A Descriptive Analysis of Medical Malpractice Insurance Premiums, 1974-1977

by Nancy T. Greenspan

The rapid increase in medical malpractice insurance claims and concomitant increases in premiums in the early 1970's concerned the medical and government communities. In 1974 alone, there was a 195 percent increase in malpractice suits filed in State courts (Federal Medical Malpractice Insurance Act, 1975). Major efforts to understand the nature of the "crisis" and its potential solutions included a lengthy report issued in 1975 by the Department of Health, Education and Welfare Secretary's Commission on Medical Malpractice (1975) and Congressional hearings held in 1973 (Federal Malpractice Insurance Act, 1975). By 1977, premium rates and the number of malpractice claims filed seemed to have stabilized. Robert Helms of the American Enterprise Institute for Public Policy Analysis asserts that one source of the "cooling down" stems from malpractice cases being more often decided by a jury rather than a judge as was previously done. It appears that in close cases, juries are now more often deciding in favor of the defendant, thus providing fewer incentives for plaintiffs to sue (Rottenberg, 1978).

Data also show that the financial strength of many insurance companies was weak during the period of the early 1970's. The unpredicted increases in both claims filed and the size of the awards caused many companies to draw down their reserve funds. This occurrence, together with a sharp decline in companies' investment portfolios in 1974, caused many companies either to go bankrupt or to withdraw from the malpractice insurance market, creating a shortage in the availability of coverage in many states. For instance, although Massachusetts had relatively small increases in premiums in 1975, the State's two major malpractice insurers were trying to pull out of the market, and many physicians had difficulty in obtaining coverage. In many other states, insurers were either discontinuing coverage, limiting the amount that could be purchased, or not selling to newly-licensed physicians. As a reaction to this shortage, many state legislatures established joint underwriting associations (JUAs) which forced all companies selling personal liability insurance in the state to participate in a state-controlled plan to provide malpractice insurance coverage. This action eased the tight market situation.

The period of calm in 1977 and 1978 should not suggest that all problems have been resolved, however. Data from one of the largest malpractice insurers show that in 1978 the number of new claims increased by 12 percent over the previous year and that the average value of each claim rose by 18 percent. The company plans to increase 1979 premiums in 20 of the 29 states in which it writes insurance (Malpractice Digest, May/June 1979). This will be the first substantive increase since 1976. The sudden rise in malpractice premiums caused them to be a more significant factor in physicians' practice costs. In order to adjust Medicare fee levels to take into account the effect of this increase in premiums, the Health Care Financing Administration (HCFA) initiated a survey of premiums. HCFA asked the insurance company with the largest percentage of policies written in a particular state to provide premium data for that state. The premium data gathered by state and by specialty for the years 1974 through 1977 follow. In addition, information on premium and coverage levels from surveys conducted for HCFA by Abt Associates and by the National Opinion Research Center (NORC) are also presented. Given the completeness of these data, it is hoped they will aid researchers in studies on malpractice rates, such as measuring the effect of malpractice rates on physicians' costs and fees.

Premium Data from the HCFA Survey of Malpractice Insurers

Table 1 shows the national average of premiums by specialty for 1974 through 1977. These premiums were calculated by determining the premium for a specialty within each state, weighting that premium by the percentage of those specialists practicing in that state and adding the state figures together. The premiums represent a standard policy offering coverage of $100,000/$300,000 and consequently do not reflect changes occurring from increases in the amount of coverage purchased. In other words, the yearly percentage changes in premiums show a  

1 The main purpose of the survey conducted in 1975 by Abt Associates and NORC was to gather data on physician Administrative costs and Medicaid participation. The 1976 survey gathered data on practice costs.

