Medical Liability and Health Care Reform

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Abstract: We examine the impact of the Patient Protection and Affordable Care Act (PPACA) on medical liability and the controversy over whether medical liability reforms could make a useful contribution to health care reform. By providing guaranteed access and renewal at community rates, the PPACA could reduce the problem of under-compensation resulting from damages caps. It could also, however, exacerbate the problem of under-claiming in the malpractice system thereby reducing incentives to invest in loss prevention activities. Shifting losses from liability insurers to health insurers could further undermine the already weak deterrent effect of the medical liability system. Republicans in Congress and physician groups both pushed for the adoption of a federal damages cap as part of health care reform. Physician support for damages caps could be explained by concerns about the insurance cycle and the consequent instability of the market. Our own study presented here suggests that there is greater insurance market stability in states with caps on non-economic damages. Republicans in Congress argued that the enactment of damages caps would reduce aggregate health care costs. The Congressional Budget Office included savings from reduced health care utilization in its estimates of cost savings that would result from the enactment of a federal damages cap. But notwithstanding recent opinions offered by the CBO, it is not clear that caps will significantly reduce health care costs or that any savings will be passed on to consumers. The PPACA included funding for state level demonstration projects for promising reforms such as offer and disclosure and health courts, but at this time the benefits of these reforms are also uncertain. There is a need for further studies on these issues.

The passage of the Patient Protection and Affordable Care Act (PPACA) has ushered in a new era of health care in the United States.1 While the legislation remains controversial, its commitment to universal access is likely to have a significant and enduring impact on the health care system. There was a chance that alternative medical liability reforms (i.e., disclosure and offer, health courts, safe harbors) would be bundled

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with health care reform as part of a bipartisan compromise,\(^2\) but it was not included in the final legislation. The PPACA does, however, include funding for state-level demonstration projects to test malpractice reform alternatives.\(^3\) No doubt the failure to include alternative medical liability reforms was due to the fact that there was not a current malpractice insurance crisis and the prevailing view among Democrat legislators that malpractice reform was “a Republican issue.”\(^4\)

Although it was highly unlikely that health care reform legislation would include damages caps, they were much discussed during the debate. In fact, damages caps emerged as a primary component of Republican alternatives to the proposed legislation. And the notion that significant savings could result from the adoption of a federal cap on non-economic damages received some unlikely support during the debate over health care reform. The Congressional Budget Office (CBO) found that savings from the federal enactment of medical liability reform including a cap on non-economic damages of $250,000 could amount to $54 billion over the period of 2009-2019.\(^5\) In making this calculation CBO included savings from changed health care utilization, i.e., a reduction in defensive medicine, in estimating of savings from medical liability reform.\(^6\) This

\(^3\) PPACA, *supra* note 1, at § 10607.
marked the first time that CBO included savings from decreased utilization of health care in its estimates of the cost savings from traditional medical liability reforms.\(^7\)

With the Democrats in control of Congress, damage caps will not be on the table any time soon: they have consistently opposed attempts to enact a federal damages cap. The opposition to damages caps by Congressional Democrats is based on a legitimate policy disagreement with Republicans: Democrats view damages caps as unfairly penalizing the most severely injured victims of malpractice and unlikely to reduce health care costs significantly.

The divide between Republicans and Democrats on damages caps became even more apparent at the summit on health care reform convened by President Obama on February 25, 2010. In his opening statement, Senator Lamar Alexander (R-TN) identified federal enactment of traditional malpractice reform measures as a central plank of the Republican health care reform proposal.\(^8\) Senator John McCain (R-AZ) pointed to the effectiveness of damages caps adopted in California and Texas in improving access and reducing health care costs. Senator McCain claimed that the adoption by Texas of a $250,000 cap on non-economic damages in 2003 had dramatically reduced medical liability insurance premiums and increased the number of physicians coming into Texas. He also claimed that the reforms had reduced medical costs contending that “defensive medicine increases annual medical costs by 10 percent.”\(^9\) Senator Tom Coburn (R-OK), a

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\(^9\) Senator McCain stated:
practicing physician, acknowledged that he had practiced defensive medicine and referred to an extortionate tort system.\textsuperscript{10} House Minority Leader John Boehner (R-MI) went even further by identifying medical liability and defensive medicine as the “biggest cost driver” of health care cost inflation.\textsuperscript{11}

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MCCAIN: And the -- and the point is that we don't have to go very far. There's two examples right now of medical malpractice reform that is working. One's called California, the other called Texas.

I won't talk about California, because the Arizonans hate California, because they've stolen our water. But the fact is that Texas has established a $750,000 stack cap (ph) for non-economic damages, caps doctors at $250,000, hospitals at $250,000, and any additional institution $250,000, and patient's harmed do -- do a finding (ph) of medical malpractice are not subject to any limitations on recoveries for economic losses. And I hope you'll examine it.

But the important aspect of what they've done in Texas is the following. Lawsuit filings are down. Medical cost -- defensive medicine increases annual medical costs by 10 percent. They've saved 200 physicians -- recruitment is up. In the last two years, 6,945 new physicians have been licensed, 65 percent increase from two years preceding their reforms, 31 percent increase in recruitment of rural emergency medicine physicians.

Amarillo lost 26 physicians in the two years preceding the legislation, has gained 37. The largest malpractice insurance company in the state slashed its premiums by 35 percent, saving doctors some $217 million over four years. There are now over 30 companies competing for business.

It's already there. Now, all we have to do is enact this into legislation, and it's already been proven. So I don't think we have to experiment around.

The two states that have proven that you can enact medical malpractice reform and you can act great (ph) savings and provide health care providers with the incentives they need.


President Obama expressed disagreement with Rep. Boehner’s statement that malpractice was the major driver of health care cost inflation noting that while the CBO estimated that enactment of a federal damages cap could save about $5 billion a year, this was a relatively insignificant amount in a $2 trillion system. But he also again noted his interest in medical liability reforms by calling for federal incentives for states “to experiment much more vigorously with ways to reduce frivolous lawsuits, to pursue settlements, to reduce defensive medicine.”

Senator Dick Durbin (D-Ill), who as a practicing attorney had both defended and sued physicians, offered a rebuttal to the Republican’s arguments for adoption of a damages cap. He noted that while the CBO found that adoption of a damages cap could save $54 billion over ten years, it also found that it would reduce accountability and increase deaths by 4800 a year. He noted that a cap could result in under-compensation for the most severely injured victims of malpractice. He further noted that according to the Kaiser Foundation the number of malpractice claims had declined 50 percent nationwide in the past twenty years, and malpractice payouts had declined from $8 billion to $4 billion from 2003-2008. And Henry Waxman argued that while the California malpractice reforms had been in place in California since 1975, they had not solved the


problem of health care cost increases citing the recent attempt by Anthem to increase
premiums for individual policies in California by 39 percent.14

Following the bipartisan summit, President Obama announced that he would
incorporate some Republican ideas into his health care reform proposal including
“medical liability reform” in the form of an additional $50 million for medical liability
demonstration projects. But Republican leaders quickly responded that these changes
were cosmetic and would not affect their opposition to the President’s proposal for health
care reform.15

While damages caps remain popular with physicians and Republicans in
Congress, Baker and others have argued that support for damages caps is largely based
on myth rather than evidence.16 Indeed, there is a broad consensus among academic
researchers that damages caps do not adequately address the shortcomings of the current
medical liability system with respect to both its deterrence and compensation goals.
While alternative tort reform measures are still largely untested it is possible that some of
these proposals could improve the medical liability system and make a positive
contribution to improving the health care system.

Part I of this article looks at the possible impact of health care reform on the
medical liability system while the remainder of the article focuses on the potential role of
reforms in improving the medical liability systems and the delivery of health care. Part II
discusses state responses to the medical liability crises and the push for enactment of a

14 Rep. Henry Waxman Makes Remarks on Health-Care Costs at White House Health Summit,
dyn/content/article/2010/02/25/AR2010022504333.html.
15 Ed Hornick, Obama Says Whitehouse Incorporating GOP Ideas into Health Care Plan, CNN, Mar. 3,
federal damages cap. Part III presents our study on the relationship between damages caps and premium volatility. Part IV of this article discusses the problem of defensive medicine. Part V discusses the effect of medical liability reform on costs. Part VI focuses on the impact of medical liability reform on access. Part VII discusses the impact of medical liability reform on patient safety. And Part VIII discusses two promising alternative medical liability reforms that may be tested in federally-funded demonstration projects: disclosure and offer and health courts.

I. The Possible Impact of Health Care Reform on Medical Liability

It is possible that the PPACA will have an impact on the medical liability system. If health care reform is effective in reducing the growth of health care costs, this could have an impact on level of damages awards. Baker has identified medical inflation as the most important factor influencing the rate of growth in loss payouts in medical malpractice cases. Similarly, Chandra et al. (2005) found that during the period 1991-2003, malpractice payments grew at a rate that was proportionate with health care spending. They also note: “medical costs, which contribute to the size of compensatory awards, may explain a sizable portion of payment growth…”

It might be argued that the eventual elimination of medical underwriting in the individual and small group markets could have an impact on the number of malpractice lawsuits. Beginning January 1, 2014, individuals will be required to maintain a minimum

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17 Id. at 55.
19 Id. at W-247
level of health insurance coverage\textsuperscript{20} and be guaranteed access to health insurance coverage without any exclusion for preexisting conditions at adjusted community rates.\textsuperscript{21}

Even if a person is unemployed as a result of their injuries, he or she will have access to health insurance at relatively reasonable rates. Thus, there will be a source of payment for future health care costs. This could reduce the propensity for those with iatrogenic injuries from suspected malpractice to file lawsuits in order to access funds for future health care costs.\textsuperscript{22} And this may exacerbate the under-claiming for legitimate claims that is already a widely acknowledged problem in the current system.\textsuperscript{23}

Moreover, many states have already eliminated or modified the collateral source rule. As a consequence, evidence that the plaintiff’s recovery for past health care costs may be reduced by the amount of payments received from health insurers and the subrogation rights of health insurers that have already made payments may be curtailed.\textsuperscript{24} It is conceivable that this approach would be extended to future health care costs covered by health insurance now that coverage is guaranteed at adjusted community rates. Future medical cost awards could be set at no more than the appropriate premium for a plan offering sufficient coverage. The policy question then would be whether or not the health

\textsuperscript{20}PPACA, supra note 1, at § 1501.
\textsuperscript{21}Id. at § 1201.
\textsuperscript{22}Cf. Frank A. Sloan & Chee Ruey Hsieh, Injury, Liability and the Decision to File a Medical Malpractice Claim, 29 LAW & SOC’Y REV. 413, 426 (1995) (study of families in Florida that suffered adverse birth outcomes; families with health insurance less likely to file claims).
\textsuperscript{24}David Schap & Andrew Feeley, The Collateral Source Rule: Statutory Reform and Special Interests, 28 CATO JOURNAL 83 (Winter 2008).
insurer should be permitted to recover its actual medical costs from the liability insurer as they are incurred.

One of the criticisms of caps on non-economic damages is the likelihood that the cap could result in under-compensation for economic damages. This critique would seem less relevant in the era of health care reform. While caps on non-economic damages do not directly reduce recovery for future health care costs, caps do reduce the recovery for pain and suffering which provides funds for the payment of the contingency fee. Particularly in high value cases, the imposition of the cap may result in the possibility that plaintiff will not have adequate funds available for the payment of future health care costs. Proponents of caps could now argue that with the ready availability of health insurance at adjusted community rates, there is less reason to be concerned that the imposition of a cap would reduce the availability of funds to cover future economic losses such as health care costs.

This would be consistent with the approach taken in Canada—a common law jurisdiction with a fault-based medical malpractice regime and universal access to health care. In 1978, the Supreme Court of Canada in a trilogy of cases limited non-economic damages in personal injury cases to $100,000 (C). Subsequently, the court held that the cap should be adjusted for inflation. An attack on the cap based on the Charter of Rights was rejected by the British Columbia Court of Appeals in 2006 and leave to appeal to the

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Supreme Court of Canada denied.\textsuperscript{28} Similarly, in England, another fault-based common law jurisdiction with universal access, while there is not an actual cap, there are informal guidelines for the amount of damages available for pain, suffering and loss of amenities that are normally followed.\textsuperscript{29}

Notwithstanding these arguments, however, under the economic theory of tort law it may not be appropriate to shift the losses caused by physician negligence to health insurers from medical liability insurers. It would undermine the corrective justice aspect of tort law to require health care insurers rather than liability insurers to make good on these losses. In addition, the deterrence effect of the medical liability system is already relatively weak,\textsuperscript{30} and shifting losses for future health care costs to health insurers would further weaken it. Awarding damages for malpractice against negligent health care providers provides incentives for improvements in patient safety.\textsuperscript{31} Thus deterrence may be better served by retaining the collateral source rule and allowing subrogation by the health insurer.\textsuperscript{32}

Allowing plaintiffs to recover future health care costs from negligent providers will force medical liability insurers to pass along these costs to health care providers in


\textsuperscript{30} David A. Hyman, \textit{What Do We Know and What (If Anything) Should We Do About It?} 80 TEX. L. REV. 1639, 1644-1647 (2001).


\textsuperscript{32} Kenneth S. Reinker & David Rosenberg, \textit{Unlimited Subrogation: Improving Medical Malpractice Liability by Allowing Insurers to Take Charge} 36 J. LEGAL STUD. 261, 268 (2007).
the form of higher medical liability insurance premiums. This in turn should force health care providers to internalize the costs of their injury-producing activities. This may provide some additional incentives to concentrate their efforts on improving patient safety thereby reducing the overall costs of injury. In addition, allowing plaintiffs in medical malpractice cases to recover for future health care costs and permitting subrogation by health insurers to recover those costs may reduce the costs of health insurance coverage.

Forcing health insurers rather than liability insurers to bear the cost of health care for victims of malpractice would also be inconsistent with the approach taken by the federal government in the enforcing its rights to repayment of expenses incurred under the Medicare program.\(^33\) In the case of Medicare beneficiaries, the federal government has recently taken a more aggressive posture in seeking to recover payments for the expenses of health care made on behalf of Medicare beneficiaries from insurers and even attorneys.\(^34\)

A third way in which health care reform could impact medical liability is through its promotion of the use of comparative effectiveness research (CER). The American Recovery and Reinvestment Act of 2009 created the Federal Coordinating Council for Comparative Effectiveness Research (FCCER) to coordinate CER across federal agencies and also provided funding for such research.\(^35\) In place of the FCCER, the PPACA creates a private, non-profit entity called the Patient-Centered Outcomes...
Research Institute to oversee federal CER and it provides a permanent funding stream.\textsuperscript{36}

The expansion of CER could affect the standards of care for medical treatment thereby influencing medical liability. There is already a trend toward the replacement of the traditional customary care standard with a reasonable prudent physician standard that could rely more on evidence-based medicine.\textsuperscript{37} The increased emphasis on CER could accelerate this trend. On the other hand, it could be argued that physician fear of malpractice risk and the concomitant defensive practices will trump the incentives for physicians to provide only evidence-based care absent enactment of legislation to provide a safe harbor for physicians who follow evidence-based practice guidelines.\textsuperscript{38}

II. State Responses to Medical Liability Crises and the Push for a Federal Damages Cap

Damages caps have been popular with state legislatures and are the most prominent and widely debated tort reform measure.\textsuperscript{39} It is the only reform that has consistently been shown by empirical studies to be effective in reducing medical liability insurance premiums.\textsuperscript{40} But while a number of states have enacted damages caps, high courts in several states have declared damages caps unconstitutional under their state

\textsuperscript{36} PPACA, supra note 1, at §§6301-6302.
\textsuperscript{38} Tara F. Bishop, Alex D. Federman & Salomeh Keyhani, *Physicians’ Views on Defensive Medicine*, 170 ARCH. OF INT. MED. 1081 (2010).
\textsuperscript{39} Lister Hill Center, University of Alabama at Birmingham School of Public Health, Malpractice Damages Caps Table, http://images.main.uab.edu/isoph/LHC/DamagesCapsTable.pdf.
constitutions. Thus, in some instances legislative tort reform efforts at the state level have been frustrated by state courts and this has led to calls for a federal damages cap.

