



Aon

LONG TERM CARE

2010 GENERAL LIABILITY AND PROFESSIONAL LIABILITY
Actuarial Analysis
August 2010



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INTRODUCTION

Purpose

The Actuarial and Analytics Practice of Aon Global Risk Consulting (Aon) conducted an actuarial analysis of general liability and professional liability (GL/PL) claim costs to the long term care industry operating 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
- Identify state specific trends in the cost of GL/PL claims for long term care

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,



Christian Coleianne, FCAS, MAAA
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EXECUTIVE SUMMARY

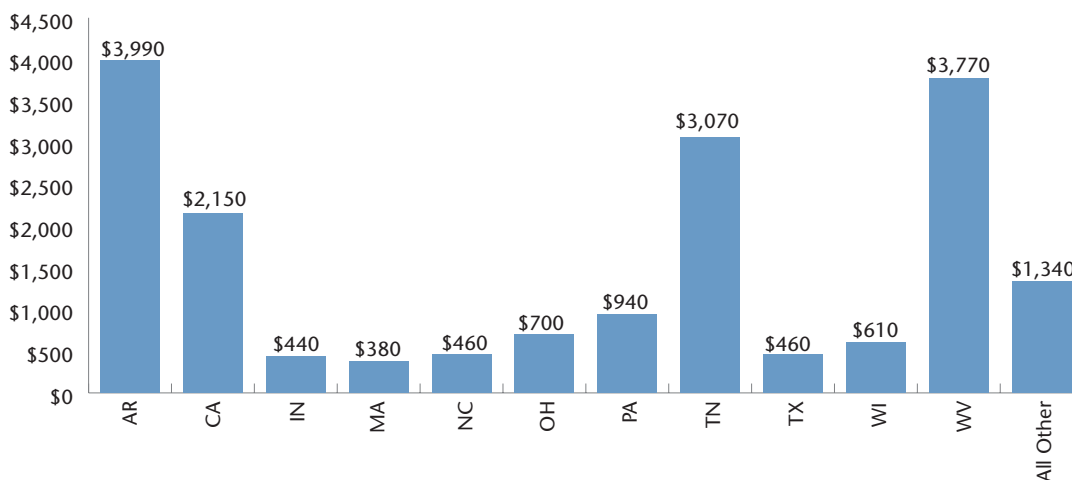
Key Findings

Based on the actuarial analysis of GL/PL claims data from long term care providers:

- Long term care loss costs remain stable on an overall basis.
- The 2009 accident year long term care GL/PL loss cost is \$1,270 per bed
- Long term care frequency is stable to decreasing on an overall basis
- The 2009 accident year long term care GL/PL frequency is 0.94% per bed
- Long term care severity is stable on an overall basis
- The 2009 accident year long term care GL/PL severity is \$135,000 per claim
- The 2009 loss cost as a percent of the Medicaid per diem reimbursement rate is 2.09%
- 2009 accident year GL/PL loss costs vary significantly by state

The stability in loss costs can be attributed to a number of influences, including the staying power of effective tort limits, the success of quality of care initiatives and the investment in the defense of claims in recent years. In states where loss costs have decreased as a percent of the Medicaid per diem reimbursement rate, more of this funding can be applied to patient care. Despite these favorable conditions, there remain states where liability costs are very high on a per bed basis, in large part due to severity. In particular, Arkansas, Tennessee and West Virginia are distinguished by high loss costs per bed.

Long Term Care Benchmark General and Professional Liability
2009 Accident Year Loss Cost per Occupied Bed
Limited to \$1M per Occurrence



	AR	CA	IN	MA	NC	OH	PA	TN	TX	WI	WV	All Other States
Loss Cost per Occupied Bed	\$3,990	\$2,150	\$440	\$380	\$460	\$700	\$940	\$3,070	\$460	\$610	\$3,770	\$1,340
Frequency per Occupied Bed	1.05%	1.10%	0.64%	0.35%	0.41%	1.06%	1.00%	0.86%	0.65%	0.54%	1.30%	1.08%
Severity per Claim	\$380,000	\$195,000	\$69,000	\$108,000	\$113,000	\$66,000	\$94,000	\$357,000	\$70,000	\$113,000	\$290,000	\$124,000
Loss Cost as a Percent of Medicaid Reimbursement	7.63%	3.63%	0.80%	0.54%	0.81%	1.15%	1.28%	5.83%	1.12%	1.15%	5.51%	2.19%

Database

In an effort to present a comprehensive analysis from the perspective of all long term care providers, Aon disseminated a request for data to for-profit and not-for-profit providers including independent providers, regional multi-facility providers and national multi-facility providers.

The results presented in this study are based on the ensuing comprehensive database of long term care GL/PL losses and allocated loss adjustment expenses (ALAE) as reported to us by 24 long term care providers operating around the country. Approximately 17,000 individual non-zero claims from long term care facilities were aggregated to perform this study. The facilities included in this database combined currently operate approximately 260,000 long term care beds, consisting primarily of skilled nursing facility beds but also including a number of independent living and assisted living beds. The participants represent approximately 14% of the beds in the United States.

The results found in this study are representative of the participants. Providers that did not participate may have different results, either higher or lower. This may be due to any number of reasons, including differences in the tort environment by state, levels of effectiveness in quality of care initiatives and the attractiveness of the provider for tort actions. Based on standard actuarial techniques, the number of claims, number of participants and bed representation assure significant credibility of the results at the countrywide level. To ensure considerable credibility in the state level results, the profiled states were selected based on year over year stability, a sizeable proportion of statewide beds and a mix of provider experience.

All long term care benchmark results published in this report are based on losses (indemnity plus allocated adjustment expense) limited to \$1 million per occurrence unless otherwise noted. The \$1 million per occurrence limitation was selected to limit the impact of large claims on the results.

Statutory limitations were based on National Conference of State Legislatures research updated March 22, 2010. Referenced statutory limitations were confirmed by retrieving the individual state codes online.

The loss costs are presented relative to the Medicaid per diem reimbursement rate. The Medicaid per diem reimbursement rate is based on data from "A Report on Shortfalls in Medicaid Funding for Nursing Home Care" produced by Eljay LLC for the AHCA and dated November 2009. The Overall Medicaid per diem reimbursement rate is based on the state exposure distribution inherent in this study.



Actuarial Analysis

The statistics presented in this report are based on an actuarial analysis of the aggregated long term care GL/PL claim database and related exposure data. The analysis applies standard actuarial methods to the claim data to develop ultimate losses and claim counts by accident year. These projections are used to calculate the following statistics presented in this report:

- Loss Cost – ultimate loss projection per occupied bed equivalent
- Overall Frequency – annual number of non-zero claims per occupied bed equivalent; a frequency of 1.0% represents 1 non-zero claim per 100 occupied bed equivalents
- Indemnity Frequency – annual number of claims with indemnity payments per occupied bed equivalent
- Severity – average ultimate size of each claim, where each claim is limited to \$1 million per occurrence



OVERALL GL/PL BENCHMARK STATISTICS

This report presents an analysis of loss cost per occupied long term care bed, claim frequency per bed and claim severity. Claim frequency statistics are presented for indemnity claims and expense only claims.

Overall Loss Cost Trends

The following graph shows the loss cost per occupied long term care bed. The annual loss cost has been generally decreasing over the past ten years.

Long Term Care Benchmark General and Professional Liability
Loss Cost per Occupied Bed
Limited to \$1M per Occurrence
Overall

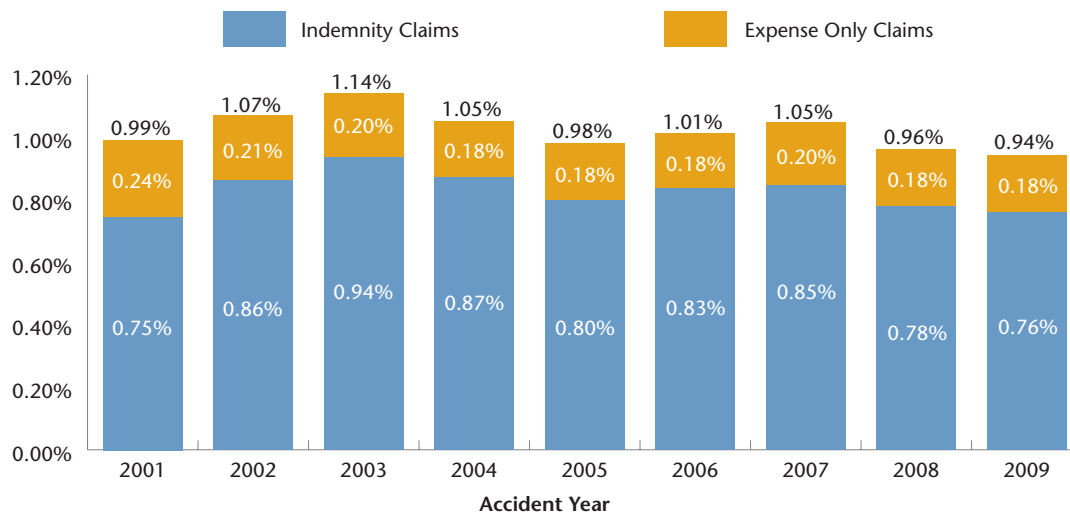


Overall Frequency Trends

The following graph shows the frequency per occupied long term care bed. The stacked bar chart below provides frequency benchmarks for both claims closed with indemnity (indemnity claims) and claims closed without indemnity (expense only claims).

The overall frequency increased in the period between 2001 and 2003. Overall frequency decreased in 2004 and was stable through 2007. Since 2007, overall frequency appears to be decreasing again.

Long Term Care Benchmark General and Professional Liability
Claim Frequency per Occupied Bed
Overall



Overall Severity Trends

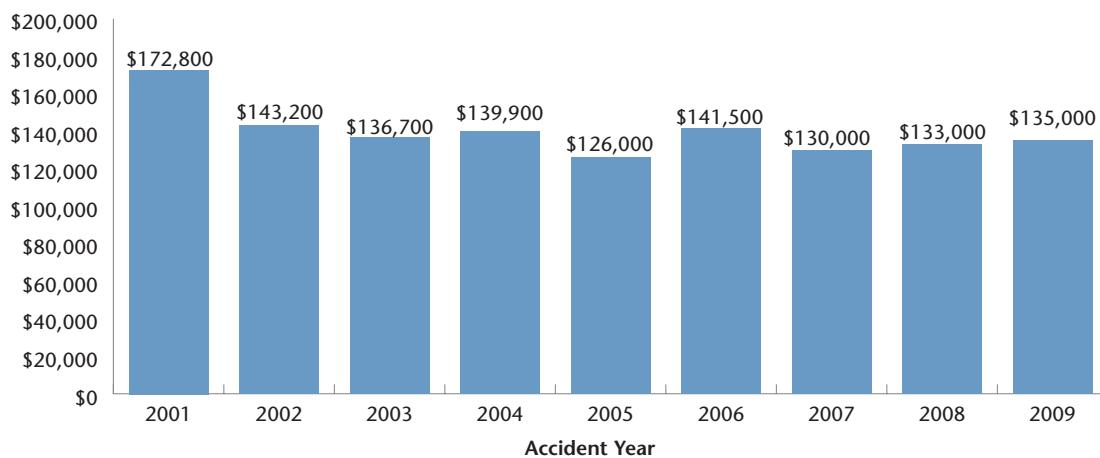
The following graph shows the average size per long term care claim (severity). The average severity decreased greatly from 2001 to a low point in 2005. Severity is stable since 2007 at \$135,000.

Long Term Care Benchmark General and Professional Liability

Severity per Claim

Limited to \$1M per Occurrence

Overall

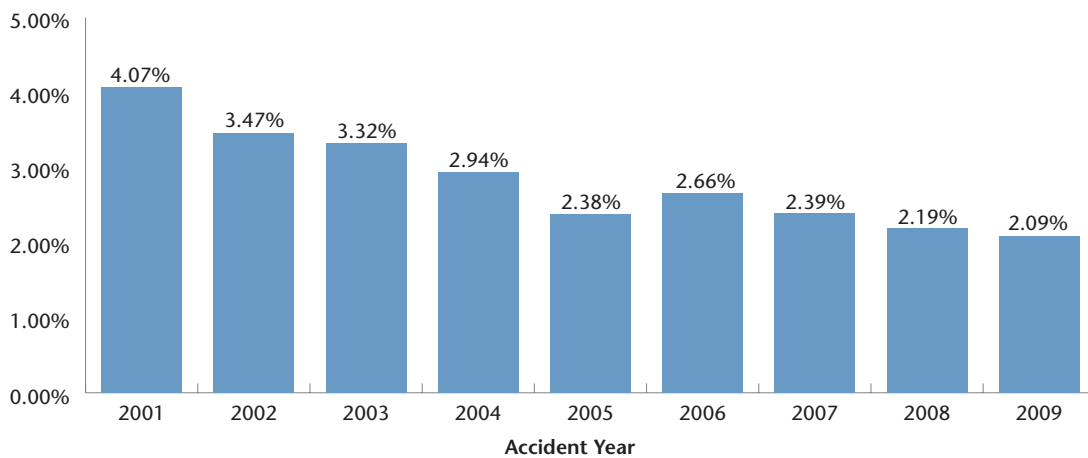


Overall Liability Costs and Medicaid Reimbursement Rates

Medicaid is a significant source of revenue for Long Term Care providers.

The following graph shows the per diem loss cost per bed charted against the Overall Medicaid per diem reimbursement rate. The Overall Medicaid reimbursement rate shown here is a state rate weighted by the exposure distribution inherent in this study. As a percent of the Overall Medicaid per diem reimbursement rate, liability costs have been decreasing over the past several years.

Long Term Care Benchmark General and Professional Liability
Loss Cost as a Percentage of Medicaid Reimbursement
Limited to \$1M per Occurrence
Overall



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average Medicaid Per Diem Reimbursement	\$115.05	\$120.91	\$128.46	\$137.02	\$142.89	\$147.54	\$156.08	\$160.39	\$166.32
Per Diem Loss Cost per Bed	\$4.68	\$4.19	\$4.27	\$4.03	\$3.40	\$3.92	\$3.73	\$3.51	\$3.48



Closed Claim Analysis

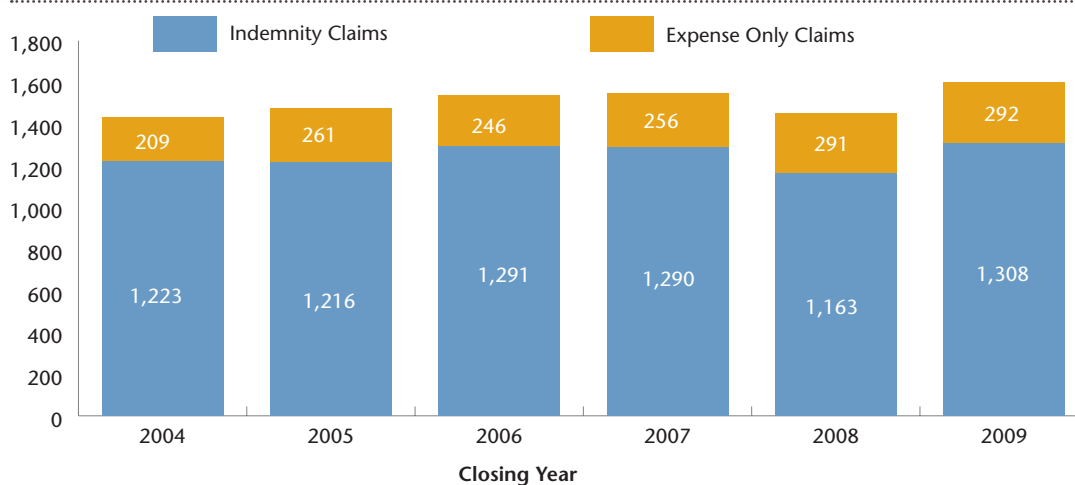
To further investigate trends in claim severity, a closed claim analysis is presented below. Payments are organized by the closing year for each claim in the database.

Overall, the size of claims closed with indemnity is stable, as is the relationship of claims closed with indemnity to claims closed with expense only.

INDEMNITY AND EXPENSE ONLY CLAIM COUNTS

The following graph presents the counts for claims closed with an indemnity payment and expense only claims. The lower portion of each bar is the number of claims that closed with an indemnity payment. The upper portion of each bar represents the number of claims that closed, but with an expense amount only.

