

*Executive Summary*

# 2019 Aon Professional and General Liability Benchmark for Long Term Care Providers

Actuarial Analysis

November 2019



# Table of Contents

- Introduction .....1
- Executive Summary.....2
  - Key Findings ..... 2
  - Liability and the Long Term Care Profession ..... 2
  - Advisory Estimates ..... 3
  - State Findings ..... 4
- About Aon.....5

# Introduction

## Purpose

Aon Global Risk Consulting's (Aon) Actuarial and Analytics practice has conducted an actuarial analysis of professional liability and general liability (PL/GL) claim costs for long term care providers in the United States.

## Scope

This study aims to:

- Estimate PL/GL claim cost trends for long term care providers
- Determine countrywide and state specific trends in the overall costs, frequency and severity of liability claims
- Study the differences in PL/GL claim costs by provider size
- Publish closed claim statistics related to expense versus indemnity claims
- Illustrate the impact of close lags of varying duration on claims
- Analyze the impact of arbitration agreements on PL/GL claim costs
- Examine differences in PL/GL claims costs by CMS Five Star Rating

Please contact us if you have any questions regarding this report.

Respectfully submitted,

**Kanika Vats, FCAS, MAAA, MBA**  
Associate Director and Actuary  
1.212.441.1452  
kanika.vats@aon.com

**Meredith Huskey, ACAS, MAAA**  
Consultant and Actuary  
1.410.381.1876  
meredith.huskey@aon.com

**Stephen Park, ACAS, MAAA**  
Senior Consultant and Actuary  
1.213.996.1569  
stephen.park@aon.com

**Hannah Cregg, ACAS, MAAA**  
Senior Analyst and Actuary  
1.248.359.6075  
hannah.cregg@aon.com

**Matt Phelps**  
Actuarial Analyst  
1.215.665.5959  
matt.phelps@aon.com

**Adam Miller**  
Actuarial Analyst  
1.215.255.1780  
adam.r.miller@aon.com

**Timothy Ellis**  
Senior Actuarial Analyst  
1.215.255.1780  
timothy.ellis@aon.com

# Executive Summary

## Key Findings

**Aon's 2019 actuarial analysis of countrywide liability claim costs for long term care providers concludes the following:**

- Loss rates, or losses per occupied bed, are increasing by 5% annually, which is being driven by increases in both claim frequency and severity.
- The 2020 forecast occurrence year loss rate limited to \$1 million per occurrence is \$2,300 per bed.
- Total claim frequency is increasing by 2% annually.
- The 2020 forecast occurrence year claim frequency is 1.08 claims per 100 occupied beds.
- Claim severity, or average size of a claim, is increasing by 3% annually.
- The 2020 occurrence year severity limited to \$1 million per occurrence is estimated to be \$212,000.

## Liability and the Long Term Care Profession

Third party liability costs continue to be a key concern for the Long Term Care Profession in the country. An important step in effective risk management is risk quantification. This report quantifies loss costs and inherent trends in frequency and severity that drive the ultimate or settlement value of claims.

The analysis is conducted on a countrywide basis as well as for states where Aon is able to collect a large dataset from multiple providers.

Similar to prior studies, there continues to be a wide disparity in liability costs across states, which is a function of varying tort environments. West Virginia, Kentucky and Florida continue to experience the highest loss rates among the states analyzed in the study, while Massachusetts and Texas are among the states with the lowest loss rates.

Michigan and South Carolina were studied separately this year. The liability claim cost profile in both states is lower than that for countrywide.

