

**Florida Long Term Care
General Liability and
Professional Liability
Actuarial Analysis**

Submitted by:



***Aon Risk Consultants, Inc.
Actuarial Solutions***

**Theresa W. Bourdon, FCAS, MAAA
Sharon C. Dubin, ACAS, MAAA**

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Introduction

At the request of the Florida Health Care Association (FHCA), Aon Risk Consultants, Inc. (Aon) has conducted an actuarial analysis of the cost of general liability and professional liability (GL/PL) claims to the long term care industry operating in Florida.

The specific objectives of this study are to:

- 1. Identify differences in GL/PL claim activity between Florida and the rest of the country for the long term care industry.** These differences are measured by the number of claims reported (frequency), the size of claims (severity) and the overall cost per exposure (loss cost). Specific areas of the country for which separate analysis is included in this study are the states of Florida, Texas and California. All other states are analyzed as a group and labeled accordingly in the exhibits contained in this report.
- 2. Identify differences in claim activity between Florida and the rest of the country for operators of assisted living facilities.** These differences are measured by the overall cost per exposure (loss cost) indicated by the assisted living facilities participating in this study.
- 3. Estimate the portion of GL/PL loss costs paid as indemnification to claimants versus the portion paid to attorneys.** Defense attorney costs are easily identified in the claim detail files used to perform this study. The estimated portion of total claim costs attributed to defense attorney costs is based on the average of the claim data provided to us. Plaintiff attorney costs are estimated as a portion of indemnity payment to the plaintiff.

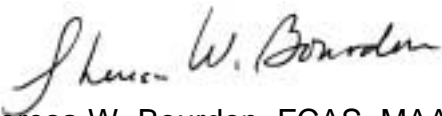
The results presented in this study are based on a comprehensive database of long term care general/professional liability losses and allocated loss adjustment expenses (ALAE) as reported to us by long term care providers operating in Florida and around

the country. Approximately 17,000 individual non-zero claims from long term care facilities were aggregated to perform this study. The facilities included in this database combined operate approximately 33,000 licensed nursing home beds and 6,300 assisted living beds in the state of Florida. Countrywide, they operate approximately 336,000 licensed nursing home beds and 41,000 assisted living beds. They represent almost 40% of the Florida long term care beds and 20% of the beds in the United States.

An executive summary containing our conclusions and recommendations can be found in this report. It is provided to give an overview of our findings. More detailed benchmarks comparing Florida to Texas, California and all other states are provided after the executive summary. Sections describing the data sources and defining common actuarial terms follow.

Should there be any questions regarding this report, we will be available to discuss them with you.

Respectfully Submitted,



Theresa W. Bourdon, FCAS, MAAA
Managing Director and Actuary



Sharon C. Dubin, ACAS, MAAA
Senior Consultant & Actuary

Executive Summary

General liability and professional liability (GL/PL) costs for the long term care industry in Florida continue to rise to astronomical levels, and estimating the cost of these claims has become almost impossible. This report, which is an update to a study released a year ago, clearly identifies that the long term care liability crisis in Florida has had no reprieve. Unprecedented increases in both the number of claims and the size of a typical claim continue. In the last twelve months alone, the companies represented in this study reported *an additional* \$215,000,000 of claim activity in Florida above and beyond what was reported at year end 1999. The results of our analysis continue to show that long term care GL/PL costs in Florida are undoubtedly higher than any other state (including Texas and California) in the United States.

Based on our actuarial analysis of the long term care industry data provided to us, which represents 40% of Florida and 20% of the U.S., we find the following:

- The average long term care GL/PL cost per annual occupied skilled nursing bed in the state of Florida is currently \$12,700, which is 12 times the average cost for the rest of the country.
- Florida accounts for only 10% of the total U.S. beds but 44% of total losses reported. Florida accounts for more than 50% of the losses reported in the last five years.
- The increase in the average Florida Medicaid reimbursement rate from \$86 per day in 1995 to \$114 per day in 2000 has been entirely offset by rising liability costs.
- The average size of a 2000 claim in Florida (\$455,000) is projected to be almost 3 times higher than the rest of the country (\$156,000).
- Florida long term care operators incur more than 4 claims for every 1 claim incurred in the rest of the country.
- Long term care GL/PL loss costs in the state of Florida have increased on average 45% *annually* over the past decade while the rest of the nation has seen annual increases of 22% during this time period.
- Almost half of the total amount of claim costs paid for GL/PL claims in the Florida long term care industry are going directly to attorneys.
- Assisted living facilities, which are required to purchase liability insurance in Florida, have claim costs 6 times higher in Florida than outside the state.

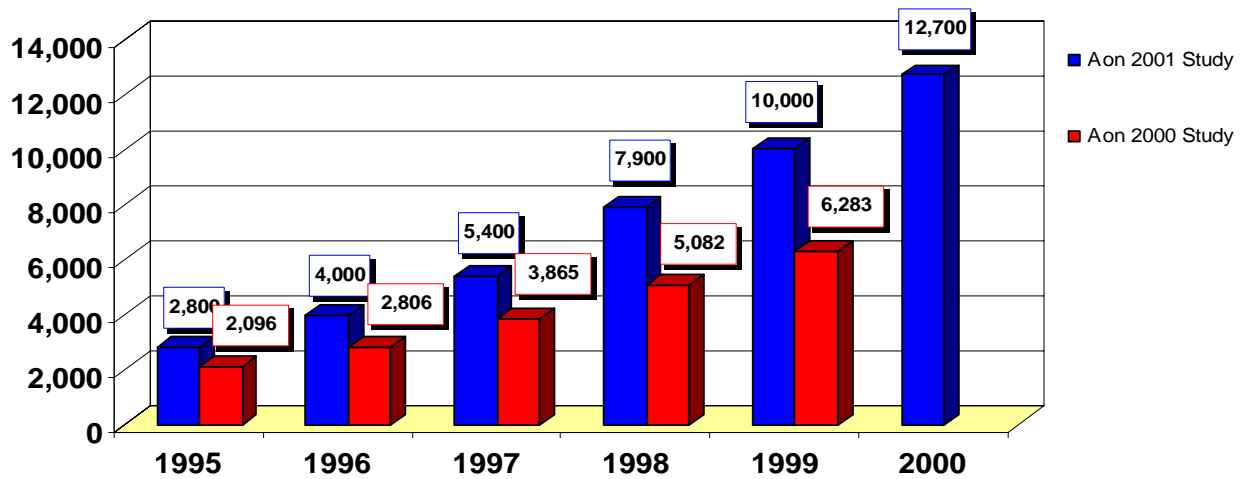
Insurance markets have responded to this claim crisis by severely restricting their capacity to write long term care GL/PL insurance. Insurance companies continue to exit the state and cannot provide coverage when faced with this magnitude of losses, explosion in growth of claims, and extreme unpredictability of results.

Changes from Prior Report

Many of the loss projections presented in this study are significantly increased from the results presented in the study completed last year.