2 The first figure of the liability limit represents the yearly limit per case and the second, the limit for all cases in that year. Premiums reflect the price at the end of each year.
Table 1
National Average of Malpractice Premiums by Specialty for a Standard Policy, 1974–1977

| Risk Categories | 1974 | 1975 | 1976 | 1977 |
|-----------------|------|------|------|------|
| Class I 1,2     | $583 | $997 | $1413| $1544|
| Class II 1,2    | 934  | 1677 | 2585 | 2762 |
| Class III 1,2   | 1526 | 2730 | 3865 | 4118 |
| Cardiology      | 1508 | 2424 | 3534 | 3924 |
| Proctology      | 1793 | 3199 | 4591 | 5010 |
| Ophthalmology   | 1386 | 2290 | 3109 | 3578 |
| Class IV        |      |      |      |      |
| Cardiac Surgery | 2338 | 3945 | 5701 | 6339 |
| General Surgery | 2521 | 4093 | 5452 | 6130 |
| Otolaryngology  |      |      |      |      |
| (no plastic surgery) | 2135 | 3759 | 5200 | 5765 |
| Thoracic Surgery| 2851 | 4519 | 6405 | 7178 |
| Vascular Surgery| 2706 | 4511 | 6404 | 7155 |
| Urology         | 2189 | 3703 | 5211 | 5640 |
| Class V         |      |      |      |      |
| Anesthesiology  | 3071 | 5625 | 7633 | 8358 |
| Neurosurgery    | 3448 | 6206 | 8363 | 9228 |
| Obstetric/Gynecology | 3073 | 5442 | 7478 | 8057 |
| Orthopedic Surgery | 3527 | 6300 | 6641 | 6992 |
| Otolaryngology  |      |      |      |      |
| (plastic surgery) | 2873 | 5243 | 7050 | 7649 |
| Plastic Surgery | 3299 | 5853 | 6293 | 9051 |

Source: Telephone Survey of Malpractice Insurance Companies conducted by HCFA.

1 Class I includes physicians who do no surgery in the specialties of general practice, aerospace medicine, forensic pathology, physical medicine, general preventive medicine, public health allergy, child psychiatry, neurology, psychiatry, gastroenterology, pediatrics, pediatric allergy, pulmonary disease, dermatology, internal medicine, and radiology.

2 Class II includes physicians in Class I specialties who do minor surgery or assist in major surgery on their own patients.

3 Class III includes physicians in these specialties who do major surgery plus physicians in cardiology, proctology, and ophthalmology.

4 Pure price change without interference from changes in coverage purchased or individual factors such as surcharges due to the physician's incidence of malpractice claims. Classes I through V designate levels of risk (class I being the least risky) as perceived by the insurance companies.

From these four years of data, it can be seen that premiums have increased twofold since 1974. In 1974 premiums ranged from $583 for primary care physicians who do no surgery to $3,257 for orthopedic surgeons, while the range in 1977 for the same specialties was $1,544 to $9,392 respectively. The overall percentage increases for 1974 through 1977 in Table 2 show that premiums rose similarly for all specialties, with general surgeons having the lowest at 143 percent and Class II physicians who perform minor surgery having the highest at 196 percent. The majority of the increases occurred during 1974–1975; since that time the increases in premiums have been much smaller.

Although these average premiums by specialty provide a benchmark for comparative purposes, they underestimate the dramatic increases which occurred in a few states. Table 3 illustrates the variation in increases in premiums by state. To calculate the average percentage change by state, the changes in premiums by specialty were weighted by the state's distribution of the specialties and then added together. To understand the variation between states, consider that in 1974–75, premiums in Massachusetts rose only 12 percent and in Mississippi 25 percent, while, in comparison, premiums in California rose by 145 percent and in Florida by 286 percent. These sharp rises in 1974–75 were mitigated in some areas during 1975–76. For this year, premiums in thirteen states showed no change and those in five states actually declined, although this effect was partly the result of a new form of rate-setting which imposes lower rates in the early years of the policy.
Percentage Change in Premiums by State for 1974–1975, 1975–76 and 1976–77

