

AIS RISK CONSULTANTS, INC.

Consulting Actuaries • Insurance Advisors

4400 Route 9 South • Suite 1200 • Freehold, NJ 07728 • (732) 780-0330 • Fax (732) 780-2706

Date: December 6, 2011

To: Pennsylvania Senate Banking and Insurance Committee

From: Allan I. Schwartz

Re: Analysis of Increasing Bodily Injury and Property Damage Liability Minimum
Statutory Limits From \$15,000 / \$30,000 / \$5,000 to \$30,000 / \$60,000 / \$10,000

My name is Allan I. Schwartz. I am an actuary that has been working in the insurance field for about 35 years with clients that include insurance regulatory agencies, insurance companies, consumer groups, government agencies and non-insurance companies. My professional qualifications include being a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries. As part of my work I have been qualified to give expert testimony regarding actuarial issues in about fifteen states. A copy of my resume is attached to these comments.

I want to thank you for giving me the opportunity to address the committee regarding the issue of the minimum limits of personal automobile liability coverage in Pennsylvania.

The Pennsylvania Association for Justice has asked me to evaluate the impact of changing the minimum limits of liability coverage in Pennsylvania from \$15,000/\$30,000/\$5,000 to \$30,000/\$60,000/\$10,000. My analysis consisted of four items. Those items, along with a brief summary of my conclusions, follow:

- An evaluation of the impact of inflation from 1974, when the current minimum limits of liability were established, to the present.
 - In order to bring the \$15,000/\$30,000 bodily injury limits from 1974 to a current price basis, the minimum limits of bodily injury liability would need to be changed to a value in the range from \$68,000/\$137,000 to \$141,000/\$282,000.

- A comparison of the minimum limits of bodily injury liability in Pennsylvania to other states.
 - Pennsylvania's minimum limit of \$15,000/\$30,000 is lower than that in the vast majority of other states.

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December 6, 2011
Pennsylvania Senate Banking and Insurance Committee
Page 2 of 7

- The impact on premiums of increasing the minimum limits of liability coverage.
 - The expected cost increase of changing the minimum limits of coverage from \$15,000/\$30,000/\$5,000 to \$30,000/\$60,000/\$10,000 is about 7% to 10% of premium for those policyholders impacted.¹
- The proportion of Pennsylvania policyholders that will be impacted by such a change.
 - Only about 13% of Pennsylvania policyholders purchase the minimum limits of bodily injury liability coverage of \$15,000/\$30,000.²

I will address each of these issues in more detail in my comments.

Impact of Inflation from 1974 to the Present

I examined two different measures of inflation. The first measure was the all items consumer price index. The second measure was the medical care consumer price index (CPI). The medical care CPI measure is relevant because bodily injury liability costs are driven in large part by the cost of medical care.

The all items CPI increased at an average annual rate of about 4.2% between 1974 and the 3rd quarter of 2011.³ When this annual change is compounded over the 37 year period, the total increase in the CPI from 1974 to the 3rd quarter of 2011 is 356%. That means that \$100 in 1974 is equivalent to about \$456 in 2011. In order to make \$15,000 / \$30,000 limits in 1974 equivalent to a corresponding limit today, the current limit of bodily injury liability coverage would need to be about \$68,000 / \$137,000.⁴ Another way of looking at this is what limit in 1974 would be equivalent to limits of \$15,000 / \$30,000 in 2011. Using the 356% price change

¹ This is a range of average changes based upon typical insurance coverage in Pennsylvania including liability plus physical damage.

² About another 12% purchase limits of \$25,000/\$50,000

³ See Schedule AIS-1.

⁴ \$68,000 ≈ \$15,000 X 4.56

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December 6, 2011
Pennsylvania Senate Banking and Insurance Committee
Page 3 of 7

we have previously discussed, \$15,000 / \$30,000 limits in 2011 would purchase the equivalent of about \$3,300 / \$6,600 in 1974.⁵

The medical care CPI increased at an average annual rate of about 6.2% between 1974 and the 3rd quarter of 2011.⁶ When this annual change is compounded over the 37 year period, the total increase in the CPI from 1974 to the 3rd quarter of 2011 is 842%. That means that \$100 in 1974 is equivalent to about \$942 in 2011. In order to make \$15,000 / \$30,000 limits in 1974 equivalent to a corresponding limit today, the current limit of bodily injury liability coverage would need to be about \$141,000 / \$282,000.⁷ Another way of looking at this is what limit in 1974 would be equivalent to limits of \$15,000 / \$30,000 in 2011. Using the 842% price change we have previously discussed, \$15,000 / \$30,000 limits in 2011 would purchase the equivalent of about \$1,590 / \$3,180 in 1974.⁸

The cost of many items has increased significantly from 1974 to 2011. The cost increase for some categories of items is shown in the following table.

