



Press Release
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Medical Malpractice Premiums and Doctor Shortages *New Report: Tort Awards to Blame*

A new Manhattan Institute Center for Legal Policy report released today finds that malpractice premiums are closely related to trial lawyers and tort awards. The study, *Medical Malpractice Awards, Insurance, and Negligence: Which Are Related?*, authored by George Mason University's Alexander Tabarrok and Amanda Agan, examines the root cause of soaring medical malpractice premiums.

Last week the Senate, yet again, dinged a medical malpractice bill. Opponents of the legislation claimed that tort awards were not responsible for rising insurance premiums, but this new empirical study shows a strong correlation between medical malpractice premiums and tort awards over time and across states.

The study finds:

- *There is a strong correlation between med-mal premiums and tort awards across the states.*
- *Med-mal premiums are not explained by insurance-industry price-gouging.*
 - In order for the "price-gouging" theory to hold, insurance industries must be exercising monopoly power.
 - Using regression analysis, the study finds *states with more concentrated insurance industries have lower premiums.*
- Over time, every dollar increase in awards increases medical malpractice insurance premiums by a dollar.
 - Using a "cointegration test" based on data from the insurance rating agency A.M. Best, the authors found that premiums and awards are linked in a stable long-run relationship.
 - Tort award levels, not investment returns, are the primary explanatory factor for changes in insurance premiums.
 - In the long term, premiums adjust to short-term award variation.
- Med-mal tort awards are related to some factors not rationally related to injuries.

- Med-mal awards are 6 times greater in Pennsylvania than in Wisconsin. It's highly doubtful that medical errors and malpractice are six times more common in PA than in WI.
- Through a novel test of the tort system, the authors compare the tort system with the independent medical review board system.
 - Comparing the tort system and the medical review board system, two independent methods of determining malpractice, the study finds the two systems are *not* correlated.
 - The medical review board system should be further strengthened and studied as a possible replacement for the tort system.

“The explanation for these premium spikes can be found not in legislative halls or courtrooms, but in boardrooms,” says Senator Ted Kennedy. This study offers the counterargument, substantially putting to rest the empirical dispute on the root cause of soaring medical malpractice premiums. Rather than blaming insurance companies and price-gouging, the authors emphasize the impact of tort awards on the high cost of medical malpractice insurance.

Alexander Tabarrok is associate professor of economics at George Mason University and director of research for the Independent Institute.

Amanda Agan conducts research on law, crime, housing, and other topics at George Mason University, where she studies economics.

A copy of *Medical Malpractice Awards, Insurance, and Negligence: Which are Related?* is available on the Manhattan Institute website, at www.manhattan-institute.org/html/cjr_10.htm

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