| State         | 1974–1975 | 1975–1976 | 1976–1977 |
|---------------|-----------|-----------|-----------|
| Alabama       | 40%       | 19%       | 319%      |
| Alaska        | NI        | NI        | NI        |
| Arizona       | 109%      | 115%      | 50%       |
| Arkansas      | 40%       | 83%       | 4%        |
| California    | 145%      | 147%      | 0%        |
| Colorado      | 38%       | 83%       | 0%        |
| Connecticut   | 38%       | 10%       | 2%        |
| Delaware      | 71%       | 10%       | -3%       |
| District of Columbia | 40% | 108% | 0% |
| Florida       | 286%      | 0%        | 33%       |
| Georgia       | 25%       | 65%       | 26%       |
| Hawaii        | 70%       | 84%       | 13%       |
| Idaho         | 62%       | -42%      | 8%        |
| Illinois      | 78%       | 110%      | 6%        |
| Indiana       | 47%       | 0%        | 17%       |
| Iowa          | 62%       | 0%        | 17%       |
| Kansas        | 68%       | -58%      | 17%       |
| Kentucky      | 76%       | 0%        | 17%       |
| Louisiana     | 90%       | 75%       | 37%       |
| Maine         | NI        | 0%        | 29%       |
| Maryland      | 40%       | 65%       | 0%        |
| Massachusetts | 12%       | 0%        | 7%        |
| Michigan      | 86%       | 0%        | 17%       |
| Minnesota     | 49%       | -34%      | -4%       |
| Mississippi   | 25%       | 96%       | 21%       |
| Missouri      | 68%       | 0%        | 17%       |
| Montana       | 77%       | 38%       | 0%        |
| Nebraska      | 58%       | 47%       | -8%       |
| Nevada        | 95%       | 0%        | NI        |
| New Hampshire | NI        | 0%        | NI        |
| New Jersey    | 47%       | 55%       | 0%        |
| New México    | 84%       | 60%       | 25%       |
| New York      | 54%       | 7%        | 16%       |
| North Carolina| 46%       | 11%       | -5%       |
| North Dakota  | 19%       | 57%       | -2%       |
| Ohio          | 66%       | 33%       | 17%       |
| Oklahoma      | NI        | 35%       | 27%       |
| Oregon        | 15%       | 20%       | 0%        |
| Pennsylvania  | 97%       | 0%        | 17%       |
| Rhode Island  | 70%       | -7%       | 0%        |
| South Carolina| 72%       | 28%       | 50%       |
| South Dakota  | 37%       | 83%       | 0%        |
| Tennessee     | 193%      | 128%      | -48%      |
| Texas         | 109%      | 16%       | 17%       |
| Utah          | 67%       | 0%        | -1%       |
| Vermont       | 157%      | 0%        | -1%       |
| Virginia      | NI        | 8%        | -1%       |
| Washington    | 55%       | 33%       | 6%        |
| West Virginia | 53%       | 25%       | 5%        |
| Wisconsin     | 38%       | 0%        | 17%       |
| Wyoming       | 191%      | 22%       | 0%        |

Source: Telephone Survey of Malpractice Insurance Companies conducted by HCFA.

During this same period, however, premiums in the District of Columbia, Illinois, Arizona, and Tennessee increased over 100 percent. By 1976–77, our last year of data, rates in all states either increased or decreased modestly, indicating a leveling-off.

Premium and Coverage Data from the Physician Surveys

The above data clearly illustrate the changes in prices for a standard policy. The 1974 through 1976 premium data from surveys by Abt Associates and NORC incorporate changes in the amount of coverage purchased as well as price. Therefore, these premiums represent what physicians paid out of pocket for insurance.

The sample for the 1974 data consisted of 1,000 physicians in 5 specialties selected from a national clustered sampling frame. The sample for 1975 and 1976 data was composed of approximately 3,500 office-based physicians in 15 specialties and 500 hospital-based physicians in 3 specialties, selected randomly from a national file of physicians.

The data on average premiums paid are shown in Table 4 where the premiums for the Class I, II, and III physicians are within the range of premiums for the first three specialty classes in Table 1 (that is, from $1413 to $3865 for 1976). The 1976 premiums for the two surgical specialties in Class IV (general surgery and urology) are higher than those in Table 1 by 47 and 42 percent, respectively. Similarly, in Class V, the 1976 premiums in Table 4 for anesthesiology, neurosurgery, obstetrics/gynecology, and orthopedic surgery exceed those in Table 1 by 22, 32, and 61 percent, respectively.