Long Term Care Benchmark General and Professional Liability
Closed Claim Counts



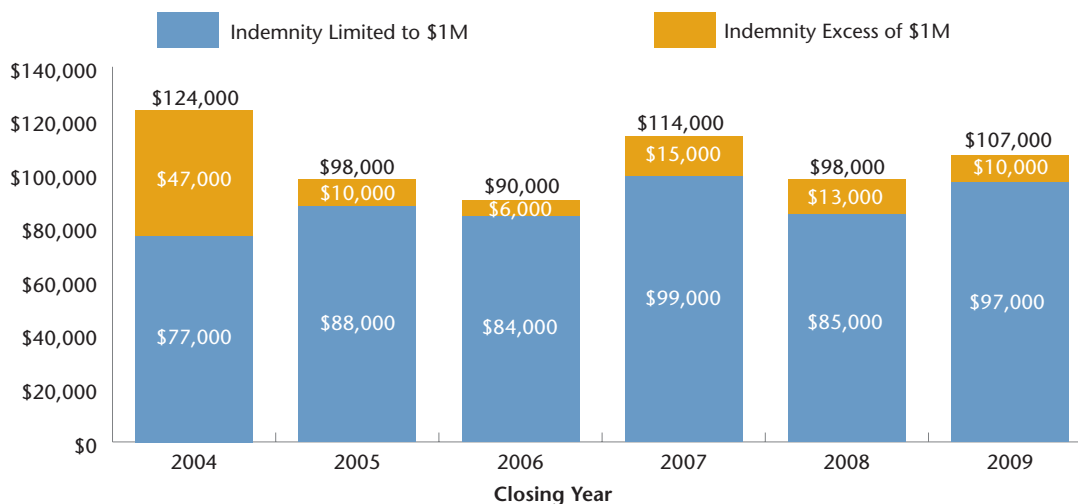
AVERAGE PAID INDEMNITY ON CLAIMS CLOSED WITH AN INDEMNITY PAYMENT

The following graph presents the average paid indemnity for claims closed with an indemnity payment. The number above each bar is the total average paid indemnity for all claims. The number in the blue bar is the average paid indemnity for claims limited to \$1 million. The number in the orange bar is the contribution to the total average paid indemnity from claims greater than \$1 million.

The chart below the graph shows the number of closed claims with indemnity payments greater than \$1 million in the database.

There is no clear trend in the average indemnity on claims closed with indemnity.

Long Term Care Benchmark General and Professional Liability Average Paid Indemnity on Claims Closed with an Indemnity Payment



Number of Closed Claims with Indemnity Payments Greater than \$1M					
2004	2005	2006	2007	2008	2009
15	18	11	18	12	17



AVERAGE PAID EXPENSE ON CLAIMS CLOSED WITH AN INDEMNITY PAYMENT

The following graph presents the average paid loss adjustment expense on claims closed with an indemnity payment. Since 2005, the average paid expense on claims closed with indemnity has been between \$35,000 and \$45,000.

Long Term Care Benchmark General and Professional Liability
Average Paid Expense on Claims Closed with an Indemnity Payment



AVERAGE PAID EXPENSE ON CLAIMS CLOSED WITH EXPENSE ONLY

The following graph presents the average paid loss adjustment expense on claims closed with expense only. The average expense paid on expense only claims has been relatively stable since 2005.

Long Term Care Benchmark General and Professional Liability
Average Paid Expense on Claims Closed with Expense Only



STATE SPECIFIC RESULTS

Arkansas

The participants in this study represent approximately 4,900 occupied long term care beds in the state. This is approximately 28% of the state total long term care beds.

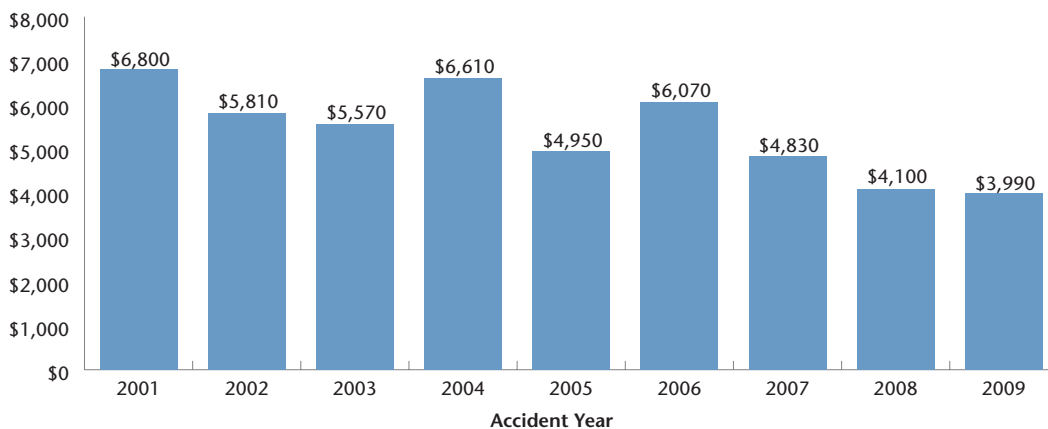
The following graphs present the loss cost per occupied bed, claim frequency per occupied bed, claim severity and loss costs relative to the Medicaid per diem reimbursement rate. Frequency is shown for claims with indemnity payments and expense only claims.

LOSS COST

The estimated loss cost per occupied long term care bed is \$3,990, which is the highest loss cost in the study. Loss costs are trending downward from their high in 2001.

Arkansas enacted legislation in 2003 to limit non-economic damages to \$250,000 per plaintiff, or three times the amount of economic damages, not to exceed \$1 million. The limits can be bypassed when intent to harm is present. While this legislation may have had some impact on the loss cost trend, the state's loss costs levels remain much higher than other profiled states.

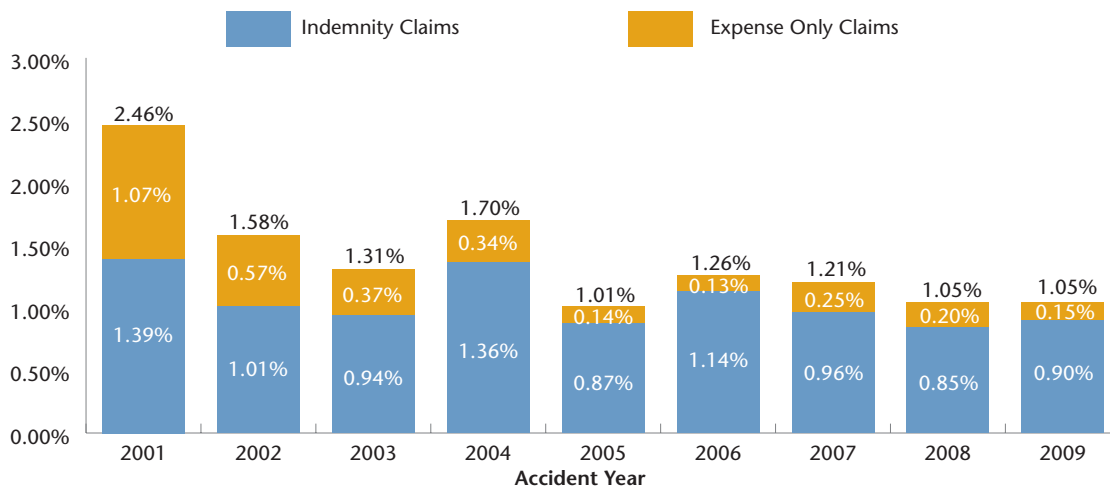
Long Term Care Benchmark General and Professional Liability
Loss Cost per Occupied Bed
Limited to \$1M per Occurrence
Arkansas



FREQUENCY

Claim frequency dropped sharply in from 2001 to 2002, reaching a low point in 2005. Claim frequency is currently at 1.05%.

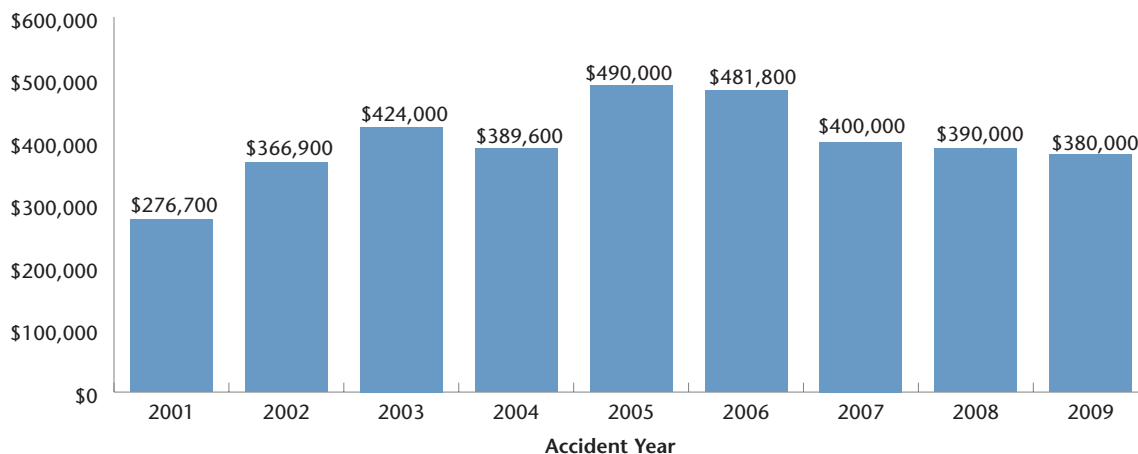
Long Term Care Benchmark General and Professional Liability
Claim Frequency per Occupied Bed
Arkansas



SEVERITY

While claim severity is decreasing since its high of \$490,000 in 2005, Arkansas has the highest severity of the states profiled in this study. The severity decline is the driving influence behind the overall loss cost decrease.

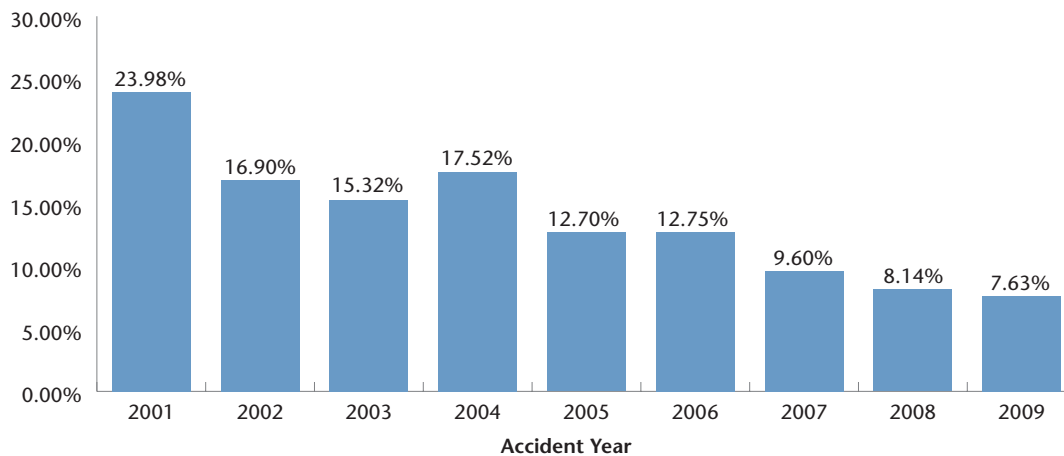
Long Term Care Benchmark General and Professional Liability
Severity per Claim
Limited to \$1M per Occurrence
Arkansas



MEDICAID PER DIEM REIMBURSEMENT

The loss cost as a percent of the Medicaid per diem reimbursement rate has been steadily declining over the past ten years. The current rate of 7.63% is less than one third of its peak in 2001. Despite this improving trend, Arkansas's rate is the highest in this study.

Long Term Care Benchmark General and Professional Liability
Loss Cost as a Percentage of Medicaid Reimbursement
Limited to \$1M per Occurrence
Arkansas



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average Medicaid Per Diem Reimbursement	\$77.69	\$94.21	\$99.58	\$103.36	\$106.78	\$130.40	\$137.83	\$137.96	\$143.20
Per Diem Loss Cost per Bed	\$18.63	\$15.92	\$15.26	\$18.11	\$13.56	\$16.63	\$13.23	\$11.23	\$10.93

California

The participants in this study represent approximately 10,100 occupied long term care beds in the state. This is approximately 10% of the state total long term care beds.

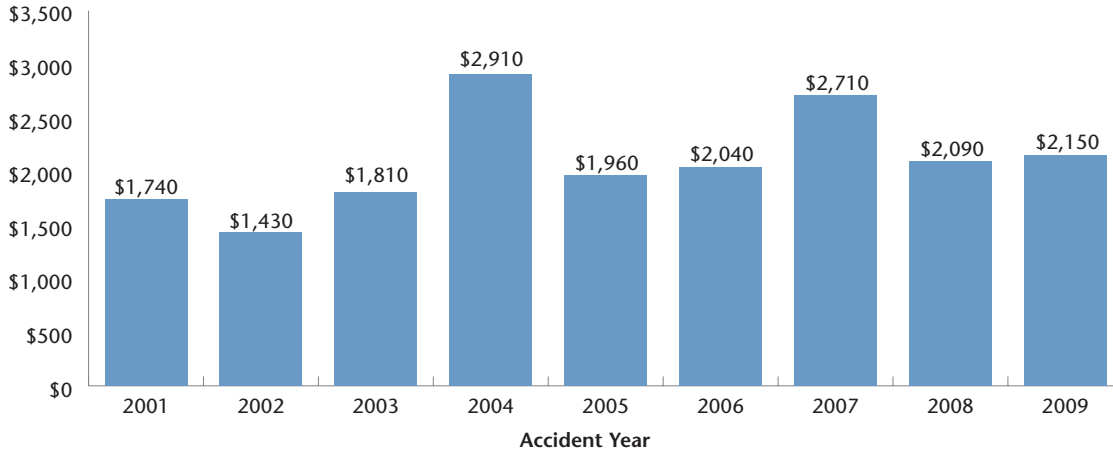
The following graphs present the loss cost per occupied bed, claim frequency per occupied bed, claim severity and loss costs relative to the Medicaid per diem reimbursement rate. Frequency is shown for claims with indemnity payments and expense only claims.

LOSS COST

The estimated loss cost per occupied long term care bed is \$2,150, the fourth highest of the profiled states. In California, the loss costs show an increasing trend.

While California has a \$250,000 cap on non-economic damages through The Medical Injury Compensation Reform Act of 1975 (MICRA), The Elder Abuse and Dependent Adult Civil Protection Act (EADACPA), enacted in 1982, effectively bypasses these caps in cases of abuse or negligence to nursing home residents.

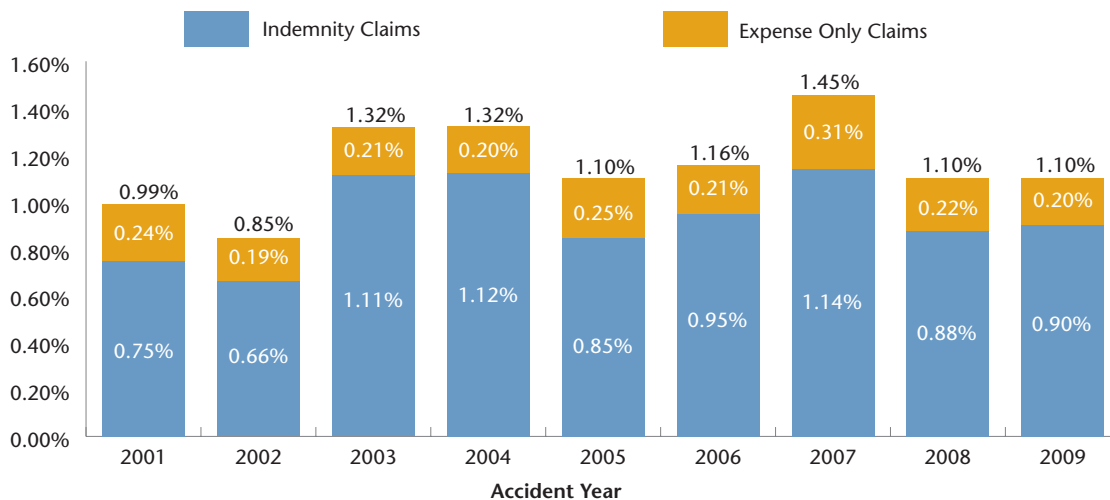
Long Term Care Benchmark General and Professional Liability
Loss Cost per Occupied Bed
Limited to \$1M per Occurrence
California



FREQUENCY

At 1.10%, California's frequency of claims per bed is the second highest of the profiled states. While this frequency rate is high relative to the other profiled states, it does not appear to be increasing.

