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Malpractice Premiums And Physicians' Income: Perceptions Of A Crisis Conflict With Empirical Evidence

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Marc A. Rodwin; Hak J. Chang; Jeffrey Clausen

Abstract and Introduction

Abstract

The conventional wisdom is that malpractice premiums have steadily risen and now constitute a crisis for medical practice. The best available data suggest otherwise. American Medical Association (AMA) surveys of self-employed physicians from 1970 to 2000 indicate that premiums rose until 1986, then declined until 1996, rose thereafter, but were lower in 2000 than in 1986. Other items represented a much greater share of total practice expenses in 1970 yet increased rapidly until 1996 and moderately thereafter, while spending on premiums fell during 1986-2000. National trends were reflected with variations in obstetrics/gynecology, surgery, and anesthesiology and in nine regions surveyed.

Introduction

In the 1980s and 1990s the media and organized medicine stated that malpractice insurance premiums increased so much that it was difficult for many physicians to remain in private practice. Such concerns have reemerged recently. In the 108th and 109th Congresses, twenty-six bills were introduced to address the rise in malpractice premiums. These would change the rules of tort liability for medicine, provide tax credits for premiums as relief, establish a commission to investigate the reasons premiums rose, and take other actions.[1]

The American Medical Association (AMA) joined with other groups to advocate enacting such legislation. Its Web site includes a map indicating states in crisis, testimonials, and articles.[2] Two quotations capture the conventional wisdom:

> Illinois's out-of-control legal system has driven insurance premiums sky-high and forced high risk specialists, including neurosurgeons and obstetrician-gynecologists, to restrict services, retire early and leave the state.[3]

> Natick [Massachusetts] obstetrician Michael Robertson, MD, was forced to move to a smaller home and office just to pay his $91,000 insurance bill.[4]

News articles on the "malpractice crisis" typically report what individual practitioners say they pay.

The source for nearly all data in scholarly articles and reports by government agencies, such as the U.S. Government Accountability Office (GAO), are from the *Medical Liability Monitor Reporter* (MLMR), which tracks insurance industry pricing trends. The MLMR reports that insurance companies' advertised premiums in rate sheets increased on average 10-20 percent per year from 2000 to 2002 and more than 20 percent in 2003.[5] However, what physicians pay for premiums differs from advertised rates. Advertised premiums are typically adjusted based on risk factors or discounted to make sales, and physicians can choose different levels of coverage. The MLMR surveys of advertised rates do not reveal the number of policies purchased at different prices. Thus, studies based on MLMR data do not provide sound information on real malpractice premiums.

Understanding premiums' effect on medical practice requires comparing actual premiums paid with total practice expenses and net practice income. Net practice income equals total practice revenue minus total practice expenses, before payment of taxes. Total practice expenses include all costs that physicians incur in practicing medicine: premiums, office rent or mortgage payments, medical equipment and medical supplies, nonphysicians' salaries, office expenses, utilities, and so on. We are aware of no statistical study that has analyzed these relationships. Tracing the relation between these variables over several years provides a context in which to understand short-term changes.

Section 1 of 5 **Next Page: Study Data and Methods**

Marc Rodwin (mrodwin@suffolk.edu) is a professor of law at Suffolk University Law School in Boston, Massachusetts. **Hak Chang** and **Jeffrey Clausen** are juris doctor candidates there.

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