The enactment of traditional malpractice reform legislation (including damages caps) by state legislatures has typically followed crises in the insurance market characterized by sudden spikes in rates and the withdrawal of insurers from the market. There have been three national liability insurance crises since 1974. The first crisis of the mid-1970s involved problems with both the affordability and availability of malpractice insurance coverage. By the late 1970s, the malpractice insurance crisis subsided, but by the mid-1980s there was a crisis of affordability across all lines of third party liability insurance coverage including malpractice insurance. A third crisis occurred in the early 2000s. There was a spike in malpractice insurance premiums, and in December 2001, St. Paul, the largest malpractice insurer, stopped writing malpractice insurance. Subsequently, two other major insurers—PHICO and Frontier Insurance Group—

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41 Lister Hill Center, University of Alabama at Birmingham School of Public Health, Malpractice Damages Caps Table, http://images.main.uab.edu/isoph/LHC/DamagesCapsTable.pdf.
45 “[P]remiums for all physicians nationwide rose by 15 percent between 2000 and 2002-nearly twice as fast as total health care spending per person.” Increases were even higher for some specialties: “22 percent for obstetricians/gynecologists and 33 percent for internists and general surgeons.” CONGRESSIONAL BUDGET OFFICE, ECONOMIC AND BUDGET ISSUE BRIEF, LIMITING TORT LIABILITY FOR MEDICAL MALPRACTICE (2004), available at http://www.cbo.gov/ftpdocs/49xx/doc4968/01-08-MedicalMalpractice.pdf.
withdrew from the medical liability insurance market.\textsuperscript{46} The third crisis had subsided by 2006.\textsuperscript{47}

There has been substantial disagreement about the causes of the three malpractice insurance crises. Consumer groups and trial lawyers have typically blamed investment losses by insurers.\textsuperscript{48} On the other hand, providers and insurers typically point to increases in loss payouts and litigation costs as the root causes of the crises.\textsuperscript{49} Recent studies, however, discount the notion that the crises have been caused by spikes in loss payouts. Baker rejects increased loss payouts as the cause and instead focused on the insurance underwriting cycle.\textsuperscript{50} He notes that insurers have periodically underestimated losses until actual loss experience has provoked a reaction from firms that have then overestimated predicted losses and increased reserves.\textsuperscript{51} This problem has been exacerbated by the time-lag between the writing of coverage and the reporting of actual losses.\textsuperscript{52} But there is also some evidence that investment returns, in part, influence malpractice insurance premiums. Kilgore and colleagues (2006) found that, controlling for other factors, a 1%
increase in the Dow Jones Industrial Average was associated with a 0.4% reduction in malpractice premiums.53

The malpractice crisis of the mid-1970s resulted in significant state legislative activity beginning in 1975.54 Several states responded by passing medical liability reform legislation.55 The most popular reforms enacted during the 1970s included: damages caps, mandatory screening panels, tightened up statute of limitations, restrictions on ad damnum clauses, collateral source rule modification or abrogation, restrictions on contingency fees, and clarification or limitation of the doctrine of informed consent.56 In order to address the lack of availability of coverage, some states created joint underwriting associations, 57 and physician mutual insurers.58 A few states created patient compensation funds (PCFs) that were combined with caps on provider liability and total damages. 59 In addition, physician mutual insurers were formed in many states.60

In 1975, California enacted the Medical Injury Compensation Reform Act [MICRA], a package of bills that has become the “gold standard”61 for proponents of malpractice reform. MICRA capped non-economic damages at $250,000 with no

55 Sloan, supra note 42, at 629.
56 Grossman, supra note 62, at 8-10.
57 Id. at 4. “Joint underwriting associations (JUAs) serve as residual market mechanisms for physicians who are unable to obtain coverage in the voluntary market.” Danzon et al. (2003), supra note 49. Typically it is funded by assessments on malpractice insurers doing business in the jurisdiction.
59 See e.g., IND. CODE ANN. § 34-18-14-3 (West, Westlaw through 2010 2d Regular Session); LA. REV. ST. ANN. § 40:1299.42 (West, Westlaw through 2009 Regular Session);
adjustment for inflation. Other MICRA provisions included collateral source offset, periodic payout of future damages, limits on the contingency fees that may be charged by plaintiff’s attorney, a statute of repose, mandatory advance notice of a claim, and


(a) In any action for injury against a health care provider based on professional negligence, the injured plaintiff shall be entitled to recover noneconomic losses to compensate for pain, suffering, inconvenience, physical impairment, disfigurement and other nonpecuniary damage.

(b) In no action shall the amount of damages for noneconomic losses exceed two hundred fifty thousand dollars ($250,000).

Damages in a malpractice action may include compensatory and punitive elements. Compensatory damages (compensation for losses) include both economic (e.g., lost earnings and medical expenses) and non-economic components (e.g., pain and suffering). DANZON, supra note 8.

63 CAL. CIV. CODE § 3333.1 (West, Westlaw through all 2009 Reg.Sess. laws; all 2009-2010 1st through 5th, 7th, and 8th Ex.Sess. laws; urgency legislation through Ch. 126 of the 2010 Reg.Sess.; and propositions on the 6/8/2010 ballot). At common law, plaintiffs were permitted to recover damages even though the plaintiff has been reimbursed for those damages by a collateral source unrelated to the defendant. For example, a plaintiff could recover for medical expenses even if those expenses were covered by plaintiff’s health insurer. The California statute modifies this common law rule by permitting the defendant to introduce evidence that the plaintiff was reimbursed for expenses by a collateral source. Since the mid-1970s many jurisdictions have adopted statutes requiring the judge to offset the moneys from the collateral source or permitting evidence of reimbursement to be presented to the jury with evidence of the payment of premiums by the plaintiff. Randall R. Bovbjerg, Legislation on Medical Malpractice: Further Developments and a Preliminary Report Card, 22 U.C. DAVIS L. REV. 499, 526 (1989).

64 CAL. CIV. PROC. CODE §667.7 (West, Westlaw through all 2009 Reg.Sess. laws; all 2009-2010 1st through 5th, 7th, and 8th Ex.Sess. laws; urgency legislation through Ch. 126 of the 2010 Reg.Sess.; and propositions on the 6/8/2010 ballot). At common law, plaintiffs were entitled to receive a damages award as a lump sum including past damages and future damages discounted to present value. The California statute modifies this common law rule by mandating, upon the request of any party, the periodic payout of future damages that exceed $50,000. Under this law these future damages are to be paid out as they accrue. Since the mid-1970s, several jurisdictions have passed statutes mandating or permitting periodic payout. Bovbjerg, supra note 63, at 527.

65 CAL. BUS. & PROF. CODE § 6146 (West, Westlaw through all 2009 Reg.Sess. laws; all 2009-2010 1st through 5th, 7th, and 8th Ex.Sess. laws; urgency legislation through Ch. 126 of the 2010 Reg.Sess.; and propositions on the 6/8/2010 ballot). This statute was adopted in 1975 and amended in 1987. Its current version provides for limits of 40% of the first $50,000 recovered; 33% and 1/3 of the next $50,000; 25% of the next $500,000, and 15% of any amount exceeding $600,000. Since the mid-1970s, a number of jurisdictions have passed statutes imposing specific percentage limitations or providing for reasonableness review. Bovbjerg, supra note 63, at 522-523.

66 CAL. CIV. PROC. CODE § 340.5 (West, Westlaw through all 2009 Reg.Sess. laws; all 2009-2010 1st through 5th, 7th, and 8th Ex.Sess. laws; urgency legislation through Ch. 126 of the 2010 Reg.Sess.; and propositions on the 6/8/2010 ballot). A statute of repose places an absolute time limit on when an action must be filed regardless of whether plaintiff has discovered the injury. The California statute has a one year discovery rule coupled with a three year statute of repose than runs from the date of the injury with certain exceptions including fraud, intentional concealment, and presence of a foreign body with no therapeutic or diagnostic purpose in the plaintiff’s body. Several states have adopted this type of legislation typically with a three or four year statute of repose. Bovbjerg, supra note 63, at 524.
binding arbitration. At the time of its enactment MICRA was relatively uncontroversial. Governor Jerry Brown, a Democrat, had called a special session of the legislature to deal with a perceived insurance crisis that had triggered a doctor’s strike in Northern California. The legislation enacted enjoyed bi-partisan support: most of the reforms were recommended by a committee chaired by Democrat Henry Waxman, then a member of the California Assembly, and embraced by Governor Brown. Subsequently, the California Supreme Court upheld the constitutionality of these reforms.

Other states also passed reforms during this period. For example, in 1975, Indiana and Louisiana adopted overall caps on damages coupled with a lower provider cap. To benefit from the cap, providers were required to obtain coverage up to the level of the provider cap or post a bond. Patient compensation funds were created in both states to provide insurance cover the gap between the overall cap and the lower provider cap.

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67 CAL. CODE CIV. PROC. § 364 (West, Westlaw through all 2009 Reg.Sess. laws; all 2009-2010 1st through 5th, 7th, and 8th Ex.Sess. laws; urgency legislation through Ch. 126 of the 2010 Reg.Sess.; and propositions on the 6/8/2010 ballot ) requires 90 days advance notice of intent to file a medical malpractice claim.

68 CAL. CIV. PROC. CODE § 1295 (West, Westlaw through all 2009 Reg.Sess. laws; all 2009-2010 1st through 5th, 7th, and 8th Ex.Sess. laws; urgency legislation through Ch. 126 of the 2010 Reg.Sess.; and propositions on the 6/8/2010 ballot) provides for the enforcement of pre-claim agreements to arbitrate that follow a specified format. Beginning in the mid-1970s, several states passed legislation endorsing voluntary pre-claim agreements to arbitrate. This legislation sometimes imposes special requirements to ensure that the plaintiff is aware that the right to jury trial is being given up. See also Roa v. Lodi, 695 P.2d 164 9 (Cal. 1985) (upholding limits on contingency fees); Fein v. Permanente , 695 P.2d 665 (Cal.1985) (upholding constitutionality of damages caps and collateral source rule).


70 Id.


72 IND. CODE ANN. § 34-18-14-3 (West, Westlaw through 2010 2nd Reg. Sess.).


The constitutionality of the Louisiana\textsuperscript{76} and Indiana\textsuperscript{77} damages caps were subsequently upheld by their respective state supreme courts.

Some damages cap passed during this era were declared unconstitutional by state courts. For example, in 1975, Illinois passed a package of reforms including an overall cap on damages in medical malpractice cases of $500,000 that was subsequently declared unconstitutional.\textsuperscript{78} Similarly, caps on non-economic damages in malpractice cases enacted in Ohio (1975) and New Hampshire (1977) were later declared unconstitutional.\textsuperscript{79}

The mid-1980s crisis affected all lines of insurance, and many states passed tort reform legislation that applied to all types of personal injury claims.\textsuperscript{80} Tort reform measures were adopted in 41 states in 1986.\textsuperscript{81} Many of the same tort reform measures were adopted in the 1970s and 1980s (e.g., damages caps, collateral source offset, periodic payout, etc.), but in the latter decade many of these reforms were applicable more generally to personal injury actions rather than being limited to medical liability.

\textsuperscript{75} L.A. REV. STAT. ANN. § 40:1299.42 (B)(3)(a) (West, Westlaw through 2009 Regular Session).
\textsuperscript{76} Williams v. Kushner, 549 So. 2d 294(La. 1989)(upheld cap of $400,000 on liability of PCF but further holding that differential treatment of claims filed before 9/1/1984 violated equal protection; did not decide validity of $100,000 cap on provider liability).

actions. But some states adopted caps specific to medical malpractice in the mid-1980s that were declared unconstitutional. For example, in 1986, the State of Washington adopted a cap on non-economic damages in medical malpractice actions that was subsequently declared unconstitutional. In 1987 Alabama passed medical malpractice reforms including cap on non-economic damages in malpractice cases and an overall cap on damages in wrongful death malpractice cases that were subsequently declared unconstitutional by the state supreme court.

A few states passed reform legislation that included damages caps in the mid-1990s despite the lack of a current crisis. For example, in the mid-1990s, the legislatures in both Illinois (1995) and Ohio (1996) attempted to impose caps in all personal injury actions after their respective state supreme courts had struck down caps in medical malpractice action, but both caps were subsequently struck down.

During the most recent malpractice crisis, the AMA identified 18 states that were experiencing a crisis in medical liability insurance affordability and availability. Several states passed traditional malpractice reform measures in the 2000s, but some of these

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82 Bovbjerg, supra note 63, at 538.
85 Best v. Taylor Mach. Works, 689 N.E.2d 1057 (Ill. 1997) (declaring cap of $500.00 on non-economic damages in all personal injury actions found in 735 Ill. COMP. STAT. ANN. § 5/2-1115.1 unconstitutional); State ex rel. Ohio Academy of Trial Lawyers v. Sheward, 715 N.E.2d 1062 (Ohio 1999) (declaring cap of $250,000 or three times economic damages to a maximum of $500,000 with a higher cap for cases of permanent injuries found in Ohio Rev. Code § 2323.54 unconstitutional).
measures have already been declared unconstitutional. In 2005, the Illinois legislature again imposed a damages cap, this time it had a limit of $500,000 for individual defendants and $1 million for institutional defendants in malpractice actions, but this statute was declared unconstitutional by the state supreme court in 2010.\footnote{Lebron v. Gottlieb Memorial Hospital, 2010 WL 375190 (Ill. 2010) (holding cap found in 735 ILL. COMP. STAT. ANN. § 2-1706.5 unconstitutional as violative of separation of powers provision in state constitution).}

In 2005, the Georgia legislature passed a $350,000 cap on non-economic damages in medical malpractice cases, but in 2010 the Supreme Court of Georgia invalidated this cap because it violated a state constitutional right to trial by jury.\footnote{Atlanta Oculoplastic Surgery, PC v. Nestlehutt, 691 S.E.2d 218 (Ga. 2010) (holding cap found in GA. CODE ANN., § 51-13-1 unconstitutional under right to jury trial provision in state constitution).}

Other caps have fared better. In 2002, the Ohio legislature again imposed a cap in medical malpractice actions.\footnote{Arbino v. Johnson & Johnson, 880 N.E.2d 420 (Ohio 2007).} The Supreme Court of Ohio has not yet ruled on the constitutionality of this statute, but it did uphold a similar cap applicable in product liability and asbestos actions.\footnote{OHIO REV. CODE ANN. § 2323.43 (West, Westlaw through the end of the 2009 Regular and First Called Sessions of the 81st Legislature).}

In 2003, Texas adopted a damages cap on non-economic damages of $250,000 per claimant in actions brought against physicians\footnote{TEX. CIV. PRAC. & REM. CODE §74.301 (West, Westlaw through the end of the 2009 Regular and First Called Sessions of the 81st Legislature).} after a constitutional amendment was passed by the vote of the people to insulate the cap against constitutional challenge.\footnote{TEX. CONST. ANN., Art. 3, § 66 (West, Westlaw through the end of the 2009 Regular and First Called Sessions of the 81st Legislature).}

The constitutional amendment was deemed necessary because the Texas Supreme court had held that an earlier cap violated the Texas Constitution.\footnote{Lucas v. U.S., 757 S.W.2d 687 (1988).} In 2009, Oklahoma adopted a cap of $400,000 on non-economic damages applicable in
all personal injury cases. These limits do not apply in certain malpractice actions where
the jury finds by clear and convincing evidence that the plaintiff suffered serious bodily
injury, or that the harm was inflicted through grossly negligent, reckless, fraudulent,
intentional or malicious acts.

Advocates of tort reform have been frustrated by the actions of state high courts
and have focused their efforts on the enactment of a federal cap on damages. A federal
cap would neither be subject to challenge under state constitutions nor vulnerable to
federal constitutional challenges under existing precedents. During the early 2000s,
President George W. Bush, Republicans in Congress, the AMA, and several other
physician groups supported the Help Efficient, Accessible, Low-Cost, Timely Healthcare
Act (HEALTH Act). This proposed legislation was patterned after MICRA and
included a $250,000 cap on non-economic damages. The House passed the HEALTH
Act three years in a row (2003, 2004, 2005), but the legislation never made it through the
Senate.

In 2003, Donald Palmisano, then President of the American Medical Association
and a physician from Louisiana with a law degree, testified before Congress calling for
the enactment of federal legislation patterned after MICRA including a $250,000 cap on

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95 23 OKL. ST. ANN. § 61.2 (B) (West, Westlaw through chapters of the Second Regular Session of the
52nd Legislature effective July 1, 2010).
96 23 OKL. ST. ANN. § 61.2 (C) (West, Westlaw through chapters of the Second Regular Session of the
52nd Legislature effective July 1, 2010).
97 See e.g., Lucas v. U.S., 807 F.2d 414 (5th Cir. 1986) (holding Texas damages cap does not violate federal
equal protection clause); Boyd v. Bulala, 877 F.2d 1191 (4th Cir. 1989) (upholding Virginia cap and
rejecting federal due process, equal protection, separation of powers, and right to jury trial arguments).
98 Press Release, Office of Congressman Phil Gingrey (R. Ga.) (June 6, 2007),
Association, Help Efficient, Accessible, Low-cost, Timely Healthcare
(HEALTH) Act of 2007 (H.R. 2580).
100 Medical Liability Bill Passes House for Third Year in a Row: Inaction by Senate Stalls Pain and
non-economic damages. He testified that this legislation was necessary because many physicians could either no longer find or were unable to afford liability insurance and thus were closing their practices, retiring or reducing services.

In his testimony, Doctor Palmisano referred to two reports prepared by the United States Department of Health and Human Services in support of his claim that states with caps on non-economic damages had experienced only moderate increases in rates while states without such caps had experienced much larger increases. He argued that federal MICRA-style reforms were necessary because state courts had struck down many reforms as unconstitutional. He contended that the adoption of MICRA was responsible for keeping premium increases on medical liability insurance in California at moderate levels. And he urged congressional passage of legislation patterned after MICRA because of its effectiveness “especially at controlling non-economic damages.”

Physician specialty associations have also called for the adoption of MICRA-style reforms at the federal level. The American College of Obstetricians and Gynecologists (ACOG) claims that one in ten obstetricians and several hospitals have stopped delivering babies and cesarean sections have increased because of the cost of malpractice insurance. During the malpractice crisis of the early 2000s, the President of ACOG identified nine crisis states (FL, MS, NV, NJ, NY, PA, TX, WA, WV) where


\[102\] Id. at 122.


\[104\] Palmisano Statement, supra note 101, at 127.

obstetricians were being forced to stop delivering babies because of unavailable or unaffordable malpractice insurance, and called for enactment of a federal damages cap as an appropriate remedy.\(^{106}\) Similarly, in 2003, the American College of Surgeons (ACS) endorsed the HEALTH Act, legislation that would impose a federal cap of $250,000 on non-economic damages in malpractice cases.\(^{107}\)

III. Premium Volatility and Damages Caps

The American Medical Association (AMA) supported the PPACA even though the legislation did not include traditional medical liability reforms.\(^{108}\) But during the recent health care reform debate, physician groups contended that significant cost savings, quality improvements, and increased access could come from the federal adoption of traditional reforms including damages caps.\(^{109}\) Physician groups have traditionally identified tort reform as a policy priority and damages cap as the most important reform. A 2007 position paper issued by the AMA noted that “MICRA’s $250,000 cap on non-economic damages has been the cornerstone of organized medicine’s attempts to ensure a litigation system that does not hinder patient access to


But the enthusiastic support by physicians for damages caps is somewhat of a mystery. Since most physicians have insurance coverage that provides for the costs of defending claims and indemnification out-of-pocket costs are limited. And medical liability insurance is not experience rated so a claim may not result in an increase in premium for the physician that is sued. Moreover, Thurston found that physicians are able to pass along medical liability insurance premium increases to third party payers.

