



How are malpractice premiums calculated?



Malpractice insurance is one of the top expenses for a medical practice.

But what makes it so pricey?

Each insurance carrier has a unique set of guidelines that tell the underwriter how to price a risk.

Premiums are generally calculated by determining the base rate (sometimes referred to as the manual rate) and then adding or subtracting from that to account for a number of risk factors.

The 5 main things that affect your base rate are:

- Specialty
- Practice location
- Policy type
- Policy limits
- Effective date

Let's take a closer look at each of the things an underwriter looks at when calculating your base rate.

Your specialty

Your specialty is one of the top factors in determining your premium. To arrive at your rate, underwriters will look at:

- ✓ Your training
- ✓ Your practice experience
- ✓ The procedures you'll be performing

Most specialties have additional classifications to further refine the price, based on the type of work that you're doing. For example, a family practice doctor could be rated as "No Surgery" (the most common classification), "Minor Surgery" (for more invasive procedures), or "Major Surgery" (if they're doing obstetrics).

Non-surgical rates will generally be less than the surgical ones.



Your practice location

Carriers use rating territories (usually state and county driven) to price coverage based on the claim experience in that area. Larger metropolitan areas tend to be priced higher than more rural areas, but each state is different.

If you practice in more than one city or state, the underwriter will generally look at your percent of practice in each area to determine the appropriate amount to charge.

For example, if you spend 90% of your time in Peoria, Illinois, but travel to Chicago one day a month for a few cases, the underwriter will likely charge you a higher price because you have exposure in a more litigious area – even if it's only a small percent of your overall practice.



Your policy type

There are two types of malpractice insurance that you can buy: claims-made and occurrence.

Each type is priced differently, so your rate will be determined based on which type you choose.

Claims-made premiums will take into consideration any prior acts (or retroactive exposure) that the carrier may be covering for you. Occurrence premiums tend to be a bit more expensive on an annual basis.

Understanding these two types of coverage can be a little confusing! For more information on that topic, check out our free related resources.

[CLAIMS-MADE VS. OCCURRENCE COVERAGE >>](#)



Your policy limits

Medical malpractice policy limits describe how much money an insurance company will pay on your behalf in the event of a claim.

The limit consists of two numbers:

- ✓ Per-claim limit
- ✓ Annual aggregate limit

A malpractice insurance policy with \$1,000,000/\$3,000,000 limits would have a \$1 million limit per claim and a \$3 million aggregate limit for the year.

Generally speaking, the higher the limits, the higher the premium price – which only makes sense.

It's important that you carry the appropriate amount of coverage (not too much and not too little) in order to make sure you're paying a fair rate and not leaving yourself unnecessarily exposed.



Your effective date

Carriers file their rates on an annual basis, and sometimes those prices change.

So depending on when your policy renews, the carrier will charge you the current rate for that specific time period.

For example, if a carrier changes their rates effective today and your policy's effective date is tomorrow, you'll pay the new rate.

But if your coverage begins before the rate changes – even if it's just a week – you won't be charged the new rate until your policy renews.



Discounts and premium credits

Once they've determined your base premium, the underwriter may apply credits or debits to arrive at a premium that more accurately prices your exposure.

Here are some of the most common premium discounts/credits:

Part-time credits

Most carriers can apply part-time discounts to reduce your costs if you're averaging a lower number of hours per week.

You may get a discount of 25% to 50% off, depending on your average number of hours worked per week.

If you're a doctor who works just one week a month, or are a locums provider working every other weekend or on a more varied schedule, be sure to clearly explain your situation to your agent.

The underwriter is looking at your average number of hours, and your agent can help ensure you get the right discount.

New-to-practice credits

Some carriers offer significant price breaks for providers who are just finishing up residency or fellowship training.

You may get 50% to 75% off your first year in practice — which is a nice way for you to save as you're ramping up your practice.

Continued on next page

Continued from previous page

Loss-free/claim-free credits

At the other end of the spectrum, if you've been in practice for a long time and have had a good claim history, you're an excellent risk for the carrier – so they may be able to give you premium discounts to reduce your cost.

The longer you're in practice without having a loss, the more premium credit you'll be eligible to receive. These discounts are usually offered in tiers. For example, a smaller discount for 3-5 years without a loss, a little more discount for years 6-9, and a larger discount for 10+ years with no losses.

Most carriers count this as a "loss-free" credit, which means that you're still eligible for the credit even if you've been named in a nuisance claim or something frivolous and then had the claim dismissed – or you've successfully defended in court.

As long as there wasn't a payment made on your behalf, you should be eligible for this credit.

Society/association credits

There are a number of national and state programs that have worked out membership credits.

If you're a member and there's a discount available, take advantage of it!

These discounts are usually smaller (maybe 3% to 5%), but every little bit helps to reduce your malpractice premium costs.

Discounts and premium credits, continued.

Risk management credits

Most carriers offer premium discounts after you successfully complete a risk management course with them. This is something that not only reduces your cost, but also gives you helpful information on how to lower your risk and be a safer provider.

Other discretionary credits

Underwriters do have some discretion with premium credits and can often apply other discounts for “better-than-average” risks. Large groups with excellent loss experience, Long-time insureds, and other factors can come into play when an underwriter is calculating the rates for a policy.



Maximum credit restrictions

Malpractice insurance carriers do have a maximum credit threshold.

An underwriter can stack multiple credits (for example, you could get both a loss-free credit and a risk management credit), but there is a limit on the total amount of credits that you can receive. Each company is different, but you'll usually be capped at around 50-60% off in total credits that can be applied.



Make a smart comparison

When you compare quotes from carriers, be sure to look at all of the rating criteria across the board to make sure it's an apples-to-apples comparison.

As you can see, there are a variety of factors that may have an impact on your rate.

And we want to make sure you're getting the best price possible, so you can stop worrying about your medical malpractice coverage and get back to practicing good medicine.

Contact Aegis Malpractice Solutions for help comparing your quote options today!