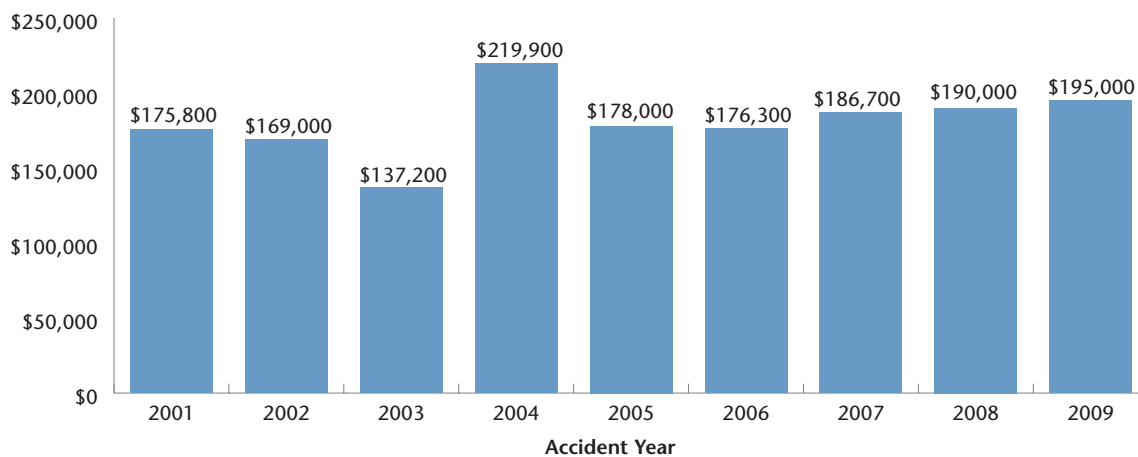
Long Term Care Benchmark General and Professional Liability
Claim Frequency per Occupied Bed
California



SEVERITY

The severity in California is the fourth highest of the profiled states at \$195,000 per claim. The increasing trend in severity is the force behind California's overall increasing loss cost levels.

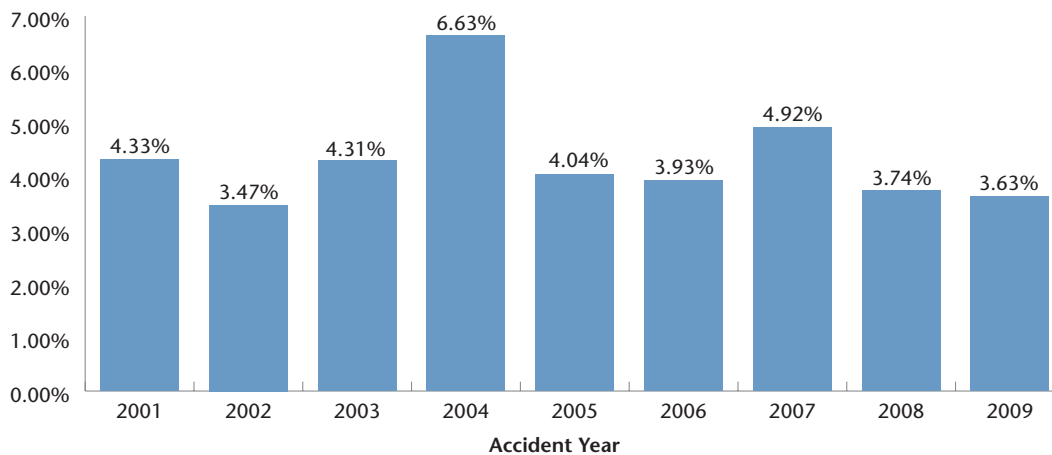
Long Term Care Benchmark General and Professional Liability
Severity per Claim
Limited to \$1M per Occurrence
California



MEDICAID PER DIEM REIMBURSEMENT

The loss cost as a percent of the Medicaid per diem reimbursement rate appears stable, and, at 3.63%, is the fourth highest among the profiled states.

Long Term Care Benchmark General and Professional Liability
Loss Cost as a Percentage of Medicaid Reimbursement
Limited to \$1M per Occurrence
California



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average Medicaid Per Diem Reimbursement	\$110.27	\$112.93	\$115.10	\$120.15	\$132.83	\$142.14	\$150.69	\$153.19	\$162.45
Per Diem Loss Cost per Bed	\$4.77	\$3.92	\$4.96	\$7.97	\$5.37	\$5.59	\$7.42	\$5.73	\$5.89

Indiana

The participants in this study represent approximately 11,600 occupied long term care beds in the state. This is approximately 24% of the state total long term care beds.

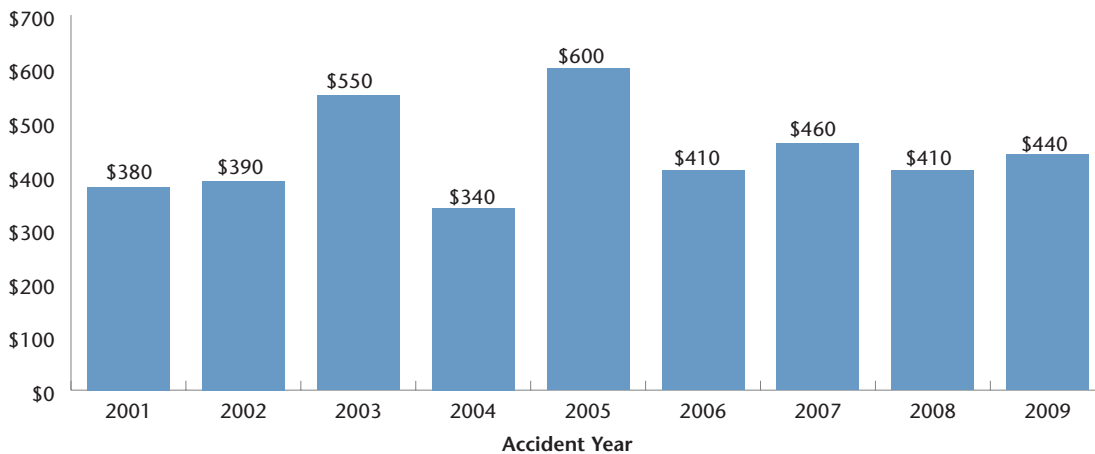
The following graphs present the loss cost per occupied bed, claim frequency per occupied bed, claim severity and loss costs relative to the Medicaid per diem reimbursement rate. Frequency is shown for claims with indemnity payments and expense only claims.

LOSS COST

At \$440 per occupied bed, Indiana's loss cost is among the lowest of the profiled states.

In Indiana, a provider's liability is limited to \$250,000 per occurrence. There is a Patient Compensation Fund (PCF) which provides for recovery of damage above \$250,000 up to \$1.25 million.

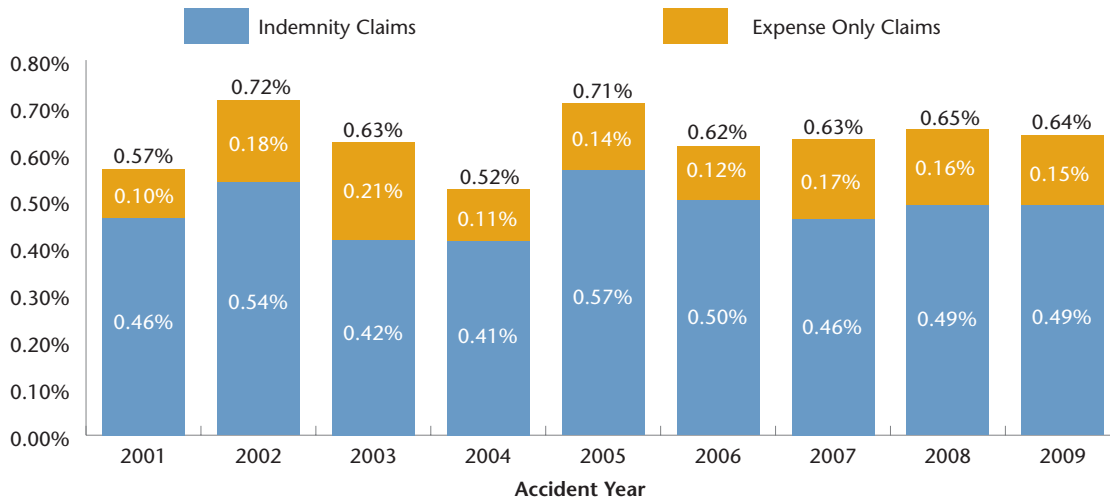
Long Term Care Benchmark General and Professional Liability
Loss Cost per Occupied Bed
Limited to \$1M per Occurrence
Indiana



FREQUENCY

Indiana's frequency is stable at 0.64%.

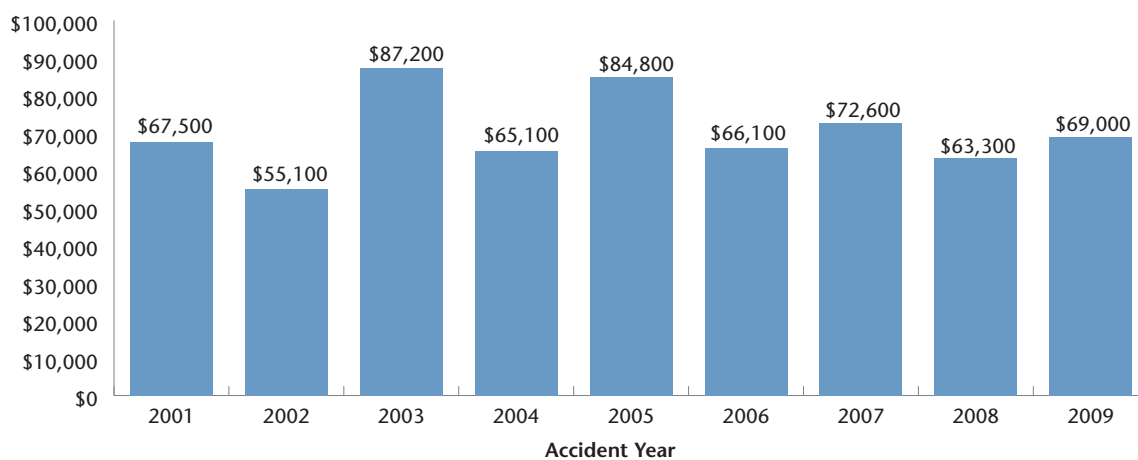
Long Term Care Benchmark General and Professional Liability
Claim Frequency per Occupied Bed
Indiana



SEVERITY

Indiana's severity is the second lowest of the profiled states, with an average size of \$69,000.

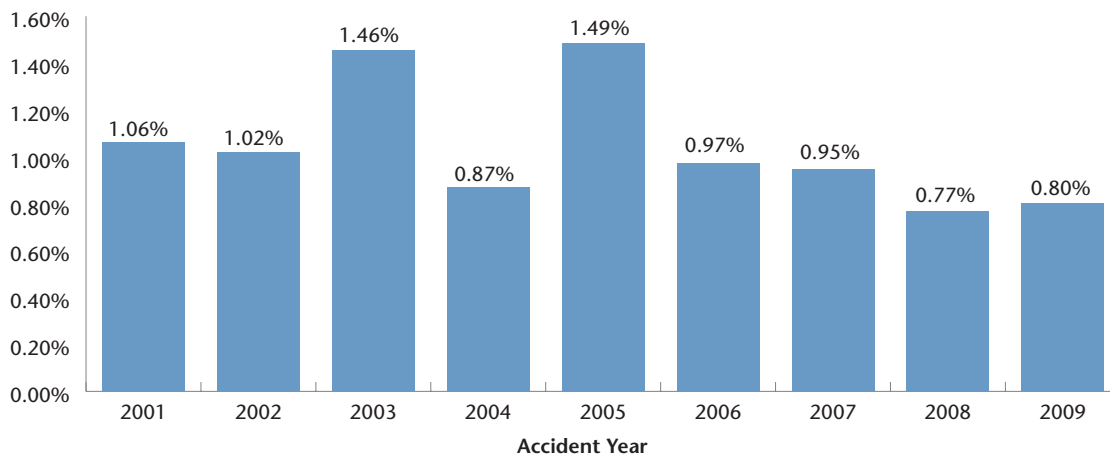
Long Term Care Benchmark General and Professional Liability
Severity per Claim
Limited to \$1M per Occurrence
Indiana



MEDICAID PER DIEM REIMBURSEMENT

The loss costs as a percent of the Medicaid per diem reimbursement rate is second lowest of the profiled states at 0.80%. While loss costs are moderately increasing, the proportion of the Medicaid per diem reimbursement rate is decreasing.

Long Term Care Benchmark General and Professional Liability
Loss Cost as a Percentage of Medicaid Reimbursement
Limited to \$1M per Occurrence
Indiana



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average Medicaid Per Diem Reimbursement	\$97.88	\$104.92	\$103.68	\$106.87	\$110.40	\$114.92	\$132.94	\$145.53	\$151.06
Per Diem Loss Cost per Bed	\$1.04	\$1.07	\$1.51	\$0.93	\$1.64	\$1.12	\$1.26	\$1.12	\$1.21

Massachusetts

The participants in this study represent approximately 11,200 occupied long term care beds in the state. This is approximately 22% of the state total long term care beds.

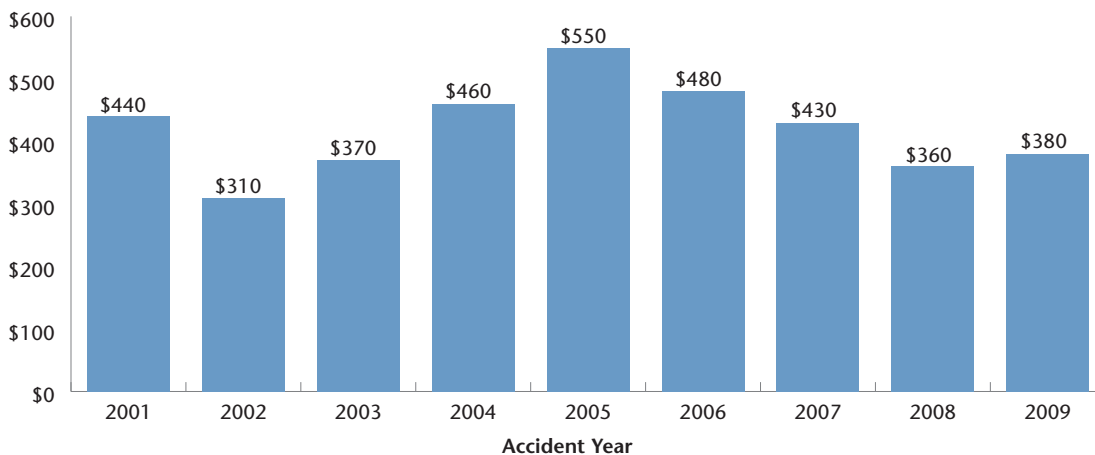
The following graphs present the loss cost per occupied bed, claim frequency per occupied bed, claim severity and loss costs relative to the Medicaid per diem reimbursement rate. Frequency is shown for claims with indemnity payments and expense only claims.

LOSS COST

The Massachusetts loss cost per occupied bed exhibits a steep increase until a peak in 2005. Since that time, the loss cost has reversed course and decreased substantially to a current level of \$380 per occupied bed, the lowest loss cost of the profiled states.

Massachusetts limits a providers liability to \$500,000 per occurrence for non-economic damages.

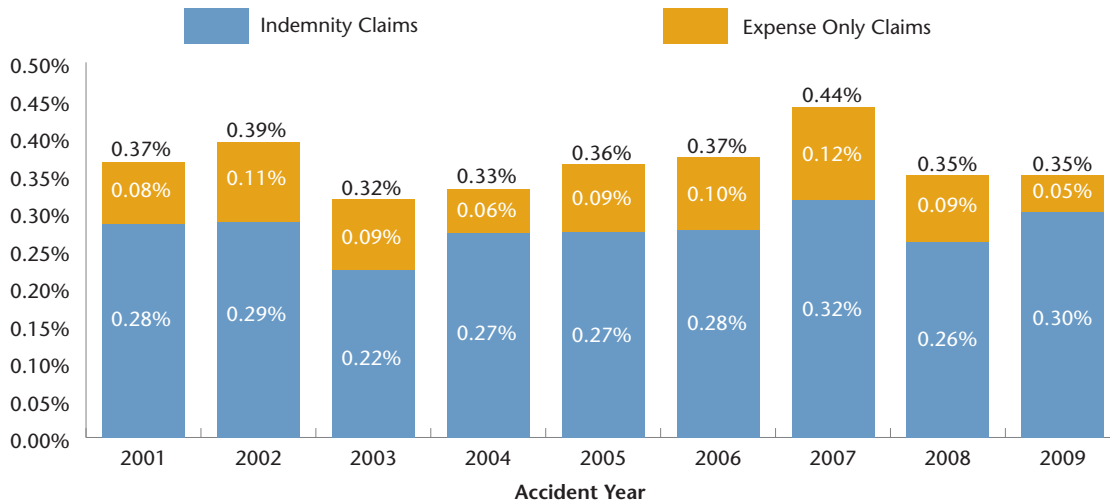
Long Term Care Benchmark General and Professional Liability
Loss Cost per Occupied Bed
Limited to \$1M per Occurrence
Massachusetts



FREQUENCY

Frequency in Massachusetts is stable at 0.35%, and is the lowest of the profiled states.