One explanation why out-of-pocket insurance costs exceeded those for the standard policy is that physicians are purchasing insurance in excess of the $100,000/$300,000 limits of the standard policy. A study of the amount of coverage purchased shows that over 50 percent of the physicians in each specialty are covered for at least $1 million.

3 Traditionally, rates have been established using an occurrence method. If the physician has an occurrence policy, he is covered by the original insurer for any injury occurring during the policy period even if the physician is with a different insurer when the claim is filed. With the new method called claims-made, the physician is only covered for an injury which occurred and for which the claim was filed while the specific policy is in force.

4 Because the premiums for otolaryngologists in Table 4 incorporate otolaryngologists included in Class IV who do no plastic surgery and those in Class V who do plastic surgery, the premiums for otolaryngologists can not be compared with those in Table 1.

5 $1 million worth of coverage is not always available from a single company. Some companies only offer up to $300,000 worth of coverage. In that case, the physician has to buy additional policies often in the form of "umbrella" policies.
Classes I, II, III

1 National Average of Malpractice Premiums Paid for 1974, 1975 and 1976, by Specialty

| Classes I, II, III | 1974 | 1975 | 1976 |
|-------------------|------|------|------|
| Allergy           | $2157 | $2943 |
| Dermatology       | 2800  | 3342 |
| Gastroenterology  | 2643  | 3344 |
| General Practice  | 1704  | 2712  | 3534 |
| Internal Medicine | 1059  | 1903  | 2873 |
| Pathology         | 2157  | 2873 |
| Pediatrics        | 799   | 1774  | 2594 |
| Psychiatry        | 1036  | 1297  |
| Radiology         | 2725  | 3986  |

| Class III         | Percent |
|-------------------|---------|
| Cardiology        | 2976    |
| Ophthalmology     | 3310    |

| Class IV          | General Surgery | Otolaryngology | Urology |
|-------------------|-----------------|---------------|--------|
|                   | 4064            | 6475          | 6817   |

| Class V           | Anesthesiology | Neurosurgery | Obstetrics/Gynecology | Orthopedic Surgery |
|-------------------|----------------|--------------|-----------------------|--------------------|
|                   | 7742           | 11494        | 3930                  | 11164              |

Sources: Abt Associates/NORC Survey of Physicians Administration Costs; NORC/HCFA Survey of Physician's Practice Costs.

1 Most physicians in the specialties listed under Classes I, II, III would be in Class I (that is, physicians who do no surgery). There were no means to separate out those in Classes II and III who do minor or major surgery.

2 Only five specialties were surveyed in this year.

3 The samples for the years 1975 and 1976 contain the same physicians. The physicians for 1974 are from a different sample and include solo practitioners only.

4 Otolaryngologists are divided between Class IV and Class V, depending on whether they perform plastic surgery. Since information was not available to make this determination, the premium average here represents both groups.

Table 4

As seen in Table 5, in 1976 the percentage of physicians covered for at least $1 million was from 54.9 percent of general practitioners to 82.9 percent of orthopedic surgeons. However, these percentages are somewhat lower than those in 1975. A comparison of the 1975 and 1976 data shows that, in all but three instances (gastroenterology, internal medicine, and orthopedics), the percent of physicians having $1 million of coverage declined in 1976. In addition, three of the five specialties had fewer physicians with coverage over $1 million in 1975 than in 1974. One interpretation of these data is that since 1974, physicians have become less concerned about large claims settlements. Another is that physicians are just responding to the increase in the price of insurance. Contrary to these interpretations, in all but four of the specialties, the percent of those purchasing at least $5 million worth of liability coverage has increased or stayed the same. Given the overall trend towards lower liability limits, these figures are difficult to interpret except to say that there is a small percentage of physicians who either don't want to take any risks or who are performing particularly risky procedures.

