have been higher than in the previous year.

In addition to the large share of premiums that stayed the same in 2014, in cases where premiums did change, the changes were small. Less than 6 percent of premiums decreased by at least 10 percent, and only 2.6 percent dropped by 30 percent or more.<sup>4</sup>

In the other direction, premium increases were also small, and they have been smaller in recent years than they were in 2005. In that year over a third of reported premiums increased by 10 percent or more. In contrast, virtually all of the increases were under 10 percent in 2014.

## Premium Levels in Select Areas, 2005-2014

The discussion above focused on changes in premiums. To get a sense of the *levels* underlying those changes, Table 2 reports 2005 to 2014 trends in premium levels in seven geographic areas for specific insurers chosen based on data availability across that period. For each area, the reported figures are for the same insurer over time though the insurers can differ across areas. Because insurers can and do drop in and out of the data, trends for only a few, select areas are reported.

A notable observation from this table is that there is wide geographic variation in premiums. For example, in 2014, obstetricians/gynecologists faced manual premiums that ranged from a low of \$49,804 in some areas of California to a high of \$214,999 in Nassau and Suffolk counties in New York.

The premium examples in Table 2 also help illustrate the take-away from the premium changes reported in the previous section. Most of the premiums reported have been stable or experienced small decreases, particularly in the last few years. In fact, the premiums reported for Connecticut did not change at all. The recent stability or lowering of premiums, however, has not been experienced in every part of the country. Despite a

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<sup>4</sup> Medical Liability Monitor, Rate Survey Issue, 2014.

drop in 2014, New York's reported premiums increased for most of the period shown in the table.

### **Conclusion**

An overview of the MLM premium data suggests that the medical liability climate for physicians stabilized over the 2005 to 2014 period. First, 65 percent of premiums reported in 2014 did not change from the previous year. This continues a trend of general stability in premiums which began in 2006. Second, where premiums did change, most changes were small. Finally, recent increases in premiums were less common and smaller in size than they were in 2005.

While the overall liability climate has stabilized for physicians, the prospects for the short term remain uncertain. Although premiums have been more likely to fall than rise since 2007, most decreases have been small. Moreover, there is uncertainty among actuaries about how the medical liability market will be affected by the Affordable Care Act (ACA).<sup>5</sup> They note that the large increase in the insured population will strain an already stressed system, which could lead to more patients seeking care, more misadventures and thus more liability claims. Others, however, expect the ACA to reduce adverse events. The medical liability market bears close monitoring to see what direction premiums will take in the near future.

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<sup>5</sup> See Karls, Chad C. *The Slinky Effect*. Medical Liability Monitor, Rate Survey Issue, 2013, and *Of Butterfly Wings and Seagulls*. Medical Liability Monitor, Rate Survey Issue, 2014.

**Table 1. Distributions of Changes in Medical Professional Liability Insurance Premiums, 2005-2014**

Size of Change in Premiums	Annual Distributions of Changes in Premiums									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<i>Increased</i>										
25% or more	7.7%	2.3%	2.1%	0.6%	0.0%	0.0%	0.3%	0.1%	0.3%	0.0%
10% to 24.9%	28.5%	5.6%	5.9%	1.2%	1.7%	0.8%	4.8%	0.2%	2.4%	0.1%
0.1% to 9.9%	29.3%	22.6%	8.5%	5.6%	4.2%	13.4%	9.4%	14.8%	11.0%	12.1%
Any Increase	65.5%	30.5%	16.4%	7.4%	6.3%	14.1%	14.5%	15.1%	13.7%	12.2%
<i>No Change</i>	24.0%	46.6%	52.3%	49.9%	57.8%	67.0%	55.1%	59.2%	57.6%	65.0%
<i>Decreased</i>										
0.1% to 9.9%	8.4%	15.1%	21.1%	20.8%	19.4%	14.9%	27.8%	15.7%	17.2%	16.9%
10% or more	2.1%	7.9%	10.2%	21.9%	16.5%	3.9%	2.5%	10.0%	11.5%	5.9%
Any Decrease	10.5%	22.9%	31.3%	42.7%	35.9%	18.9%	30.3%	25.7%	28.7%	22.8%
Observations	867	837	815	726	808	891	963	954	1014	1023

## Notes:

1. Sources: 2008-2014 Medical Liability Monitor (MLM) Rate Survey Issues and Chad C. Karls, FCAS, MAAA.
2. The table reports year-to-year percentage changes in professional medical liability insurance manual premiums. The unit of observation is a liability carrier in a given geographic area and specialty. Premiums from states with patient compensation funds are excluded.

