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Doc insurer's payouts dip

Still no rate cut in sight even as CEO pulls down \$900K

By Sarah A. Klein
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Medical malpractice payouts have fallen 10% at the state's largest physician insurer, but executives don't appear ready to cut doctors' insurance premiums yet.

ISMIE Mutual Insurance Co. paid out \$150.4 million to cover medical malpractice claims in 2004, down 10% from 2003. Premiums charged to doctors exceeded that payout by \$270.1 million, the insurer's March 1 annual filing with the Illinois Department of Insurance shows. The surplus set aside to cover unexpected losses also grew 5.3% to \$212.5 million.

CEO Alexander Lerner's 2004 compensation rose to \$947,793, up 6.7% from 2003.

Declining claims payments and a widening surplus at ISMIE come at a time when many in the medical field — and even President George W. Bush — warn of a crisis in the med-mal system.

ISMIE, with 56% of the state market and 14,000 Illinois policyholders, provides a barometer of medical malpractice trends in the state. Over the past decade, the Chicago-based insurer's total annual claims payments have held fairly steady in the \$140-million to \$160-million range.

Premiums, meanwhile, are up: ISMIE raised doctors' rates 7.4% in 2004 and 35.2% in 2003.

In April, ISMIE will set the rates it will charge doctors for the coming year. The physician-owned insurer says it hasn't set its rate plans, but in its view, the malpractice environment is "volatile and unpredictable." That can be expected to have an effect on premiums.

"Our annual rates . . . must account not only for past experience, but for expected future market conditions that can, and have, fluctuated abruptly from year to year due to legal system excess," ISMIE Chairman Harold L. Jensen writes in a statement to *Crain's*.

BOLSTERED FINANCES

The total number of malpractice claims ISMIE paid in 2004 rose to 281 from 249 in 2003, but remain below the levels of the mid-to-late-'90s, when the number of claims paid annually ran in the 400 range.

The average value of claims paid fell 20% last year to \$535,267. In 1995, the average payout was \$361,327.

The hike in premiums and the dip in claims have bolstered ISMIE's finances. The insurer in 2004 took in \$411.4 million in premiums, recorded \$40.7 million in investment income and set aside \$266.3 million against future claims. ISMIE reported a total bottom-line profit of \$11.7 million in 2004. That's down 41% from 2003, when the insurer posted a profit of \$19.8 million on premiums of \$341.8 million.

Meanwhile, ISMIE's chief executive, Mr. Lerner, got an \$80,000 bonus in 2004, bringing his total compensation to \$947,793, according to insurance department filings.

Mr. Lerner's 2003 compensation was more than twice that of R. Kevin Clinton, president and CEO of Michigan-based American Physicians Capital Inc., a malpractice insurer of similar size. (Mr. Clinton's 2004 compensation was not available.)

Regarding Mr. Lerner's compensation, ISMIE says its administrative expenses, including salaries, are among the lowest in the nation.

'LEAN, COST-EFFICIENT'

"ISMIE runs a lean, cost-efficient operation," writes the insurer's chairman, Dr. Jensen.

"We base executive compensation on review of external, objective studies of a broad range of similar insurers, and set it in the mid-range of the data," he writes. "Comparison with only one or two insurers is irrelevant and misleading. ISMIE is highly dependent on technical operational expertise for survival in a very challenging market."

As ISMIE's total payouts shrink, some observers are watching to see if the insurer will lift a moratorium on writing new malpractice coverage that was imposed in 2003. Since ISMIE stopped taking on new policyholders, physicians seeking new coverage have had to buy insurance from more expensive carriers.

The moratorium is still under review, according to Dr. Jensen. "Before we can responsibly open the doors to new policyholders, we must assure we have adequate financial capacity to cover the risk," he writes.