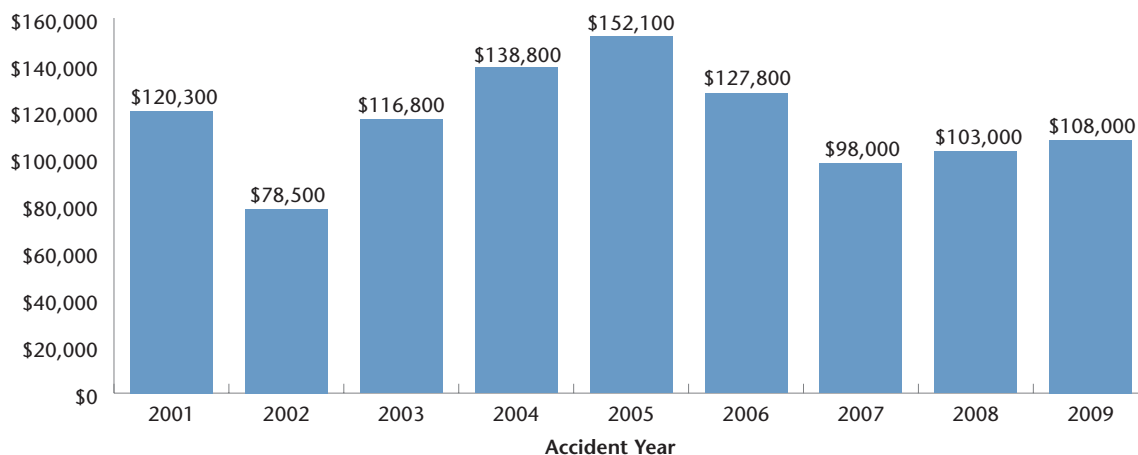
Long Term Care Benchmark General and Professional Liability
Claim Frequency per Occupied Bed
Massachusetts



SEVERITY

Severity movements drive the loss cost changes in Massachusetts. After two years of decreases in 2006 and 2007, severity is increasing at a moderate level.

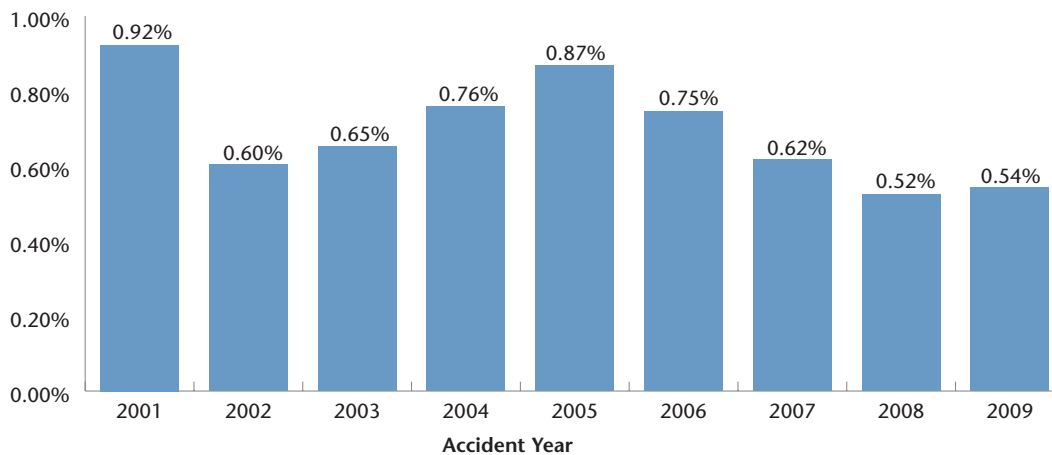
Long Term Care Benchmark General and Professional Liability
Severity per Claim
Limited to \$1M per Occurrence
Massachusetts



MEDICAID PER DIEM REIMBURSEMENT

Among the profiled states, Massachusetts has the lowest loss cost as a percent of the Medicaid per diem reimbursement rate at 0.54%. This ratio has moved in step with the overall loss cost level.

Long Term Care Benchmark General and Professional Liability
Loss Cost as a Percentage of Medicaid Reimbursement
Limited to \$1M per Occurrence
Massachusetts



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average Medicaid Per Diem Reimbursement	\$131.07	\$140.63	\$154.94	\$165.96	\$173.94	\$177.16	\$191.30	\$189.23	\$192.01
Per Diem Loss Cost per Bed	\$1.21	\$0.85	\$1.01	\$1.26	\$1.51	\$1.32	\$1.18	\$0.99	\$1.04

North Carolina

The participants in this study represent approximately 11,300 occupied long term care beds in the state. This is approximately 25% of the state total long term care beds.

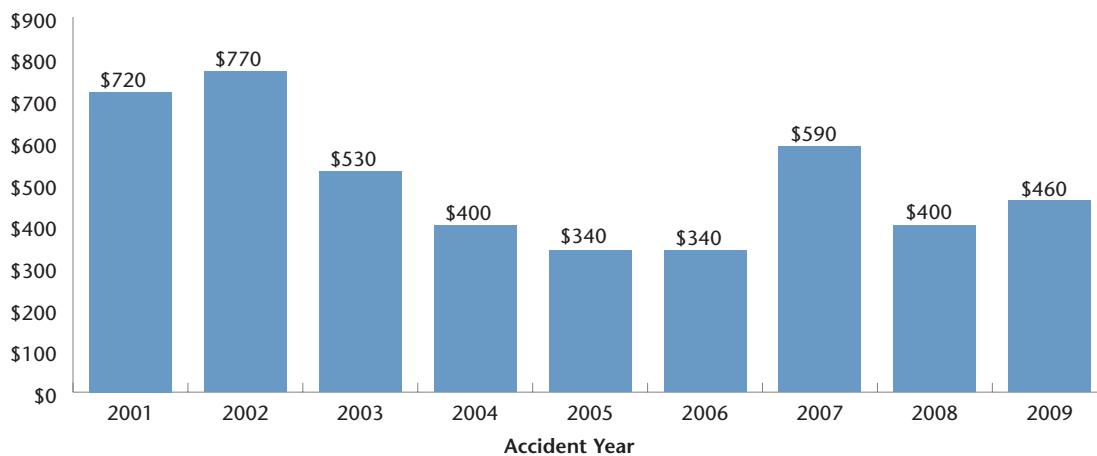
The following graphs present the loss cost per occupied bed, claim frequency per occupied bed, claim severity and loss costs relative to the Medicaid per diem reimbursement rate. Frequency is shown for claims with indemnity payments and expense only claims.

LOSS COST

The loss cost in North Carolina has decreased from a high in 2002 of \$770 per occupied bed to a low in 2006 of \$340 per occupied bed. Since 2006, the loss cost level is increasing to its current level of \$460 per occupied bed.

In North Carolina, punitive damages are limited to the greater of \$250,000 or three times the economic damages.

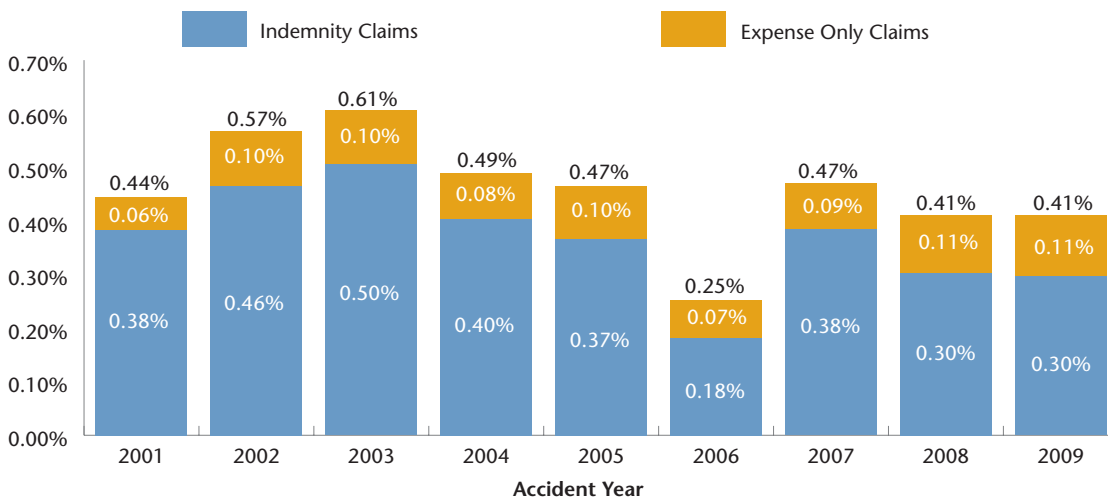
Long Term Care Benchmark General and Professional Liability
Loss Cost per Occupied Bed
Limited to \$1M per Occurrence
North Carolina



FREQUENCY

Frequency peaked in 2003 at 0.61%, but has since dropped to 0.41%. North Carolina has the second lowest frequency of the profiled states.

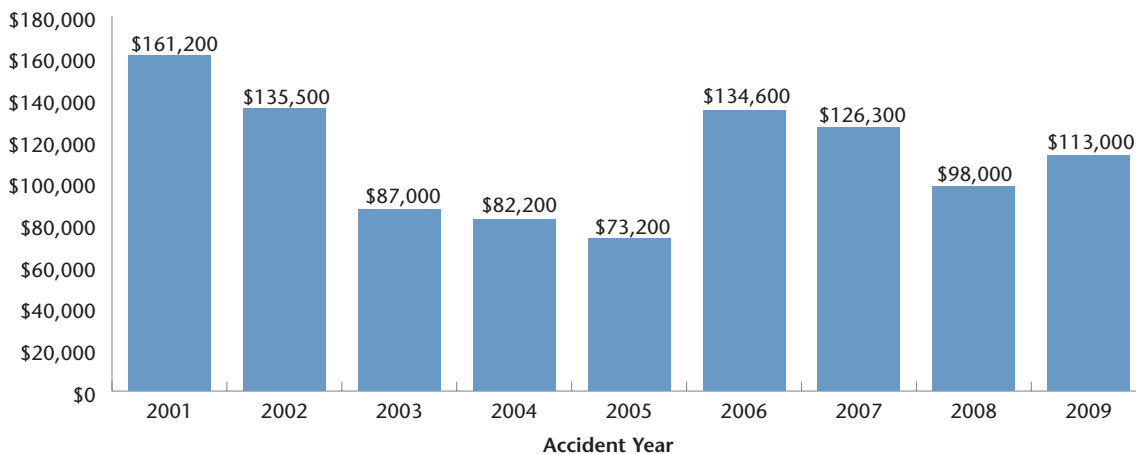
Long Term Care Benchmark General and Professional Liability
Claim Frequency per Occupied Bed
North Carolina



SEVERITY

Severity was at its highest point in 2001 at \$161,200. The current claim severity is \$113,000.

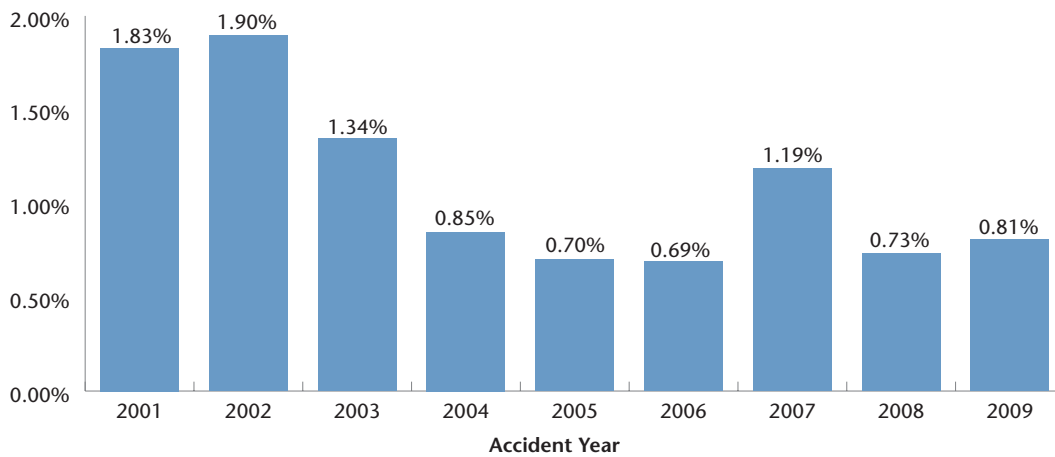
Long Term Care Benchmark General and Professional Liability
Severity per Claim
Limited to \$1M per Occurrence
North Carolina



MEDICAID PER DIEM REIMBURSEMENT

North Carolina's loss cost as a percent of the Medicaid per diem reimbursement rate is 0.81%, the third lowest of the profiled states.

Long Term Care Benchmark General and Professional Liability
Loss Cost as a Percentage of Medicaid Reimbursement
Limited to \$1M per Occurrence
North Carolina



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average Medicaid Per Diem Reimbursement	\$107.62	\$111.29	\$107.87	\$129.67	\$132.87	\$134.18	\$136.54	\$150.33	\$155.69
Per Diem Loss Cost per Bed	\$1.97	\$2.11	\$1.45	\$1.10	\$0.93	\$0.93	\$1.62	\$1.10	\$1.26

Ohio

The participants in this study represent approximately 15,900 occupied long term care beds in the state. This is approximately 18% of the state total long term care beds.

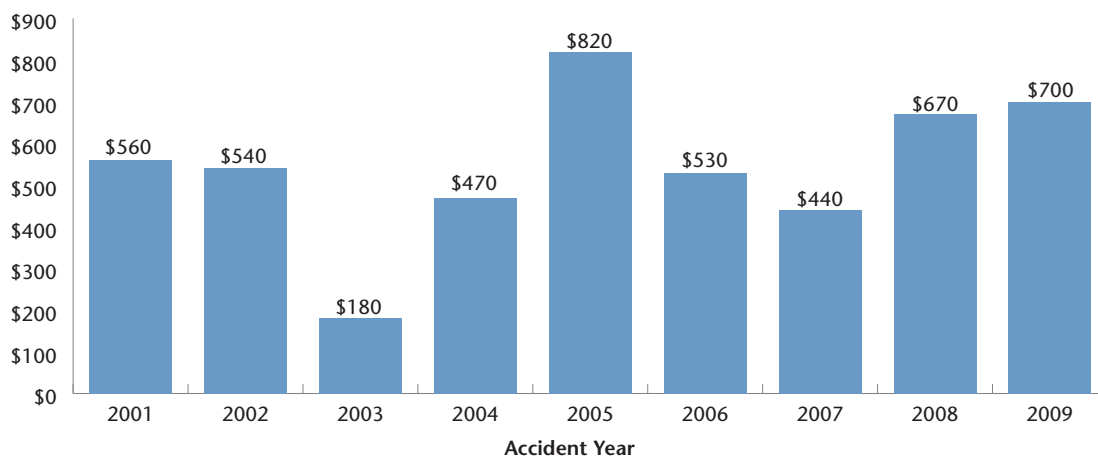
The following graphs present the loss cost per occupied bed, claim frequency per occupied bed, claim severity and loss costs relative to the Medicaid per diem reimbursement rate. Frequency is shown for claims with indemnity payments and expense only claims.

LOSS COST

The loss cost level in Ohio exhibits volatility and has increased to \$700 per occupied bed.

Ohio enacted tort reform legislation in 2003. The enacted legislation provided for limits on non-economic damages of \$250,000 or three times the economic damages, limited to \$350,000. These caps are increased when certain specific injuries are involved. Ohio's tort reform was challenged and upheld in late 2007.