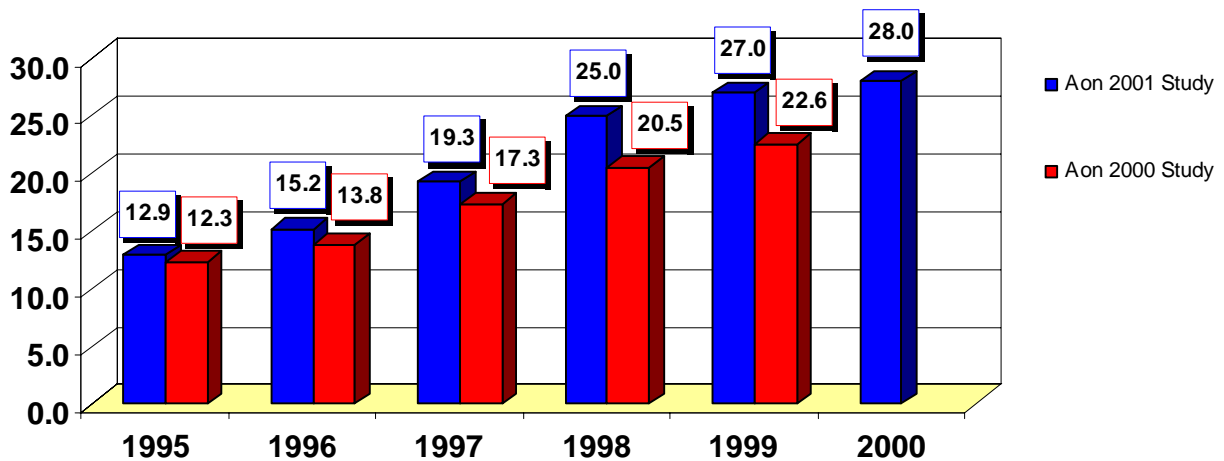
The projection of Florida GL/PL loss costs by year has increased dramatically:

Florida Loss Cost per Occupied Bed



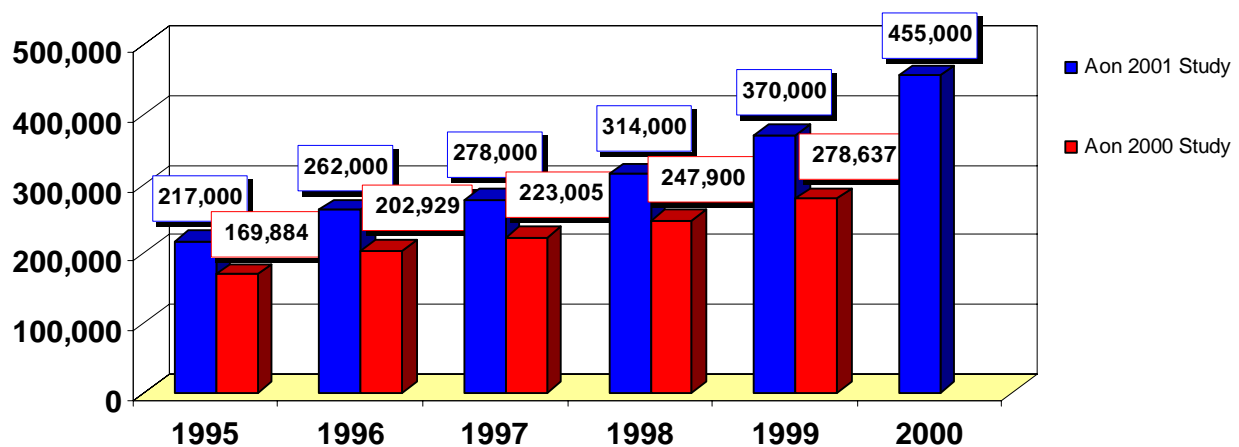
The projection of Florida GL/PL claims per 1,000 beds has increased as a result of the number of claims reported in the last twelve months:

Florida Annual Number of Claims per 1,000 Occupied Beds



The expected average size of loss by year has increased significantly as claims have closed for amounts far greater than previously assumed:

Florida Average Severity per Claim



Several factors have contributed to these differences. First, there has been a significant increase over the last twelve months in the number of reported new Florida claims, the size of closed claims and the estimated reserves for open claims. As a group, the twelve skilled nursing care participants reported approximately \$275 million

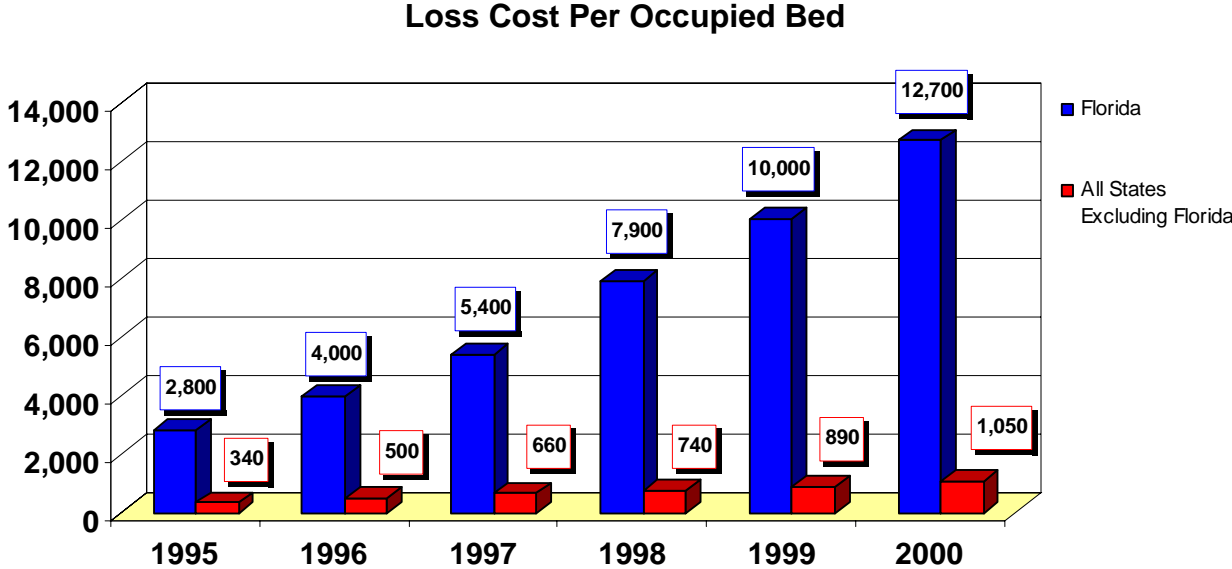
in new claim activity, countrywide, above and beyond what was reported at this time last year. Of this amount, \$215 million relates to Florida GL/PL claims.

Second, the mix of participants is slightly changed. Out of twelve participants in last years' study, eleven continued to participate, one discontinued, and five (one skilled nursing provider and four assisted living providers) joined the study for the first time this year. The change in participation contributed to the increase in the percentage of Florida representation from 35% to 40%.

Benchmarks: Florida vs. The Rest of the Country

GL/PL Loss Costs in Florida are the Highest in the United States

The cost per occupied long term care bed of GL/PL losses are materially higher in Florida than the rest of the United States as the following graph shows:

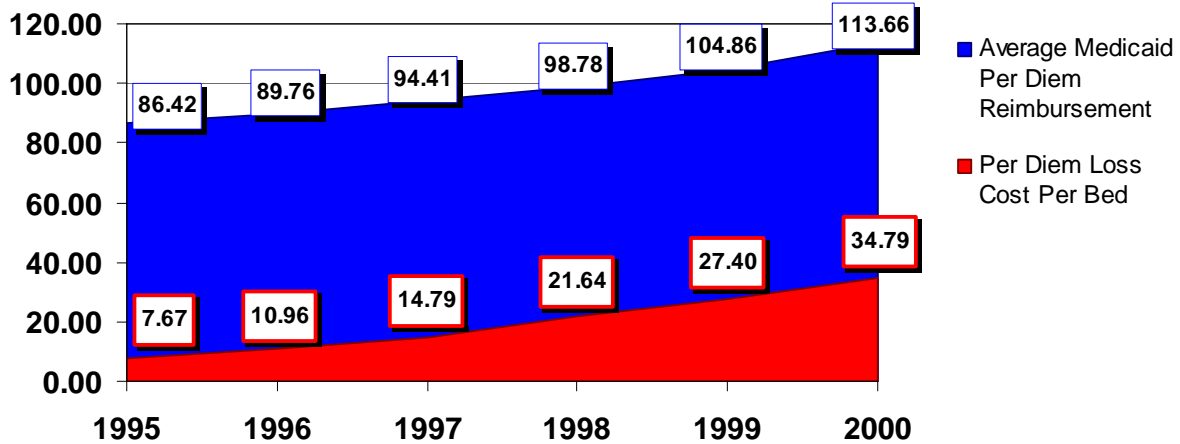


Moreover, Florida GL/PL long term care loss costs are now greater than hospital professional liability (HPL) loss costs for an acute care hospital bed. In fact, based upon Aon’s countrywide database of HPL claims, the Florida long term care GL/PL loss cost is approximately four times the size of the countrywide HPL loss cost. In the early 1990’s, Florida long term care GL/PL costs were only one third of HPL loss costs.