A recent study by Pauly et al. (2006) found that increased medical liability insurance premiums did not reduce physician incomes thereby supporting the notion that physicians are able to pass along those costs. And one study found that physician incomes actually increased during the malpractice crisis of the 1980s.

Nonetheless, there are now several studies showing that caps reduce medical liability insurance premiums and/or the rate of increase in medical liability insurance premiums. Thus, caps under some circumstances could reduce physician costs by reducing the cost of medical liability insurance; and where prices of medical services do

not adjust to these changes or demand is sufficiently elastic, physician incomes could increase. This would be less likely in more competitive physician labor markets.

In addition to malpractice insurance premiums and the stress involved in defending a lawsuit, physicians are legitimately concerned about the effect of malpractice lawsuits on their reputations. This problem has undoubtedly been exacerbated by the requirement that judgments against and settlements on behalf of physicians be reported to the National Practitioner Data Bank. Lawthers et al. (1992) found that physicians over-predict their likelihood of being sued. These essentially fixed costs of each malpractice suit suggest that physicians are very concerned about the probability of being sued, and thus, it may be legitimate for them to focus on reforms that indirectly reduce the number of claims by reducing the levels of recovery for claimants. In this regard, there is evidence of a slight reduction in claim frequency due to direct reforms such as damages caps. And Waters et al. (2007) found that caps on

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120 Peters, Health Courts, supra note 23, at 256 citing to Teresa M. Waters et al., Impact of the National Practitioner Data Bank on Resolution of Malpractice Claims, 40 INQUIRY 283, 283 (2003)
123 Daniel P. Kessler and Mark. B. McClellan, The Effects of Malpractice Pressure and Liability Reforms on Physicians’ Perceptions of Medical Care, 60 LAW & CONTEMP. PROBS. 81 (1997).
non-economic damages were associated with fewer total and per physician paid claims
and with lower per physician payments.\textsuperscript{124}

Physicians may also be more concerned about stability in the medical liability
insurance market than they are about higher premiums and increased claims, \textit{per se}. This
attitude would be consistent with the ability to pass on higher malpractice insurance
premiums, but only with a lag. If so, they would suffer income loses until their higher
costs of doing business are reflected in higher prices that are recognized by their largely
insurance company payers. In this regard, it appears that a damages cap coupled with
creation of a state patient compensation fund may be an effective means of reducing
volatility in the medical liability insurance market even if it is not effective in reducing
claim frequency and overall loss payouts.

In a comparative study of the medical liability systems in Alabama, Louisiana and
Mississippi, Nelson et al. (2008) found that medical liability insurance premium levels in
Louisiana, a jurisdiction with a patient compensation fund and damages caps, were
substantially higher than in Alabama, and that Louisiana had a more plaintiff-friendly
malpractice environment in terms of the total value of paid claims and the number of paid
claims than either Alabama or Mississippi. Nonetheless, the study concluded that
Louisiana had established a stable medical liability insurance system that was generally
supported by providers and insurers.\textsuperscript{125}

\textsuperscript{124} Teresa M. Waters, Peter P. Budetti, Gary Claxton & Judy P. Lundy, \textit{Impact of State Tort Reforms on
Physician Malpractice Payments}, 26 \textit{Health Affairs} 500, 504 (2007).
\textsuperscript{125} Leonard J. Nelson, III, Michael A. Morrissey & Meredith L. Kilgore, \textit{Malpractice Reform in Three
While premiums in Louisiana were substantially higher than those in Alabama, and comparable to those in Mississippi, they were not as volatile.\textsuperscript{126} During the period examined (1991-2004), Louisiana had a damages cap in place.\textsuperscript{127} Alabama had caps that were passed in 1987, but they were held unconstitutional by the Supreme Court of Alabama in 1991 (non-economic damages)\textsuperscript{128} and 1995 (wrongful death).\textsuperscript{129} Mississippi did not have a cap on non-economic damages until 2002,\textsuperscript{130} and that was passed in response to a spike in premium levels.\textsuperscript{131}

The continuing support of physicians for the Louisiana malpractice system, suggests that physicians may be more concerned with the stability of premium levels than with the actual cost of premiums. The most significant components of the Louisiana malpractice reforms are the caps on damages and the Louisiana Patient Compensation Fund (LPCF). The Louisiana cap limits the liability of “qualified health care providers” for injuries resulting from malpractice to $100,000.\textsuperscript{132} Health care providers may become “qualified” by filing proof that they are covered by a policy of malpractice liability insurance in an amount of at least $100,000 per claim, or if self-insured, depositing $125,000 with the fund or otherwise arranging for a letter of credit or other security.\textsuperscript{133}

\textsuperscript{126} Id. at 147-148.
\textsuperscript{127} LA. REV. STAT. ANN. 40:1299.42 (B) (West, Westlaw through 2009 regular session).
\textsuperscript{128} Moore v. Mobile Infirmary Ass’n, 592 So. 2d 156 (Ala. 1991) (holding cap in ALA. CODE § 6-5-544 unconstitutional).
\textsuperscript{130} MISS. CODE ANN. § 11-1-60 (West, Westlaw current through end of 2009 regular and extraordinary sessions).
\textsuperscript{131} Nelson, Morrisey & Kilgore (2008), supra note 125, at 117.
\textsuperscript{132} LA. REV. STAT. ANN. 40:1299.42 (B) (West, Westlaw current through 2009 regular session).
\textsuperscript{133} LA. REV. STAT. ANN. § 40:1299.42 (A) (1) (West, Westlaw current through 2009 regular session).
“Qualified health care providers” must also pay a surcharge assessed by the Louisiana Insurance Rating Commission.\(^{134}\)

Damages recoverable in malpractice actions against “qualified health care providers” are capped at a total of $500,000 plus interest and costs,\(^ {135}\) with the liability of the individual health provider is capped at $100,000.\(^ {136}\) These caps were set in 1975 and have not been increased for inflation, but in 1984 the statute was amended to exclude future health care expenses.\(^ {137}\) Thus plaintiffs are now entitled to recover for future health care costs without regard to the cap.

The damages available to a successful plaintiff in an action against a “qualified health care provider” are paid both by the provider’s insurer and the LPCF. No “qualified health care provider” can be held liable for more than $100,000 plus interest.\(^ {138}\) Thus any judgment amount in excess of the total liability for qualified health care providers of $100,000 is to be paid out of the LPCF.\(^ {139}\) Future medical costs, which are not subject to the $500,000 cap, are also to be paid out of the LPCF.\(^ {140}\) And Louisiana does not recognize punitive damages as an available common law remedy.\(^ {141}\)

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\(^ {139}\) La. Rev. Stat. Ann. § 40:1299.42 (B)(3)(a) (West, Westlaw current through 2009 regular session). The cap on Patient Compensation Fund liability established by § 40:1299.42(B) excludes from its scope “future medical care and related benefits” as provided in § 40:40:1299.43. Under § 40:1299.43, if a court determines that a claimant is in need of “future medical care and related benefits,” defined as “all reasonable medical, surgical, hospitalization, physical rehabilitation, and custodial services and includes drugs, prosthetic devices, and other similar materials reasonably necessary in the provision of such services, after the date of the injury, then damages are recoverable from the Patient Compensation without regard to the cap. In addition, the legislature is supposed to appropriate sufficient monies to pay claims in excess of the $500,000 limit for future medical care.

Arguably, it is the low cap on provider’s liability and the cap on total damages coupled with the LPCF that has led to a relatively stable medical liability insurance market in Louisiana. Sloan et al. (2005) noted that one of the main motivations in creating patient compensation funds was “providing physicians and hospitals with affordable and reliable medical liability by covering losses at the higher end of the distribution of losses, thereby reducing volatility…” Based on a qualitative evaluation, they found that properly designed patient compensation funds may be an effective means of reducing volatility and combating periodic insurance crises.

It is generally assumed that there is a strong link between the conditions in the medical liability insurance market and physician support of damages caps. It is not, however, clear whether this support for damages caps is more a function of higher absolute premium levels, concern about the probability of lawsuits, or premium volatility. Concerns about premium volatility could explain physician support for damages caps. Baker has attributed most of the volatility in the medical liability insurance market to an underwriting cycle in which insurers periodically underestimate potential losses until actual losses force them to raise their premium rates. A time lag between a sudden spike in medical liability insurance premium levels and the ability of physicians to pass on those increased costs could energize physicians to support the enactment of damages caps in the belief that this will reduce market volatility and return stability to the system. If this sudden spike is accompanied by the exit of insurers from the market, then

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143 *Id.* at 271.
physician support for damages caps would be tied to the malpractice insurance
underwriting cycle.

There is a dearth of empirical studies establishing that damages caps have been
effective in taming the volatility of the insurance underwriting cycle, but there are studies
finding that caps reduce losses by insurers. Using financial data from the National
Association of Insurance Commissioner files for medical liability insurers (1984-1991),
Born and Viscusi (2005) found that caps on non-economic damages reduced insurers’
loss ratios and incurred losses.  

Focusing on loss ratios, i.e., the ratio of losses incurred
to premiums earned, they found that the enactment of reforms typically followed a surge
in loss ratios. And they found that caps on non-economic damages increased insurer
profitability by reducing loss ratios 10 to 13 percent. Born et al. (2010) found that caps
on non-economic damages reduced insurer’s ultimate losses and increased insurer’s
income.

On the other hand, it does not appear that the medical malpractice crises of the
mid-1980s and the 2000s resulted from sudden spikes in loss payouts. Indeed, Chandra
et al. (2005) concluded that medical liability loss payouts (judgments and settlements)
had “not risen significantly” from 1991 to 2003 when viewed “as a fraction of national
health care spending.” They found the increase in loss payouts during this period
could largely be explained by increased medical costs, and concluded there was only a
weak relationship between loss payouts and increased medical liability insurance


145 W. Kip Viscusi & Patricia Born, Damages Caps, Insurability, and the Performance of Medical
Malpractice Insurance, 72 J. OF RISK & INS. 23 (2005).
146 Id. at 28.
147 Id. at 39.
148 Patricia Born, W. Kip Viscusi & Tom Baker, The Effects of Tort Reform on Medical Malpractice
Insurer’s Ultimate Losses, 76 J. OF RISK & INS. 197 (2010).
149 Baker, supra note 16, at 51.
150 Chandra et al. (2005), supra note 18, at W-247.
premiums.\textsuperscript{151} And a study of closed claims in Texas by Black et al. (2005) concluded that the medical liability insurance crisis in that jurisdiction was not caused by a spike in loss payouts.\textsuperscript{152} They concluded that malpractice reforms will probably not prevent future crises.\textsuperscript{153}

Nonetheless, supporters of damages caps point to success in states like California and Texas as a basis for their support of damages caps. The AMA touts the relative stability of the California insurance market since the enactment of MICRA in 1975 as proof of the efficacy of caps.\textsuperscript{154} But according to opponents of caps, this stability has resulted not from MICRA, but from the passage of Proposition 103 in 1988, a measure that included a rollback on premiums, and a mechanism for consumers to challenge rate increases.\textsuperscript{155} Nonetheless, it is clear that the MICRA cap has resulted in reductions in damage awards. Rand (2004) found that from 1995-1999 California jury verdict awards in malpractice cases were reduced 30 percent due to the imposition of the MICRA cap with the cap being imposed in 45% of the cases reviewed.\textsuperscript{156}

Rand (2004) also found that as a result of MICRA’s limits on contingency fees plaintiff’s attorney fees were reduced 60% by MICRA.\textsuperscript{157} Certainly, these limits reduced incentives for attorneys to bring malpractice claims and that could reduce the number of filed claims. From 2003-2008, the total number of annual paid claims in California

\textsuperscript{151} Id.
\textsuperscript{153} Id.
\textsuperscript{157} Id. at 48.
declined from 1312 to 901.\textsuperscript{158} But it is not clear that the decline in the number of claims is due to the effect of MICRA. It could be due to improvements in patient safety. Using California physician malpractice claims and patient safety data from 2001-2005, Rand (2010) found an association between a reduction in potential adverse patient safety incidents and fewer malpractice claims at the county level.\textsuperscript{159} The study also noted that since MICRA had been in place since the mid-1970s, the decline in claims could not be explained by “the impact of tort reform within the state.”\textsuperscript{160} Nonetheless, since the California damages cap has no inflation factor and has not been increased since its adoption in 1975, it becomes more stringent over time.\textsuperscript{161} This ratcheting down effect could provide at least a partial explanation for the continuing decrease in the number of claims.

Damages caps proponents also point to Texas as an example of the success of caps in stabilizing the medical liability insurance market. In 2003, the Texas legislature capped non-economic damages in medical malpractice actions at $250,000 in actions against individual physicians with an aggregate cap of up to $500,000 per claimant in actions involving more than one institutional provider.\textsuperscript{162} In 2005, several Texas medical liability insurers announced rate cuts for 2006.\textsuperscript{163} For several of these companies, this

\textsuperscript{160} Id. at 5.
\textsuperscript{162} TEX CIV. PRAC. & REM. CODE §74.301 (West,Westlaw current through the end of the 2009 Regular and First Called Sessions of the 81st Legislature).
was the second round of rate cuts following enactment of the damages cap.\textsuperscript{164} Hyman, Black, Silver and Sage (2009), found that the Texas caps significantly reduced verdicts, payouts and settlements.\textsuperscript{165} And from 2003 to 2008, the total number of annual paid claims in Texas plunged from 1,067 to 464.\textsuperscript{166}

Table 1 provides some initial evidence that the presence of damage caps on non-economic damages is associated with greater premium stability. Data on malpractice insurance premiums for internal medicine, general surgery, and obstetrics/gynecology by state were obtained from the Medical Liability Monitor for the period 1991 through 2004. During this period 19 states had damage caps in place for the entire period and 22 states did not. The remaining 9 states had caps in place for part of the period.

\begin{table}[h]
\centering
\begin{tabular}{lcccccc}
\hline
 & Internal Medicine & General Surgery & Obstetrics/Gynecology \\
 & Never Cap & Always Cap & Never Cap & Always Cap & Never Cap & Always Cap \\
\hline
\textbf{PREMIUM LEVELS} & \\
\textit{Mean Premium 1991} & $7,510$ & $8,432$ & $31,195$ & $34,020$ & $47,609$ & $62,210$ \\
\textit{Mean Premium 2004} & $11,708$ & $12,768$ & $41,912$ & $46,118$ & $63,477$ & $64,910$ \\
\hline
\textbf{PREMIUM GROWTH} & \\
\textit{Mean Annual % Change} & 0.073 & 0.059 & 0.091 & 0.049 & 0.075 & 0.042 \\
\textit{SD % Change} & 0.228 & 0.154 & 0.319 & 0.189 & 0.260 & 0.206 \\
\textit{Number of States} & 19 & 22 & 19 & 22 & 19 & 22 \\
\hline
\end{tabular}
\caption{Premiums and Volatility Measures by Damage Cap Status (1991-2004)}
\end{table}

Note: These are means of state-level variables. For example, to obtain the COV for internal medicine in never cap states (.306), we first calculate the COV=std/mean for each state during 1991-2004, and then take the un-weighted mean across the 19 states.

\textsuperscript{164} Id.
\textsuperscript{166} State Health Facts, Kaiser Family Foundation, Total Number of Paid Claims 2003-2008 (Texas), http://www.statehealthfacts.org/comparetrend.jsp?type=1&ind=436&cat=&yr=63&sub=102&srng=45.
In both the initial and the terminal year, average premiums for all three specialties were higher in states with damage caps. In internal medicine, for example, the average premium in 2004 was $11,708 in states that never had a cap and $1,060 higher in states that always had a cap. The focus here, however, is not in the premium levels, but in the stability of the premiums over time. One way to look at this is the average annual changes in the premiums over time. These are reported in the third row of the table. In every instance premiums grew more slowly in the states that always had the caps. In addition, the standard deviation in the state premiums increased in all states but increased more slowly in the states that always had a cap. The standard deviation is a measure of how tightly the state premium increases are packed around the average premium increase. The data show that premiums increased more rapidly in the states without damage caps and these states also experienced greater year-to-year variation in premium growth than states with damage caps. This suggests that there was greater stability of premiums in the states with non-economic damage caps.

