



# Claims-Made *Step Increases\**

For District of Columbia Physicians

## QUESTIONS AND ANSWERS FROM PROFESSIONALS ADVOCATE

### What are step increases?

Step increases are basic components of most claims-made insurance policies and are not unique to Professionals Advocate or to medical malpractice insurance. Claims-made policies cover claims reported in a single year arising from incidents occurring while the Doctor was continuously insured under a claims-made policy. Thus, claims reported this year are covered by this year's policy; claims reported next year are covered by next year's policy, and so on. In the early years of coverage, a claims-made policy is less expensive than an appropriately priced occurrence policy.

However, claims-made premiums must increase significantly in a step fashion

during the initial years of coverage. This is necessary because each subsequent year provides coverage for claims reported as a result of medical treatment provided over a longer period of time. These step increases are over and above rate increases and continue for a certain number of years until the policy is "mature."

### How do step increases work?

Step increases reflect the fact that there will usually be a considerable period of time between the delivery of medical care and the filing of any malpractice suits that may result from that care.

Premiums will be lowest the first year because there is little

likelihood that all the claims that might result from medical care provided during the first year of a claims-made policy will surface before the end of that first year.

A policy for the second year will cost more because that policy must cover: (1) another year of time during which claims from the first year's medical practice might be reported, and (2) claims from treatment provided during the second year and reported before the end of the year.

In the same way, the third year's policy will cost more because it provides coverage for treatment provided in years one, two and three for claims that are reported during the term of the third year policy.

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*\* As with any insurance coverage, the premiums for, and the coverages provided by, Professionals Advocate, including all terms, conditions and exclusions are set forth in your policy and related documents. The descriptions contained in this brochure are intended only as a general description of how claims-made premium step increases work. These descriptions do not refer to your specific premium and are not a substitute for reading your bills and any policy provisions related to your premium. Please check with your local Professionals Advocate producer or the Professionals Advocate Customer Service department if you have specific questions about your policy premium.*

## When do the step increases end?

Professionals Advocate's step increases are spread out over the first five years of coverage. At that point the actuarial expectation of losses levels off relative to any additional years of exposure. The policy is then considered to be mature and the step increases end.

## Can you give me an example of how step increases work during the life of a claims-made policy?

For example, assume that the premium for a mature claims-made policy is \$18,110. In the first year of the policy the premium would only be about a quarter of this amount, reflecting the reduced exposure for the first year of coverage. Thus, the premium in claims-made Year 1 would be approximately \$5,000. The normal step increase would cause the premium to increase to approximately \$10,000 in Year 2.

The next step increase would result in a premium of approximately \$15,000 in Year 3.

In Year 4, the step increase would bring the premium to approximately \$17,250, and Year 5 would be approximately \$18,110.

After Year 5, the claims-made policy would be mature and the step increases would end.

## Are step increases and rate increases the same thing?

No. Because step increases are built into every claims-made coverage, they are separate from any overall rate increases that the insurance company might take.

Rate changes, which could be an overall rate increase or decrease, or specific classification or territorial rate changes, are based on a number of factors that may change from year to year. Step increases are in addition to any other changes to the rate.

## Do you need additional information?

For your convenience, information on this topic and many others is available on the Professionals Advocate web site at

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

If you have specific questions or concerns, please contact your insurance producer, or call the Professionals Advocate Customer Service Department at 410-785-0050, or 800-492-0193 (toll free).

### CLAIMS-MADE STEP FACTORS\*\*

<i>Transition Year</i>	<i>Approximate Premium Increase</i>
Year 1 to Year 2	100%
Year 2 to Year 3	50%
Year 3 to Year 4	15%
Year 4 to Year 5	5%
Year 5	Mature Claims-Made Policy

\*\* Subject to change based on company experience and insurance regulators' approval.



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