On a per diem basis, the loss cost is increasing as a percent of Medicaid reimbursements, from 9% in 1995 to 31% in 2000 as shown in the graph below. As Medicaid reimbursements have increased 32% over the past six years, the GL/PL loss cost has increased over 350%. As a result, although the reimbursement rate has

increased \$27.24 during this period, insurance costs have absorbed all (\$27.12) of that growth.

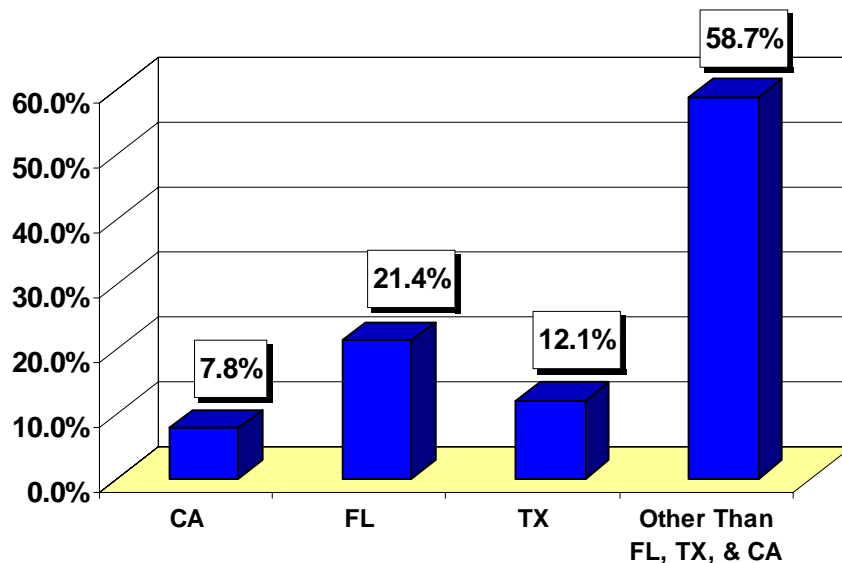
Per Diem Loss Cost Versus Medicaid Reimbursement



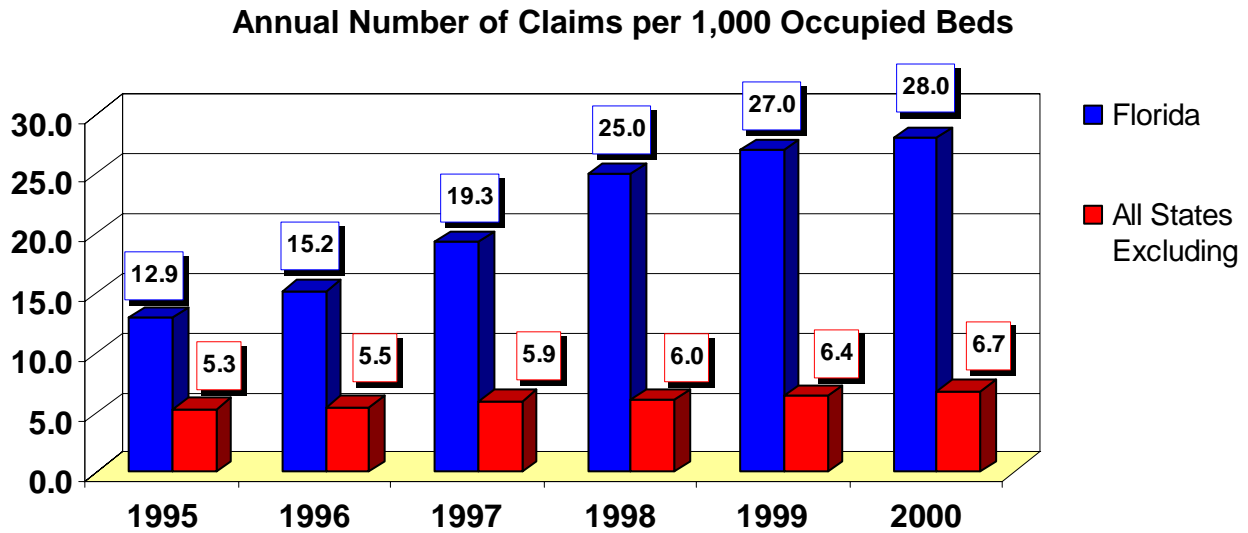
Florida has the Largest Number of GL/PL Claims in the United States

Based on our study, the number of reported GL/PL claims in Florida represent approximately 21% of the total number of claims reported in this country. Yet, Florida represents only approximately 10% of the total beds.

Percentage of Claims Counts Reported by State

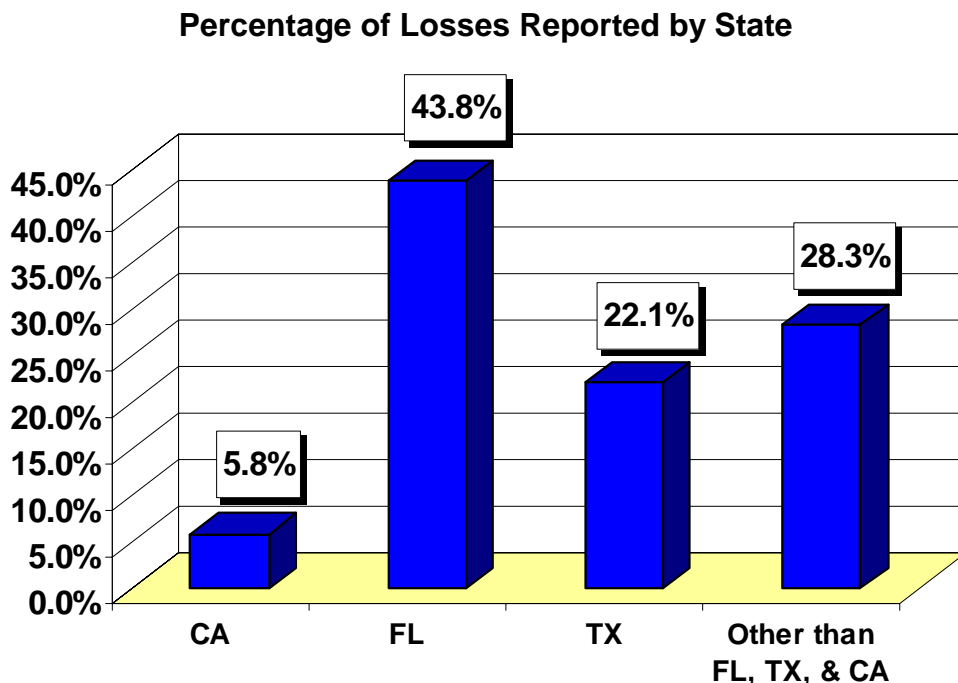


The annual number of Florida GL/PL claims per 1,000 beds has been increasing over the last six years and currently is more than 4 times higher than the rest of the country:

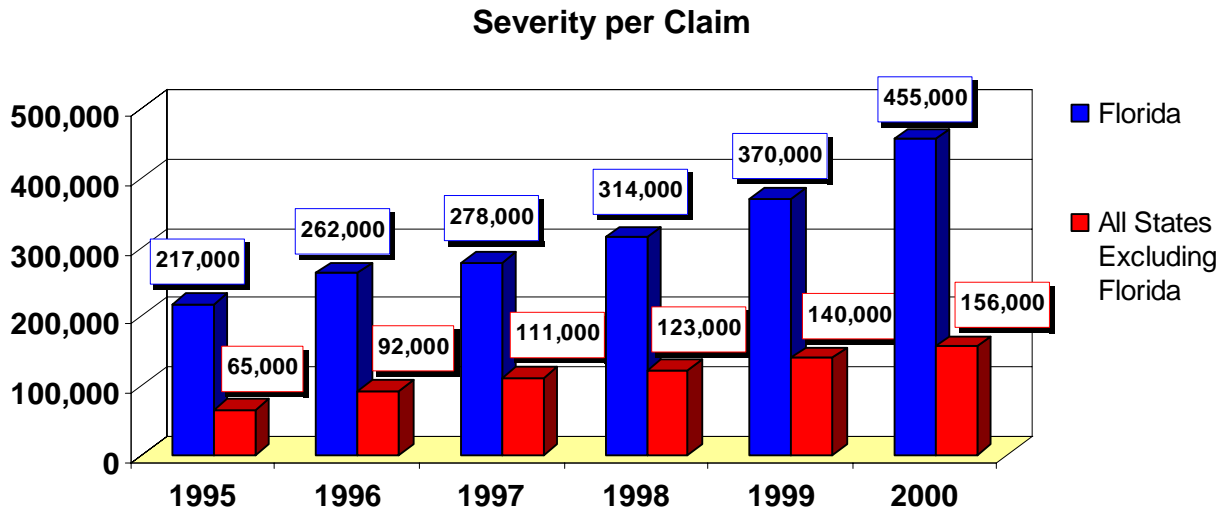


Florida has More GL/PL Loss Dollars than any other State in the United States

Based on our study, total reported GL/PL losses in Florida make up approximately 44% of the total loss dollars reported in this country as compared to only 10% of the beds. In each of the last three years the Florida percentage has increased to over 50%.



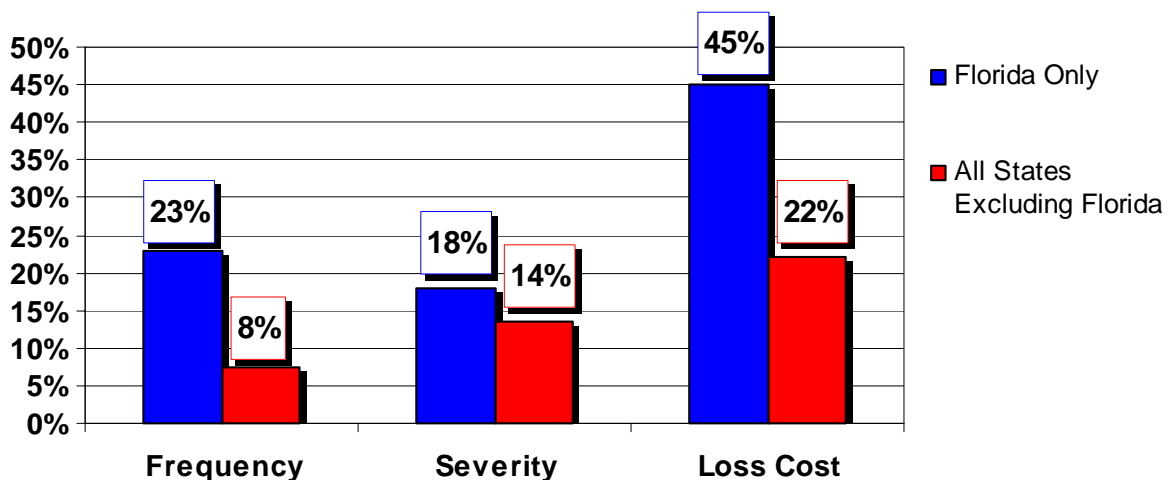
The average size of Florida GL/PL claims is almost triple the average size for the rest of the country:



Florida GL/PL Costs are Increasing Faster than any other State in the United States

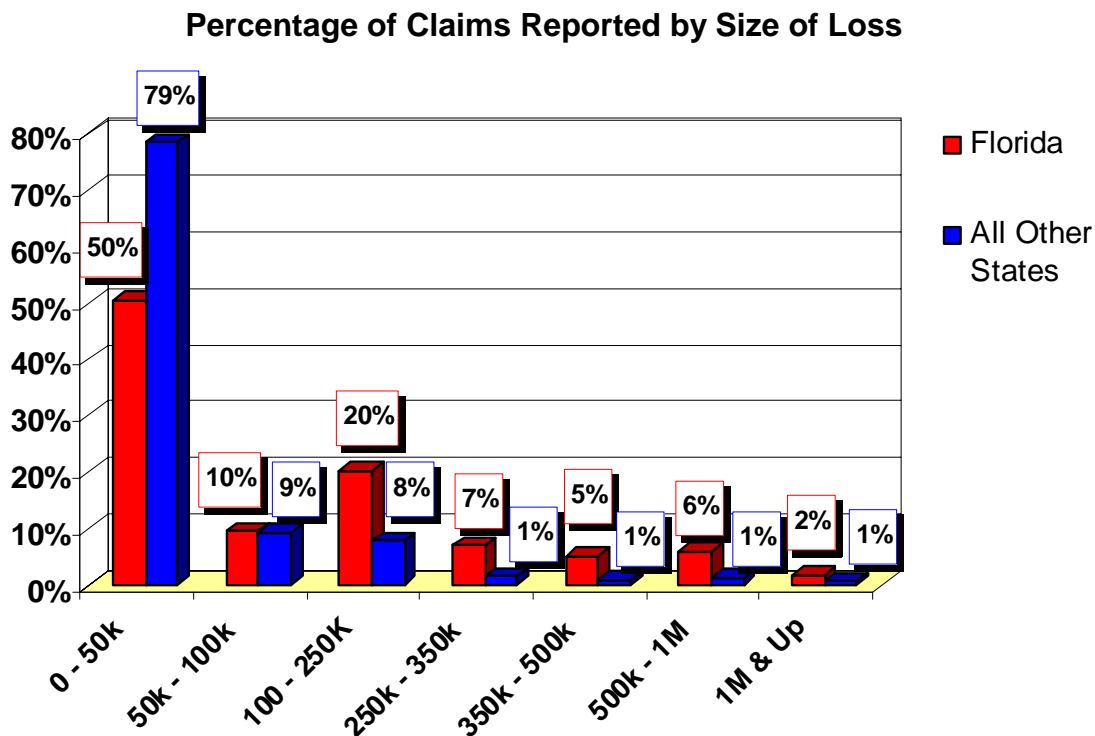
Loss costs have been increasing at unprecedented levels in most states for the long term care industry since the late 1980's. However, the annual increase in costs in the state of Florida is more than double the annual increase in the rest of the country over this time period. The increase in loss costs is driven by both an increase in the number of claims (frequency) and the size of claims (severity.)

Average Annual Increases by State



Florida has a Disproportionate Number of the Largest Losses in the United States

The distribution of Florida GL/PL losses by size shows that half of the currently reported Florida claims are greater than \$50,000. In contrast, only 21% of the claims for the rest of the country are reported to be greater than this amount as the following graph shows:



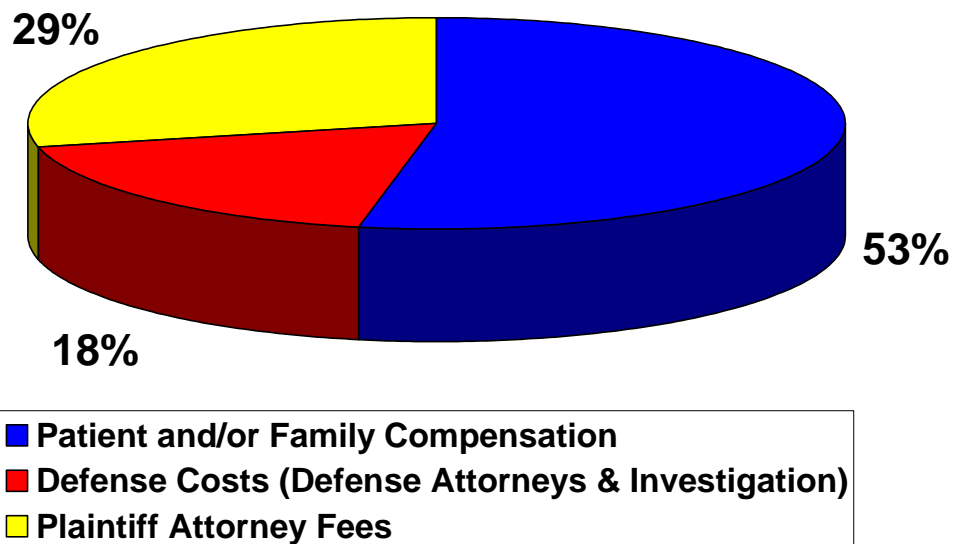
In addition, of the 149 claims reported in our survey to be greater than or equal to \$1 million, 65, or approximately 44%, are in Florida.