IV. The Problem of Defensive Medicine

Defensive medicine may both increase health care costs and reduce access. It is generally recognized that there are two types of defensive medicine: positive (assurance behavior) and negative (avoidance behavior). Positive defensive medicine has an

impact on costs because it involves ordering extra diagnostic tests or performing additional procedures in order to reduce the risk of being sued for malpractice.\textsuperscript{168}

Negative defensive medicine reduces access because it involves avoiding certain classes of patients, refusing to perform certain procedures, or leaving practice altogether.\textsuperscript{169}

The definition of defensive medicine has been debated. In its 1994 report, OTA defined defensive medicine as:

\begin{quote}
… when doctors order tests, procedures, or visits, or avoid high-risk patients or procedures, primarily (but not necessarily solely) to reduce their exposure to malpractice liability. When physicians do extra tests or procedures primarily to reduce malpractice liability, they are practicing positive defensive medicine. When they avoid certain patients or procedures, they are practicing negative defensive medicine.\textsuperscript{170}
\end{quote}

On the other hand, Sloan & Shadle (2009), using a law and economics approach, defined defensive medicine as “only care for which expected cost exceeds expected benefits.”\textsuperscript{171}

Several studies of the prevalence of defensive medicine have relied on surveys.\textsuperscript{172} While recognizing the shortcomings of physician surveys, Kessler & McClellan (1997) found that survey results could be a helpful measure of actual defensive practices.\textsuperscript{173} As noted by the CBO (2006), however, there are problems with interpreting survey results: physicians report both positive (additional tests and procedures) and negative (avoiding

\begin{itemize}
\item \textsuperscript{168} Id.
\item \textsuperscript{169} Id.
\item \textsuperscript{171} Frank A. Sloan and John H.Shadle, Is There Empirical Evidence for “Defensive Medicine”? A Reassessment, 28 J. OF HEALTH ECONOMICS 481, 482 (2009).
\item \textsuperscript{173} Daniel P. Kessler & Mark B. McClellan, The Effects of Malpractice Pressure and Liability Reforms on Physicians' Perceptions of Medical Care, 60 L. & CONTEMP. PROBS. 82, 106 (1997).
\end{itemize}
procedures and patients) defensive medicine so that it is difficult to determine the net
effect on utilization; surveys typically have a low response rates so there may be a
response bias (i.e., those with more negative feelings about the malpractice system are
more likely to respond); and the types of questions asked may substantially affect results
(i.e., if you ask physicians whether malpractice concerns have affected their practice they
will usually respond affirmatively while more open-ended questions with clinical
scenarios are less likely to elicit a response indicating malpractice fears as a reason for
ordering additional tests).\textsuperscript{174}

A 2005 study used a survey instrument to examine the prevalence of defensive
medicine in the then volatile Pennsylvania malpractice environment through the use of a
survey instrument concluding that defensive medicine was “highly prevalent” among
high risk physicians in Pennsylvania (i.e., those in specialties with the highest medical
liability insurance premiums) and had “potentially serious implications for cost, access,
and both technical and interpersonal quality of care.\textsuperscript{175} That study attempted to address
concerns about the difficulty of interpreting survey results through careful design of the
questionnaire and the use of aggressive follow up techniques to ensure a high response
rate. They also sought to improve upon earlier surveys by focusing on physicians from
multiple specialties in a volatile malpractice environment. Initially, they identified six
high risk specialties impacted by high medical liability insurance rates: “emergency

\begin{footnotes}
\item[174] CBO (2006), \textit{supra} note 172, at 9-12.
\item[175] David M. Studdert, Michelle M. Mello, William M. Sage, Catherine M. Desroches, Jordon Peugh, Kinga
Zapert & Troyen A. Brennan, \textit{Defensive Medicine Among High-Risk Specialist Physicians in a Volatile
\end{footnotes}
medicine, general surgery, neurosurgery, obstetrics/gynecology, orthopedic surgery, and radiology."\textsuperscript{176}

The questionnaire asked about both positive defensive medicine (assurance behaviors: ordering more tests or prescribing more medically indicated, unnecessary specialist referrals, or suggesting unnecessary invasive procedures) and negative defensive medicine (avoidance behaviors: avoiding certain procedures or high risk patients). \textsuperscript{177} As to both types of behavior, respondents acknowledging that they engaged in the behavior were asked to provide more specific information about their most recent act. \textsuperscript{178} Respondents were also questioned about whether they had reduced or eliminated high-risk aspects of their practice in the last 3 years or planned to do so in the next 2 years in response to the costs of medical liability insurance. \textsuperscript{179}

There was an overall response rate of 65\% to the questionnaire.\textsuperscript{180} Most of the respondents (93\%) reported they engaged in defensive medicine.\textsuperscript{181} Fifty-nine percent reported ordering excessive diagnostic tests,\textsuperscript{182} 52\% reported unnecessary specialist referrals,\textsuperscript{183} one-third reported excessive prescribing, and one-third reported suggesting unnecessary invasive procedures.\textsuperscript{184} As to assurance behavior, among emergency room physicians, neurosurgeons, and orthopedic surgeons, the most commonly reported defensive act was ordering unnecessary imaging studies.\textsuperscript{185}

\begin{footnotesize}
\begin{enumerate}
\item Id. at 2610.
\item Id.
\item Id.
\item Id.
\item Id.
\item Id. at 2612.
\item Id.
\item Id.
\item Id.
\item Id.
\item Id.
\item Id.
\item Id.
\item Id.
\item Id.
\item Id.
\item Id.
\item Id.
\item Id.
\end{enumerate}
\end{footnotesize}
Among obstetricians/gynecologists the most common defensive practice was unnecessary referrals.\textsuperscript{186} Concerns about cancer detection was a commonly reported motivating factor across specialties that led to increased utilization of diagnostic imaging, specialist referrals, and suggesting invasive procedures.\textsuperscript{187} Thirty-nine percent of respondents reported avoidance behaviors in the form of refusing to care for high-risk patients.\textsuperscript{188} And one-third reported avoiding certain procedures or interventions.\textsuperscript{189} Mello (2005) concluded that, based on the survey of Pennsylvania physicians, the supply of surgeons and other specialists would likely decrease in the next two years and that physicians were avoiding providing high risk services in response to increased costs of medical liability insurance.\textsuperscript{190}

In 2008, the Massachusetts Medical Society released the results of a statewide survey of practicing physicians in eight specialties (anesthesiology, emergency medicine, family medicine, general surgery, internal medicine, neurological surgery, obstetrics/gynecology, and orthopedic surgery) on the prevalence of defensive medicine. Eighty-three percent of the respondents reported they practiced defensive medicine.\textsuperscript{191} The commonly reported assurance behaviors related to diagnostic imaging ordered for defensive purposes: 22\% of X-rays; 28\% of CT scans; 27\% of MRIs; and 24\% of ultrasounds. In addition, 28\% of specialty referrals, 18 \% of laboratory tests ordered, and

\begin{flushright}
\textsuperscript{186} Id.
\textsuperscript{187} Id. at 2613.
\textsuperscript{188} Id.
\textsuperscript{189} Id.
\end{flushright}
13% of hospital admissions were motivated by liability concerns. On avoidance behaviors, 38% reported reducing the number of high risk services and procedures and 28% reported reducing the number of high risk patients seen. Based on the survey results, the report concluded that “the total cost of defensive medicine in Massachusetts accounts for billions of dollars.” But there were problems with this survey:

The response rate for the survey was too low (23.6 percent) for the results to be considered generalizable, the validity and reliability of the self-report measures had not been established, and the authors acknowledged that confirmation from more objective measures (such as medical record review) were warranted to uphold the validity of the survey results.

The American College of Obstetricians and Gynecologists (ACOG) does periodic surveys of its members on professional liability issues including defensive medicine practices. In ACOG(2009), of those who reported making obstetrical practice changes because of concerns about liability insurance: “19.5% reported increasing the number of cesarean deliveries and 19.5% indicated they stopped performing or offering VBACs…21.4% decreased the number of high-risk obstetric patients, 10.4% decreased the number of total deliveries, and 6.5% stopped practicing obstetrics altogether.” In addition, of those who reported making obstetrical practice changes out of fear of being sued for malpractice: “30.2% decreased the number of high-risk obstetric patients, 29.1% reported increasing the number of cesarean deliveries, …25.9% stopped offering

\[\text{Id.} \text{ at 7.}\]


\[\text{Id. at 2.}\]
and performing VBACs [vaginal births after cesareans]... 13.9% decreased the number of total deliveries, and 8.0% stopped practicing...

As to those who reported gynecological practice changes because of concerns about liability insurance, ACOG (2009) found: “11.0% decreased gynecologic surgical procedures...4.5% stopped performing major gynecologic surgery, and 1.8% stopped performing all surgery.” And as to those who reported gynecological practice changes due to fear of being sued for malpractice 14.7% decreased gynecologic surgical procedures, 5.2% stopped performing major gynecologic surgery, and 2.0% stopped performing all surgery.” Notwithstanding the responses to ACOG (2009), however, it seems unlikely that the increased cesarean rates and decrease in VBAC were driven entirely by liability concerns. For example, reimbursement policies could be a factor in the observed rate of increase in cesarean sections. And the decrease in VBAC could also be influenced by concerns about the risks to the mother.

Reyes (2010) utilizing the results of a 2003 ACOG survey found that in the short term rising liability insurance premiums led to practice reductions but in the longer term it led to greater specialization: while some physicians focused more on obstetrics, others focused more on gynecological surgery.

In Bishop et al. (2010), a national survey of primary care physicians, nonsurgical specialists, surgical specialist, and other specialists, respondents reported ordering more

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198 Id. at 3.
199 Id. at 3.
200 Id. at 3.
201 Cf. Y. Tony Yang, Michelle M. Mello, S.V. Subramanian & David M. Studdert, Relationship Between Malpractice Litigation Pressure and Rates of Cesarean Section and Vaginal Birth After Cesarean Section, 47 MED. CARE, 234, 238 (2009).
tests and procedures than needed due to fear of malpractice suits.\textsuperscript{203} Over 90\% of respondents also agreed that additional medical liability reforms were needed to decrease overutilization of diagnostic tests.\textsuperscript{204}

In addition to surveys, there have been several empirical studies on the prevalence of defensive medicine. Most of these have focused on heart disease or maternity care. More recent studies have revisited the earlier work, and explored imaging and physician services more generally. A few recent studies have examined expenditures or overall utilization and made inferences about defensive medicine. These studies yield mixed results as to the magnitude and generalizability of any findings but have led the CBO to revise its view of the evidence of defensive medicine. They will be discussed in the next section.

V. The Impact of Medical Liability Reform on Costs

The stated goals of health care reform are to reduce costs, increase access, and improve quality.\textsuperscript{205} It will, however, be difficult to accomplish these goals simultaneously. Some health policy analysts have referred to an “iron triangle” of health care with three vertices: cost, access and quality.\textsuperscript{206} And it has been noted that “in equilibrium, increasing the performance of the health care system along any one of these dimensions can compromise one or both of the other dimensions, regardless of the

\begin{footnotes}
\item[203] Bishop, \textit{supra} note 38, at 1081.
\item[204] \textit{Id.}
\item[206] WILLIAM L. KISSICK, MEDICINE'S DILEMMAS: INFINITE NEEDS V. FINITE RESOURCES 150 (1994).
\end{footnotes}
amount that is spent on health care." At this time, the potential impact of the PPACA on health care costs is being debated. Initially, CBO estimated that enactment of the health care portions of the legislation would decrease the federal deficit by $124 billion over 2010-2019. But if combined with legislation reversing the cut in payment rates for physician services under Medicare, CBO estimated that enactment of the legislation would add $59 billion to the deficit. And in May 2010, the CBO estimated that the PPACA would increase discretionary spending $115 billion over 2010-2019. In June 2010, the CBO opined that while Medicare costs will continue to increase, some provisions of the PPACA have the potential to reduce outlays by decreasing payment rates for some providers and limiting per enrollee expenditures.

The chief actuary of the Centers for Medicare Services, estimated that the PPACA would increase overall federal spending by $251 billion over the 2010-2019 period, but net Medicare spending would be reduced by $575 billion. And overall health care spending was estimated to increase by $311 billion during 2010-2019 due to the passage

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If, however, additional health care cost savings could be achieved by the adoption of medical liability reforms, they could be justified as long as there were no significant adverse effects on access or patient safety. There is a continuing debate as to overall costs of defensive medicine and the potential impact of tort reform on those costs.\footnote{MICHÈLE M. MELLO, \textit{UNDERSTANDING MEDICAL MALPRACTICE INSURANCE: A PRIMER} 4 (2006), available at http://www.rwjf.org/pr/synthesis/reports_and_briefs/pdf/no10_primer.pdf.} Reductions in health care costs by the implementation of medical liability reform could come through reductions in medical liability insurance premiums and/or reductions in defensive medicine. There are now several research studies showing that damages caps will reduce medical liability insurance premiums, but establishing a link between traditional tort reforms and reductions in health care utilization has been more elusive.
There have been a number of government and industry-sponsored reports that have looked at the impact of tort reform on health care costs. There have also been a number of empirical studies on the impact of tort reforms on defensive medicine. Although some of these studies have shown a link between direct reforms such as damages caps and reductions in the practice of defensive medicine, other studies have found no significant effect.\footnote{Compare Daniel P. Kessler & Mark B. McClellan, \textit{Malpractice Law and Health Care Reform: Optimal Liability in an Era of Managed Care}, 84 \textit{J. of Public Economics} 175 (2002) with Sloan & Shadle (2009), \textit{supra} note 171.}

A 1994 study on defensive medicine by the Office of Technology Assessment (OTA) found that while traditional tort reforms could reduce malpractice insurance premiums, their impact on defensive medicine were “largely unknown” and “likely to be small.”\footnote{OFFICE OF TECHNOLOGY ASSESSMENT, \textit{DEFENSIVE MEDICINE AND MEDICAL MALPRACTICE} 12 (1994), available at http://www.princeton.edu/~ota/disk1/1994/9405/9405.PDF.} Moreover, to the extent that they could reduce defensive medicine, OTA (1994) notes that tort reforms could do so without distinguishing between “medically appropriate” defensive practices and “wasteful” or “very costly” practices.\footnote{Id. at 2.}

As to the potential savings from the effect of tort reform, government agencies have been in disagreement. A 2002 study issued by the Department of Health and Human Services estimated that a cap on non-economic damages could save the federal government from $25.3 billion to $44.3 billion in direct costs.\footnote{DEPARTMENT OF HEALTH AND HUMAN SERVICES, \textit{OFFICE OF THE ASSISTANT SECRETARY FOR PLANNING AND EVALUATION, CONFRONTING THE NEW HEALTH CARE CRISIS: IMPROVING HEALTH CARE QUALITY AND LOWERING COSTS BY FIXING OUR MEDICAL LIABILITY SYSTEM} 7 (July 24, 2002), available at http://www.hcla.org/studies/HHSmedliabilitycrisis.pdf.} But a 2003 study by the GAO concluded: “Although available research suggests that defensive medicine may be
practiced in specific clinical situations, the findings are limited and cannot be generalized to estimate the prevalence and costs of defensive medicine nationwide."\(^{223}\)

A 2006 report prepared by Price Waterhouse Coopers for America’s Health Insurance Plans (AHIP) looked at “cost drivers” that contributed to the 8.8% increase in health insurance premiums from 2004-2005.\(^{224}\) It found that 10 percent of health care spending was attributable to litigation costs and defensive medicine,\(^{225}\) “that more intensive diagnostic testing contributed eight tenths of a percentage point to premium increases in 2005,” and that defensive medicine contributed to those costs.\(^{226}\) It suggested that 30 percent of the health care dollar was spent on “poor quality” care and of that 30 percent, 2 percent was attributable to direct litigation costs and 8 percent to defensive medicine.\(^{227}\)

A. Empirical Studies on the Impact of Tort Reforms on Defensive Medicine

There have been a number of empirical studies on the impact of tort reforms on defensive medicine with conflicting results. The most influential of the early work was undertaken by Kessler & McClellan (1996).\(^{228}\) They note: “Our study is the first to use exogenous variation in tort laws not related to potential idiosyncrasies of providers or small geographic areas to assess the behavioral effects of malpractice pressure.”\(^{229}\) Kessler & McClellan (1996) examined the effects of “direct” and “indirect” malpractice


\(^{225}\) Id. at 7.

\(^{226}\) Id. at 12.

\(^{227}\) Id. at 17.


\(^{229}\) Id. at 386.
tort reforms on Medicare hospital spending on behalf of beneficiaries with acute myocardial infarction (AMI) or new ischemic heart disease (IHD) in 1984, 1987 and 1990. They also examined health outcomes measured as one year post admission mortality or readmission for AMI or IHD. Direct reforms included the presence of any damage caps, abolition of punitive damages, elimination of mandatory pre-judgment interest, or the abrogation or modification of the collateral source rule. Indirect reforms included such changes as limitations on plaintiff attorney contingency fees, mandatory periodic payments, joint and several liability and patient compensation funds. Direct reforms were found to reduce one year Medicare hospital payments by 5 to 9%. Indirect reforms reduced payments by 1.8%.

Because Kessler & McClellan found no statistically significant effects on health outcomes, they concluded that direct reforms reduced defensive medicine and improved social welfare. In a follow-up study, Kessler & McClellan (2002) found that direct reforms reduced medical expenditures for Medicare patients with serious heart disease (AMI and IHD) without significantly affecting health outcomes. They also found that “malpractice pressure” had a greater effect on diagnostic procedures than treatments.