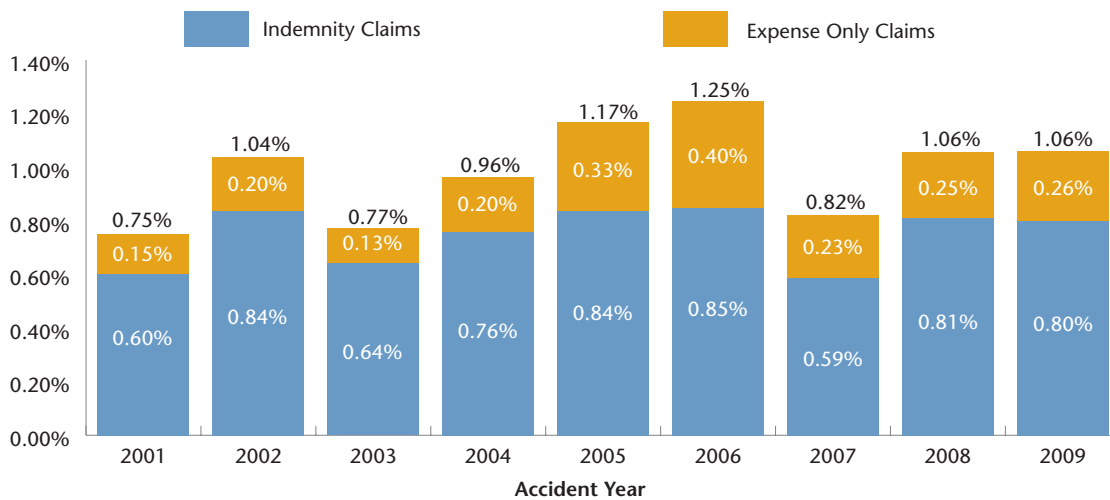
Long Term Care Benchmark General and Professional Liability
Loss Cost per Occupied Bed
Limited to \$1M per Occurrence
Ohio



FREQUENCY

Ohio's frequency is 1.06% and is the third highest of the profiled states. There is no clear trend in frequency over the past several years.

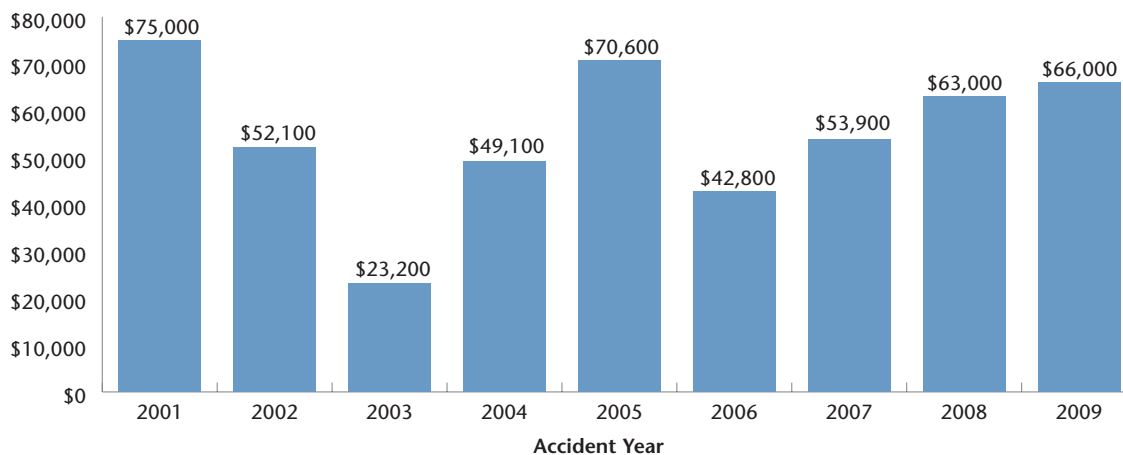
Long Term Care Benchmark General and Professional Liability
Claim Frequency per Occupied Bed
Ohio



SEVERITY

Recent increases in Ohio loss cost levels can be attributed to rising severity. Interestingly, Ohio has the lowest severity of the profiled states.

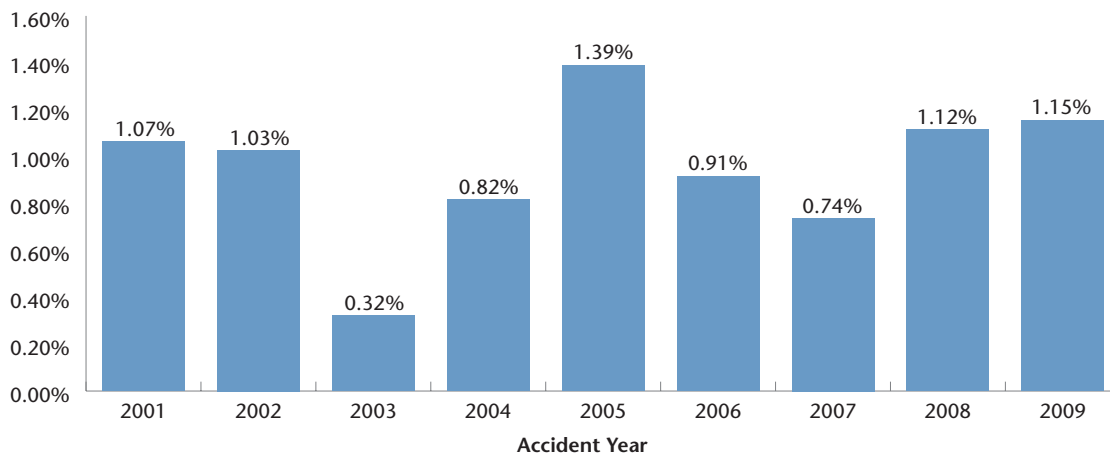
Long Term Care Benchmark General and Professional Liability
Severity per Claim
Limited to \$1M per Occurrence
Ohio



MEDICAID PER DIEM REIMBURSEMENT

The loss cost as a percent of the Medicaid per diem reimbursement rate is increasing in recent years.

Long Term Care Benchmark General and Professional Liability
Loss Cost as a Percentage of Medicaid Reimbursement
Limited to \$1M per Occurrence
Ohio



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average Medicaid Per Diem Reimbursement	\$143.54	\$143.96	\$152.71	\$158.09	\$161.89	\$158.71	\$163.96	\$164.89	\$166.72
Per Diem Loss Cost per Bed	\$1.53	\$1.48	\$0.49	\$1.29	\$2.25	\$1.45	\$1.21	\$1.84	\$1.92

Pennsylvania

The participants in this study represent approximately 25,300 occupied long term care beds in the state. This is approximately 27% of the state total long term care beds.

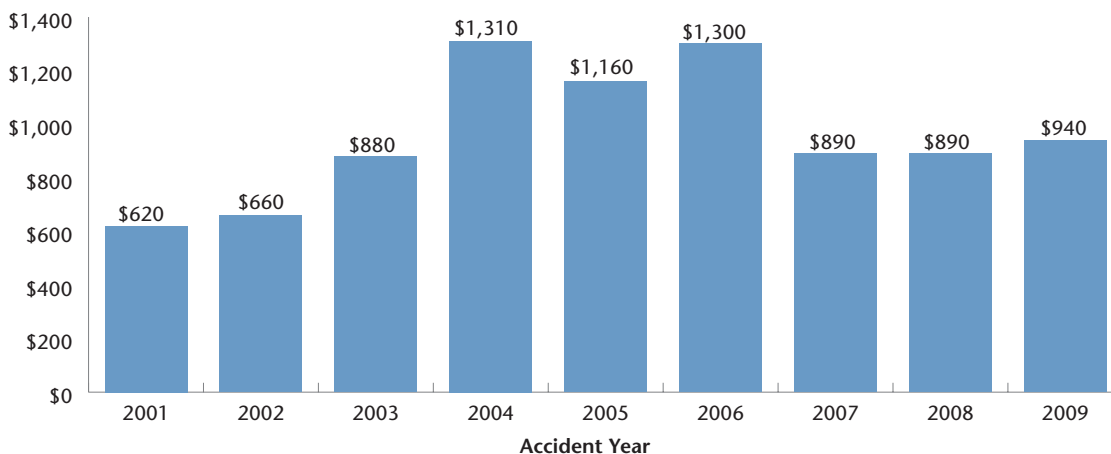
The following graphs present the loss cost per occupied bed, claim frequency per occupied bed, claim severity and loss costs relative to the Medicaid per diem reimbursement rate. Frequency is shown for claims with indemnity payments and expense only claims.

LOSS COST

Following a spike in the loss cost per occupied bed in 2004 through 2006, the loss cost per occupied bed has settled to a level under \$1,000, and is currently at \$940.

Limits on damages are constitutionally prohibited in Pennsylvania. In 2002, Pennsylvania established MCARE, which funds claims above \$500,000 per occurrence, up to \$1.2 million per occurrence. Providers are required to insure up to \$500,000 per occurrence. Curiously, the Pennsylvania results show increasing costs in the years immediately after MCARE was established, due to higher frequency of claims.

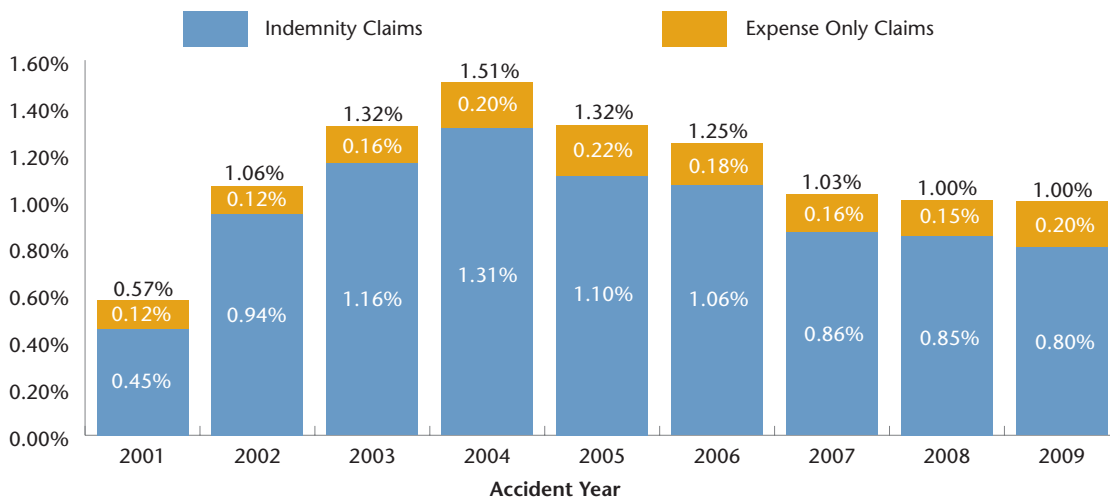
Long Term Care Benchmark General and Professional Liability
Loss Cost per Occupied Bed
Limited to \$1M per Occurrence
Pennsylvania



FREQUENCY

Frequency increased to a peak of 1.51% in 2004 before declining to the current level of 1.00%. This period of increase correlates to an increasing loss cost over the same period.

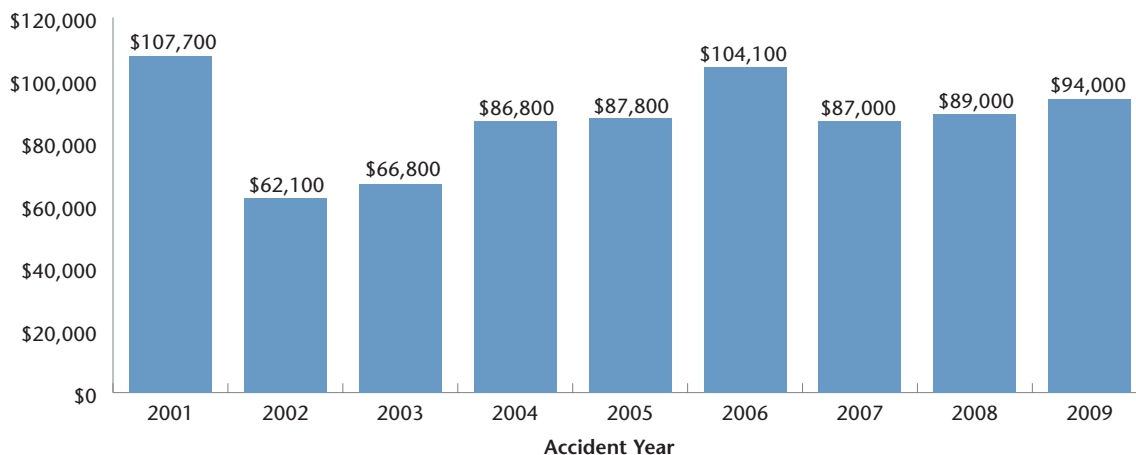
Long Term Care Benchmark General and Professional Liability Claim Frequency per Occupied Bed Pennsylvania



SEVERITY

Claim severity is generally increasing over time in Pennsylvania to \$94,000 in 2009.

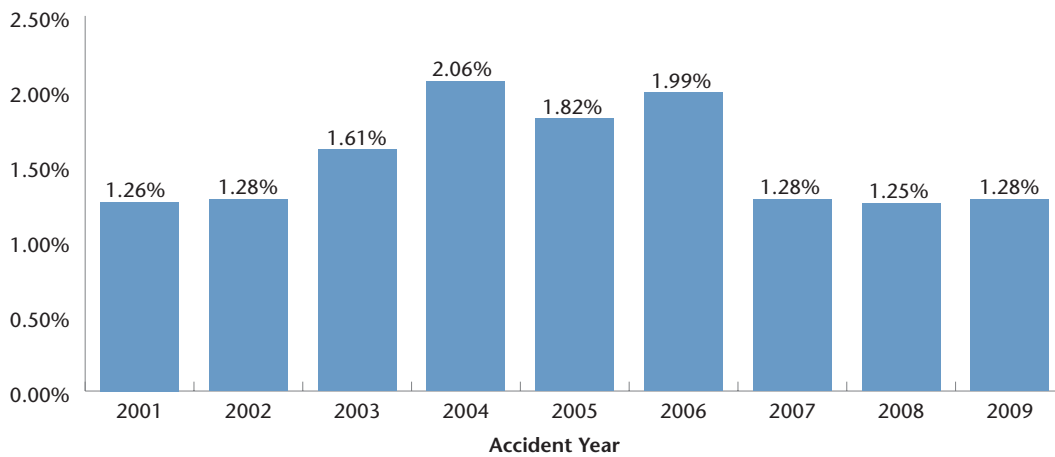
Long Term Care Benchmark General and Professional Liability Severity per Claim Limited to \$1M per Occurrence Pennsylvania



MEDICAID PER DIEM REIMBURSEMENT

The loss cost as a percent of the Medicaid per diem reimbursement rate reached its highest point of 2.06% in 2004, but has since decreased to 1.28%.

Long Term Care Benchmark General and Professional Liability
Loss Cost as a Percentage of Medicaid Reimbursement
Limited to \$1M per Occurrence
Pennsylvania



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average Medicaid Per Diem Reimbursement	\$134.57	\$141.65	\$149.72	\$173.97	\$175.08	\$179.17	\$190.83	\$194.94	\$202.09
Per Diem Loss Cost per Bed	\$1.70	\$1.81	\$2.41	\$3.59	\$3.18	\$3.56	\$2.44	\$2.44	\$2.58

Tennessee

The participants in this study represent approximately 12,000 occupied long term care beds in the state. This is approximately 31% of the state total long term care beds.

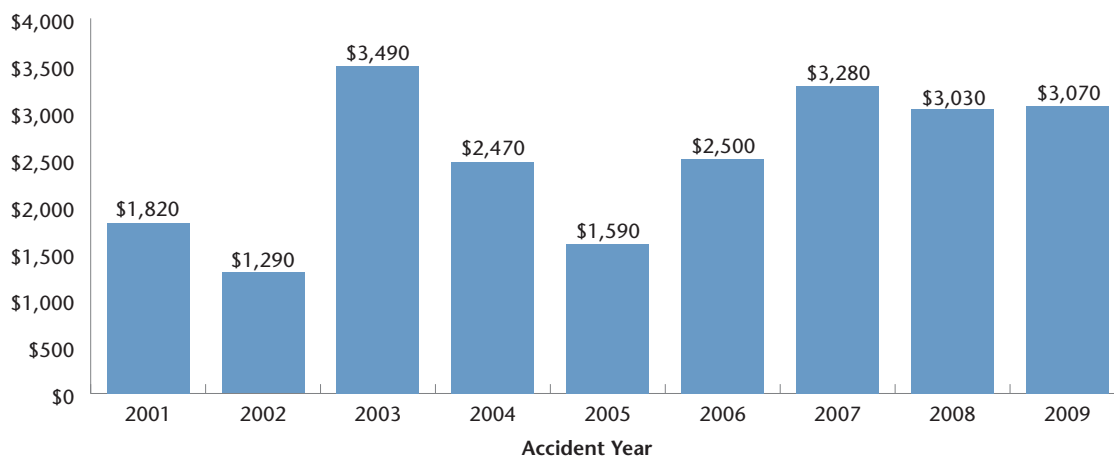
The following graphs present the loss cost per occupied bed, claim frequency per occupied bed, claim severity and loss costs relative to the Medicaid per diem reimbursement rate. Frequency is shown for claims with indemnity payments and expense only claims.

LOSS COST

At \$3,070, Tennessee has the third highest loss cost of the profiled states. The loss cost exhibits historical volatility, but is consistently high compared to other states.

