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Al Smith, Executive Director
32 S. Ewing, Suite 306
P.O. Box 838, Helena, Montana 59624
Tel: (406) 443-3124
Fax: (406) 449-6943
E-mail: mntla@mt.net
Website: www.monttla.com

ATLA Representatives:

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January 31, 2005

TO: House Judiciary Committee
RE: HB 222

Thank you for the opportunity to present our perspective to the Committee. Before I specifically address the issues before you, I'd like to offer a couple of general comments.

Please keep in mind that there is a continuing need for malpractice insurance because Montanans will be the victims of preventable medical injuries - and all those citizens are not here to speak for themselves, simply because those people do not yet know that they will be injured. The Subcommittee heard from a couple of victims - people who have lost loved ones due to preventable medical injuries - please keep in mind that changes to the system that limit the legal rights of malpractice victims affect all potential malpractice cases, those the Subcommittee heard testimony on and those that might be filed in the future.

In Montana this debate is not about so-called "frivolous lawsuits" or an explosion in the number of malpractice cases, there is just no empirical evidence for any of those assertions.

Liability insurance rates have not increased dramatically over the past decade, they were stable or even decreased for much of the past decade. In the short term, premiums have spiked in the last couple of years, especially for some high risk specialties and for small rural hospitals. But premiums over the last 15 years have averaged 6.5% increase per year.

The SJR 32 Subcommittee heard testimony from healthcare providers who testified that they had never been sued or had been sued once years ago, yet their premiums were going up and up. If the evidence is predominately that there are no or few lawsuits, the cause for premium increases cannot logically be attributed solely or mainly to lawsuits - **and** therefore any 'reforms' of the legal system will not be a meaningful solution that brings lower and more stable premiums.

The "crisis" is in the insurance industry. It is well documented that over the past 30 years the insurance industry, including medical liability to general liability insurance, has gone through cycles of so-called "crisis" and each time has responded by dramatically increasing rates and

calling for “tort reforms” - restrictions of citizens’ rights to hold legally accountable and responsible those that harm them. *Premium Deceit* (*Premium Deceit* is one of several reports and studies provided to the Subcommittee during its deliberations, and they are identified herein in *italics*.)

In the past few years we have had declining investment income for insurance companies - insurance companies make money by investing the premiums they collect, and both the bond and stock markets have declined. The investment problems were aggravated by the devastating effect of the 9/11 attacks on the reinsurance market, which helped trigger increasing rates in all lines of insurance. Those two factors have combined with poor business decisions by insurers in the 1990's to hit the medical malpractice insurance business particularly hard.

Throughout the 1990's many insurers tried to expand their market share in medical malpractice premiums, in part because they perceived the market to be very profitable based upon the returns of industry main stays like St. Paul. Those favorable returns, however, were due to previously charging more for premiums than they eventually needed for claims, building up much larger reserves than were necessary. In St. Paul's case, from 1992 to 1997 over \$1 billion of those reserves became net income - not premium dividends paid back to physicians, not lower premiums, but profit.

In order to get in on such profits, many insurers aggressively sold policies by moving into new geographic regions and undercutting the premium prices of established insurers in those markets. By 1995, many insurers were offering policies for less than the amount needed to cover malpractice claims. This trend was able to continue through 2000 because insurers were able to make up the difference with investment income. But, as investments went down insurers began dramatically raising rates, decreasing their numbers of policies and tightening their underwriting standards, and some insurers began withdrawing from the malpractice line all together. The result - fewer insurers, tighter underwriting standards, fewer policies being written, higher premiums - is our current “crisis.”

There is a wealth of evidence that insurance industry practices - from rate setting to investments to profit taking - are the primary culprits in the medical liability insurance “crisis.” Resources and studies available to demonstrate the problems with the insurance industry - *GAO Reports, Premium Deceit Report, Weiss Report, FTCR Reports, Wall Street Journal, Business Week* - are just a few of the resources that demonstrate that insurance reform is needed. It is worth noting that the profits of the 13 largest insurers were up 30% last year - the industry is coming out of it's hard market, without ‘tort reforms.’ The best evidence that insurance practices are the problem is the testimony of the Billings Deaconess representative - they went with a captive insurer alternative and **decreased** premiums last year and they expected a **decrease** again this year. They also took aggressive risk management steps to **decrease** the chances of preventable medical injuries taking place

Insurance Reform Is Necessary: Insurance reform is the only answer that will actually keep premium rates in check, now and in the future. It is quite clear that the rates have remained relatively stable in California in large part because of insurance reforms passed in 1988 as Proposition 103. *FTCR Report, How Insurance Reform Lowered Doctors Medical Malpractice Rates in California*. That was again proven, when a consumer challenge to a proposed medical

malpractice insurance premium rate hike in California resulted in a **36% decrease** in the rate hike requested by the insurer. *FTCR News Release, September 3, 2003*

Insurance reforms such as those passed in California make sense, especially the provisions that: insurers have the burden to justify rate increases, or decreases, **before** they are instituted; and, that any individual has standing to challenge an insurers rate increase request. Such reforms would limit price gouging and it would also serve to protect insurers from their own propensities to ignore sound actuarial standards in favor of quick profits

Additionally, encouraging or aiding captive insurance arrangements, cooperative purchasing and other alternatives to purchasing insurance from private carriers should be considered by the committee - remember, Billings Deaconess **decreased** their rates.