Although Kessler & McClellan’s results have largely been accepted, controversy remains regarding the generalizability of their findings to overall health care spending. For example, Baker criticized their attempt to extrapolate those findings into a potential overall savings from direct reforms of $50 billion per year. Further undermining the generalizability of the findings of Kessler & McClellan, Baicker & Chandra (2004) found

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231 Id.
232 Id. at 387-388 discussed in Baker, supra note 16, at 128-130.
little evidence of changes in treatment patterns for several different treatments for Medicare enrollees or for overall expenses in Medicare program due to increases in liability insurance premiums. \(^{233}\)

More recently Sloan & Shadle (2009) have revisited the Kessler & McClellan work using 1985-2000 Medicare claims data linked to the National long-Term Care Survey data. Their principal contributions were to examine ambulatory as well as hospital payments by Medicare. Sloan & Shadle extended the Kessler & McClellan work by examining a longer time period, 1985 through 2000, and importantly by including ambulatory services and clinical conditions in addition to heart disease. This is important because much of the alleged defensive medicine is said to be undertaken by physicians in non-hospital settings. Finally, Sloan & Shadle control for the health conditions of the patients in the study, which they argue Kessler and McClellan may not have done as effectively. Sloan & Shadle found that direct reforms had no statistically significant effect on the broader measure of Medicare spending, although the effect on AMI was similar to that found by Kessler - McClellan. However, there were no statistically meaningful effects of direct reforms on breast cancer, diabetes or stroke cases. There were also no meaningful effects on mortality. Thus, Sloan & Shadle concluded that the Kessler & McClellan results are not generalizable. As they say, “Our results indicate that KM’s findings do not generalize to other reasons for hospital admission. They conclude that “it seems inappropriate to conclude that tort reforms

implemented to date succeed in reducing non-beneficial care as their proponents would have it.”

Several studies have focused on the impact of malpractice risk on cesarean deliveries, a procedure that has been considered particularly sensitive to malpractice risk, also with mixed results. Localio et al. (1993), using New York state hospital claims data for 1984, found that cesarean delivery rates were positively associated with malpractice risk. Tussing & Wojtowycz (1997) looking at New York hospital discharge records for 1986 found that malpractice risk was associated with increased use of Electronic Fetal Monitoring, diagnoses of fetal distress, and use of cesarean sections thereby increasing costs, but could not determine whether or not defensive medicine was “good or bad in this instance.” In the first study using national birth certificate data, Dubay et al. (1999) found that obstetricians reacted to malpractice claims risk by performing more cesarean sections and that this effect was greater for women from lower socioeconomic groups. Murthy et al. (2007) found that higher rates of primary cesarean delivery were associated with higher medical liability insurance premiums for Illinois obstetricians-gynecologists. On the other hand, Baicker & Chandra (2004) found little evidence that cesarean rates had increased in response to higher malpractice premiums. And in a

234 Sloan & Shadle, supra note 171, at 490.

236 A. Dale Tussing & Martha A. Wojtowycz, Malpractice, Defensive Medicine, and Obstetric Behavior, 35 MEDICAL CARE 72, 189 (1997).
study using national data from the National Practitioner Data Bank and the Natality Detail File, Kim (2007) found that cesarean rates were not sensitive to malpractice risk.\textsuperscript{240} Dranove & Watanabe (2010) using micro-data found a short term hospital-wide upsurge in cesarean rates among physicians contacted about malpractice suits against them or their colleagues and an upsurge in the use of cesareans by the responsible physician, but these effects quickly disappeared.\textsuperscript{241}

Some studies have focused on the impact of tort reforms on obstetrical practices. Dubay et al. (1999), using the estimate by Zuckerman et al. (1990),\textsuperscript{242} found that a cap on total damages would reduce malpractice premiums in the long run for obstetricians by 58%, concluded that a cap “would result in a 0.48 percentage point decline in the rate of cesarean sections (from 15.18% to 14.71%). . . or 3% of the approximately 540,000 primary cesareans performed every year.”\textsuperscript{243} They estimated that a cap on total damages would reduce total obstetrical charges by “US$73.7 million or 0.27% of the US$27.6 billion (1996) in obstetrical charges for women at risk of a primary cesarean section.”\textsuperscript{244}

Currie & Macleod (2008) estimated that joint and several liability (JSL) reforms reduced preventable complications of labor and delivery by 6% and damage caps increased complications by 13%.\textsuperscript{245} By way of explanation of these findings, they note:

\begin{quote}
Intuitively, if many doctors are performing procedures in marginal cases not because of fear of liability but because the procedures are more profitable and less time-consuming than the alternatives, then these
\end{quote}

\textsuperscript{241} David Dranove & Yasutora Watanabe, \textit{Influence and Deterrence: How Obstetricians Respond to Litigation Against Themselves or Colleagues}, 12 AM. LAW & ECONOMICS REVIEW 69, 91-92 (2010).
\textsuperscript{243} Dubay et al. (1990), \textit{supra} note 237, at 518.
\textsuperscript{244} Id. at 519.
\textsuperscript{245} Janet Currie & W. Bentley MacLeod, \textit{First Do No Harm? Tort Reform and Birth Outcomes}, The 123 Q. J. OF ECONOMICS 795, 821 (2008).
doctors may be more likely to perform these procedures when they are less fearful of liability. On the other hand, under JSL reform, doctors are held more accountable for their own actions (and are less likely to be held liable for the torts committed by others). This results in more care being taken and fewer procedures, which results in the testable prediction that the effect of damage caps upon procedure use should be the opposite of the effect of reform of JSL.\textsuperscript{246}

Using a fixed effect analysis, Yang et al. (2009) found a positive association between malpractice premium levels and cesarean rates and primary cesareans, and a negative association between malpractice premium levels and VBAC rates.\textsuperscript{247} Caps on non-economic damages and pretrial screening panels were associated with lower cesarean delivery rates and higher VBAC rates.\textsuperscript{248} But they also found that these effects were modest relative to recent changes in practice patterns, suggesting that other factors are driving the shift away from VBAC.\textsuperscript{249}

B. CBO Estimates on the Impact of Federal Enactment of Tort Reforms on Aggregate Health Care Costs

During the debate over health care reform, it was contended that the federal enactment of tort reforms --particularly a cap on damages -- could result in significant savings in aggregate health care costs. The AMA based its support of the federal damages cap on arguments that the cap will reduce the costs of health care.\textsuperscript{250} And Republicans in Congress claimed that federal enactment of traditional tort reforms including a $250,000 cap on non-economic damages would result in significant savings. But the effect of damages caps on aggregate health care costs is uncertain.

\begin{itemize}
  \item \textsuperscript{246} Id. at 797.
  \item \textsuperscript{247} Yang, supra note 201, at 238
  \item \textsuperscript{248} Id. at 239.
  \item \textsuperscript{249} Id. at 240.
  \item \textsuperscript{250} AMA, Medical Liability Reform Fast Facts, http://www.ama-assn.org/ama1/pub/upload/mm/399/mlr_fastfacts.pdf.
\end{itemize}
In 2003, the Congressional Budget Office (CBO), at the request of the House Energy and Commerce Committee, estimated the potential savings that could result from federal enactment of traditional tort reform measures including a cap of $250,000 on non-economic damages.\(^{251}\) CBO estimated that if these reforms were adopted, “premiums for medical malpractice insurance ultimately would be an average of 25 percent to 30 percent lower than what they would be under current law.”\(^{252}\) It also found that the proposed legislation would reduce direct federal spending on health care programs by $14.9 billion for 2004-2013 due to reductions in malpractice insurance premiums.\(^{253}\)

CBO(2003) further acknowledged that the impact on health insurance premiums would be much smaller because “[m]alpractice costs account for a very small fraction of total health care spending.”\(^{254}\) As to the effect on health care utilization, CBO’s estimate did not include potential savings from reductions in defensive medicine. It noted that estimating this effect would be difficult and that most studies estimating the magnitude of spending due to defensive medicine were “speculative.” While the 2003 CBO report referred to empirical studies finding reductions in health care spending due to tort reforms that focused on Medicare hospital spending on patients treated for heart disease and Caesarean sections, its own study “found no effect of tort controls on medical spending in an analysis that considered a broader set of ailments.”\(^{255}\)


\(^{252}\) Id.

\(^{253}\) Id.

\(^{254}\) Id.

\(^{255}\) Id.
CBO (2004) looked at the effects of tort reform in the states.\textsuperscript{256} It examined nine studies on the effects of tort reform and concluded: “[e]vidence from several of the studies suggests that different tort reform initiatives affect the number of lawsuits filed, the value of insurance claims, and the value of insurance payouts for damages.”\textsuperscript{257} Specifically, as to medical malpractice, it noted that “although statistical evidence was scant”, there was some support for the proposition that caps on non-economic damages and mandatory collateral source offset “reduced some medical malpractice costs.”\textsuperscript{258} While noting that tort reform could potentially reduce defensive medicine and enhance efficiency,\textsuperscript{259} it reiterated that in its 2003 study CBO found no evidence that tort reforms reduced medical spending when it applied the same methods used by Kessler and McClellan to a broader set of ailments.\textsuperscript{260}

CBO (2006) again looked at the effect of federal enactment of traditional tort reforms on health care spending.\textsuperscript{261} It found that while there was “some evidence of links between tort limits and health care spending, the results are inconsistent and depend on the particular relationships and specifications tested.”\textsuperscript{262} It also noted “the difficulty of disentangling any effects of tort limits from other factors that affect levels of spending.”

In this study, CBO looked at both the impact of tort reform on both overall health care spending per capita and Medicare spending per beneficiary. It found that while eliminating joint and several liability increased per capita health care spending, the

\textsuperscript{257} Id. at vii.
\textsuperscript{258} Id. at 16.
\textsuperscript{259} Id. at 18.
\textsuperscript{260} Id. at 19.
\textsuperscript{261} CBO (2006), supra note 172.
\textsuperscript{262} Id. at 1.
impact of the package of tort reforms would be “near zero.”\footnote{Id. at 3.} As to the impact on Medicare spending per beneficiary, CBO found that while “imposing a cap on non-economic damages is associated with reductions…the estimated effect of that tort limit falls and become statistically insignificant when controls are added that capture the effects of the implementation of Medicare’s prospective payment system (PPS) for hospitals.”\footnote{Id. at 3.}

During the recent health care reform debate, the CBO estimated, in response to a request from Senator Orrin Hatch (R-UT), that federal enactment of traditional malpractice reform measures (cap on non-economic damages of $250,000; cap on punitive damages of $500,000 or 2x economic damages; collateral source rule modification; shortened statute of limitations; and replacement of joint and several liability) would reduce medical liability insurance premiums by 10 percent.\footnote{Hatch letter, supra note 5.} It further estimated that direct costs incurred by providers for medical liability (including premiums as well as settlements, awards, and administrative costs not covered by insurance) would be $35 billion in 2009 amounting to “2 percent of total health care expenditures.”\footnote{Id.} It thus concludes that “lowering premiums for medical liability insurance by 10 percent would reduce total national health care expenditures by 0.2 percent.”\footnote{Id.}

In contrast with its earlier reluctance to provide an estimate of significant health care savings flowing from tort reforms due to reductions in defensive medicine, CBO estimated that federal enactment of traditional tort reforms would result in ‘an additional

\footnote{Id. at 3.}
\footnote{Id. at 3.}
\footnote{Hatch letter, supra note 5.}
\footnote{Id.}
\footnote{Id.}
reduction of 0.3 percent from slightly less utilization of health care services.” CBO did, however, note one anomaly in the research: while physicians may reduce the volume and intensity of services in response to damages caps, they might increase volume and intensity in response to reform of joint and several liability reforms.

In terms of total health care spending, CBO found that federal enactment of traditional tort reforms “would reduce total national health care spending by about 0.5 percent (about $11 billion in 2009). As to impact on the federal budget, CBO found: “enactment of such a package of proposals would reduce mandatory spending for Medicare, Medicaid, the Children’s Health Insurance Program, and the Federal Employees Health Benefits program by roughly $41 billion over the next ten years…”

CBO also found a potential positive impact on federal tax revenues in the amount of $13 billion over the next 10 years that would result from a reduction in tax-sheltered health care spending and a shift to taxable compensation. Thus CBO estimated that the federal enactment of a package of traditional tort reforms would reduce the federal budget deficit by about $54 billion during 2010-2019.

After publication of CBO’s letter to Senator Hatch, Senator Rockefeller submitted some follow-up questions to CBO concerning “how recent empirical analysis affected CBO’s analysis, why CBO’s latest estimates of the budgetary effects of tort reform are larger than…previous estimates, and whether tort reform would have a negative impact of patient’s health.” In response, CBO noted that while earlier studies did not provide

268 Id.
269 Id.
270 Id.
271 Id.
272 Id.
273 Rockefeller Letter, supra note 6.
adequate support for the hypothesis that tort reform will reduce health care utilization, more recent studies did provide sufficient support.\textsuperscript{274}

In the letter to Senator Rockefeller, CBO noted that it had increased its estimate of the effect of tort reform on lowering malpractice costs ("malpractice insurance premiums, and settlements, awards and administrative costs not covered by insurance") from 6 percent to 10 percent.\textsuperscript{275} It stated that its estimate of savings from tort reform "now incorporate a slight reduction in the utilization of health care attributable to changes in the practice patterns of providers."\textsuperscript{276}

As noted supra, CBO has estimated that significant savings could be realized in the Medicare program from the enactment of a federal damages cap because of reductions in defensive medicine. But in making this estimate it does not appear that CBO took into account the impact of changes in the Medicare program. One major purpose of the health care reform legislation is to transition Medicare from a traditional fee-for-service program to a quality-based reimbursement system that rewards efficiency.

There are several provisions in the health care legislation that are intended to encourage development of new models of health care delivery (e.g., accountable care organizations).\textsuperscript{277} There is funding for comparative effectiveness research that presages a greater emphasis on evidence-based medicine.\textsuperscript{278} There are also programs to encourage the development of new payment methods (e.g., payment bundling).\textsuperscript{279}

Some studies that have looked at defensive medicine have concluded that managed care is a substitute for tort reform, and that defensive medicine can be reduced either by

\begin{footnotes}
\begin{enumerate}
\item Id.
\item Id.
\item Id.
\item Id.
\item PPACA, supra note 1, at §3022.
\item PPACA, supra note 1, at § 6301.
\item PPACA, supra note 1, at §3023.
\end{enumerate}
\end{footnotes}
tort reform measures or by the use of managed care techniques to limit utilization. Indeed, Avraham et al. (2009), a study relied on by CBO, found that defensive medicine was reduced in PPOs rather than HMOs by the enactment of damages caps and collateral source modification. And citing the work by Kessler & McClellan (2002), CBO projected larger effects of federal tort reform on Medicare expenditures owing to its reliance on fee-for-service reimbursement.280 The Medicare program with its traditional fee-for-service methodology has largely been free of controls on utilization. Thus it seems that CBO in estimating the potential impact of a federal damages cap should have also considered the potential impact on utilization of the transition away from a fee-for-service approach in Medicare.

CBO also responded to an inquiry from Rep. Bruce L. Braley (D-Ia) about its letter to Senator Hatch.281 In its letter to Rep. Braley, CBO commented on the effects of tort reform on medical liability insurance premiums and health care spending. As to the impact on medical liability insurance premiums, CBO again cited several recent studies282 as well as their own analysis283 finding that tort reform lowers medical liability insurance premiums. It notes that these recent studies “are the best ones for identifying the effects of tort reform on malpractice insurance premiums because they use data for many states and control for the relevant characteristics of states’ health care markets that may affect malpractice premiums.”284

280 Rockefeller letter, supra note 6.
281 Braley letter, supra note 7.
283 CBO (2006), supra note 172.
284 Braley letter, supra note 7.
As to the impact of traditional tort reforms on health care spending, CBO reiterated that it “concluded that the weight of empirical evidence now demonstrates a link between tort reform and the use of health care services.”285 Noting that at the time of its 2006 study, it had concluded that “there was not sufficient evidence to incorporate in its budget estimates an effect of tort reform on health care utilization…[m]ore recent studies have provided further support for the hypothesis that tort reform would slightly reduce the use of health care…”286 But CBO also acknowledged that “estimates of the budgetary effects of tort reform are unavoidably uncertain…[and accordingly] the agency consistently strives to produce estimates that lie in the middle of the distribution of plausible outcomes based upon available knowledge.”287

In concluding that tort reform will reduce health care utilization and costs, the CBO primarily relied on four studies: Lakdawalla & Seabury (2009)288; Avrahamet al. (2009)289; Sloan & Shadle (2009)290; and Baicker et al. (2007).291

**TABLE TWO**

<table>
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<tr>
<th>Study</th>
<th>Time Period and Data</th>
<th>Methodology</th>
<th>Findings</th>
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<tr>
<td>Lakdawalla &amp; Seabury (2009)</td>
<td>1985 – 2003 AHA hospital</td>
<td>Malpractice measured as jury verdict</td>
<td>• 10% higher noneconomic damage awards associated with 0.2 to 0.8% higher hospital costs, 0.8 to</td>
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285 *Id.* at 4.
286 *Id.* at 5.
287 *Id.* at 4.
290 Sloan & Shadle, *supra* note 171.
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<tr>
<th>Avraham, Dafny &amp; Schanzenbach (2009)</th>
<th>1998 – 2006</th>
<th>Malpractice reforms measured by Northwestern University compendium. Separate analyses for self-insured and purchased plans. Models use plan and year</th>
<th>Caps on non-economic damages, collateral source reform, and joint and several liability reduce self-insured ESHI premiums by 1 to 2 percent each. Caps on punitive damages reduce premiums by 2 to 3% but caps on non-economic damages increase premiums for purchased plans. Premium reductions among self-insured plans driven by PPOs.</th>
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<tr>
<td>expenditures and utilization &amp; Medicare Part A and Part B expenditures</td>
<td>data 1985-1999 from 2 states and 4 cities. Hospital and county fixed effects regressions with alternative lagged jury awards as the independent variable Analogous modeling of county death rates.</td>
<td>1.2% higher Medicare Part A spending and 0.3 to 0.6% higher Part B spending. • “In absolute terms, this is rather a modest effect…” (page 21) but does suggest a reduction in defensive medicine. • Doubling malpractice costs associated with a 2% reduction in total death rate; the effect was large for those &lt;age 65. • While “malpractice liability leads to modest reductions in patient mortality; the value of these more than likely exceeds the cost impacts of malpractice liability.” • “Policies that reduce expected malpractice costs are unlikely to have a major impact on health care spending for the average patient and are also unlikely to be cost effective…” • “on balance, reducing malpractice costs is more likely to harm than improve social welfare.”</td>
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<td>Study</td>
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<tr>
<td>Sloan &amp; Shadle (2009)</td>
<td>1985-2000</td>
<td>National Long Term Care Survey linked to Medicare claims data for 38,566 beneficiaries</td>
<td>Examines total Medicare expenditures, both inpatient and ambulatory, as well as spending for AMI, stroke, breast cancer and diabetes. Also examines one year survival rates. Include state and year fixed effects and patient level measures of health status. Direct reforms (caps, abolition of PDS, elimination of pre-judgment interest, collateral source offset) do not significantly reduce payments for Medicare-covered services. Do find that AMI expenditures are 17% lower and almost statistically significant. No effects on other measures of spending. Indirect reforms (limitations on contingency fees, mandatory periodic payout, joint and several liability reform, and PCFs) reduced Medicare payments for any hospitalization by 9.4% but had no effects on any clinical category of costs. The reforms had no statistically meaningful effects of survival. &quot;assertions that tort reforms will reduce [the] waste of scarce resources seems, at best, highly premature.&quot;</td>
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<tr>
<td>Baicker, Fisher &amp; Chandra (2007)</td>
<td>1991-93 and 1999-2001</td>
<td>Malpractice payments reported in the National Practitioner Data Bank, and malpractice premiums from Medical Liability Monitor. Two time periods, but no trend data. State.</td>
<td>No statistically significant effect on total spending. 10 percent increase in average malpractice payments per physician within a state was associated with a 1.0 percent increase in Medicare Part B services, a 1.0 percent increase in &quot;minor procedures,&quot; and a 2.2 percent increase in the imaging component of these services. The average 60% increase in average malpractice premiums between 2000 and 2003 is associated with an increase of</td>
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292 Id. at 490.
of care, (3) rates of use of specific physician services.  Medicare spending of about $16.5 billion.