While the majority of the above benchmarks compare Florida to all states excluding Florida, our analysis also includes individual studies of the loss costs in Texas and California. These states were originally identified for separate analysis due to the perception that the litigious environment is similar to Florida. As a result of our prior study it became evident that Florida's exposure to long term care GL/PL claims is far more costly than either of these states. We continue to include Texas and California in the benchmark analysis due to similarities with Florida regarding the size of the elder population and the number of long term care beds. For complete details of our Texas and California analyses refer to the next section: Additional Benchmarks.

Almost Half of the Total Claim Dollars are Paid to Attorneys Rather than to Patients

It is estimated that 47% of the total amount of claim costs paid for GL/PL claims of the Florida long term care industry are going directly to the attorneys who either prosecute or defend the long term care facilities. Based on the database of claims used in this study, 18% of total losses are allocated loss adjustment expenses, which represent defense costs. The remaining 82% represent the amount paid in total to the plaintiff, including amounts retained by the prosecuting attorneys. Of this amount, based on the Florida Bar standards for contingency fees*, it is estimated that approximately 35% is retained by the plaintiff's attorneys. Of the total loss dollars, this represents 29%. Consequently, 47%, or almost half, of total long term care industry GL/PL loss dollars are paid to plaintiff and defense attorneys.

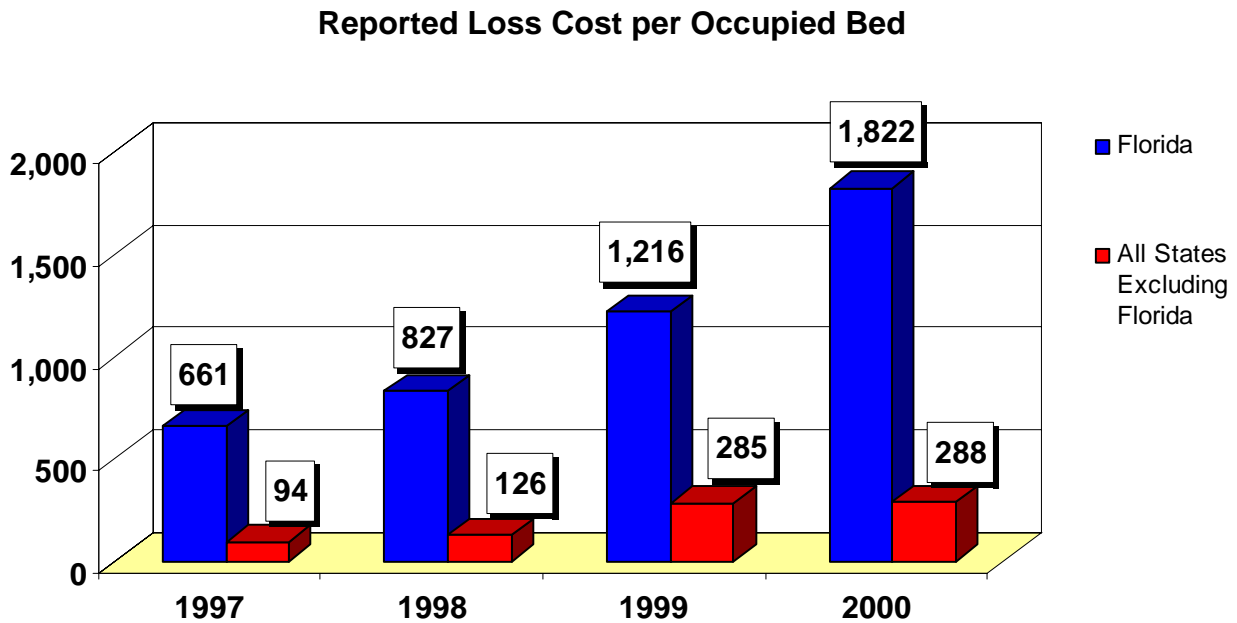
Attorney/Patient Distribution of Compensation



* Insurance claim data does not break down the indemnity component of loss between plaintiff and attorney because this is privileged information. However, the Florida Bar Rules of Professional Conduct, Section 4.1, Client – Lawyer Relationship, provides a standard of contingency fees that, if exceeded, would be considered to be clearly excessive. The fee schedule shown in this section varies depending on the timing of filing for arbitration or the entry of judgment, but generally ranges from 33 1/3% to 40% for any recovery up to \$1 million. Lower contingency fees are recommended for the portion of recoveries above \$1 million.

Assisted Living Facility GL/PL Loss Costs are Significantly Higher in Florida

The cost of GL/PL losses per occupied assisted living facility bed are materially higher in Florida than the rest of the United States as the following graph shows:



The annual frequency levels underlying the above loss costs are not materially different between assisted living facilities operating in Florida and those in other states. However, the average severity for assisted living facilities are similar to the average severity for skilled nursing bed operators in Florida and significantly higher than assisted living losses in other states.

GL/PL Loss Costs are Correlated to Strong Patient Rights Laws

Significant increases in liability costs typically follow changes in societal attitudes regarding liability and/or legislative changes affecting liability. In the case of the long term care industry, the strong increase in frequency and severity that has occurred during the 1990's follows the passing in 1987 by the United States Congress of the Nursing Home Reform Act. This act applies to Medicaid and Medicare participants and

establishes minimum quality of care requirements. Violations of this act apply at both the state and federal levels.

In addition to the correlation of countrywide loss increases to federal legislation, the two states with the highest per bed loss cost both have very strong patient rights statutes. Florida's Patients Bill of Rights (Statute 400.002) guarantees the patient's right to be informed, provided adequate care, and treated with dignity, among many other rights. The violation remedies provided under this statute include actual damages, punitive damages and attorney's fees.

Texas' Residents' Bill of Rights (Chapter 247 of the Texas Health and Safety Code) itemizes 14 rights including, "the right to ... a safe and decent living environment and considerate and respectful care that recognizes the dignity and individuality of the resident." While the Texas statute does not specifically provide for punitive damages as a remedy for violations, cases involving injury to the elderly were specifically exempt from the 1995 Texas tort reform punitive damage cap.

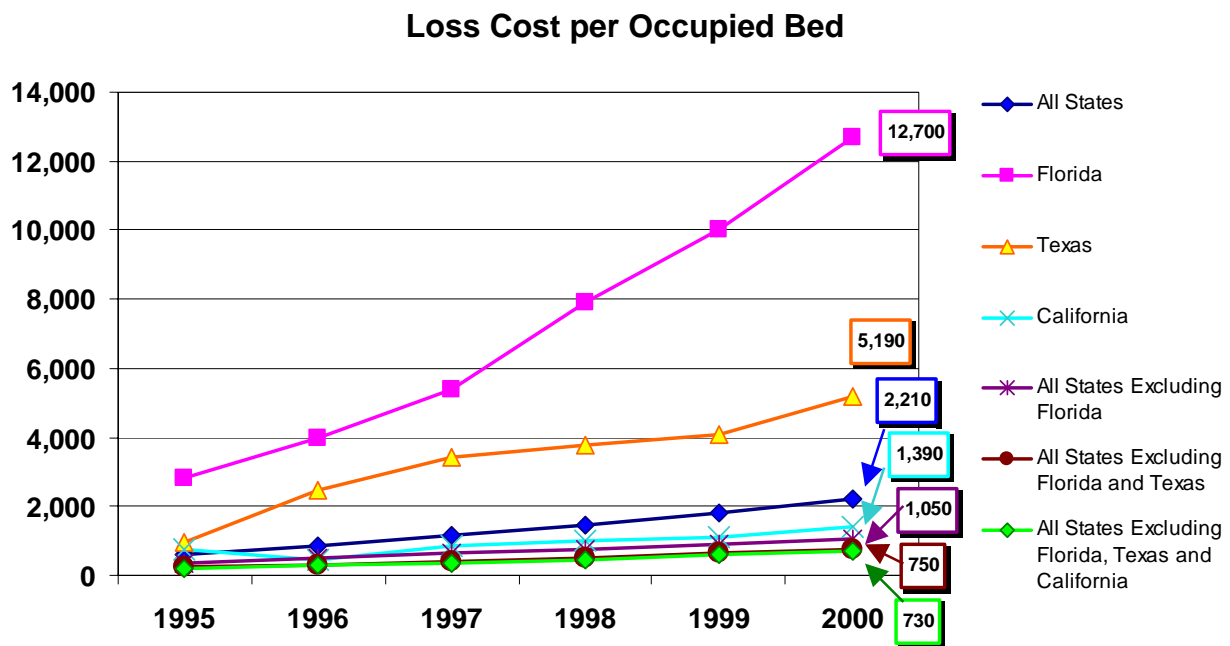
California, the state with the third highest number of GL/PL claims reported in our survey, has the Elder Abuse and Dependent Adult Civil Protection Act. Although our previous study did not find a statistically significant difference between California and other states excluding Florida and Texas, the data included in this study now indicates that California loss costs are higher than the rest of the country and increasing.