Whereas Table 5 indicates general levels of and trends in coverage, Tables 6 and 7 show the degree to which physicians changed coverage. These tables indicate that, overall, regardless of the amount of coverage purchased, at least 82 percent of all physicians maintained the same amount of coverage. Whereas Table 5 indicates general levels of and trends in coverage, Tables 6 and 7 show the degree to which physicians changed coverage. These tables indicate that, overall, regardless of the amount of coverage purchased, at least 82 percent of all physicians maintained the same amount of coverage in 1975 and 1976. From 1975 to 1976, in only six of the 18 specialties did more physicians increase their coverage than decrease it. Similarly, for 1974 to 1975, in all five specialties, the number of physicians who decreased their coverage more than offset those who increased it. This fact is somewhat surprising since 1975 was supposedly the height of the malpractice crisis.

Table 5

| Risk Category | 1974 | 1975 | 1976 |
|---------------|------|------|------|
| Classes I, II, III | $1M | $1M | $5M | $1M | $5M |
| Allergy       | 75.4 | 74.4 | 4.1  |
| Dermatology   | 77.1 | 73.7 |
| Gastroenterology | 75.0 | 76.5 | 7.4  |
| General Practice | 50.9 | 54.9 | 2.1  |
| Internal Medicine | 73.2 | 68.8 | 5.7  |
| Pathology     | 69.7 | 68.7 | 7.5  |
| Pediatrics    | 65.3 | 62.6 | 3.5  |
| Psychiatry    | 59.1 | 59.0 | 3.5  |
| Radiology     | 80.0 | 78.9 | 2.6  |
| Cardiology    | 74.0 | 74.4 | 9.0  |
| Ophthalmology | 71.3 | 72.4 | 2.4  |
| General Surgery | 68.9 | 67.0 | 3.7  |
| Otolaryngology | 70.1 | 65.1 | 4.0  |
| Urology       | 71.3 | 67.8 | 4.9  |
| Anesthesiology | 80.9 | 76.6 | 5.8  |
| Neurosurgery  | 78.2 | 73.5 | 3.2  |
| Obstetrics/Gynecology | 75.7 | 67.5 | 3.4  |
| Orthopedic Surgery | 84.4 | 82.9 | 3.9  |

Sources: Abt Associates/NORC Survey of Physicians Administration Costs; NORC/HCFA Survey of Physicians' Practice Costs.

(See Table 4 for Footnotes)
This trend toward purchasing less insurance provides some evidence on the characteristics of the demand for malpractice insurance. Those who decreased their coverage could be motivated by two factors: (1) an increase in prices caused a decrease in the amount of coverage demanded; (2) and/or physicians felt less need to be protected against large malpractice settlements. In economic terms, the increases in prices would cause a movement down the demand curve, whereas a change in the physician's perception of the environment would cause a downward shift of the entire curve.

If physicians are responding to the increase in prices, it would suggest that the upper portion of the demand curve is somewhat elastic. However, given that most hospitals require that physicians have insurance in order to maintain staff privileges, the lower portion of the curve is probably very inelastic, thus causing a kink in the demand curve.

### Table 6
Percent of physicians who changed the amount of malpractice insurance purchased in 1974–1975, by specialty

| Risk Category | Increased | Decreased | No Change |
|---------------|-----------|-----------|-----------|
| Class I, II, III  | General Practice | 6% | 6% | 88% |
| Internal Medicine | 6 | 11 | 83 |
| Pediatrics | 4 | 8 | 88 |
| Class IV | General Surgery | 3 | 11 | 66 |
| Class V | Obstetrics/Gynecology | 4 | 5 | 91 |

Source: Abt Associates/NORC Survey of Physicians' Administrative Costs

1 Most physicians in the specialties listed under Classes I, II, III would be in Class I (that is, physicians who do no surgery). There was no information with which to separate out those in Classes II and III who do minor or major surgery in these specialties.