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<th>rates of use of specific physician services.</th>
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The CBO conclusion, however, appears to be over-reaching. Consider each study in turn. The Lakdawalla & Seabury (2009) study does find that higher malpractice payouts are associated with greater hospital and Medicare spending. However, they also find that the higher payouts are associated with lower mortality. Thus, the cost savings are not an unmixed blessing. Indeed, the authors conclude that “… on balance, reducing malpractice costs is more likely to harm than improve social welfare.” Other than in the very narrow sense of health care spending, it seems a bit of an oversimplification to add this study to the “reduces costs” column.

As discussed supra, the Sloan & Shadle (2009) revisit and expand upon the classic work by Kessler & McClellan (1996). In essence, Sloan & Shadle confirm the Kessler & McClellan results as they relate to direct malpractice reforms on Medicare expenditures for heart disease. However, they did not find analogous results for stroke, breast cancer, or diabetes, nor did they find an overall effect on Medicare Part A and Part B spending. Thus, they must be interpreted as finding modest and non-generalizable results of tort reform.

The Avraham et al. (2009) study examines the effects of malpractice reform laws on the premiums paid by large employers. They find that non-economic damage caps, together with collateral source and joint and several liability reforms each reduced
premiums by 1 to 2 percent. Although they observed similar effects for self-insured and purchased plans, their results were statistically significant only for self-insured plans. The reforms had similarly sized effects on purchased plans, but the level of statistical confidence in these estimates was such that they may be due to chance. Thus, the results are applicable only to self-insured plans offered by large employers.

Moreover, the self-insured result in Avraham et al. (2009) was driven entirely by preferred provider organization (PPO) type plans. Morrisey (2007) reports that slightly less than 70 percent of workers in PPOs are in self-insured plans and that 60 percent of workers are in PPOs. This suggests that a 2 percent premium savings would apply, at most, to approximately 42 percent of workers. Even this is an overstatement in as much as Avraham et al. (2009) were unable to examine the effects of tort reform on plans offered by small employers. Because such plans tend to not be self insured, the effect on small employers would likely be much smaller than that found for large self-insured plans. Indeed, their focus on large self-insured employers may explain why their results differ from Morrisey et al. ( 2008), a study that found no effect of malpractice reforms on employer health insurance premiums, but included small as well as large employers and did not make distinctions between self-insured and purchased plans.

Finally, the Baicker et al. (2007) study finds that a 10 percent increase in average malpractice settlement payments per physician was associated with a 1.0 percent increase in Medicare Part B spending, with analogous increases in “minor procedures” and, particularly, increases in imaging procedures. This is suggestive of defensive medicine

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293 Michael A. Morrisey, Health Insurance 70 (2007).
294 Id. at 16.
and has the added advantage of examining physician out-of-hospital behaviors which, as we noted above, have been identified in physician surveys as prime examples of defensive medicine. However, in many ways this is the weakest of the four new studies. It focused exclusively on two short time windows, 1991-93 and 1999-2001, rather than the 15 years of trend data employed in the other new studies. Under this methodology, the effects of other intervening factors may be inappropriately attributed to the malpractice environment. With this approach the authors are unable to use the fixed effects statistical techniques used by the other studies. Baicker and colleagues argue that a fixed effects approach may absorb variation that is rightly attributable to the malpractice reforms. If so, the fixed effects models will underestimate the true effects. However, on the other hand, failure to adequately control for other factors, which fixed effects purports to do, can lead to over-estimates of the true effect. Thus, while fixed-effects estimates may understate the effects of malpractice reforms, Baicker and her colleagues may have over-estimated the magnitude of the effects.

In short, the new studies greatly add to our knowledge of the existence and magnitude of defensive medicine in response to medical malpractice fears. However, they don’t move us very much in drawing a simple conclusion about the overall effect of defensive medicine on the costs of medical care. Yes, there is now more and better evidence that defensive medicine exists. But there is also more and better evidence that malpractice reforms have at best a small and limited impact on health care costs.

VI. The Impact of Medical Liability Reform on Access
While health care reform will provide insurance coverage for millions of persons, it could also exacerbate the shortage of primary care doctors. While shortages could be alleviated by expanding the role of physician extenders such as nurse practitioners and expanding training programs, it is likely that access to health care services will be compromised. Tort reformers have contended that liability pressure puts further strain on physician supply.

A 2003 study by Hellinger & Encinosa (2003) found that states with damages caps had 12 percent more physicians than states without caps, and that states with higher caps were less likely to have more physicians than states without caps. But this study has been criticized because it did not control for other factors that could have differed across states and influence physician supply. Encinosa & Hellinger (2005) found that counties in states with damages caps had 2.2 percent more physicians than states without caps and rural counties in states with caps had 3.2 percent more physicians than similar counties in states without damages caps. This study used a fixed effects model that reduced the influence of other factors on their findings.

299 Nelson et al., Damages Caps in Medical Malpractice Cases, supra note 10, at 272.
301 Nelson et al., Damages Caps in Medical Malpractice Cases, supra note 40, at 272.
Kessler et al. (2005) found direct reforms including caps on non-economic damages increased physician supply by 3.3% after controlling for state differences. Matsa (2007) found that most residents of states were not affected by improved physician supply as a result of reforms, but that caps did increase the number of specialists in more isolated rural areas by 10-12 percent. He concluded that reform had an impact on supply in the most rural areas because these physicians faced higher uninsured costs and greater elasticity in demand for medical services. And he predicted that the adoption of a national cap would result in an increase of 13 percent more specialist physicians in the most rural areas.

Texas is often advanced as an example of the beneficent effects on damages caps of physician supply. In 2003, Texas adopted a $250,000 per claimant cap on non-economic damages in malpractice actions against physicians. By 2006, there had been a significant increase in the numbers of physicians moving to Texas from other jurisdictions. Nonetheless, trial lawyers still claim that the situation has not improved in rural areas in Texas. And even after the adoption of the cap, the Texas Department

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304 Id. at 177.
305 Id. at 177.
of State Health Services noted a continuing problem with the supply of primary care physicians in rural areas.\textsuperscript{309}

Arguably, malpractice reform could also reduce avoidance behavior and increase access to certain types of care. In the first national study on the effects of malpractice premiums on prenatal care, Dubay et al. (2001), found that a decrease in malpractice premiums due to tort reform was associated with a 3 to 5.9\% reduction in the late initiation of prenatal care for black women and a 2.2 to 4.7\% reduction for white women.\textsuperscript{310} Dranove & Gron (2005), using data from Florida from 2000-2003, a time when it was designated a malpractice crisis state by the AMA because of spikes in premium levels, found increased travel times for patients undergoing craniotomies, but not for women undergoing high-risk deliveries.\textsuperscript{311} They also found decreased activity levels for high volume neurosurgeons, and increased exit of low volume obstetricians.\textsuperscript{312}

\section*{VII. The Impact of Medical Liability Reform on Patient Safety}

Traditional tort reforms were not designed to enhance patient safety. Instead, they were adopted to ensure access to liability insurance for providers and protect them from the volatility of the medical liability insurance market. It has been generally acknowledged that the design of effective systems to enhance patient safety requires that

\begin{footnotesize}
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\item \textsuperscript{309} Texas Department of State Health Services, Highlights: The Supply of Primary Care Physicians in Texas-2005 (Aug. 2006), http://www.dshs.state.tx.us/chs/hpere/PCphys.pdf.
\item \textsuperscript{310} Lisa Dubay, Robert Kaestner & Timothy Waidman, Medical Malpractice Liability and Its Effect on Prenatal Care Utilization and Infant Health, 20 J. Health Economics 591 (2001).
\item \textsuperscript{311} David Dranove & Anne Gron, Effects Of The Malpractice Crisis On Access To And Incidence Of High-Risk Procedures: Evidence From Florida, 24 Health Affairs 802, 808 (2005).
\item \textsuperscript{312} Id.
\end{itemize}
\end{footnotesize}
providers candidly acknowledge their errors and learn from their mistakes.\textsuperscript{313} But it has been argued that the fear of litigation by providers could impede the collection of the information necessary for improving patient safety.\textsuperscript{314} In the late 1990s, as part of its accreditation standards, the Joint Commission for the Accreditation of Healthcare Organizations (JCAHO) adopted its sentinel event policy to require root cause analyses and encourage reporting of errors by hospitals so that information could be shared to facilitate improvements in patient safety, but there was resistance to reporting from providers based on a lingering concern that the information reported could end up being subject to discovery by plaintiffs’ attorneys.\textsuperscript{315}

In response to these concerns, the Patient Safety and Quality Improvement Act of 2005 created Patient Safety Organizations to collect and analyze confidential patient safety data from health care providers. It also created a federal legal privilege restricting access in civil and criminal proceedings to this information\textsuperscript{316} But Hyman and Silver (2005) found that “no rigorous evidence show[s] that fear of malpractice lawsuits discourage error reporting…”\textsuperscript{317} They further argued that damages could undermine incentives for preventing errors.\textsuperscript{318} Moreover, there seems to be increased receptivity to


\textsuperscript{314} William M. Sage, \textit{Medical Liability and Patient Safety}, 22 Health Affairs 26, 30 (2003).


\textsuperscript{316} 42 U.S.C. § 299h-22


\textsuperscript{318} Id. at 989.
the disclosure of harmful medical errors to patients in the belief that disclosure will actually reduce the number of malpractice claims.\textsuperscript{319}

In the 1970s, medical malpractice was thought by many to be an infrequent phenomenon and the high quality of health care thought to be guaranteed by the professionalism of physicians.\textsuperscript{320} But it is now clear that there is a large pool of unintentional injuries experienced by patients as result of receiving medical treatment, and a significant portion of these injuries result from negligence.\textsuperscript{321} There have been three major studies in the United States on the rates of negligent injuries. A 1974 study of a representative sample of patient admission records in selected California hospitals found injuries from adverse events occurred in 4.6 percent of admissions,\textsuperscript{322} and 17 percent of these adverse events were caused by negligence.\textsuperscript{323} The Harvard Malpractice Study of New York hospital records for 1984 found injuries from adverse events in 3.7 percent of admissions,\textsuperscript{324} and 27.6 percent of these injuries were caused by negligence including a larger proportion of the more severe injuries.\textsuperscript{325} The Utah and Colorado Medical Malpractice Study [UTCOS] reviewed hospital discharge records for 1992 and found an

\textsuperscript{319} Thomas H. Gallagher, David Studdert & Wendy Levinson, \textit{Disclosing Harmful Medical Errors to Patients}, 356 NEW ENG. J. MED. 2713 (2007).
\textsuperscript{320} William M. Sage, \textit{Understanding the First Malpractice Crisis of the 21st Century}, HEALTH LAW HANDBOOK § 1.2, 4-6 (Alice Gosfield ed.2003)
\textsuperscript{322} PATRICIA DANZON, MEDICAL MALPRACTICE: THEORY, EVIDENCE AND PUBLIC POLICY 20 (1985)
\textsuperscript{323} Id..
\textsuperscript{325} Id.
injury rate of 2.9%, and 32.6 percent of these injuries in Utah and 27.4 percent in Colorado were caused by negligence.

While there are pockets of high quality health care available in the United States, the quality of care actually received by most Americans is less than optimal. IOM (2001) found significant shortcomings in the quality of health care received by many Americans particularly those suffering from chronic conditions and called for a restructuring of the health care system. The report noted: “During the last decade alone, more than 70 publications in leading peer-reviewed journals have documented serious quality shortcomings.” One important aspect of quality care is patient safety, but the link between the medical liability climate and patient safety is somewhat murky. A Rand Corporation study found that adults received only about half of the recommended care for various acute and chronic care conditions as well as preventive care. Of the twelve communities studied, the Rand study found that the highest quality health care was being delivered in Seattle, Washington, located in a state identified at that time by the AMA as a malpractice crisis state. It also found health care quality higher in communities in six

327 Id.
329 Id. at 3
crises states than in California and Indiana, two states with damages caps in place since 1975 that were not identified as crisis states.\textsuperscript{332}

On the other hand, Mello et al. (2004) surveyed Pennsylvania physicians in high-liability risk specialties finding that physician angst about medical liability issues could have an impact on the interpersonal quality of care.\textsuperscript{333} This study reported that “specialists who felt heavily financially burdened by malpractice insurance costs were least likely to report satisfaction with their practice.”\textsuperscript{334} Some survey respondents indicated liability concerns had eroded their clinical autonomy and attributed their reduced ability to provide quality care to their patients to the increased volume of patients and reductions in administrative support as necessitated by the increasing cost of medical liability insurance.\textsuperscript{335}

While avoiding the controversy over malpractice reform, a series of reports from the Institute of Medicine (IOM) have highlighted the problems of patient safety and quality.\textsuperscript{336} To Err is Human: Building a Safer Health Care System (2000) the landmark report issued by the Institute of Medicine (IOM), estimated there were between 44,000 and 98,000 hospital patient deaths annually due to preventable adverse events.\textsuperscript{337} IOM (2002) called for federally-funded state-level medical liability demonstration projects

\textsuperscript{332} Kerr et al., supra note 330 , at 251; AMA and Consumer Group Debate Tort Reform Efforts, supra note 330.

\textsuperscript{333} Michelle M. Mello, David M. Studdert, Catherine M. DesRoches, Jordon Peugh, Kinga Zapert, Troyen A. Brennan & William M. Sage, Caring For Patients In A Malpractice Crisis: Physician Satisfaction and Quality Of Care, 23 HEALTH AFFAIRS 42 (2004)

\textsuperscript{334} Id. at 48.

\textsuperscript{335} Id. at 49-51.

\textsuperscript{336} Michelle M. Mello & Troyen A. Brennan, Deterrence of Medical Errors: Theory and Evidence for Malpractice Reforms, 80 TEX. L. REV. 1595, 1600 (2002).

focused on patient safety. It recommended two options for participating states: (1) a
provider-based early offer coupled with federal reinsurance and state-enacted caps on
non-economic damages “for identifiable classes of avoidable injuries”; and (2) state
administrative systems for claims resolution that would grant immunity to providers from
tort liability in exchange for their participation.\textsuperscript{338}

IOM (2004) recommended: (1) the creation of a national health information
system; (2) the establishment of comprehensive patient safety programs in all health care
settings operated by trained personnel in a culture of patient safety that would focus on
analysis of adverse events and near misses; and (3) an improved system for reporting
medical errors.\textsuperscript{339} It opined that “patient safety is indistinguishable from the quality of
care” and called for the creation of a new health care delivery system “that is capable of
preventing errors from occurring in the first place, while at the same time incorporating
lessons learned from any errors that do occur.”\textsuperscript{340}

IOM (2007) found that hospital patients were subject to an average of one
medication error each day with a significant variation in error rates across facilities.\textsuperscript{341}
The report also found that there were annually at least 1.5 million “adverse drug events”
(ADEs), i.e., serious medication errors, in nursing homes, outpatient settings, and
hospitals excluding failure to prescribe medically indicated drugs.\textsuperscript{342}

\textsuperscript{338} INSTITUTE OF MEDICINE, FOSTERING RAPID ADVANCES IN HEALTH CARE: LEARNING FROM SYSTEM
DEMONSTRATIONS 10 (Janet M. Corrigan et al. eds., 2002), available at
\textsuperscript{339} INSTITUTE OF MEDICINE, PATIENT SAFETY: ACHIEVING A NEW STANDARD OF CARE (2004), available at
http://books.nap.edu/openbook.php?record_id=10863&page=1
\textsuperscript{340} Id. at 5.
\textsuperscript{341} INSTITUTE OF MEDICINE, PREVENTING MEDICATION ERRORS: QUALITY CHASM SERIES 4 (2007)
\textsuperscript{342} Id. at 5.
A number of public and private patient safety initiatives followed the release of *To Err is Human*. The Leapfrog Group, an employer consortium developed patient safety initiatives (“three leaps”): “Computerized Prescriber Order Entry”, “ICU Physician Staffing,” and “Evidence Based Hospital Referrals” (limiting referrals only to hospitals that meet certain volume criteria). In 2002, JCAHO established the National Patient Safety Goals Program “to help accredited organizations address specific areas of concern in regards to patient safety.” Also in 2002, JCAHO together with the Center for Medicare and Medicaid Services (CMS) launched the Speakup Program, “a national program to urge patients to take a role in preventing health care errors by becoming active, involved and informed participants on the health care team.” And in 2003, JCAHO adopted the “Universal Protocol for Preventing Wrong Site, Wrong Procedure and Wrong Person Surgery.”

