

Executive Summary

2018 Aon General and Professional Liability Benchmark for Long Term Care Providers

Actuarial Analysis

October 2018

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Introduction

Purpose

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

Scope

The specific objectives of this study are to:

- Identify the overall trends in the cost of GL/PL claims for long term care providers
- Identify state specific trends in the cost of GL/PL claims
- Identify trends in countrywide frequency and severity as well as on a state by state basis
- Present closed claim statistics related to expense versus indemnity claims
- Explore the impact of arbitration agreements on GL/PL claims costs
- Examine differences in GL/PL claims costs by CMS Five Star Rating

An overview of the findings can be found in the Executive Summary section of this report.

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

Respectfully submitted,

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Executive Summary

Key Findings

Aon's current actuarial analysis is based on GL/PL claims data collected from long term care providers in the United States of America and concludes the following:

- Loss rates, or losses per occupied bed, are increasing by 6% annually.
- The 2019 forecast occurrence year loss rate limited to \$1 million per occurrence is \$2,410 per bed.
- Total claim frequency is increasing by 3% annually.
- The 2019 forecast occurrence year claim frequency is 1.11 claims per 100 occupied beds.
- Claim severity or average size of a claim, is increasing by 3% annually.
- The 2019 occurrence year GL/PL severity limited to \$1 million per occurrence is forecasted to be \$216,000.

Liability and the Long Term Care Profession

Third party liability costs are a key concern for the Long Term Care Profession in the United States of America. 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.

West Virginia, Kentucky and Florida continue to experience the highest loss rates among the states profiled in the study, while Massachusetts and Texas are among the states with the lowest loss rates.

Executive Summary

Continued

Advisory Estimates

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

LTC Estimates and Annual Trends for Losses Limited to \$1 Million per Occurrence

	Projected 2019 Estimate	Annual Trend
Overall claim frequency*	1.11	3.00%
Indemnity claim frequency*	0.86	3.00%
Severity	\$216,000	3.00%
Loss rate**	\$2,410	6.00%

*number of claims per 100 occupied beds

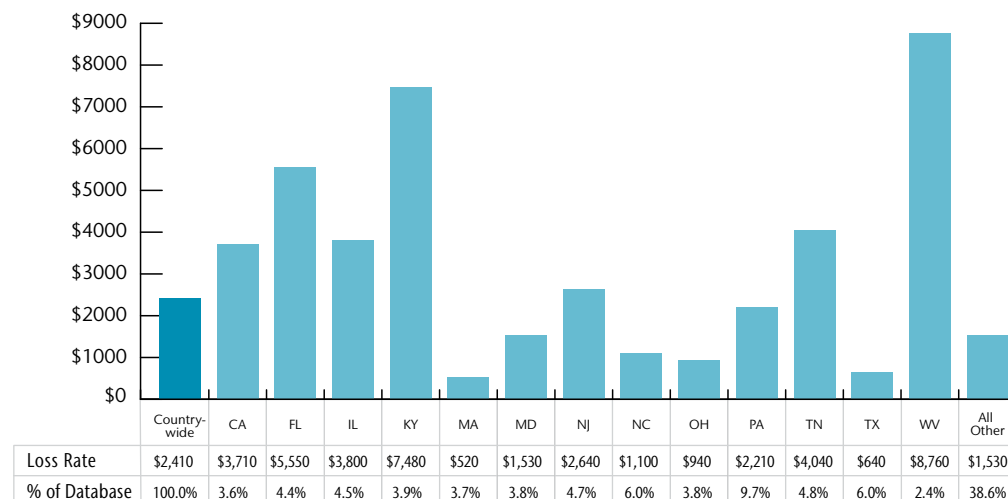
**liability cost per occupied bed

- Overall claim frequency is the number of claims per 100 occupied beds. Indemnity claim frequency constitutes the number of claims that resolve with a payment to the claimant per 100 occupied beds.
- Claim severity is the average size of claims, with claims limited to \$1 million per occurrence.
- The loss rate is the annual amount per occupied bed required to defend, settle or litigate claims in any given year.
- The projected 2019 loss rate is \$2,410 and is expected to grow by 6.0% annually.

State Findings

The graph below shows projected 2019 loss rates for countrywide as well as for the individual states profiled in this study. The 2019 projected loss rates are determined by applying loss trend to the 2018 estimates by state. Criteria for selecting states that have been shown separately include the volume of data received, the stability of the results compared to prior years, and the number of providers represented in the data.

Comparison of Projected 2019 Loss Rates Limited to \$1 Million per Occurrence



The % of Database is measured by occupied beds.

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.

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