### Table 7
Percent of physicians who changed the amount of malpractice insurance purchased in 1975–1976, by specialty

| Risk Category | Increased | Decreased | No Change |
|---------------|-----------|-----------|-----------|
| Classes I, II, III  | Allergy | 5.1% | 1.7% | 93.2% |
| Dermatology | 5.8 | 6.7 | 87.5 |
| Gastroenterology | 7.6 | 7.6 | 84.8 |
| General Practice | 4.6 | 5.9 | 89.5 |
| Internal Medicine | 5.5 | 5.5 | 88.9 |
| Pathology | 6.3 | 4.9 | 88.9 |
| Pediatrics | 4.7 | 5.4 | 89.9 |
| Psychiatry | 7.2 | 6.9 | 85.8 |
| Radiology | 6.6 | 9.3 | 84.1 |
| Class III | Cardiology | 8.0 | 6.7 | 85.3 |
| Ophthalmology | 5.0 | 2.5 | 92.5 |
| Class IV | General Surgery | 4.5 | 6.4 | 89.1 |
| Otolaryngology | 2.5 | 9.9 | 87.6 |
| Urology | 7.1 | 10.2 | 82.7 |
| Class V | Anesthesiology | 5.5 | 12.3 | 82.2 |
| Neurosurgery | 5.7 | 3.8 | 90.6 |
| Obstetrics/Gynecology | 4.2 | 7.5 | 88.3 |
| Orthopedic Surgery | 3.0 | 8.9 | 88.1 |

Sources: NORC/HFCA Survey of Physician's Administrative Cost; NORC/HFCA Survey of Physician's Practice Costs.

(See Table 4 for Footnotes)

### Table 8
Percentage Change in Premiums Paid by Specialty, 1974–75 and 1975–76.

| Risk Category | 1974–75 | 1975–76 |
|---------------|---------|---------|
| Classes I, II, III  | Allergy | 36% |
| Dermatology | 19 |
| Gastroenterology | 27 |
| General Practice | 59% | 30 |
| Internal Medicine | 85 | 36 |
| Pathology | 33 |
| Pediatrics | 122 | 46 |
| Psychiatry | 25 |
| Radiology | 46 |
| Class III | Cardiology | 22 |
| Ophthalmology | 37 |
| Class IV | General Surgery | 64 | 16 |
| Otolaryngology | 17 |
| Urology | 13 |
| Class V | Anesthesiology | 20 |
| Neurosurgery | 11 |
| Obstetrics/Gynecology | 119 | 15 |
| Orthopedic Surgery | 25 |

Sources: Abt Associates/NORC Survey of Physicians' Administrative Costs; NORC/HFCA Survey of Physician's Practice Costs.

(See Table 4 for Footnotes)

In contrast to those physicians who changed their coverage, some physicians responded to the large increases in premiums by purchasing no insurance at all. The percentage of physicians who bought no insurance in 1974, 1975, or 1976 is shown in Table 9. In all specialties, the percentage of physicians "going bare" increased between 1974 and 1975 and then declined in all but five specialties between 1975 and 1976. Anecdotal evidence (such as news media reports) suggests that, especially for 1975, these figures would be significantly higher. However, it is probable to assume that there are a few small but
concentrated areas in the country where physicians are going bare. This uneven distribution would reflect the large variation in the change in premium rates and absolute levels of premiums by state as shown in Table 3. For instance, *Medical World News* (January 1977) reported that as many as 40 percent of physicians in Alaska may not have purchased insurance during 1976 as a protest against the Insurance Commission's method of setting premiums in accordance with income levels. In a state such as South Carolina where the standard policy for orthopedic surgeons cost $2364 in 1976 (compared to the national average of $8641), it can be expected that only a handful of physicians would not purchase insurance.