What The Legislature Should Not Do

Further Limit Victims' Compensation: We already have a non-economic (amputation, disfigurement, permanent disability, loss of fertility, pain and suffering, etc) damages cap of \$250,000 in Montana. Such caps disproportionately limit the amount of damages awarded to women, children and the elderly. If caps that are the lowest in the nation have not worked, let's try something else, like insurance reforms, rather than further limiting the rights of victims. **HB 222 seeks a cap of \$50,000 for all damages - lost wages, future medical costs, past medical costs, plus non-economic damages. This "solution" only harms people with legitimate malpractice claims - those that win a jury trial where negligence is established would be limited to \$50,000 - total, no more.**

Blame Malpractice Costs For Increasing Health Care Costs Contrary to current political posturing, the costs of malpractice suits **are not** a significant factor in overall health care costs. If all malpractice claims were eliminated - no verdicts, no settlements, no premiums paid - that would amount to less than 2% of total health care costs in Montana. *Diagnosing The Ailment*, pp 88-92.

Conclusion

The reality is that malpractice premiums should increase, just as all other costs increase. For example, a major component of most malpractice cases is future medical care, so it logically follows that as medical costs increase, so will malpractice awards. In Montana, premiums have increased an average of about 5% over the past decade, the problem for health care providers is that the bulk of that increase has occurred in the past couple years, after years of little or no increases. There is not an easy direct correlation between malpractice premiums collected and claims paid. So long as insurers are allowed to reap the profits when investments are productive, and then be relieved from the consequences of their bad business decisions - by charging higher premiums or limiting the damages awarded to injured people - when investment markets have soured, we will be on this continual merry-go-round of insurance "crisis." Malpractice premiums have gone up across the country - in states like Montana and California that have "tort reform" and in states without "tort reforms." It's time to address the real problem - the insurance industry - by regulation and by utilizing viable alternatives.

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UTAH MEDICAL INSURANCE ASSOCIATION