Despite the correlation in Florida, Texas and California, not all states with patient rights statutes have experienced the same trends in the cost of GL/PL claims. More than half of the states in the United States have some form of a patients bill of rights. However, states vary on issues such as enforcement by lawsuit, reimbursement of attorney's fees, limits of liability, statute of limitations and damage caps.

Additional Benchmarks

Loss Cost Differences

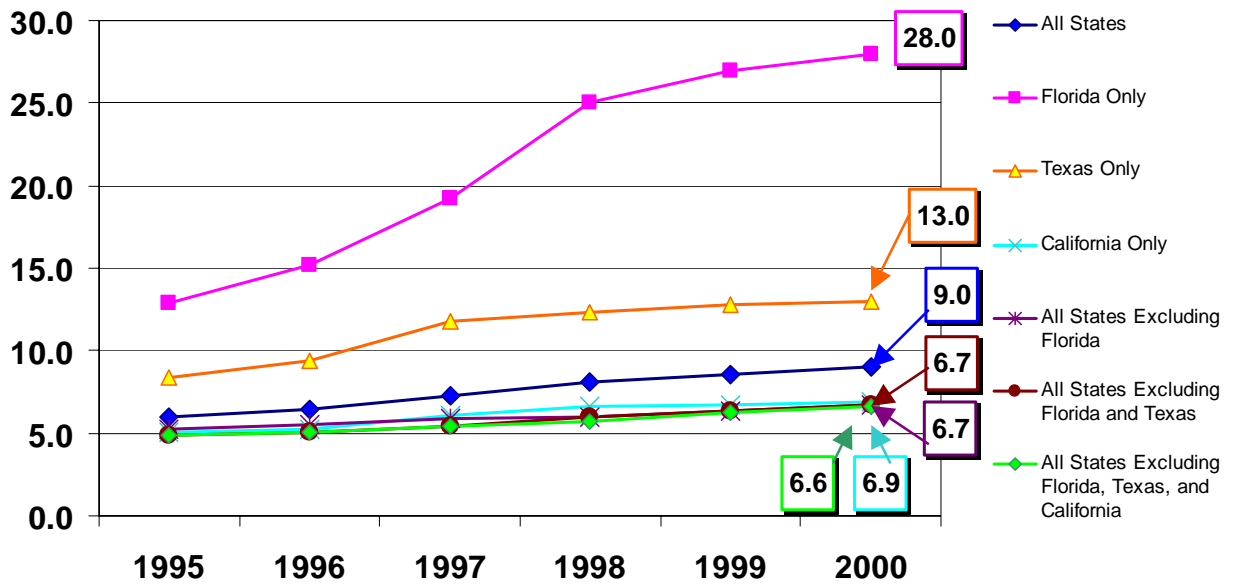
The cost per bed of GL/PL losses are materially higher in Florida than the rest of the United States as the following graph shows:



Frequency

Florida long term care operators incur 4 claims for every 1 claim incurred in the rest of the country. For incidents occurring during 2000, Florida facilities will report approximately 28 claims for every 1,000 occupied beds, while facilities in the rest of the country will report only 6.7 claims.

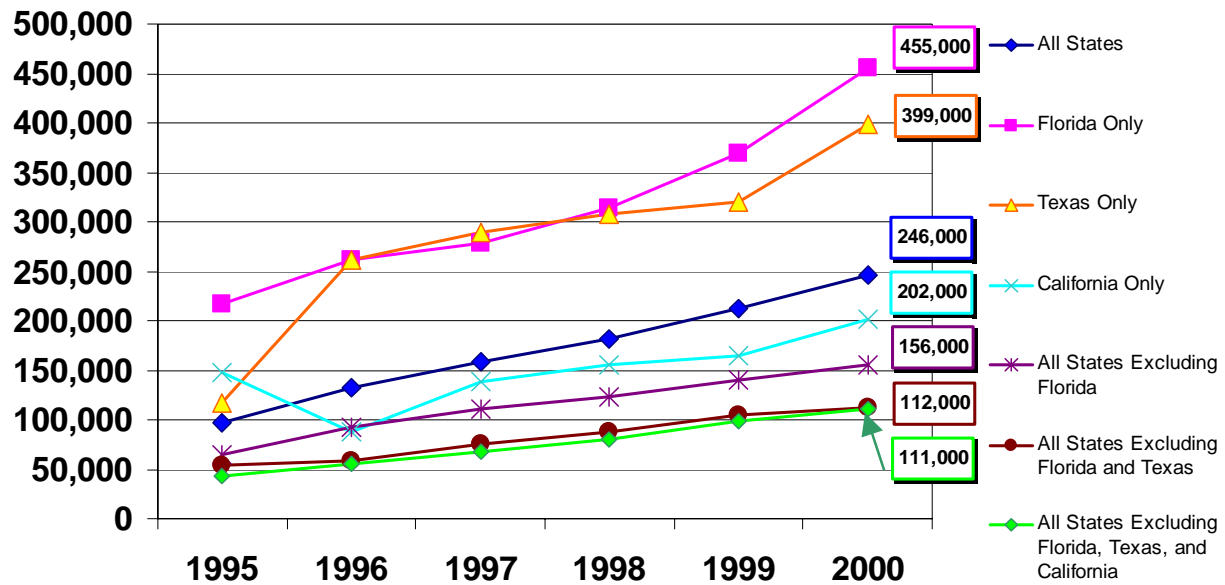
Frequency per Claim



Severity

Over the last six years the average size of a GL/PL claim in Florida has been significantly larger than the rest of the country. The average size of a 2000 claim in Florida is projected to be almost 3 times higher than the rest of the country.