Unlike many other states, Tennessee has no legislated limits on tort awards. In recent years, efforts to promote tort reform have been unsuccessful.

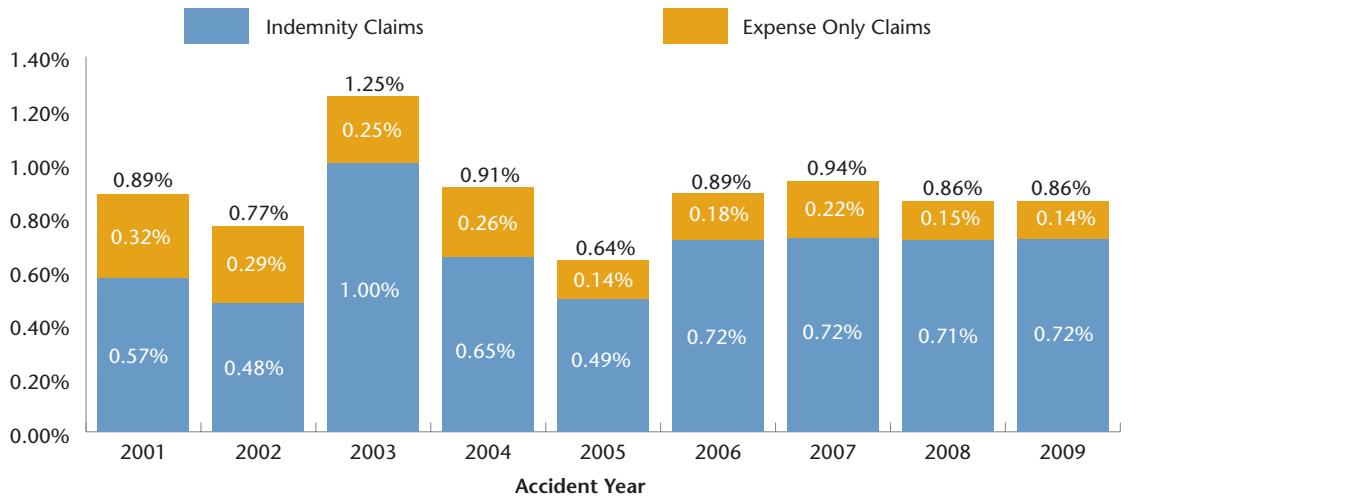
Long Term Care Benchmark General and Professional Liability
Loss Cost per Occupied Bed
Limited to \$1M per Occurrence
Tennessee



FREQUENCY

Frequency in Tennessee is stable at 0.86% per occupied bed.

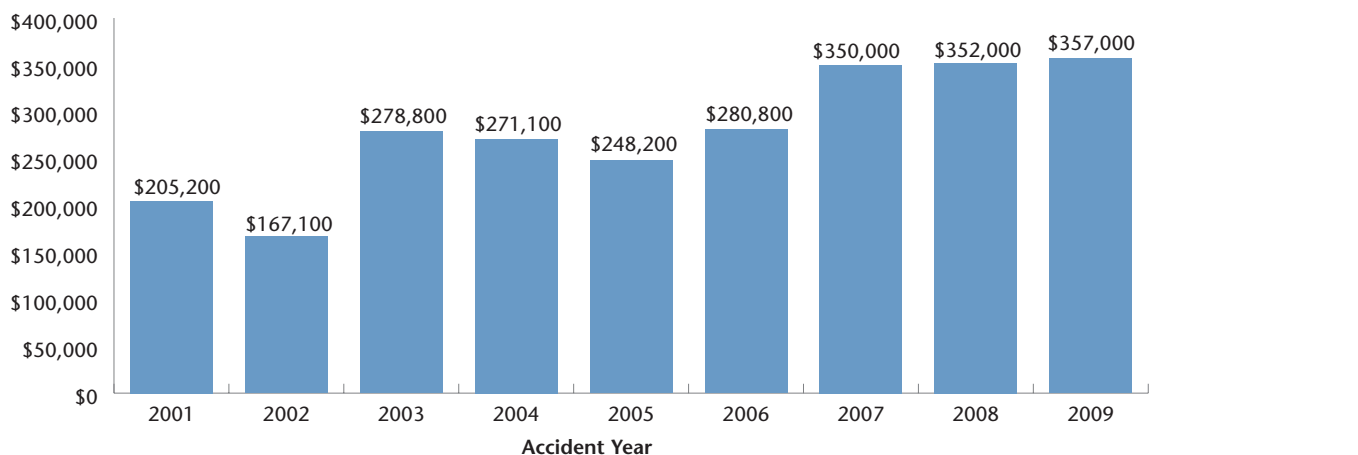
Long Term Care Benchmark General and Professional
Liability Claim Frequency per Occupied Bed
Tennessee



SEVERITY

Tennessee has the second highest severity of the profiled states at \$357,000 per claim. Increasing severity per claim is the driver behind loss cost increases in Tennessee.

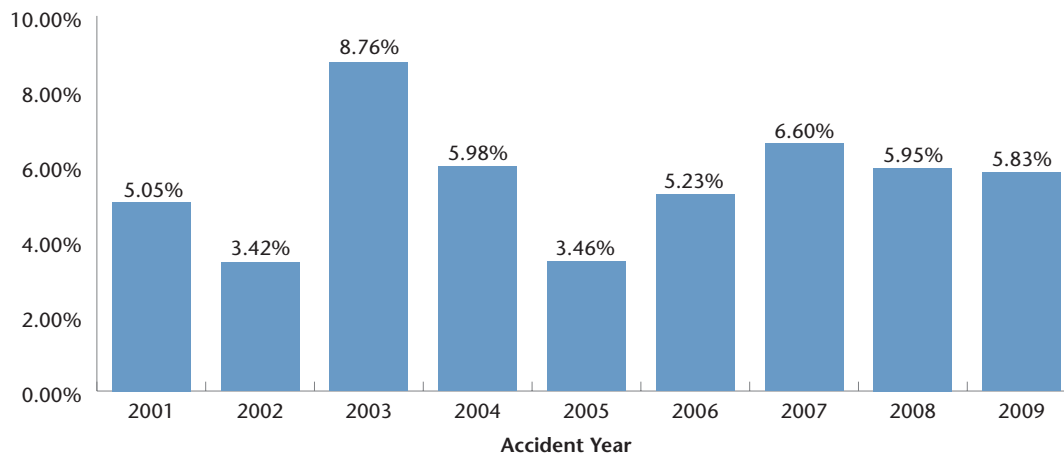
Long Term Care Benchmark General and Professional Liability
Severity per Claim
Limited to \$1M per Occurrence
Tennessee



MEDICAID PER DIEM REIMBURSEMENT

The loss cost as a percent of the Medicaid per diem reimbursement rate is flat over the past several years. At 5.83%, this ratio is the second highest of the profiled states.

Long Term Care Benchmark General and Professional Liability
Loss Cost as a Percentage of Medicaid Reimbursement
Limited to \$1M per Occurrence
Tennessee



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average Medicaid Per Diem Reimbursement	\$98.78	\$103.19	\$109.07	\$113.22	\$126.05	\$131.05	\$136.12	\$139.59	\$144.30
Per Diem Loss Cost per Bed	\$4.99	\$3.53	\$9.56	\$6.77	\$4.36	\$6.85	\$8.99	\$8.30	\$8.41

Texas

The participants in this study represent approximately 10,500 occupied long term care beds in the state. This is approximately 11% of the state total long term care beds.

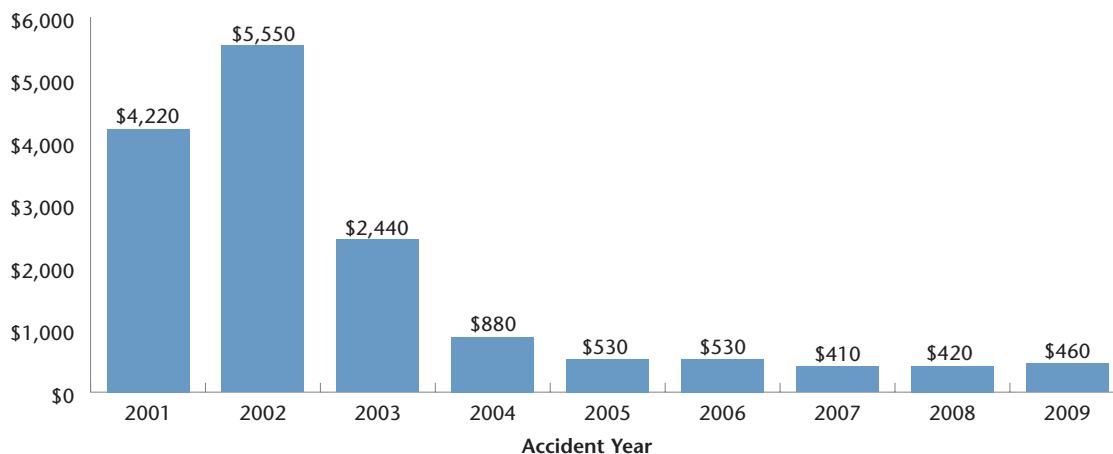
The following graphs present the loss cost per occupied bed, claim frequency per occupied bed, claim severity and loss costs relative to the Medicaid per diem reimbursement rate. Frequency is shown for claims with indemnity payments and expense only claims.

LOSS COST

Texas has stable loss cost levels since Tort Reform was enacted in 2003. The loss cost has remained consistently less than \$1,000 per occupied bed and is currently at \$460 per occupied bed.

The enacted tort legislation in Texas is often cited as a model to control tort costs, and the results are evident here. Beginning in 2004, the implementation in Texas provides for a \$250,000 limit per claimant on non-economic damages. Further, the amount of non-economic recovery from a single provider is limited to \$250,000. Loss costs in Texas plummeted after the tort reform was enacted and have remained level for a number of consecutive years.

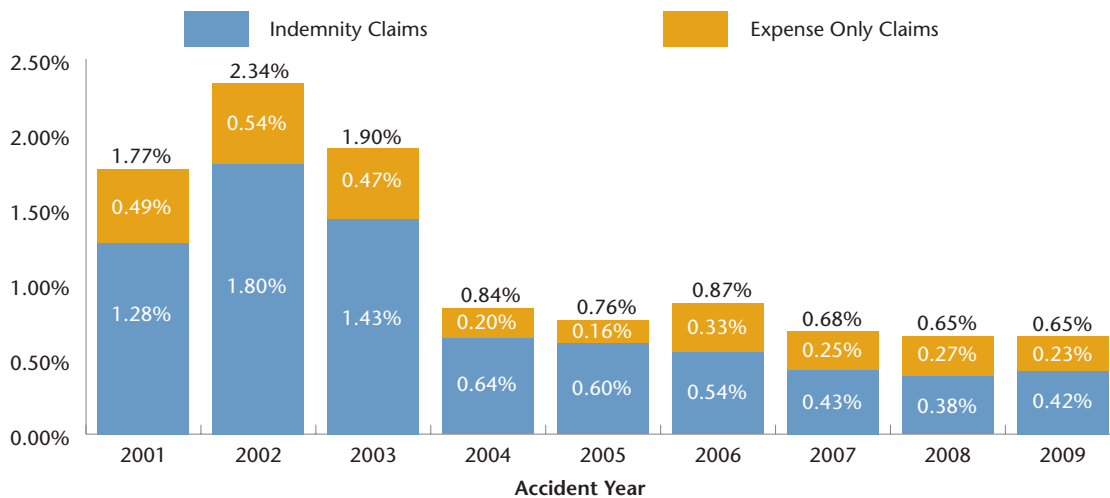
Long Term Care Benchmark General and Professional Liability
Loss Cost per Occupied Bed
Limited to \$1M per Occurrence
Texas



FREQUENCY

Frequency dropped from a high of 2.34% in 2002 just before tort reform to 0.84% in the year immediately following tort reform. Since then, frequency has dropped slightly and is currently 0.65%.

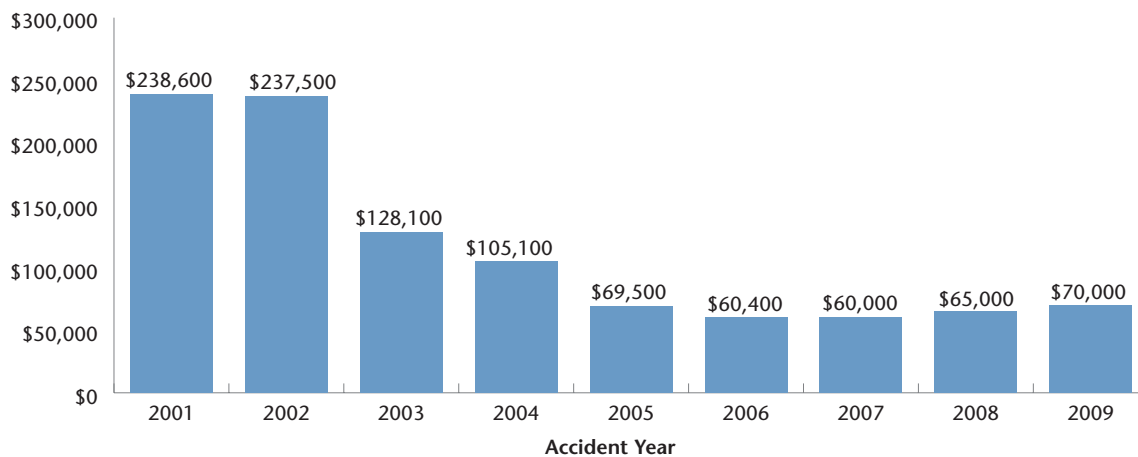
Long Term Care Benchmark General and Professional Liability
Claim Frequency per Occupied Bed
Texas



SEVERITY

Following tort reform in 2003, severity dropped from pre-form levels over \$235,000 to levels under \$100,000. The 2009 severity estimate is \$70,000.

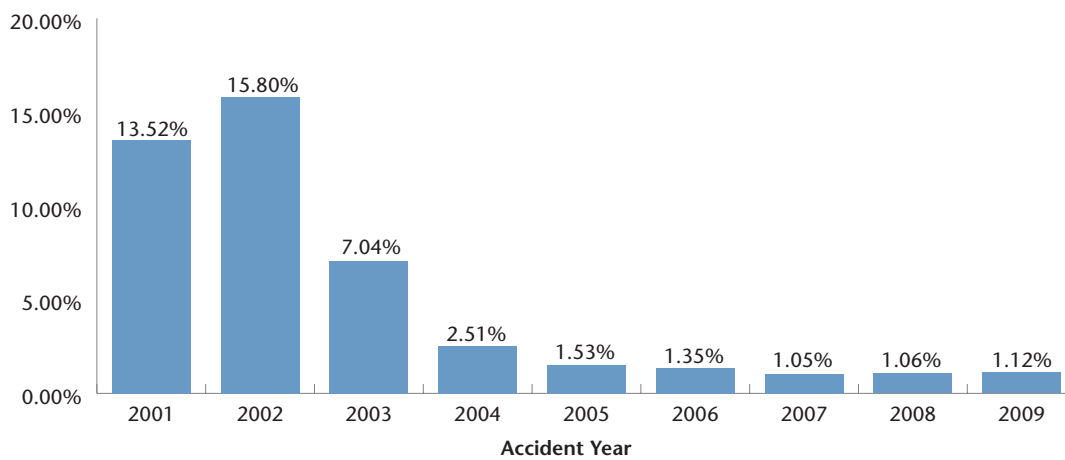
Long Term Care Benchmark General and Professional Liability
Severity per Claim
Limited to \$1M per Occurrence
Texas



MEDICAID PER DIEM REIMBURSEMENT

The loss cost as a percent of the Medicaid per diem reimbursement rate reflects the impact of the tort reform limitations on non-economic damages. Prior to the 2003 reforms, the ratio was as high as 15.80%. The ratio dropped substantially after reforms and is currently 1.12%.

Long Term Care Benchmark General and Professional Liability
Loss Cost as a Percentage of Medicaid Reimbursement
Limited to \$1M per Occurrence
Texas



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average Medicaid Per Diem Reimbursement	\$85.50	\$96.25	\$94.91	\$95.99	\$94.67	\$107.26	\$106.48	\$108.63	\$112.87
Per Diem Loss Cost per Bed	\$11.56	\$15.21	\$6.68	\$2.41	\$1.45	\$1.45	\$1.12	\$1.15	\$1.26

Wisconsin

The participants in this study represent approximately 6,700 occupied long term care beds in the state. This is approximately 21% of the state total long term care beds.