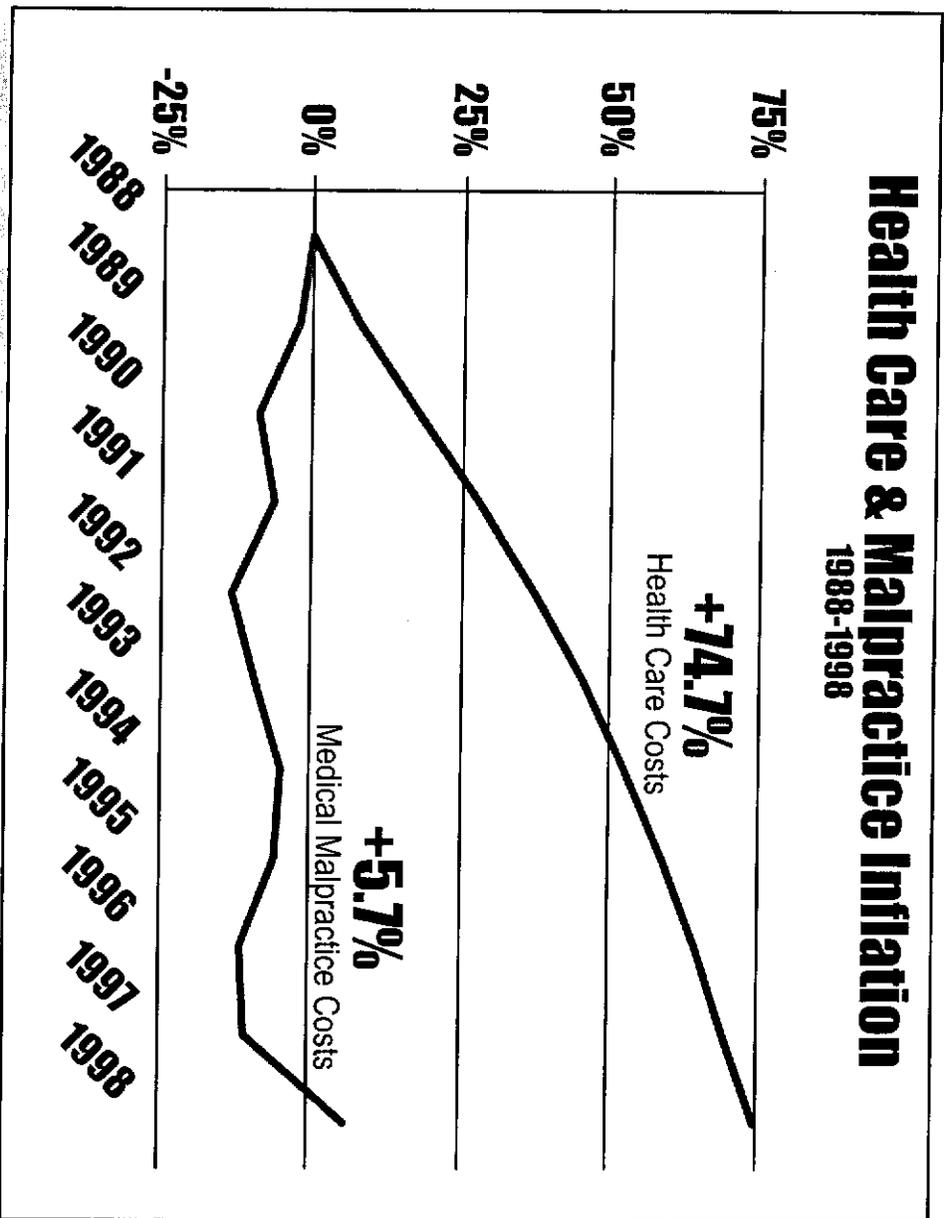
Summary of Rate Changes by Year

MONTANA

12/01/83	0.0%
12/01/84	0.0
12/01/85	38.0
12/01/86	58.0
12/01/87	52.5
01/01/89	13.0
01/01/90	0.0
01/01/91	-18.3
01/01/92	0.0
01/01/93	0.0
01/01/94	0.0
01/01/95	0.0
01/01/96	0.0
01/01/97	0.0
01/01/98	0.0
01/01/99	0.0
01/01/00	9.8
01/01/01	21.5
01/01/02	35.0
01/01/03	25.0
01/01/04	25.0

(Rate filing to follow)

Are Medical Malpractice Premiums Skyrocketing?



Sources: Personal Health Care Expenditures taken from the Health Care Financing Administration (<http://www.hcfa.gov/stats/nhe-oact/stateestimates/Tables98>); Malpractice premiums taken from the American Medical Association's "Physician Socioeconomic Statistics 2000-2002."

MYTHBUSTER

New 2004 Data Shows Insurance Industry Profits Are the Highest Ever

Insurance industry profits are booming like never before.

- The property-casualty insurance industry's after-tax net income for the first half of 2004 was the highest ever: a record-breaking \$23.5 billion!¹
- First half-year income in 2004 was up 62.2% from the first half-year income of 2003, and comes on the heels of an earlier, astounding 997 percent increase from 2002 to 2003.²
- The property/casualty industry's surplus also is at the highest level ever: over \$370 billion.³

Health insurers' profits (and their executives' salaries) have also skyrocketed, as they raise premiums and limit reimbursement to doctors.

- "Despite a weak economy and soaring medical costs, U.S. health insurers have raked in earnings at a far greater pace than the rest of corporate America, with annual profits and margins doubling in the last four years."⁴
- "Average pay for the five top executives at [the top] health insurers almost doubled [over the last four years] to \$3 million a year."⁵
- Health insurers raised premiums 59% during the same four-year period.⁶

While telling lawmakers that payouts to injured patients are costing insurers too much money, internally the insurance industry is "celebrating" its rapidly rising profits.

- "The first half [of 2004] result is far better than what was expected by industry observers earlier this year... The financial and underwriting performance of the property/casualty insurance industry during the first half of 2004 was nothing short of outstanding." — Robert P. Hartwig, Insurance Information Institute⁷
- 2003 "was an excellent year for the property/casualty industry and well ahead of the past several years' results." — John Ward, Ward Group⁸
- "I think the industry should have peak (return on equity) years the next couple of years." — Cliff Gallant, Keefe, Bruyette & Woods⁹

Notes

¹ Insurance Services Office, Inc. [ISO] & Property Casualty Insurers Assoc. of America [PCI], *Property/Casualty Industry's First-Half Income and Surplus Rose on Strong Underwriting Results and Investment Gains* (Oct. 18, 2004).

² ISO & PCI, *Sharp Increase in P/C Industry's Net Income Propels Surplus Upward in 2003* (April 2004).

³ ISO & PCI, Oct. 18 2004.

⁴ Russ Britt, "Health insurers getting bigger cut of medical dollars," *Investors' Business Daily*, Oct. 15, 2004, <http://investors.com/breakingnews.asp?journalid=23544168&brk=1>.

⁵ *Ibid.*

⁶ Kaiser Family Found. & Health Research and Educational Trust, *Employer Health Benefits: 2004 Annual Survey* 16 (2004)

⁷ Insurance Information Institute, *2004 - First Half Results*, Oct. 18, 2004.

⁸ Judy Greenwald, "Results likely to remain strong," *Business Insurance*, Mar. 22, 2004.

⁹ Ins. Info. Inst., *2004 - First Half Results*.