# Executive Summary

Continued

## Advisory Estimates

The following table summarizes the findings of the current analysis of liability costs for long term care providers:

### Claim Cost Estimates and Annual Trends for Losses Limited to \$1 Million per Occurrence

Claim Metric	Projected 2020 Estimate	Annual Trend
Overall claim frequency*	1.08	2.00%
Indemnity claim frequency*	0.81	2.00%
Severity	\$212,000	3.00%
Loss rate**	\$2,300	5.00%

\*number of claims per 100 occupied beds

\*\*liability cost per occupied bed

- Overall claim frequency is defined to be the number of claims per 100 occupied beds and comprises indemnity claim frequency and expense only claim frequency. It is forecast to be 1.08 claims in 2020.
- Indemnity claim frequency is the number of claims per 100 occupied beds that resolve with a payment to the claimant. The 2020 estimate is 0.81 claims per 100 occupied beds.
- Expense only claim frequency refers to the number of claims per 100 occupied beds that involve payments to investigate and/or defend against allegations, but which close without any payouts to claimants. The 2020 forecast is 0.27 claims per 100 occupied beds.
- Claim severity represents the average claim size, with claims limited to \$1 million per occurrence in this analysis. The 2020 severity is estimated to be \$212,000.
- The loss rate is the annual amount per occupied bed required to defend, settle and / or litigate claims in any given calendar year. It is projected to be \$2,300 in 2020 and is estimated to increase by 5.0% annually.
- 2020 and 2019 forecasts are based on the industry's loss experience in the ten-year experience period spanning from 2009 to 2018.

The % of Database is measured by occupied beds.

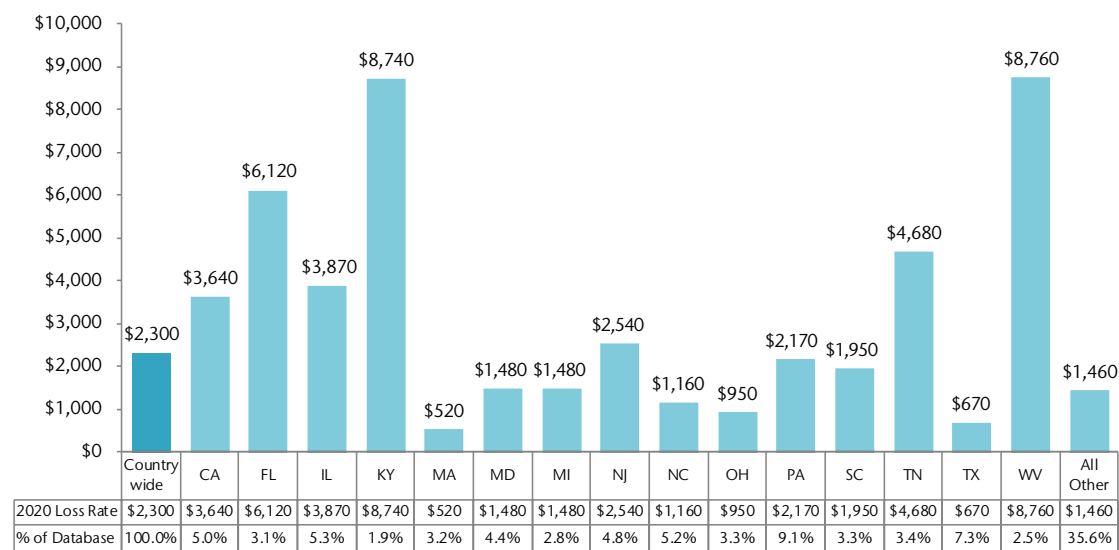
# Executive Summary

Continued

## State Findings

The graph below depicts the forecasted 2020 loss rates nationally as well as for the individual states studied in this analysis. The 2020 projected loss rates are determined by applying loss trend to the 2019 estimates by state. The states were broken out based on the volume of data received, the stability of the results compared to prior years, and the number of provider submissions.

### Comparison of Projected 2020 Loss Rates Limited to \$1 Million per Occurrence



## About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

© Aon plc 2019. All rights reserved.

The information contained herein, and the statements expressed are of a general nature and are not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information and use sources we consider reliable, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

[www.aon.com](http://www.aon.com)