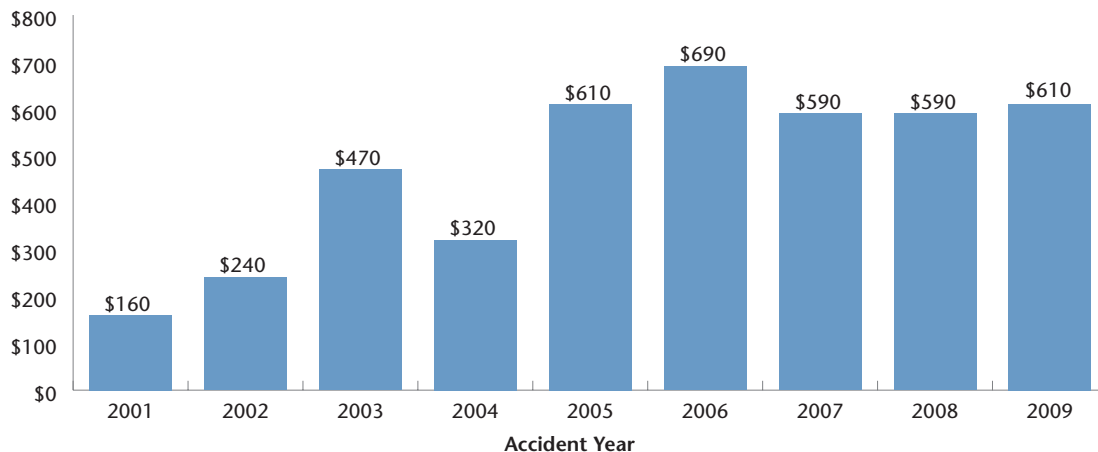
The following graphs present the loss cost per occupied bed, claim frequency per occupied bed, claim severity and loss costs relative to the Medicaid per diem reimbursement rate. Frequency is shown for claims with indemnity payments and expense only claims.

LOSS COST

The loss cost in Wisconsin experience a sharp increase between 2004 and 2005, but has been stable since. The current loss cost is \$610 per occupied bed.

The increase between 2004 and 2005 may be partly explained by a 2005 Wisconsin State Supreme Court ruling that ruled limits on non-economic damages unconstitutional. Prior to the ruling, Wisconsin had a \$350,000 inflation adjusted limit on non-economic damages. While the frequency of claims appears unchanged after the State Supreme Court ruling, the size of claims does appear to have increased around 2004.

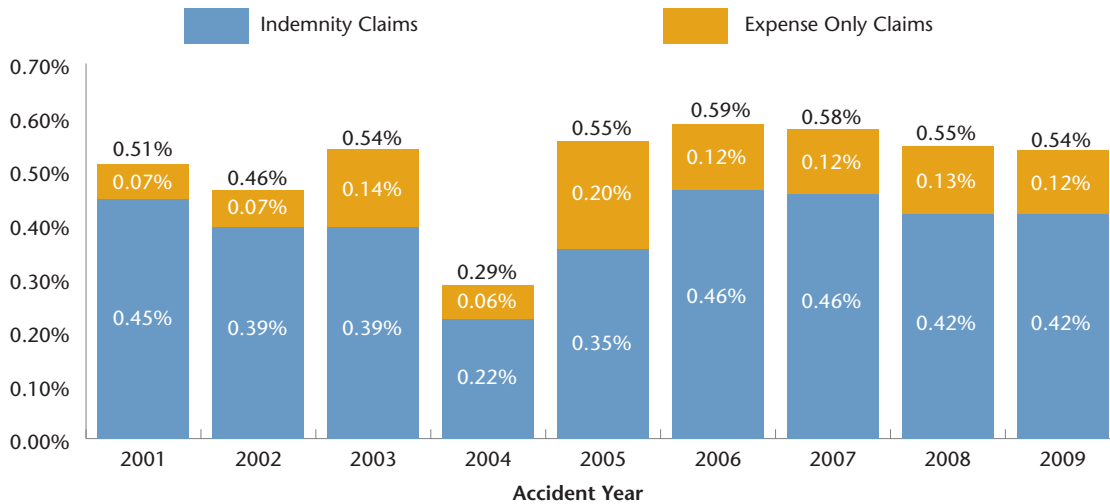
Long Term Care Benchmark General and Professional Liability
Loss Cost per Occupied Bed
Limited to \$1M per Occurrence
Wisconsin



FREQUENCY

With the exception of 2004, frequency has been level in Wisconsin over the past ten years.

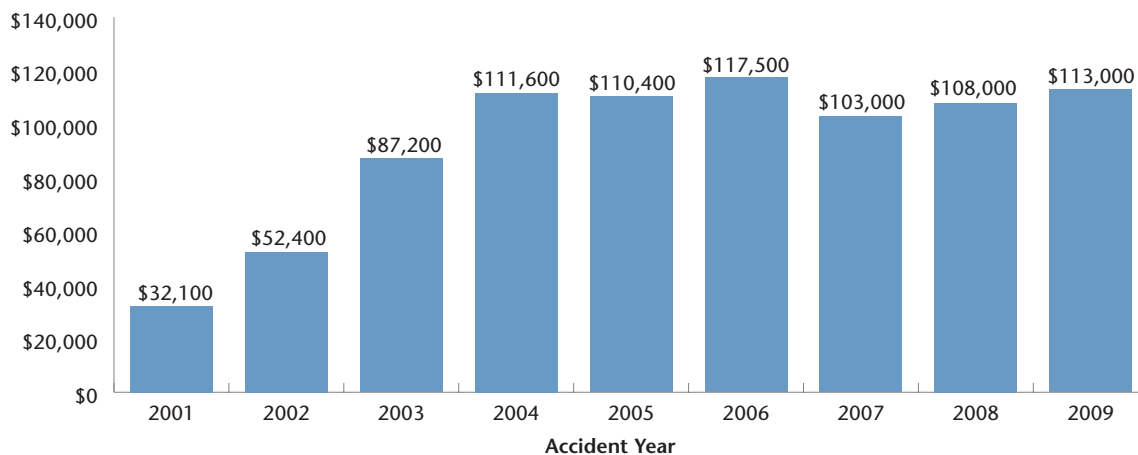
Long Term Care Benchmark General and Professional Liability
Claim Frequency per Occupied Bed
Wisconsin



SEVERITY

From 2001 to 2004, severity per claim increased sharply. Since 2004, claim severity has been stable and is currently at \$113,000 per claim.

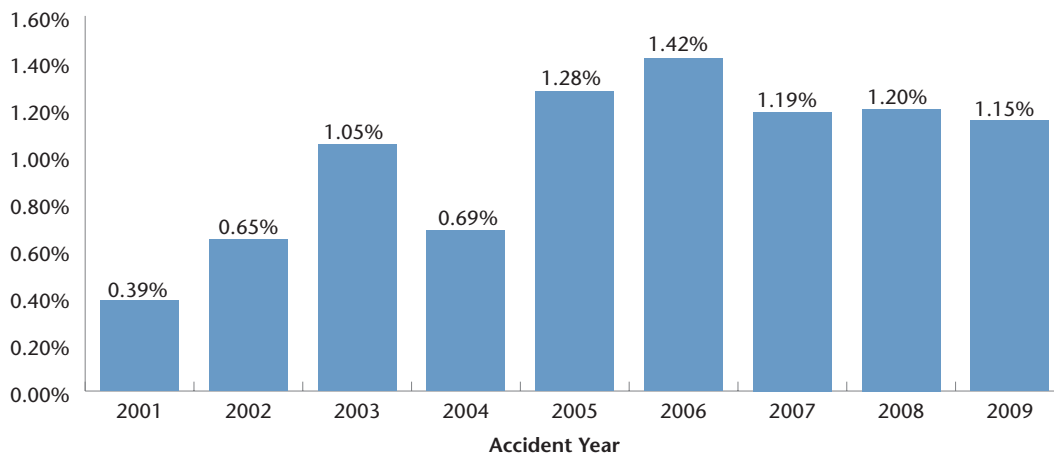
Long Term Care Benchmark General and Professional Liability
Severity per Claim
Limited to \$1M per Occurrence
Wisconsin



MEDICAID PER DIEM REIMBURSEMENT

The loss cost as a percent of the Medicaid per diem reimbursement rate is at 1.15%. Over the experience period, this ratio increased concurrently with the loss cost after which the ratio has been stable.

Long Term Care Benchmark General and Professional Liability
Loss Cost as a Percentage of Medicaid Reimbursement
Limited to \$1M per Occurrence
Wisconsin



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average Medicaid Per Diem Reimbursement	\$113.82	\$102.12	\$122.68	\$128.22	\$130.78	\$133.21	\$136.13	\$134.70	\$144.73
Per Diem Loss Cost per Bed	\$0.44	\$0.66	\$1.29	\$0.88	\$1.67	\$1.89	\$1.62	\$1.62	\$1.67

West Virginia

The participants in this study represent approximately 4,100 occupied long term care beds in the state. This is approximately 42% of the state total long term care beds.

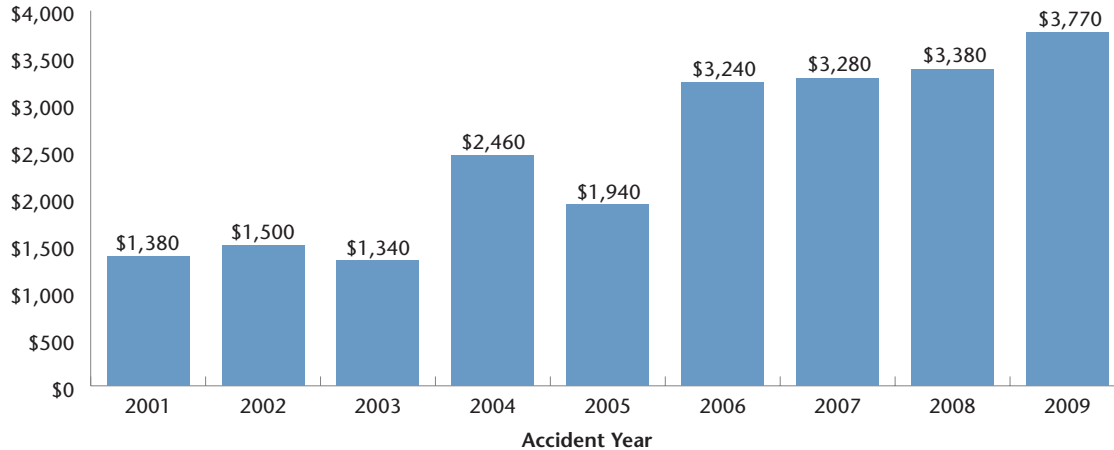
The following graphs present the loss cost per occupied bed, claim frequency per occupied bed, claim severity and loss costs relative to the Medicaid per diem reimbursement rate. Frequency is shown for claims with indemnity payments and expense only claims.

LOSS COST

At \$3,770, West Virginia's loss cost per occupied bed is the second highest of the profiled states. Over the past ten years, the loss cost has increased nearly threefold from \$1,380 in 2001 to \$3,770 in 2009.

In 2004, West Virginia implemented caps on liability. Non-economic damages are limited to \$250,000 in most cases, inflation adjusted since 2004. Neither frequency nor severity seems to have tempered in the years since this reform was enacted.

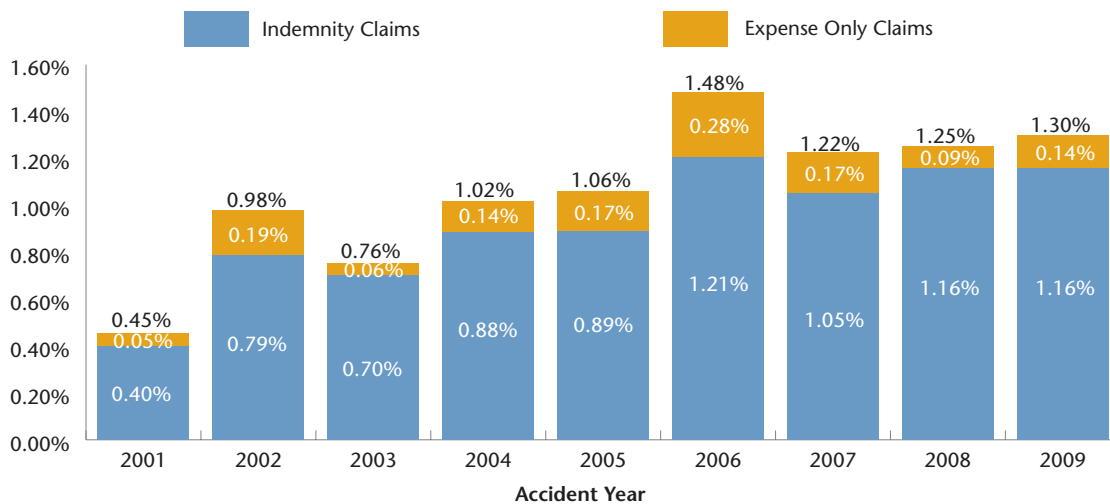
Long Term Care Benchmark General and Professional Liability
Loss Cost per Occupied Bed
Limited to \$1M per Occurrence
West Virginia



FREQUENCY

The frequency in West Virginia is the highest of the profiled states at 1.30%. West Virginia claims also exhibit the highest indemnity claim to total claim ratio.

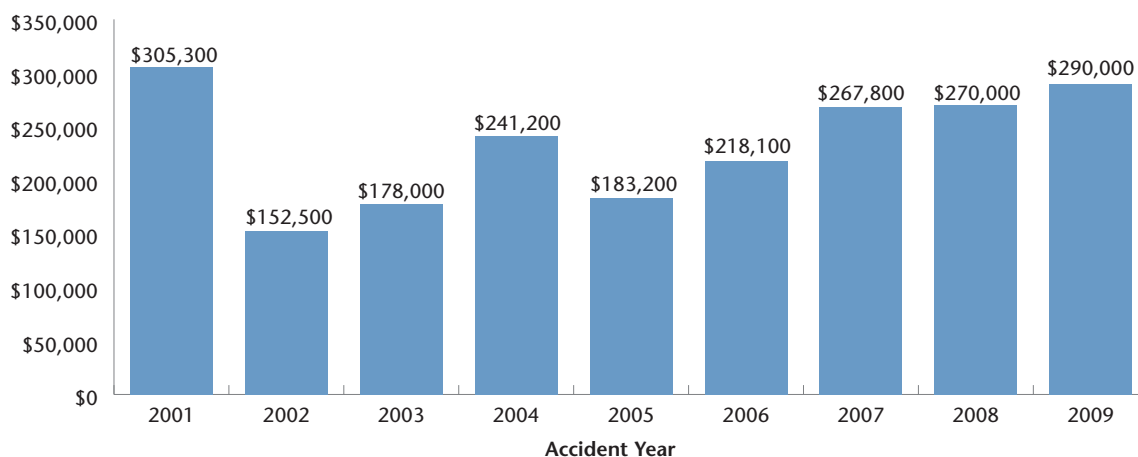
Long Term Care Benchmark General and Professional Liability
Claim Frequency per Occupied Bed
West Virginia



SEVERITY

Severity per claim demonstrates an increasing trend over the experience period. At \$290,000 per claim, West Virginia's frequency is the third highest of the profiled states.

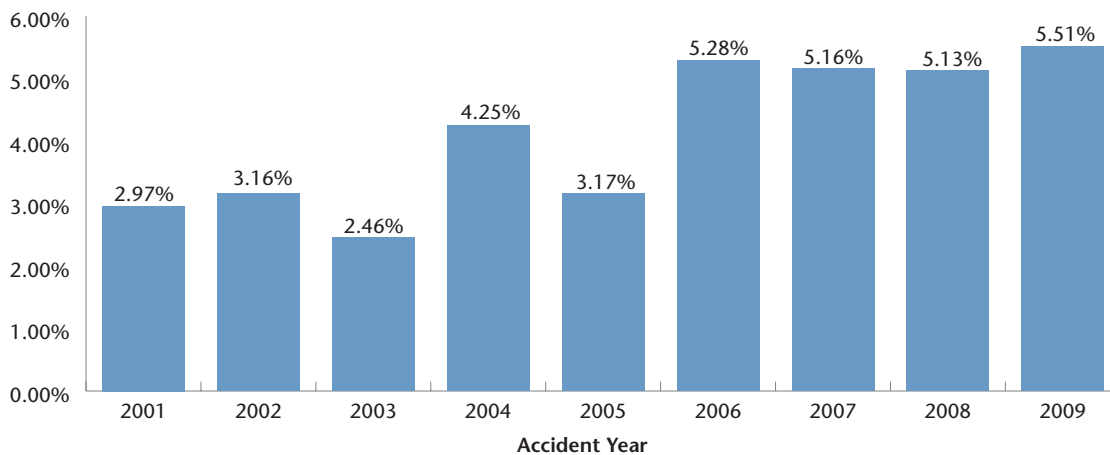
Long Term Care Benchmark General and Professional Liability
Severity per Claim
Limited to \$1M per Occurrence
West Virginia



MEDICAID PER DIEM REIMBURSEMENT

The loss cost as a percent of the Medicaid per diem reimbursement rate in West Virginia is the third highest among the profiled states at 5.51%.

