CONFRONTING THE MYTHS ON MEDICAL LIABILITY REFORM

ARE MEDICAL LIABILTY PREMIUMS TIED TO STOCK MARKET LOSSES?

Patients are increasingly concerned that meritless lawsuits are limiting access to medical care and driving doctors to move to less litigious environments or abandon medical practice altogether.

Yet powerful special interests are working to block reforms. Opponents are spreading the notion that increases in insurance premiums are tied to stock market losses, as if medical liability companies could raise premiums to make up for losses on Enron and WorldCom.

The facts demonstrate this is just a myth.

THE FACT IS…Insurers Cannot Raise Premiums To Recover Past Losses

- State insurance commissioners dictate the asset allocation of medical liability insurers. Insurers must follow a complicated formula, matching bond maturities to policies written.

- Insurance rates for medical liability insurance – as for other lines of insurance – are, as a legal requirement, based on estimates of future losses and future investment income. Medical liability insurers are expressly prohibited by law from raising current rates to make up for past losses.

The Bottom Line … *Medical liability premiums are strictly tied to estimates of future paid losses. There is no possible way to raise rates in order to cover losses – whether in the stock market or anywhere.*

THE FACT IS…Medical Liability Insurers Have Little Stock Market Exposure

- In 2001, stock market investments comprised just 9% of the portfolios of the entire medical liability insurance industry. This percentage has stayed relatively constant regardless of market conditions. (*Brown Brothers Harriman, 1/21/03*)

- Approximately 85% of the assets of medical liability insurers are invested in bonds, including virtually risk-free Treasuries, not stocks.

- In 2001, the return on stock market investments for the medical liability industry matched that of the S&P 500 – an indication that the industry's equity investments are no riskier than the market as a whole. *(Brown Brothers Harriman, 1/21/03)*

- The exposure to stocks for medical liability companies is actually far less than for other insurers. For example, in 2001, the reinsurance industry had over 35% of their assets invested in equities, while home/farm insurers had more than 20%. (*Brown Brothers Harriman, 1/21/03*)

The Bottom Line … *Medical liability insurers are very conservatively invested, with less than 10% of their assets in stocks. The notion that premium increases are tied to stock market losses is just a myth designed to derail medical liability reform.*

THE FACT IS… Premium Increase Are Tied To Huge Rise In Paid Losses

- The medical malpractice insurance industry was the second worst performing property & casualty insurance line in 2001, being outpaced only by commercial reinsurers reeling from World Trade Center losses. The industry's combined loss ratio (the ratio of losses and expenses incurred divided by premiums earned) hit an all time high at 153.3. This means that for each dollar in premium collected in 2001, insurers will ultimately incur $1.53 in losses and expenses. *(AM Best's Aggregates and Averages, 2002)*

- This statistic has deteriorated from a healthy 107.9 only four years before. Industry experts predict that the combined ratio for 2002 will be approximately 141, and 134 in 2003. At present, medical liability insurers need a combined ratio of approximately 114.5 to break even after taking investment income into account. *(AM Best)*

The Bottom Line … *Paid losses are rising rapidly due to out-of-control litigation and skyrocketing jury awards. In this environment, according to research by Brown Brothers Harriman, "it has been extremely difficult – if not impossible – for insurance companies to earn a profit writing" medical liability insurance.*