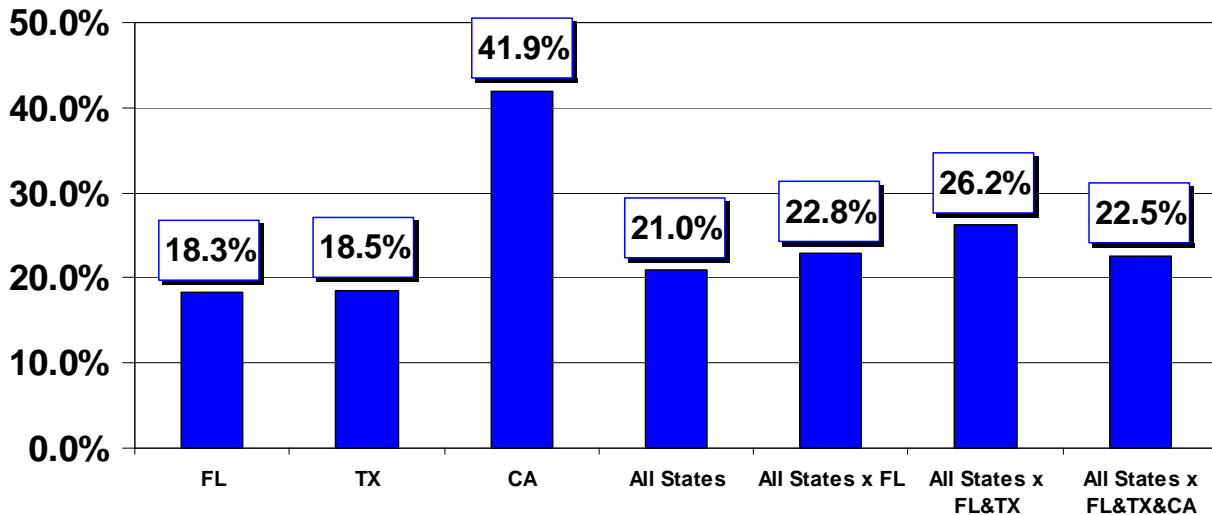
Severity per Claim



ALAE

The component of total claim dollars used to defend claims, referred to as allocated loss adjustment expenses or ALAE, is slightly lower in Florida than the rest of the country, due to the higher average compensatory awards and settlements in Florida.

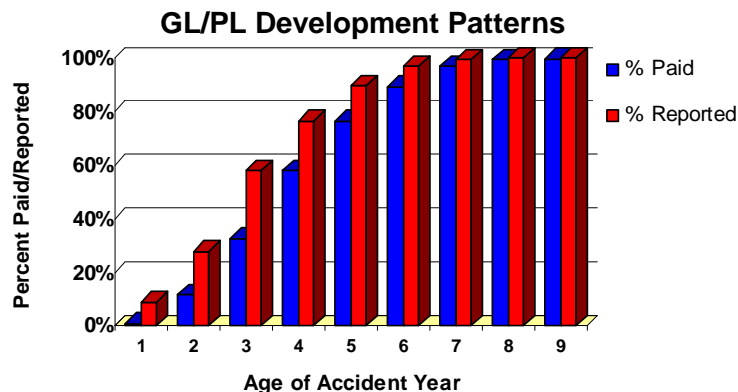
Percentage of Paid ALAE to Total Paid*



*Although CA has the highest percentage of ALAE to Total Paid, the average ALAE payment in CA is approximately the same as in Florida. This is because the indemnity component in California is much lower than in Florida.

Loss Development

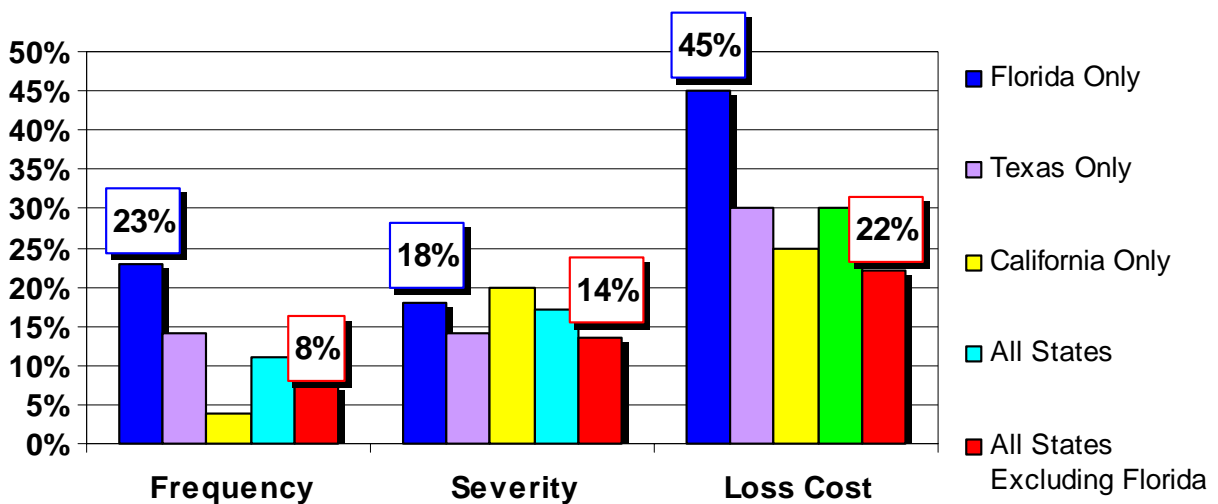
For the long term care industry, it takes approximately seven years before all claim cost estimates related to incidents from a particular period of time are reported. It takes approximately nine years before all claims from incidents occurring during a year of operations are closed and the actual costs are known. The following graph shows the percentage reported and paid at each age until all claims are closed:



Trend*

Each year the long term care industry is seeing more claims being reported per occupied bed, with the size of each claim increasing, as well. The number of claims being reported per occupied bed has increased approximately 23% each year in Florida while increasing at an annual rate of 8% in other states. During this same time period, the average size of a claim has increased approximately 18% each year in Florida, while increasing at an annual rate of 14% in other states. These two components have a multiplicative effect on the annual loss cost trend. Loss costs in the state of Florida have been increasing twice as fast as the rest of the country. The graph below illustrates frequency, severity, and loss cost annual trend rates by state.

Annual Trend Rates by State



* The trends presented in this section are based on up to thirteen years of reported claim date. Annual observed deviations from the historical average trend are reflected in the individual year results (loss costs, frequency and severity) presented throughout this report.

Conditions and Limitations

The projections contained in our analysis rely on methods and assumptions that are in accordance with standard actuarial practice. Except where specifically noted, the results of this analysis are based entirely on the loss and exposure data provided to us by the long term care facilities who responded to the Aon data call. Readers of this report should keep the following observations in mind:

1. We have relied on this loss and exposure information without detailed verification or audit other than checks for reasonableness. We do not assume any responsibility for errors or omissions in the data or material provided to us.
2. We have assumed that losses reported to us in the aggregate will develop to higher ultimate amounts by the time all claims arising from incidents that have occurred in the historical period under study are reported and eventually closed. This assumption is based on the historical reporting patterns of the long term care industry and is in accordance with standard actuarial practice. Individual claims will likely develop more or less than the percentage of aggregate development. The adjustments we have made to past experience reflect the average effects of changes in the cost of claims.
3. We have assumed that the losses reported to us represent the unlimited amount of indemnity, ALAE and punitive damages paid and reserved as of the report date. To the extent losses have been limited and/or punitive damages not reported, our loss projections may be understated.
4. The losses presented in this report are on a nominal, undiscounted basis. They represent the actual dollars expected to be paid by the time all claims are closed. No

recognition of the time value of money or the cost of capital has been included in our projections.

5. Except where specifically noted, the loss projections presented in this report are based strictly on the claim detail provided to us and, therefore, are a function of the exposure characteristics of the sixteen long term care providers who responded to the data call. Twelve of these long term care providers, representing the majority of exposure, are predominantly multi-facility, for-profit operations providing primarily skilled nursing care. These twelve providers provide the basis for our skilled nursing facility analysis. Four of the participating providers are multi-facility assisted living companies and their claim experience is separately analyzed in this report. Individual nursing home operators in the state of Florida and the other states or state groupings presented in this report may have different loss costs depending on their level of nursing care, profit status, and independence.
6. The report is strictly for the use of the Florida Health Care Association and its members. In addition, this report is being made available to all long term care providers who participated in the data request. This report may also be released to regulatory authorities. If this report is distributed, the report should be distributed in its entirety. All recipients of this report should be aware that the Aon actuaries who signed the report are available to answer questions about it.

The above notwithstanding, we believe that the projections in this report are reasonable, and are based on sound actuarial methods and assumptions. Our conclusions are subject to the ordinary limitations involved in any actuarial analysis, and must not be viewed as absolute or guaranteed results.

Data Sources

The analyses contained in this report are entirely based on an industrywide call to long term care operators in Florida for data on GL/PL claims incurred during the last five to fifteen years in Florida and the rest of the country.

Sixteen long term care providers responded to our call in whole or in part. All of the respondents are for-profit, multi-facility long term care providers. Twelve of the respondents provide primarily skilled nursing care and four of the respondents are primarily assisted living facility operators.