Long Term Care Benchmark General and Professional Liability
Loss Cost as a Percentage of Medicaid Reimbursement
Limited to \$1M per Occurrence
West Virginia



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average Medicaid Per Diem Reimbursement	\$127.40	\$129.88	\$149.22	\$158.64	\$168.02	\$168.11	\$174.36	\$180.64	\$187.50
Per Diem Loss Cost per Bed	\$3.78	\$4.11	\$3.67	\$6.74	\$5.32	\$8.88	\$8.99	\$9.26	\$10.33



All Other States

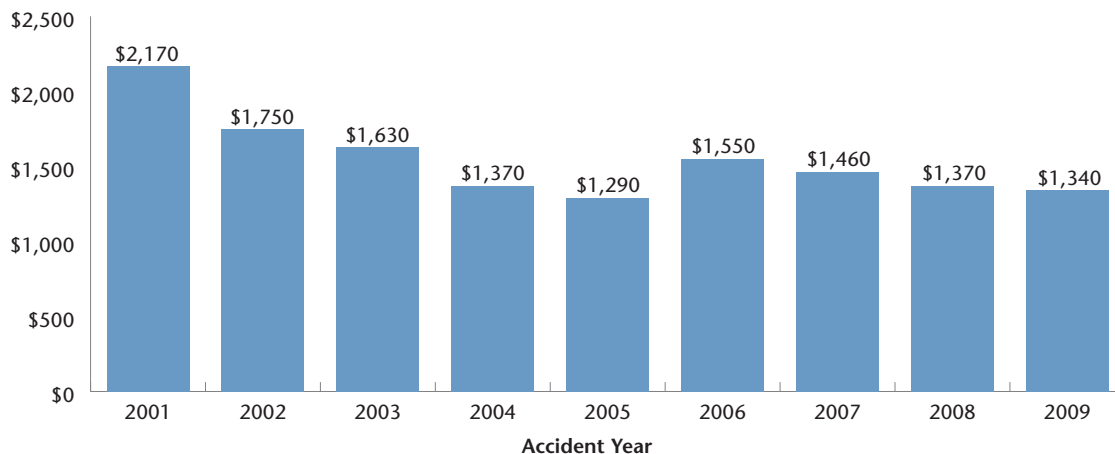
The participants in this study represent approximately 100,000 occupied long term care beds in the remaining states. This is approximately 11% of the total long term care beds in the remaining states.

The following graphs present the loss cost per occupied bed, claim frequency per occupied bed, claim severity and loss costs relative to the Medicaid per diem reimbursement rate. Frequency is shown for claims with indemnity payments and expense only claims.

LOSS COST

The All Other States loss cost exhibits a long term decreasing trend to the 2009 loss cost per occupied bed of \$1,340.

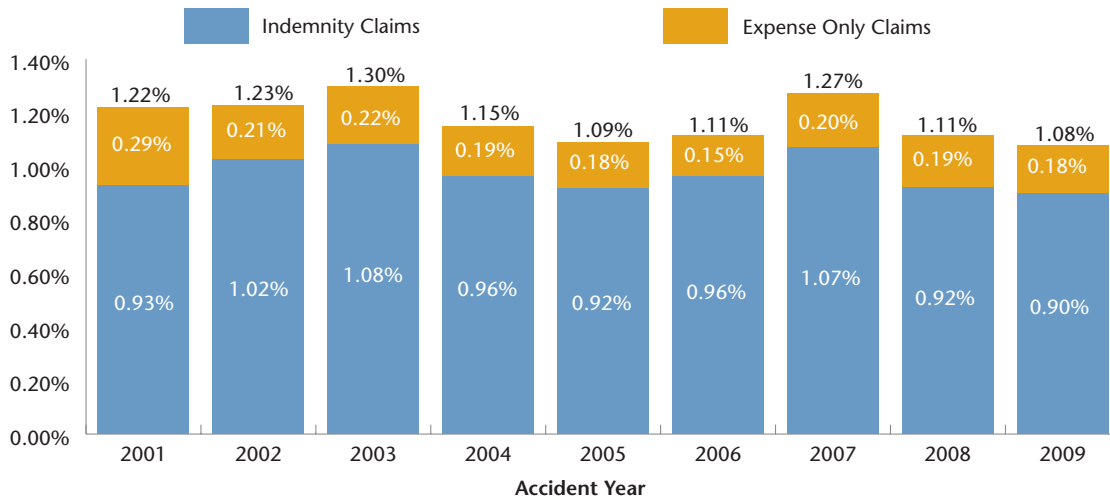
Long Term Care Benchmark General and Professional Liability
Loss Cost per Occupied Bed
Limited to \$1M per Occurrence
All Other States



FREQUENCY

Claim frequency per occupied bed is stable at 1.08%.

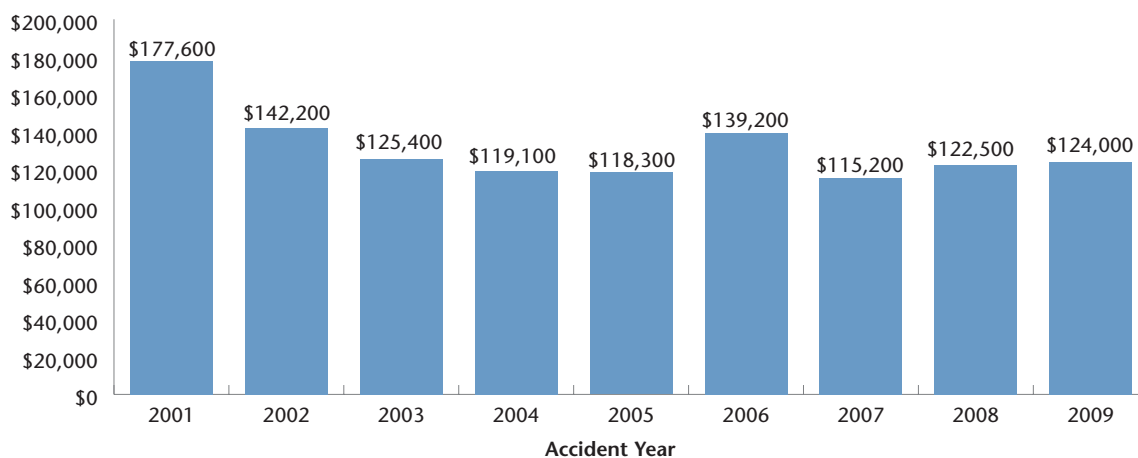
Long Term Care Benchmark General and Professional Liability
Claim Frequency per Occupied Bed
All Other States



SEVERITY

Severity per claim dropped between 2001 and 2003, and has recently increased to \$124,000.

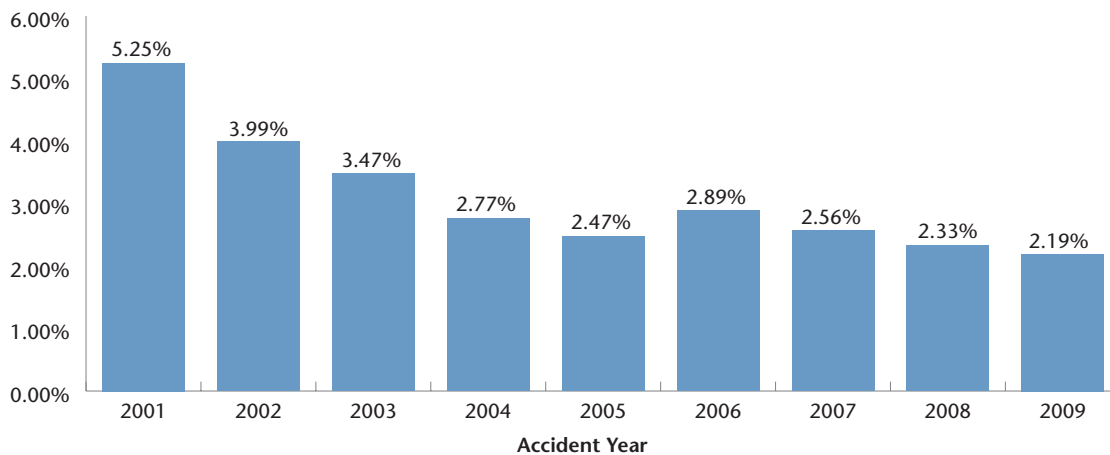
Long Term Care Benchmark General and Professional Liability
Severity per Claim
Limited to \$1M per Occurrence
All Other States



MEDICAID PER DIEM REIMBURSEMENT

The loss cost as a percent of the Medicaid per diem reimbursement rate decreased from 2001 to 2005 and is currently at 2.19%.

Long Term Care Benchmark General and Professional Liability
Loss Cost as a Percentage of Medicaid Reimbursement
Limited to \$1M per Occurrence
All Other States



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average Medicaid Per Diem Reimbursement	\$113.37	\$120.12	\$128.64	\$135.56	\$142.65	\$147.09	\$155.97	\$161.04	\$167.44
Per Diem Loss Cost per Bed	\$5.95	\$4.79	\$4.47	\$3.75	\$3.53	\$4.25	\$4.00	\$3.75	\$3.67

DEFINITIONS

The following definitions are provided to help the users of this report fully understand the analyses presented and the resulting conclusions.

ALAE

ALAE is an abbreviation for allocated loss adjustment expense. ALAE refers to costs, in addition to indemnity payments and reserves, which are incurred in handling claims. Typically, these costs are comprised of legal fees paid by the insured entity in investigating and defending claims. In the context of this study ALAE represents defense costs. The majority of claim data used in this study contained a separate field to identify ALAE costs separately from indemnity costs. Whether separately identified or not, allocated loss adjustment expenses are included in the reported loss information, loss reserving methodologies and loss projections contained in this report. All references to losses throughout the report and exhibits include ALAE except where noted otherwise.

ACCIDENT YEAR

An accident year is the year in which an incident giving rise to a claim occurred. All of the loss cost, frequency and severity analyses use grouped data by accident year, unless specifically noted otherwise.

CLAIM

A claim is a demand by an individual or other entity to recover for a loss. It may involve a formal lawsuit but not necessarily, especially in the case of a general liability claim.

EXPOSURE

Actuaries select an exposure base such that the incidence of claims will tend to vary directly with the exposure of the entity at risk. The actuary must consider both the historical loss level and the corresponding exposures in evaluating historical claim liabilities and expected future costs. It is important to choose an exposure measure that is relevant to the unique situation of each risk group.

In this study the exposure base is occupied beds. Occupied beds are calculated by multiplying the number of licensed beds by the average annual occupancy rate. There is a strong correlation between the number of occupied beds and the total amount of losses incurred by a long term care facility. Not all beds are equal in terms of their risk exposure, however. An assisted living bed generates fewer dollars of GL/PL claim activity than a skilled care bed. All beds in this study have been adjusted to the equivalent of a skilled nursing care bed.

By dividing losses by exposures, comparative estimates of the long term care industry GL/PL loss costs are developed.

FREQUENCY

Frequency is the ratio of the number of claims divided by exposures. In this report, frequency is measured on an annual basis as the number of claims projected for the given time period divided by the number of occupied beds during that same period. In the summary exhibits, frequency is the number of claims a year per occupied bed.

GENERAL LIABILITY (GL)

General liability exposure generally relates to those sums an entity becomes legally obligated to pay as damages because of a bodily injury (typically including personal and advertising injury) or property damage.



INDEMNITY

Indemnity refers to the component of claim costs actually paid or reserved to be paid to the plaintiff. Indemnity costs include both the amount provided for the plaintiff, either as a jury award or a settlement, and the amount retained by the plaintiff's attorney. However, in most claim files, including those used to do this study, the split between plaintiff award and plaintiff attorney is not provided. Indemnity may also include punitive damages, although this is not consistently treated among companies.

LIMIT OF LIABILITY

A limit of liability is a maximum amount of coverage provided by an insurance transaction. Above the limit of liability, the insured is responsible for all losses. Limits of liability may be expressed on a per occurrence basis or an aggregate basis, similar to deductibles. The losses included in this study are limited to \$1,000,000 per occurrence.

LOSS COST

Loss cost is the cost per exposure of settling and defending claims. Loss cost is calculated as the ratio of total dollars of losses (indemnity and ALAE) to total exposures for a given period of time. In this report exposures are selected to be occupied beds and the time period is one year. Consequently, a loss cost represents the annual amount per occupied bed expected to be paid to defend, settle and/or litigate GL/PL claims arising from incidents occurring during the respective year.

LOSS DEVELOPMENT

Loss development refers to the change in the estimated value of losses attributable to a body of claims or to a time period until all the claims are closed.

Generally, the reported losses will increase over time for several reasons. First, it is impossible to estimate precisely the ultimate losses and legal expenses for claims when they are initially reported. The estimated unpaid loss for a claim, called a case reserve, is adjusted up or down as more information is obtained. In the aggregate, the upward adjustments tend to be greater than the downward ones. Second, it takes a period of time for some claims to be discovered, reported, and recorded. Claims that have been incurred but have not been reported are called "pure" IBNR claims. Third, closed claims are sometimes reopened. This may be due to legislation, which applies retroactively to claims that have closed. In this report, except where specifically noted, projected loss costs, frequencies and severities by state and by year are all inclusive of actuarially indicated expected loss development.

Loss development also refers to the increase in paid losses as claims are reported, paid to their ultimate values, and closed.

LOSS TREND

Loss trend is the change in claim frequency and/or severity from one time period to the next. Factors that affect the frequency and severity of claims are constantly changing over time. Examples of causes include inflation, societal attitudes toward legal action, and changes in laws. Actuaries use trend factors to adjust historical loss experience to comparable levels.

PROFESSIONAL LIABILITY (PL)

Professional liability exposure relates to those sums an entity becomes legally obligated to pay as damages and associated claims and defense expenses because of a negligent act, error or omission in the rendering or failure to render professional services.

SEVERITY

Severity refers to the total dollar amount of a claim including indemnity and ALAE. In this report, the average severity for a given year is measured by dividing the total dollars of losses for all claims incurred in the year by the total number of claims.



AON AT A GLANCE

Aon Corporation (NYSE: AON) is a leading global provider of risk management services, insurance and reinsurance brokerage, and human capital consulting. Through its more than 36,000 colleagues worldwide, Aon delivers distinctive client value via innovative and effective risk management and workforce productivity solutions. Aon's industry-leading global resources and technical expertise are delivered locally through more than 500 offices in more than 120 countries. Named the world's best broker by *Euromoney* magazine's 2008, 2009 and 2010 Insurance Survey, Aon also ranked highest

on *Business Insurance's* listing of the world's largest insurance brokers based on commercial retail, wholesale, reinsurance and personal lines brokerage revenues in 2008 and 2009. A.M. Best deemed Aon the number one insurance broker based on brokerage revenues in 2007, 2008 and 2009, and Aon was voted best insurance intermediary, best reinsurance intermediary and best employee benefits consulting firm in 2007, 2008 and 2009 by the readers of *Business Insurance*.

For more information on Aon, log on to <http://www.aon.com>.



Aon Analytics provides clients with forward-looking business intelligence, comprehensive benchmarking and total cost-of-risk analysis as well as global market insights using proprietary technology like the Aon Global Risk Insight Platform to enable more informed and fact-based decision making around risk management, risk retention and risk transfer goals and objectives.

AON SITUATION ROOM

As the world's leading insurance broker and risk advisory firm, Aon is committed to helping clients respond quickly and effectively to changing market conditions that may impact their businesses. The Aon Situation Room™, accessible at www.aon.com, provides clients with fact-based information to help guide their businesses through this volatile period.

In the Aon Situation Room, clients will find current insurer financial strength ratings and the most recent updates from Aon's Market Security Committee on specific carriers. The latest news, legislative action and earnings information is included on the site as well. Clients can also register to receive up-to-date e-mail alerts.



Aon Global Risk Insight Platform® (Aon GRIP) is the world's leading global repository of global risk and insurance placement information. By providing fact-based insights into Aon's USD \$54 billion in global premium flow, Aon GRIP helps identify the best placement option regardless of size, industry, coverage line or geography.

The Web-accessible data produced by Aon GRIP helps Aon brokers evaluate which markets to approach with a placement and which carriers may provide the best value for clients. It also gives Aon brokers a leg up when it comes to negotiations, making sure every conversation is based on the most complete, most current set of facts.





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