**Table 2. Medical Professional Liability Insurance Premiums for \$1M/\$3M Policies, Selected Carriers, 2005-2014**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Obstetrics/Gynecology</b>										
California (Los Angeles, Orange)	63,272	63,272	63,272	63,272	49,804	49,804	49,804	49,804	49,804	49,804
Connecticut	170,389	170,389	170,389	170,389	170,389	170,389	170,389	170,389	170,389	170,389
Florida (Miami-Dade)	272,490	247,954	247,954	238,728	201,808	201,808	201,808	201,808	190,829	190,829
Illinois (Cook, Madison, St. Clair)	186,913	192,484	178,921	178,921	178,921	177,441	177,441	177,441	177,441	177,441
New Jersey	104,431	121,597	129,597	117,340	117,340	109,189	109,189	109,189	109,189	109,189
New York (Nassau, Suffolk)	156,877	170,996	194,935	194,935	194,935	204,864	206,913	204,684	227,899	214,999
Pennsylvania (Philadelphia)	170,048	163,382	172,873	171,813	169,336	168,317	163,793	165,657	124,627	123,567
<b>General Surgery</b>										
California (Los Angeles, Orange)	54,505	54,505	54,505	54,505	41,775	41,775	41,775	41,775	47,595	47,595
Connecticut	65,803	65,803	65,803	65,803	65,803	65,803	65,803	65,803	65,803	65,803
Florida (Miami-Dade)	243,184	221,288	221,288	213,054	190,088	190,088	190,088	190,088	190,829	190,829
Illinois (Cook, Madison, St. Clair)	130,872	128,820	119,334	119,334	119,334	118,909	118,909	118,909	118,909	118,909
New Jersey	67,657	78,724	83,684	78,484	78,484	73,074	73,074	73,074	73,074	73,074
New York (Nassau, Suffolk)	83,738	91,275	104,054	104,054	104,054	114,770	128,542	114,770	148,454	134,923
Pennsylvania (Philadelphia)	147,967	141,329	138,209	137,227	135,986	134,084	130,026	131,274	90,802	89,230
<b>Internal Medicine</b>										
California (Los Angeles, Orange)	14,237	14,237	14,237	14,237	10,343	10,343	10,343	10,343	8,274	8,274
Connecticut	34,700	34,700	34,700	34,700	34,700	34,700	34,700	34,700	34,700	34,700
Florida (Miami-Dade)	52,133	54,751	54,751	54,710	46,372	46,372	46,372	46,372	47,707	47,707
Illinois (Cook, Madison, St. Clair)	50,106	43,935	40,726	40,726	40,726	40,865	40,865	40,865	40,865	40,865
New Jersey	17,510	20,260	21,500	20,200	20,200	18,900	18,900	18,900	18,900	18,900
New York (Nassau, Suffolk)	24,700	26,923	30,692	30,692	30,692	32,288	32,611	32,288	35,883	33,852
Pennsylvania (Philadelphia)	36,207	35,177	37,476	37,380	37,190	37,353	36,469	37,360	26,037	25,752

## Notes:

1. Sources: Annual Rate Survey (October) Issues of the Medical Liability Monitor, 2005-2014. The numbers in this table are manual premiums reported by a liability carrier selected on the basis of data availability in every year. Premiums reported for Connecticut pertain to \$1 million/\$4 million limits, and Pennsylvania premiums include Patient Compensation Fund surcharges.
2. Counties to which the premiums refer are in parentheses. Counties in California (CA), Illinois (IL) and Pennsylvania (PA) changed slightly over time. However, CA counties always include Los Angeles, IL always include Cook and PA counties always include Philadelphia.