In developing the benchmarks presented in this report we have relied on the following data.

- **Individual claim detail** – This database is a compilation of 16,985 non-zero long term care general/professional liability claims occurring over the past years. The information included by individual claim is status, accident date, report date, close date, state, indemnity paid, allocated loss adjustment expense paid, total paid, indemnity incurred, allocated loss adjustment expense incurred, and total incurred.
- **Historical Loss Development Triangles** – Incurred and paid loss development factors and claim count development factors are derived from a consolidation of the reporting patterns of four of the largest long term care providers. These four providers represent approximately 70% of the loss data reported to us. Historical reporting patterns are not available from the other long term care providers. However, the similarity of the patterns for the four reporting providers and the credibility of the consolidated development pattern justify the use of these patterns to estimate ultimate development for the multi-chain providers as a whole.
- **Occupied Beds** – Annual occupied bed counts corresponding to the years for which loss experience is provided are utilized in this analysis to develop the relative loss cost per bed. Annual licensed bed counts are multiplied by average occupancy rates to derive annual occupied beds. For long term care providers who could not provide average occupancy rates an occupancy rate of 89% has been assumed for skilled nursing care providers and 80% for assisted living providers. For all states combined, there are approximately 377,000 licensed beds of which more than 335,000 are occupied. For the state of Florida, our study is comprised of approximately 33,500 licensed beds of which almost 30,000 are occupied.

Definitions

The following definitions are provided to help the users of this report fully understand the analyses presented and the resulting conclusions.

ALAE

ALAE is an abbreviation for allocated loss adjustment expense. ALAE refers to costs, in addition to indemnity payments and reserves, that are incurred in handling claims. Typically, these costs are comprised of legal fees paid by the insured entity in investigating and defending claims. In the context of this study ALAE represents defense costs. The majority of claim data used in this study contained a separate field to identify ALAE costs separately from indemnity costs. Whether separately identified or not, allocated loss adjustment expenses are included in the reported loss information, loss reserving methodologies and loss projections contained in this report. All references to losses throughout our report and exhibits include ALAE except where noted otherwise.

Deductible

A deductible is a layer of loss retained by an insured entity. The insured pays amounts below the deductible and the insurance company pays amounts above the deductible. The higher the deductible the lower the commercial insurance premium. However, this is largely offset by the cost of the portion of claims below the deductible.

Retention is another word commonly used to refer to a deductible. Companies with high deductibles, or retentions, are commonly referred to as self-insured.

A deductible can apply on a per occurrence basis, that is for each individual loss, and/or on an aggregate basis for a given period of time. A typically GL/PL deductible for the health care industry may be expressed as \$1,000,000/\$3,000,000, meaning \$1 million per occurrence and \$3 million in the aggregate for the year. With this deductible the insured is responsible for paying the first \$1 million of each claim, subject to a maximum total of \$3 million for the year.

Deductibles can apply to the indemnity portion of losses only or the combined cost of indemnity and ALAE.

The losses included in this report are prior to the application of any deductible or retention. That is, they represent the total amount of loss from first dollar to the unlimited reported amount.

Defense Costs

In the context of this report, defense costs include attorneys' fees and other directly allocable costs associated with defending a company against GL/PL claims.

Exposure

Actuaries select an exposure base such that the incidence of claims will tend to vary directly with the exposure of the entity at risk. The actuary must consider both the historical loss level and the corresponding exposures in evaluating historical claim liabilities and expected future costs. It is important to choose an exposure measure that is relevant to the unique situation of each risk group.

In this study we use an exposure base of occupied beds. Occupied beds are calculated by multiplying the number of licensed beds by the average annual occupancy rate. There is a strong correlation between the number of occupied beds and the total amount of losses incurred by a long term care facility. Not all beds are equal in terms of their risk exposure, however. An assisted living bed generates fewer dollars of GL/PL claim activity than a skilled care bed. With the exception of the assisted living loss cost comparison, we have adjusted all beds in this study to the equivalent of a skilled care bed.

By dividing losses by exposures we develop comparative estimates of the long term care industry GL/PL loss costs between states, types of facilities (multi-chain vs. independent) and years of operation.

Frequency

Frequency is the ratio of the number of claims divided by exposures. In this report we measure frequency on an annual basis as the number of claims projected for the given time period divided by the number of occupied beds during that same period. In our summary exhibits we present frequency as the number of claims a year for every 1,000 beds.

General Liability

General liability exposure generally relates to those sums an entity becomes legally obligated to pay as damages because of a bodily injury (typically including personal and advertising injury) or property damage.

Indemnity

Indemnity refers to the component of claim costs actually paid or reserved to be paid to the plaintiff. Indemnity costs include both the amount provided for the plaintiff, either as a jury award or a settlement, and the amount retained by the plaintiff's attorney. However, in most claim files, including those used to do this study, the split between plaintiff award and plaintiff attorney is not provided. Indemnity may also include punitive damages, although this is not consistently treated among companies.

Limit of Liability

A limit of liability is a maximum amount of coverage provided by an insurance transaction. Above the limit of liability, the insured is responsible for all losses. Limits of liability may be expressed on a per occurrence basis or an aggregate basis, similar to deductibles. The losses included in this study are not limited.

Loss Cost

Loss cost is the cost per exposure of settling and defending claims. Loss cost is calculated as the ratio of total dollars of losses (indemnity and ALAE) to total exposures for a given period of time. In this report exposures are selected to be occupied beds and the time period is one year. Consequently, a loss cost represents the annual amount per occupied bed expected to be paid to defend, settle and/or litigate GL/PL claims arising from incidents occurring during the respective year.

Loss Development

Loss development refers to the change in the estimated value of losses attributable to a body of claims or to a time period until all the claims are closed.

Generally, the reported losses will increase over time for several reasons. First, it is impossible to estimate precisely the ultimate losses and legal expenses for claims when they are initially reported. The estimated unpaid loss for a claim, called a case reserve, is adjusted up or down as more information is obtained. In the aggregate, the upward adjustments tend to be greater than the downward ones. Second, it takes a period of time for some claims to be discovered, reported, and recorded. Claims which have been incurred but have not been reported are called “pure” IBNR claims. Third, closed claims are sometimes reopened. This may be due to legislation which applies retroactively to claims which have closed. In this report, we collectively refer to reserves for these three cases as IBNR reserves.

Loss development also refers to the increase in paid losses as claims are reported, paid to their ultimate values, and closed.

Loss Trend

Loss trend is the change in claim frequency and/or severity from one time period to the next. Factors that affect the frequency and severity of claims are constantly changing over time. Examples of causes include inflation, societal attitudes toward legal action, and changes in laws. Actuaries use trend factors to adjust historical loss experience to comparable levels.

Premium

Premium is the amount paid to an insurance entity to cover costs associated with claims arising from a specifically defined risk. In the context of this report, premium refers to the premium paid for GL/PL insurance. Premium generally is developed as the expected loss cost for the period of coverage plus other underwriting expenses including commission, premium taxes, and general expenses incurred operating an

insurance company. The results of this study are based purely on loss costs. Other costs included in commercial insurance premiums are not represented in this report.

Professional Liability

Professional liability exposure relates to those sums an entity becomes legally obligated to pay as damages and associated claims and defense expenses because of a negligent act, error or omission in the rendering or failure to render professional services.

Severity

Severity refers to the total dollar amount of a claim including indemnity and ALAE. In this report we measure the average severity for a given year by dividing the total dollars of losses for all claims incurred in the year by the total number of claims.

Underwriting Expenses

Underwriting expenses are expenses incurred in writing commercial insurance in addition to claim (indemnity and ALAE) expenses. Underwriting expenses generally include commission paid to agents and brokers, premium taxes and other general expenses incurred operating an insurance company. Underwriting expenses, when added to claim expenses, represent the total cost underlying commercial insurance premium. In this study we present only the loss costs associated with GL/PL claims. Underwriting expenses are in addition to these costs where GL/PL exposure is commercially insured.