



Policy Research Perspectives

The “Angoff Report”

A Misrepresentation of the Medical Liability Insurance Industry

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In July 2005 the Center for Justice and Democracy in conjunction with other groups released the report “Falling Claims and Rising Premiums in the Medical Malpractice Insurance Industry.” The report was written by Jay Angoff, a former State of Missouri Insurance Commissioner. Through his misuse of medical liability insurers’ financial data, Angoff suggests that the industry is making huge profits, overcharging physicians, and increasing its net worth (surplus) beyond what is reasonable. Two reports by insurance industry experts explain why the financial measures that Angoff looks at are meaningless, if not misleading, and his conclusions without merit.

The first report, by actuaries James Hurley and Gail Tverberg of Tillinghast Towers Perrin, was released in August. The second, by Robert Hoyt of the University of Georgia and Lawrence Powell of the University of Arkansas, Little Rock was released in October. Conducted independently of one another, both critiques take issue with Angoff’s selection of firms, the manner in which revenues are matched with losses to calculate profit, and the implications drawn from the surplus levels of the firms.

The Medical Malpractice Subcommittee of the American Academy of Actuaries also released a statement in response to the report by Angoff and concurred with the findings of the reports mentioned above. The subcommittee found that “the report is incomplete, actuarially unsound, and misleading” and that “the report’s data and methodology do not support its conclusions.”

Selection of Firms

Angoff’s analysis of the 2000 through 2004 period relies solely on the 15 largest AM Best-ranked insurers according to their 2004 premiums. Because a number of large carriers left the market over this period, these 15 insurers were larger at the end of the period than at the beginning because they picked up business from the insurers that exited the market. Thus, according to Hurley and Tverberg, “this group of insurers can be expected to have much lower ratios of paid claims to premiums than other insurers, and much higher increases in premiums than other insurers.” In other words, they appear more profitable than the industry as a whole, and have larger premium increases because of expanding business. Thus, Angoff’s misplaced claims of “huge profits” and insurers “overcharging” physicians are partly a function of the companies he selects.

Comparison of Revenues with Losses (Profit Measurement)

In the insurance industry there are a variety of measures of revenue and loss and it is key that one selects the appropriate measures in order to accurately reflect financial performance. Angoff uses the wrong measures. One way Angoff calculates profit is by comparing written premiums to paid losses. Written premiums are the premiums collected in a year, and paid losses are the amounts actually paid out to claimants in that year. For many reasons, this is a measure of profit without meaning and, in fact, provides a misleading view of the medical liability industry. Medical liability has what is called a “long tail” line of insurance – it takes many years for some claims to close. The losses that are “paid” in any year stem from policies and revenues that were “written” in earlier years. For that reason it is incorrect to match, as Angoff does, premiums written with losses paid. Incurred losses should be used instead. Incurred losses include insurers’ best estimates of future losses that stem from current year premiums. Even when Angoff uses this measure of loss, his profitability measures are still flawed because he ignores loss adjustment (defense) and other expenses as well as revenues from investment gains.

Angoff’s miscalculations and use of the select 15 firms make a huge difference. Based on the 15 firms, he suggests that the industry was profitable or at least broke even (2001) in every year between 2000 and 2004. In direct contrast, Hoyt and Powell show, using a meaningful measure of profitability and data for the entire industry, that medical liability insurers earned a small profit (5%) in one year, 2004, and were unprofitable in each of the other years.

Surplus

Angoff presents information on the surplus of 12 medical liability insurers. In his words, the surplus of each of the 12 in 2004 “substantially exceeds the surplus the NAIC deems adequate for the company.” The level Angoff refers to as “adequate” is in fact the minimum below which regulators would require an insurer to implement a rehabilitation plan to increase surplus. This is a blatant misinterpretation of the NAIC’s Risk Based Capital standards. He ties the 34.3% increase in surplus he calculates from 2002 to 2004 (15.9% per year) to his off base claims of “huge profits” and “overcharging” physicians. To be meaningful, surplus levels and growth in surplus need to be scaled in some fashion to reflect the degree of exposure to risk and changes in risk. Angoff makes no attempt to make that correction. Hurley and Tverberg additionally point out that the 2002 to 2004 period over which he measures surplus growth is inconsistent with the period used in the rest of his analysis, 2000 to 2004. This substantially exaggerates the surplus growth rate of the 12 firms. Correcting the analysis yields an annual growth rate in surplus of only 3.9% per year.

References

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