### Table 9
Percent of Physicians with No Insurance in 1974, 1975, and 1976, by Specialty

| Risk Category | 1974 | 1975 | 1976 |
|---------------|------|------|------|
| Allergy       | 4.7% | 4.7% |      |
| Dermatology   |     | .6   | 1.6  |
| Gastroenterology |    | 2.1  | 2.1  |
| General Practice | 4.4% | 6.0  | 6.0  |
| Internal Medicine | 1.8 | 2.2  | .9   |
| Pathology     | 3.9  | 2.8  |      |
| Pediatrics    | 1.5  | 2.3  | 2.0  |
| Psychiatry    | 4.6  | 3.6  |      |
| Radiology     | 3.3  | 1.7  |      |
| Class III     |      |      |      |
| Cardiology    | 4.0  | 3.0  |      |
| Ophthalmology | 3.2  | 3.9  |      |
| Class IV      |      |      |      |
| General Surgery | 1.1 | 3.8  | 3.1  |
| Otolaryngology | 6.8 | 3.4  |      |
| Urology       | 3.0  | 1.5  |      |
| Class V       |      |      |      |
| Anesthesiology | 4.9 | 3.8  |      |
| Neurosurgery  | 4.4  | 2.9  |      |
| Obstetrics/Gynecology | 4.2 | 5.3  | 3.4  |
| Orthopedic Surgery | 5.9 | 2.9  |      |

Sources: Abt Associates/NORC Survey of Physicians' Administrative Costs; NORC/HCFA Survey of Physicians' Practice Costs. (See Table 4 for Footnotes)

### Conclusions

Although it cannot be denied that malpractice premiums have risen dramatically, our surveys indicate that only selected specialists in a few states are bearing a financial burden. Given that approximately 55 percent of physicians are in the three low risk categories and pay less than $4,000 per year for insurance, the higher malpractice premiums are financially manageable for most physicians. Table 10 shows premiums as a percent of practice expenses. Except for anesthesiologists, whose premiums are 21 percent of their expenses, premiums represent no more than 7 percent of practice expenses. However, this is not to say that the "malpractice crisis" did not have and will not continue to have an impact on health care.

### Table 10
Malpractice Premiums as a Percent of Expenses for 1976, by Specialty

| Risk Category | Premiums/Expenses |
|---------------|------------------|
| Classes I, II, III | 3% |
| Allergy | 3% |
| Dermatology | 3% |
| Gastroenterology | 2% |
| General Practice | 3% |
| Internal Medicine | 2% |
| Pathology | 7% |
| Pediatrics | 2% |
| Psychiatry | 2% |
| Radiology | 6% |
| Class III |       |
| Cardiology | 3% |
| Ophthalmology | 5% |
| Class IV |       |
| General Surgery | 7% |
| Otolaryngology | 7% |
| Urology | 5% |
| Class V |       |
| Anesthesiology | 21% |
| Neurosurgery | 7% |
| Obstetrics/Gynecology | 6% |
| Orthopedic Surgery | 6% |

Sources: NORC/HCFA Survey of Physicians' Practice Costs. (See Table 4 for Footnotes)

The increase in malpractice premiums has implications for other health issues, one of the most important being the effect on health costs. Greenwald and Mueller (1978) found that all of the increased cost of premiums is shifted to the patient. Using 1970 data, they found that an increase in premiums of 100 percent caused the average cost of an office visit to increase by 9.1 percent.

Because physicians are able to pass costs on to the patient, it seems unlikely that an established physician would relocate in response to high premiums in his state. However, for a newly-licensed physician, high premiums may establish a barrier to entry. In states such as California, New York, and New Jersey where there are high physician/population ratios relative to the national average, it is unlikely that a reduction in the number of new physicians setting up practice would affect patient care. However, there are other states such as Arizona, Maine, Montana, Wyoming, Oregon, and Washington that have high premiums and low physician/population ratios. The impact of high premiums on the attractiveness of these areas to newly licensed physicians is unknown.
The growth in the number of ancillary services, arising partly as a defense against possible malpractice suits, is another inflationary result of increases in premiums. Stanford Research Institute (1975) estimated that the number of lab tests doubled between 1969 and 1975. Although the direct contribution of the threat of malpractice suits to this growth has not been measured, many health professionals feel that it has been an important factor.

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