In 2002, in reaction to increasing concerns about patient safety, the Agency for Healthcare Research and Quality (AHRQ) developed a list of twelve Patient Safety Indicators (PSIs). The definition of patient safety used by AHRQ was borrowed from *To Err is Human*, i.e.: “freedom from accidental injury caused by medical care, which translates to medical errors.” The initial twelve PSIs were focused on events with a

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346 Id.
347 Id.
349 Id. at 112.
high likelihood of being caused by an error such as foreign objects left in the body.\textsuperscript{350} The list was later expanded to 20 PSIs that focused “on potentially preventable instances of harm to patients, such as surgical complications and other iatrogenic events.”\textsuperscript{351} These 20 PSIs were defined as “measures that screen for potential problems that patients experience resulting from exposure to the health care system, and that are likely amenable to prevention by changes at the level of the system.”\textsuperscript{352}

PSIs relate to “inpatient care, and the adverse events that have either a high likelihood or at least a reasonable possibility of being iatrogenic.”\textsuperscript{353} Using PSIs, Romano et al. (2003) found that in 2000, 11.2 million potential patient safety events occurred in non-acute federal hospitals.\textsuperscript{354} But they also found that the incidence of most PSIs had declined since 1995 “with the notable exception of postoperative medical complications, decubitus ulcer, and infection due to medical care.”\textsuperscript{355}

Although originally intended for use as quality improvement tools and screening mechanisms, PSIs have increasingly been used for public reporting to compare hospitals and pay-for-performance.\textsuperscript{356} Rivard et al. (2006) found that PSIs could be a useful quality improvement tool at the organizational level when used with other data to make system

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\item[\textsuperscript{350}] Patrick S. Romano, Jeffery J. Geppert, Sheryl Davies, Marlene R. Miller, Anne Elixhauser, Kathryn M. McDonald, \textit{A National Profile of Patient Safety in U.S. Hospitals}, 22 Health Affairs 154 (2003).
\item[\textsuperscript{352}] \textit{Id.} at 3.
\item[\textsuperscript{353}] \textit{Id.} at 3.
\item[\textsuperscript{354}] Romano, Geppert et al., \textit{supra} note 350, at 157.
\item[\textsuperscript{355}] \textit{Id.} at 163.
\end{itemize}
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changes to improve patient safety.\textsuperscript{357} Isaac & Jha (2008), however, found poor or inverse relationships between PSIs and other quality measures thereby suggesting a need for further validation.\textsuperscript{358} Romano et al. (2009) examined the criterion validity of selected surgical PSIs using clinical data from V.A. hospitals.\textsuperscript{359} They found moderate sensitivities and high specificity, but concluded that there should be further validity testing before most of the PSIs should be used to publicly compare or reward hospitals.\textsuperscript{360}

Health care providers should have strong incentives to make investments in improved patient safety. As noted, \textit{supra}, Rand (2010) found that reductions in the number of PSIs resulted in a decline in medical malpractice claims.\textsuperscript{361} In addition, significant savings to the health care system could result from a decrease in the rate of preventable injuries. IOM (2000) estimated the annual costs of preventable medical errors at $17-29 billion annually.\textsuperscript{362} The Leapfrog Group (2004) estimated that universal adoption of its “three leaps” could result in a substantial number of injuries prevented and lives saved.\textsuperscript{363} Zhan & Milller (2003) “used the PSIs and administrative data to assess excess length of stay (LOS), charges, and deaths attributable to medical injuries during hospitalization” in 994 acute-care hospitals in 28 states for 2000.\textsuperscript{364} They found that for

\textsuperscript{357} Peter E Rivard, Amy K Rosen & John S Carroll, \textit{Enhancing Patient Safety through Organizational Learning: Are Patient Safety Indicators a Step in the Right Direction?} 41 HSR: \textsc{Health Services Research} 1633 (2006).


\textsuperscript{359} \textit{Id.}

\textsuperscript{360} \textit{Id.} at 199.

\textsuperscript{361} Rand (2010), \textit{supra} note 159.

\textsuperscript{362} IOM (2000), \textit{supra} note 337, at 27.


\textsuperscript{364} Chunlui Zhan & Marlene R. Miller, \textit{Excess Length of Stay, Charges and Mortality Attributable to Medical Injuries During Hospitalization}, 290 \textsc{JAMA} 1868, 1869 (2003).
the types of medical injuries studied, preventable errors may result in $4.6 billion in excess national health care costs annually.\textsuperscript{365} IOM (2007) found: “Assuming conservatively an annual incidence of 400,000 in-hospital preventable ADEs, each incurring extra hospital costs of $5,857, yields an annual cost of $2.3 billion in 1993 dollars or $3.5 billion in 2006 dollars.”\textsuperscript{366} And at least 25% of these ADEs were preventable.\textsuperscript{367} Milliman (2010), a study commissioned by the Society of Health Care Actuaries, found that the costs of medical errors for 2008 were $19.5 billion.\textsuperscript{368} In addition, these errors resulted in 2500 excess deaths and 10 million excess missed workdays.\textsuperscript{369}

Patient safety advocates have tried to make the case that hospitals should view patient safety activities that reduce health care costs and medical liability exposure as a cost effective strategy. But Mello et al. (2007) using records from hospitals in Utah and Colorado found that on average hospitals were able to externalize “78 percent of the costs of all injuries and 70 percent of the costs of negligent injuries.”\textsuperscript{370} They further concluded that the deterrent effects of tort law were undermined by the relatively small number of negligently injured patients that were compensated for their injuries.\textsuperscript{371}

Will the passage of traditional malpractice reform legislation further dilute the incentives for providers to invest in patient safety improvements? Commentators have

\textsuperscript{365} Id. at 1872.
\textsuperscript{366} (IOM 2007), supra note 341, at 5.
\textsuperscript{367} Id. at 6.
\textsuperscript{368} Jon Shreve, Jill Van Den Bos, Travis Gray, Michael Halford, Karen Rustagi & Eva Zemkiewicz, The Economic Measurement of Medical Errors 5 (2010).
\textsuperscript{369} Id.
\textsuperscript{371} Id. at 853.
noted the weakness of deterrence in the current medical liability system.\textsuperscript{372} And it has been argued that traditional tort reforms could further weaken deterrence thereby increasing injuries related to medical errors. But in its response to Senator Hatch, the CBO noted that “there is less evidence of the effect of tort reform on people’s health...than about its effects on health care spending-because many studies of malpractice costs do not do not examine health outcomes.”\textsuperscript{373} It further noted that the evidence of recent studies was mixed: Lakdawalla & Seabury (2009) found that a 10 percent reduction in medical malpractice costs would result in an increased overall mortality rate of 0.2 percent while Kessler & McClellan (1996 and 2002) and Sloan & Shadle (2009) found “no significant adverse outcomes for patient’s health.”\textsuperscript{374} Klick & Stratmann (2003) found that collateral source reform resulted in a statistically significant increase in infant mortality rates.\textsuperscript{375} Shepherd (2008) found that caps on non-economic damages and punitive damages were associated with decreases in accidental death rates, while caps on total damages and collateral source reforms were associated with increases in the rate of accidental death.\textsuperscript{376}

In a follow-up letter to Senator Rockefeller, CBO noted that these mixed results may be due to the “complicated relationship between malpractice claims and medical errors.”\textsuperscript{377} In this regard it noted the findings of the Harvard Medical Practice Study that a majority of hospital patients who suffered negligently-caused injuries never filed claims.

\textsuperscript{372} Mello & Brennan, supra note 336, at 1615-1616.
\textsuperscript{373} Hatch Letter, supra note 5.
\textsuperscript{374} Id.
\textsuperscript{377} Rockefeller letter, supra note 6.
while a substantial portion of filed claims did not stem from negligently inflicted injuries. And in a subsequent letter to Representative Braley, CBO noted: “the limited evidence currently available about the effects of tort reform on health outcomes is much more mixed than the larger collection of evidence currently available about the effects of tort reform on health care spending.” Thus the effect, if any, of the enactment of malpractice reform legislation on the rate of PSIs at the hospital level is unknown at this time. Clearly, this is an area where more research is needed.

VIII. Alternative Medical Liability Reform Proposals

The AMA welcomed the federal funding provided in the PPACA for state demonstration projects to test alternative approaches to malpractice reform. During a June 15, 2009, speech to the AMA, the audience cheered President Obama’s statement that medical liability reform should be included in health care reform, but roundly booed his statement that he did not support damages caps. Nonetheless, the outgoing President of the AMA announced she was “thrilled” that the President was willing to talk to the group about including medical liability reform in health care reform. She was probably heartened by the President’s acknowledgment that defensive

378 Id. citing to Paul C. Weiler et al., A Measure of Malpractice: Medical Injury, Malpractice Litigation and Patient Compensation (1993).
379 Braley letter, supra note 7.
380 Id.
382 Id.
medicine has contributed to the high cost of health care. President Obama’s statement supporting medical liability reform at the AMA convention was undoubtedly motivated in part by a desire to defuse physician opposition to his health care reform efforts.

While President Obama has not supported a federal cap on damages, he has supported alternative tort reform measures. In a meeting with the incoming President of the AMA and a series of meetings with Senate Democrats in the spring of 2009, President Obama indicated his interest in legislation that would create a safe harbor for doctors that follow evidence-based professional practice guidelines. And in 2006, he co-sponsored legislation with Hillary Clinton that would have encouraged health care providers to report medical errors, disclose them to patients, provide an apology, and agree to negotiate compensation while preserving a patient’s right to sue. Although it has not yet been established that disclosure-and-offer programs and safe harbors for adherence to evidence-based guidelines will reduce medical liability insurance costs, the AMA has supported both of these reform proposals.

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388 Mello & Brennan (2009), supra note 2, at 2-3.

Physicians who adhere to evidenced based best practice guidelines are not protected from lawsuits in our current liability system. Congress needs to enact liability protections for physicians who adhere to best practice guidelines and fund state demonstration projects to test alternative reforms such as health courts, administrative compensation systems and early offer initiatives.
In a September 9, 2009, address to Congress on health care, President Obama announced that he was directing the Secretary of Health and Human Services to move forward on funding medical liability demonstration projects in the states. The House Bill included a provision that certain guidelines developed under the legislation could not be used to establish the standard of care in malpractice actions coupled with a savings clause for state malpractice actions. It also included an incentive payment program for states to adopt effective alternatives to the current medical liability system, but further provided that those incentive payments were not available for states that cap damages. The PPACA includes a “Sense of the Senate” that “States should be encouraged to develop alternatives to the existing civil litigation system…while preserving an individual’s right to seek redress in court.” It also provides funding for state demonstration projects of “alternatives to current tort litigation for injuries caused by health care providers.”

Physician groups have supported alternative reforms as add-ons to damages caps. While it has continued to advocate for MICRA-style reforms, the AMA has recognized that alternative reforms such as health courts, use of court-appointed expert witnesses, restriction on expert witnesses hired by parties, and health claim ombudsman/pre-trial screening panels could be a valuable add-on to a damages cap. Recently, James

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392 Id. at §2531(a)(4)(B).
393 Id. at § 6801.
394 Id. at § 10607.
Rohack, the President of the AMA, praised federal funding for alternative malpractice demonstration projects under the PPACA.\textsuperscript{396}

In 1988, the AMA/Specialty Society Medical Liability Project, a coalition composed of the AMA and 31 specialty societies, proposed that states adopt legislation authorizing a new state agency or a revamped medical disciplinary board to establish a fault-based administrative compensation scheme that would replace the current tort system.\textsuperscript{397} The proponents of the fault-based administrative system argued that “[t]he current tort system precludes many patients with relatively small damage claims from receiving any compensation for injuries caused by medical negligence.”\textsuperscript{398} They noted that victims of malpractice do not receive equal treatment in cases where compensation was provided: some victims were overcompensated and others were undercompensated.\textsuperscript{399} They argued that the reliance on juries was an inefficient and unreliable method for deciding malpractice cases.\textsuperscript{400}

Under the fault-based administrative system proposal, malpractice claims were to be decided through an “administrative adjudicatory process.”\textsuperscript{401} An attorney was to be provided at state expense for those whose claims were deemed meritorious after an initial review process.\textsuperscript{402} The proposal also included such traditional tort reform measures as a cap on non-economic damages, collateral source rule modification, and the periodic payout of future damages. It proposed a liberalized fault standard (the reasonable prudent

\textsuperscript{398} Id. at 1367.
\textsuperscript{399} Id. at 1367-1369.
\textsuperscript{400} Id. at 1370-1371.
\textsuperscript{401} Id. at 1379.
\textsuperscript{402} Id. at 1383.
physician standard rather than the customary standard), that could have easily evolved into a no-fault system because the state agency was to be given rulemaking authority to include, after a five-year moratorium, the authority to promulgate more specific liability guidelines.\textsuperscript{403} Thus the state agency could adopt a schedule of compensable events (e.g., Accelerated Compensation Events (ACEs))\textsuperscript{404} that would obviate the need for proving fault.

The AMA stopped promoting its fault-based administrative system; probably because of the increasing certitude that its adoption would result in a significant increase in the number of claims.\textsuperscript{405} But some physician groups now support a similar reform: the creation of specialized tribunals known as health or medical courts to adjudicate malpractice claims.\textsuperscript{406}

ACOG has supported proposed legislation in New York State to adopt a no-fault compensation scheme for birth-related neurological injuries that is a variant of schemes adopted in Virginia and Florida.\textsuperscript{407} This proposal was distinguished from Virginia and Florida versions by its broader scope, the inability to opt-out, and its requirement that negligence be determined and if found reported to licensing officials and the National

\textsuperscript{403} Id. at 1384-1385
\textsuperscript{404} See e.g., Laurence Tancredi & Randall R. Bovbjerg, Rethinking Responsibility for Patient Injury: Accelerated Compensation Events, A Malpractice and Quality Reform Ripe for a Test, 54 LAW & CONTEMP. PROBS. 147 (Spring 1991)
\textsuperscript{405} MARK A. HALL, MARY ANNE BOBINSKI & DAVID ORENTLICHER, MEDICAL LIABILITY AND TREATMENT RELATIONSHIPS 392 (2008).
\textsuperscript{406} Id.
There is also requirement that de-identified information on cases determined to be caused by negligence be disseminated for teaching purposes.\footnote{\textit{Id.} at 685-686.}

The National Medical Association (NMA), a group comprised primarily of African American physicians, has endorsed traditional tort reform measures noting that: “frivolous lawsuits and skyrocketing malpractice insurance premiums are driving America’s physicians out of business. In the minority community this is likely to translate into an exacerbation of healthcare disparities.”\footnote{Where the NMA Stands, http://nmanet.org/index.php?/HealthPol_sub/where_the_nma_stands/.}

The NMA has endorsed federal legislation imposing caps on non-economic damages, “reforming the process by which insurance companies set the premiums paid for malpractice insurance coverage,” but it has also called for the adoption of health courts as a solution to these problems.\footnote{\textit{Id.}}

There is also great interest in alternative reforms among academic researchers that would connect malpractice reforms with overall health policy concerns and integrate improved patient safety with liability protection.\footnote{\textit{Eleanor D. Kinney & William M. Sage}, \textit{Resolving Medical Malpractice Claims in the Medicare Program: Can It Be Done}, 12 \textit{CONN. INS. L. J.} 77, 79-80 (2005-2006).}

Baker proposed a “blue-print” for state reforms, “the Patient Protection and Healthcare Responsibility Act,” that includes the following evidence-based reforms: mandatory disclosure of possible “adverse health care event[s],” incentives for at-fault providers to apologize and offer restitution, a no-fault compensation scheme for “moderate” injuries, and enterprise liability.\footnote{Baker, supra note 16, at 157-180.}

Baker has suggested the following goals for medical liability reformers: “reducing patient injuries,
improving the accuracy of medical malpractice claiming, improving patient compensation, and reducing the disruption the insurance cycle imposes on doctors.”

Traditional tort reforms have been more focused on reducing liability insurance costs for providers and stabilizing insurance markets rather than deterring negligence and providing fair compensation for the victims of malpractice. Sage (2004) noted the apparent disconnect between traditional medical liability reform proposals such as damages caps and the need to approach medical liability from a health policy perspective. He called for states to consider reforms that would speed resolution of claims, shift to a first party from a third party basis, and “link liability risk management with clinical quality improvement at the institutional level.” He also called for federal support for state demonstration projects that would include federal subsidies for reinsurance and the implementation of an administrative compensation system in the Medicare program to compensate for “avoidable injuries.”

