

Highlights of [GAO-03-702](#), a report to congressional requesters

Why GAO Did This Study

Over the past several years, large increases in medical malpractice insurance premium rates have raised concerns that physicians will no longer be able to afford malpractice insurance and will be forced to curtail or discontinue providing certain services. Additionally, a lack of profitability has led some large insurers to stop selling medical malpractice insurance, furthering concerns that physicians will not be able to obtain coverage. To help Congress better understand the reasons behind the rate increases, GAO undertook a study to (1) describe the extent of the increases in medical malpractice insurance rates, (2) analyze the factors that contributed to those increases, and (3) identify changes in the medical malpractice insurance market that might make this period of rising premium rates different from previous such periods.

What GAO Recommends

GAO is not recommending executive action. However, to further the understanding of conditions in current and future medical malpractice markets, Congress may wish to consider encouraging the National Association of Insurance Commissioners and state insurance regulators to identify and collect additional, mutually beneficial data necessary for evaluating the medical malpractice insurance market.

www.gao.gov/cgi-bin/getrpt?GAO-03-702.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Richard J. Hillman at (202) 512-8678 or hillmanr@gao.gov.

MEDICAL MALPRACTICE INSURANCE

Multiple Factors Have Contributed to Increased Premium Rates

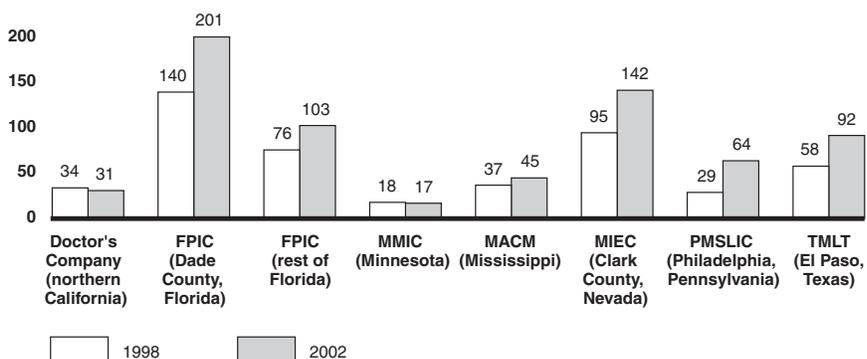
What GAO Found

Since 1999, medical malpractice premium rates have increased dramatically for physicians in some specialties in a number of states. However, among larger insurers in the seven states GAO analyzed, both the premium rates and the extent to which these rates have increased varied greatly (see figure).

Multiple factors, including falling investment income and rising reinsurance costs, have contributed to recent increases in premium rates in our sample states. However, GAO found that losses on medical malpractice claims—which make up the largest part of insurers’ costs—appear to be the primary driver of rate increases in the long run. And while losses for the entire industry have shown a persistent upward trend, insurers’ loss experiences have varied dramatically across our sample states, resulting in wide variations in premium rates. In addition, factors other than losses can affect premium rates in the short run, exacerbating cycles within the medical malpractice market. For example, high investment income or adjustments to account for lower than expected losses may legitimately permit insurers to price insurance below the expected cost of paying claims. However, because of the long lag between collecting premiums and paying claims, underlying losses may be increasing while insurers are holding premium rates down, requiring large premium rate hikes when the increasing trend in losses is recognized. While these factors may explain some events in the medical malpractice market, GAO could not fully analyze the composition and causes of losses at the insurer level owing to a lack of comprehensive data.

GAO’s analysis also showed that the medical malpractice market has changed considerably since previous hard markets. Physician-owned and/or operated insurers now cover around 60 percent of the market, self-insurance has become more widespread, and states have passed laws designed to reduce premium rates. As a result, it is not clear how premium rates might behave during future soft or hard markets.

Medical Malpractice Premium Base Rates for Obstetricians and Gynecologists Quoted by Larger Insurers in 1998 and 2002 in the Seven States GAO Visited (Dollars in Thousands)



Source: GAO analysis of annual surveys by the *Medical Liability Monitor*.