In addition, a 2004 IOM Report called for experimentation with alternatives to traditional tort reform measures that would both enhance patient safety and stabilize the medical liability insurance market. The report called for federal and state support for demonstration projects that would utilize one of two options. Under the first option the federal government would provide reinsurance and technical support for demonstration projects that would require providers to identify avoidable injuries and promptly compensate injured patients for net economic losses and limited non-economic damages.

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414 Baker, supra note 16, at 158.
416 Id. at 19.
417 Id. at 18-19.
418 FOSTERING ADVANCES, supra note 338, at 81-90.
Based on caps set by state law. Under the second option, the state would require that all health care providers participate in a statewide administrative claims system that would provide recovery for avoidable injuries. The providers would be granted immunity from tort liability. Providers would be required to identify victims of avoidable injuries and disclose these to the patients. And injured patients could recover net economic losses and non-economic losses subject to a cap.

In this section we will examine two proposals for alternative reforms that seem promising: disclosure and offer, and health courts. These options do not necessarily require specific legislation and could be implemented at the institutional level. Indeed, as discussed infra, some providers and insurers have already initiated disclosure and offer programs. There is increased interest in such reforms by institutional providers particularly in light of the fact that damages caps have been declared unconstitutional by several state high courts and federal enactment of caps seems very unlikely in the foreseeable future.

1. Disclosure and Offer

Although physicians, hospitals and liability insurers have traditionally been reluctant to disclose medical injuries for fear of stirring up additional claims, the ethical obligation of providers to disclose negligently inflicted injuries is widely

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419 Id. at 87.
420 Id. at 88.
421 Mello & Brennan (2009), supra note 2, at 2.
Within the profession there is “increasing receptivity” to full disclosure. The AMA Code of Medical Ethics recognizes the obligation of a physician to inform the patient about an injury caused by the physician’s negligence. Since 2001, JCAHO has required institutional providers to inform patients of “unanticipated outcomes.” And in 2006, the National Quality Forum endorsed a safe practice requiring timely disclosure of “serious unanticipated outcomes” to patients. The latter is particularly significant because “the Leapfrog Group use the NQF safe practices as standards in their pay-for-performance programs.”

Proponents of disclosure and offer have argued that the information from disclosure can be used to enhance patient safety. They contend that apologizing to the patient also has salutary effects: it benefits the patient emotionally, mitigates the harm, and preserves the physician-patient relationship. And it has been argued by the “Sorry Works! Coalition” that disclosure and apology will reduce the frequency of malpractice claims and litigation costs. Nonetheless, physicians may still be unwilling to apologize...
because of fear that the apology could be admissible in a lawsuit.\textsuperscript{432} To combat that concern, thirty-five states have now enacted apology laws to encourage disclosure of negligently inflicted injuries by precluding at least some statements of apology from being admissible in court.\textsuperscript{433} A few states have coupled inadmissibility provisions with a disclosure and/or reporting mandate.\textsuperscript{434}

There is, however, an emerging consensus that disclosure and apology alone are insufficient and should be accompanied by an offer to compensate the negligently injured patients injured. In 2006, Senators Barack Obama and Hillary Clinton proposed federal legislation that would have provided grants and technical assistance for providers that adopted disclosure and offer programs.\textsuperscript{435} But disclosure and offer is not a new idea: Professor Jeffrey O’Connell has long supported legislation to provide incentives for providers to provide a prompt tender for economic damages.\textsuperscript{436} Under the current version, the provider could within 180 days after a claim is filed offer an injured patient periodic payments to cover net economic losses as accrued including medical expenses, lost wages and rehabilitation expenses incurred due to the injury not otherwise covered by

\textsuperscript{432} McDonnell, supra note 423, at 811.


\textsuperscript{434} McDonnell, supra note 423, at 812 citing to FLA. STAT. ANN. § 395.1051 (2003) [patient disclosure mandate for adverse events causing “serious harm”]; N.J. STAT. ANN. § 26:2H-12.25 (2004) [reporting mandate for “serious preventable adverse events”; patient disclosure mandate for “serious preventable adverse events” related to allergic reactions]; NEV. REV. STAT. § 439.855 (2003) [patient involved to be given notice of sentinel event]; PA. CONS. STAT. ANN. § 1303.308 (2002) (health care worker required to report “serious incident or event” to facility; facility required to inform patient or family of “serious event.”

\textsuperscript{435} Hillary Rodham Clinton and Barack Obama, \textit{Making Patient Safety the Centerpiece of Liability Reform}, 354 NEW ENG. J. MED. 2205 (2006).

insurance. If the offer is rejected by the patient, then the case would be tried under a
gross negligence standard and the patient would be required to prove fault beyond a
reasonable doubt.

In an empirical study focusing on closed claims in Florida and Texas between
1998 and 2002, Hersch et al. (2007) found that early offer could accelerate payment of
claims by two years and reduce overall insurer and litigation costs by $100,000 to
$200,000 per claim. But in their own empirical study, Black et al. (2009) take issue
with this finding and conclude that the savings are overstated: while early offer would
significantly reduce payouts in cases with low economic damages, it would not
significantly affect payouts in other cases. And they find that there would be less of an
impact in states with damages caps. In a reply, Hersch et al. (2010) question the
methodology used by Black et al. (2009) and reassert their original findings. The
debate is continued in Black et al. (2010). But regardless of the impact of early offer on
costs, O’Connell has identified a significant advantage that early offer has over caps, i.e.:
“…unlike caps, claimants who received an early offer would be guaranteed prompt
payment of their economic losses, plus their attorneys’ fee [italics in original].”

Unlike early offer, an institutional or insurer initiated disclosure and offer
protocol does not require legislation. Proponents of disclosure and offer approaches point
to successful implementation of such protocols by University of Michigan Health System and The Lexington, Kentucky, Veterans Affairs (V.A.) Hospital, and the 3Rs program operated by COPIC Insurance, a Colorado physician-directed medical liability insurer. Proponents of disclosure and offer have argued that it will reduce the number of malpractice claims and the costs of the system. But Studdert et al. (2007) found, using a Monte Carlo simulation model, that due to under-claiming in the current system, widespread use of disclosure is likely to trigger additional malpractice claiming by negligently injured patients. Boothman et al. (2010), however, argue that the concerns voiced by Studdert et al. (2007) have been refuted by the experience of the University of Michigan Health System. They report that implementation of the Michigan disclosure and offer protocol has resulted in a significant decrease in the number of claims and a reduction in litigation costs. In addition, the University of Illinois at Chicago Medical Center, using a protocol similar to the Michigan protocol, reports no increase in claims or loss payouts due to full disclosure.

The Michigan program is based on three principles:

1. Compensate quickly and fairly when unreasonable medical care causes injury.
2. Defend medically reasonable care vigorously.
3. Reduce patient injuries (and therefore claims) by learning from patients’ experiences.

445 Mello & Gallagher, supra note 422, at 1354.
447 Boothman et al., supra note 433, at 159.
448 Id. at 143-144.
450 Boothman et al., supra note 433, at 139.
The basis for compensation under the Michigan program is a determination that the patient has received unreasonable treatment. This determination is made after an in-depth investigation by the risk management department.\textsuperscript{451} This is followed by a committee review of the risk management department’s determination that focuses on two questions: “(1) Was the care at issue reasonable under the circumstances? and (2) Did the care adversely impact the patient’s outcome?”\textsuperscript{452}

The Lexington V.A. program has also been touted as a success. Since 1995, the Department of Veteran Affairs has required all its facilities to notify patients when they have experienced a negligently inflicted iatrogenic injury, but the Lexington V.A. Hospital has followed this policy since 1987.\textsuperscript{453} Kraman & Hamm (1999) found that “[d]espite following a policy that seems to be designed to maximize malpractice claims, the Lexington facility’s liability payments have been moderate and are comparable to those of similar facilities.”\textsuperscript{454} They believe that these results were due to a dampening of the patient’s desire for revenge.\textsuperscript{455}

Another program that has been widely discussed is COPIC’s 3Rs Program. It uses the following principles: “Recognize Unanticipated Event;” “Respond Soon After Event;” and “Resolve Related Issues.”\textsuperscript{456} The 3Rs program was initiated in 2000 and is a no fault system.\textsuperscript{457} Participation by the physician is voluntary. The program is

\textsuperscript{451} Id. at 139-140.
\textsuperscript{452} Id. at 140.
\textsuperscript{453} Steve S. Kraman, & Ginny Hamm, \textit{Risk Management: Extreme Honesty May Be the Best Policy}, 131 ANN. OF INTERNAL MED. 963, 964 (1999)
\textsuperscript{454} Id. at 965-966.
\textsuperscript{455} Id. at 966.
\textsuperscript{456} Richard Quinn, M.D., 3Rs Medical Director, COPIC’s 3Rs Program: Recognize, Respond To, and Resolve Patient Injury, PowerPoint Presentation, \textit{available at www.sorryworks.net/files/3rsaosreq.ppt}, cited to in Boothman, \textit{supra} note 433, at 147.
administered by the insurer’s risk management department rather than the claims
department and is considered a “first party supplemental benefit” rather than a “third
party insurance payment.” It provides up to $25,000 for out-of-pocket damages and up
to $5000 for loss of time. The process is initiated with an incident report by the
physician, but there is no attempt to determine whether the injury was negligently
inflicted. Death cases and cases involving egregious negligence are excluded from the
program. It does not require the patient to waive the right to sue in order to receive
compensation, but the program is not available if the patient has retained an attorney,
filed a written demand for compensation, or initiated a court proceeding. It does
require the physician to disclose the injury and apologize to the patient.

A March 2004 report by issued by COPIC on the 3Rs program boasted: “As one
can see, 3Rs cases—where payments average $1,820—appear to be an effective use of
funds. In addition numerous anecdotes of patient gratitude and physician satisfaction
have been received.” Quinn & Eichler (2008) report that from the inception of the
program until October 1, 2007, 1110 patients had received payments with the average
payment being $5,258. They believe that open disclosure was instrumental in resolving
some cases without payment. They also report positive feedback from physicians and
patients that have participated in the program and that COPIC is “well pleased” with its

458 Id.
459 Id. at 710.
460 Id. at 712
461 Id. at 710.
462 Id. at 710.
463 Id. at 713.
464 CO PIC Ins. Co., A Success Story, 1 COPIC’s 3Rs Program 1 (Mar. 2004), available at
www.callcopic.com/resources/custom/PDF/3rs-newsletter/vol-1-issue-1-mar-2004.pdf cited to in
Boothman, supra note 433, at 147.
465 Quinn & Eichler, supra note 457, at 714.
466 Id.
results. It seems that the sole focus of the COPIC 3Rs program is to reduce loss payouts. While a strong business case could be made for the adoption of the program, it would not seem to do much for improving the fairness of compensation or deterring negligence.

As noted by Mello and Gallagher (2010), the COPIC and Michigan programs take quite different approaches: the COPIC model offers a low level of reimbursement for loss of time and out-of-pocket expenses without investigation of provider negligence or waiver of a right to sue, while the Michigan program offers higher levels of reimbursement for all traditional damages components in cases of unreasonable care and patients who accept the offer waive their right to sue. And while the Michigan and V.A. programs provide opportunities to improve patient safety by identifying preventable injuries due to negligence, the COPIC program makes no attempt to identify negligent events and thus probably makes less of a contribution to improvements in patient safety.

2. Health Courts

Recently, there has been a great deal of interest in the creation of health courts that would replace judicial resolution of claims with an administrative compensation scheme. In 2005, legislation with widespread bipartisan support was introduced in both houses of Congress to authorize federally funded health court demonstration projects.

467 Id. at 717.
468 Mello & Gallagher, supra note 422, at 1354.
469 Boothman, supra note 433, at 148.
In 2005, Common Good proposed the creation of a system of federal health courts to supplant state courts in adjudicating medical malpractice disputes.\textsuperscript{471} The constitutionality of this proposal has been debated.\textsuperscript{472} While the ABA has rejected mandatory health courts as an option,\textsuperscript{473} it has been endorsed by the AMA as a “promising” approach.\textsuperscript{474} In 2008, Common Good, in recognition of the unfavorable political environment for federally mandated health courts, proposed an approach based on contract and utilizing the Federal Arbitration Act.\textsuperscript{475}

This type of proposal is not new either: there have been several such proposals since the 1970s including the AMA’s 1988 fault-based administrative compensation scheme, discussed \textit{supra}. The current proposal was developed by Common Good working in conjunction with the Harvard School of Public Health.\textsuperscript{476} Here is the description:

\begin{quote}
A \textit{health court} is a system of administrative compensation for medical injuries. It has five core features. First, injury compensation decisions are made outside the regular court system by specially trained judges. Second, compensation decisions are based on a standard of care that is broader than the negligence standard (but does not approach strict liability). ‘Avoidability’ or ‘preventability’ of the injury is the touchstone. To obtain compensation, claimants must show that the injury would not
\end{quote}


have occurred if best practices had been followed or an optimal system of care had been in place, but they need not show that care fell below the standard expected of a reasonable practitioner. Third, compensation criteria are based on evidence; that is, they are grounded in experts’ interpretations of the leading scientific literature. To the maximum extent feasible, compensation decisions are guided by *ex ante* determinations about the preventability of common medical adverse events. Fourth, this knowledge, coupled with precedent, is converted to decision aids that allow fast-track compensation decisions for certain types of injury. Fifth and finally, *ex ante* guidelines also inform decisions about how much for economic and noneconomic damages should be paid.477

Proponents of health courts claim that they would be on balance beneficial to patients noting: health courts are more procedurally fair; patients would be more likely to get a favorable result; compensation is faster; the pool of compensable events is expanded; caps are replaced with more flexible scheduled recoveries; disclosure of adverse events is required; patients with small claims benefit because attorneys aren’t required, etc. 478 They also contend that insurers and providers will benefit: more fairness and consistency in decisions; and a better opportunity for cost controls.479 They contend that the greatest benefit will be improvements in patient safety due to increased candor and transparency in confronting errors resulting from the shift from the stigmatizing negligence standard to the avoidability standard, an increase in the number of legitimate claims in the system, clearer *ex ante* standards, and fairer decisions.480 They argue that hospitals would have increased incentives to enhance safety because payments into the system would be based on the frequency of avoidable injuries experienced in the hospital.481 And state level scrutiny would also be enhanced because the health court

477 Id. at 460-461.
478 Id. at 468
479 Id. at 469-470.
480 Id. at 473-474.
481 Id. at 475.
system would provide a central repository of information that could be used by researchers and a state patient safety office to improve patient safety.\textsuperscript{482} Eventually, data from the states could be integrated into a national database.\textsuperscript{483} Proponents of health courts have recognized that establishing the link between health courts and improvements in patient safety is critical to the success of the proposal.\textsuperscript{484}

While the Common Good proposal seems to be an improvement over the earlier AMA proposal, it is nonetheless disappointing to those who have advocated a shift to no-fault and enterprise liability.\textsuperscript{485} And the proposal has also been controversial among academicians. Peters foresees only marginal improvements in the accuracy of decision making and fairness of outcomes.\textsuperscript{486} He believes that health courts are likely to exacerbate current problems such as under-claiming (for legitimate claims) and over-claiming (for baseless claim).\textsuperscript{487} He believes that the level of procedural protections provided to patients in health courts is inadequate and should be strengthened.\textsuperscript{488} And he is skeptical about the purported improvements in patient safety and foresees little change in the willingness of physicians to disclose errors as a result of implementation of health courts.\textsuperscript{489} Baker has characterized health courts as "part of the same 'doctor knows best' approach to malpractice that has produced the error-ridden system that we have today. It's an effort to neutralize malpractice litigation, the institution that deserves almost all the

\textsuperscript{482} Id. at 476-478
\textsuperscript{483} Id. at 482-483.
\textsuperscript{485} Peters., \textit{Health Courts, supra} note 23, at 236.
\textsuperscript{486} Id. at 251-252.
\textsuperscript{487} Id. at 258.
\textsuperscript{488} Id. at 268.
\textsuperscript{489} Id. at 270-278.
credit for bringing medical malpractice to light.\textsuperscript{490} Even health court proponents recognize that their potential benefits are uncertain and have recommended a series of small scale demonstrations to test their effectiveness.\textsuperscript{491}

CONCLUSION

It is possible that health care reform could further exacerbate the under-claiming problem in the current medical liability system thereby further undermining an already weak deterrent effect. The future of medical liability reform is cloudy. At this time damages caps are unlikely to be enacted at the federal level and state level caps remain vulnerable to constitutional challenge. Moreover, it is still unclear whether damages caps provide any significant benefit to patients. The impact of damages caps on access to physicians and health care continues to be debated. There is a dearth of studies establishing that damages caps increase patient safety. Caps disadvantage only the most severely injured patient in return for the promise of lower health care costs for all.\textsuperscript{492} But notwithstanding recent opinions offered by the CBO, it is not clear that caps will significantly reduce health care costs or that any savings will be passed on to consumers. There is a need for further studies on these issues. The benefits of alternative reforms such as disclosure and offer and health courts are also uncertain. Perhaps we will know more after several demonstration projects are conducted.


\textsuperscript{491} Mello, Studdert et al., “Health Courts”, supra note 476, at 487.

\textsuperscript{492} Nelson, Morrisey & Kilgore (2007), supra note 40, at 281.