<u>Item</u>	<u>Cost Increase from 1974 to 2011 (3rd quarter)</u>
Food and Beverage	309%
Housing	378%
Transportation	365%

Source: Bureau of Labor Statistics

Clearly, inflation has significantly eroded the real value of the limits of bodily injury liability coverage of \$15,000 / \$30,000 from 1974. If the minimum limits of bodily injury liability coverage are doubled starting in 2012 from \$15,000/\$30,000 to \$30,000/\$60,000; that

⁵ \$3,300 ≈ \$15,000 / 4.56

⁶ See Schedule AIS-2.

⁷ \$141,000 ≈ \$15,000 X 9.42

⁸ \$1,590 ≈ \$15,000 / 9.42

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December 6, 2011
Pennsylvania Senate Banking and Insurance Committee
Page 4 of 7

would be equivalent to an average annual increase from 1974 to 2012 of only 1.8%. This is less than $\frac{1}{2}$ the rate of overall inflation during the time period from 1974 to 2011 as measured by the all items CPI (i.e., 4.2%), and is less than $\frac{1}{3}$ of the rate of medical care inflation during the time period from 1974 to 2011 as measured by the medical care CPI (i.e., 6.2%).

Comparison Of The Minimum Limits Of Bodily Injury Liability Across States

We examined the distribution of bodily injury liability minimum limits across the various states and DC. Only 9 jurisdictions had a limit of liability of \$15,000 / \$30,000 or less. There are 35 jurisdictions with bodily injury liability limits of \$25,000 / \$50,000 or more. The complete distribution is shown in the following table.⁹

Number of Jurisdictions with Bodily Injury Liability Limit
(Limit Amount in 000's)

<u>Liability Limit</u>	<u>Number of Jurisdictions</u>
Below \$15 / \$30	2
\$15 / \$30	7
\$20 / \$40	7
\$25 / \$50	28
\$25 / \$65	1
\$30 / \$60	4
\$50 / \$100	2
Total	51

Clearly, the vast majority of states have bodily injury liability minimum limits of coverage higher than the \$15,000 / \$30,000 limits in Pennsylvania.

⁹ See also Schedules AIS-3 and AIS-4.

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December 6, 2011
Pennsylvania Senate Banking and Insurance Committee
Page 5 of 7

Impact On Premiums Of Increasing The Minimum Limits Of Liability Coverage

We examined the potential impact of raising the minimum limits of bodily injury and property damage liability coverage from \$15,000 / \$30,000 / \$5,000 to \$30,000/\$60,000/\$10,000 by obtaining on-line insurance premium quotes from the websites of various insurance companies for several geographic locations in Pennsylvania along with other information.¹⁰

The current minimum liability limits in Pennsylvania are \$15,000/\$30,000/\$5,000. We were not able to obtain premium quotes at \$30,000/\$60,000/\$10,000. We were, however, able to obtain premium quotes at \$25,000/\$50,000/\$10,000. We used those values as a starting point and then made an adjustment for the higher limit of bodily injury liability coverage of \$30,000/\$60,000 based upon increased limits factors.

The premium at \$30,000/\$60,000/\$10,000 limits was on average about 7% to 10% higher than the premium at \$15,000/\$30,000/\$5,000 limits, with variation depending upon the insurance company, location in Pennsylvania and limited tort versus full tort.¹¹

As a dollar change, the amount also varied depending upon the insurance company, location in Pennsylvania and limited tort versus full tort. A summary by location, averaged across the insurance companies we included, is set forth in the following table.

¹⁰ The profile of the policyholder is the same as has been used on the PADOI website. A description of the profile follows.

A married adult, age 35, driving a 2008 Ford Taurus Limited 4-Door Sedan, VIN 1FAHP25W, ISO rating symbol 13, equipped with driver and passenger frontal air bags, a passive antitheft device, anti-lock brakes, driven to work 10 miles one way, 12,000 miles annually, by an experienced operator with no accidents or violations.

¹¹ This is a range of average changes based upon typical insurance coverage in Pennsylvania including liability plus physical damage.

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December 6, 2011
Pennsylvania Senate Banking and Insurance Committee
Page 6 of 7

Estimated Average Weekly Increase in Premium in Going From
\$15,000 / \$30,000 / \$5,000 to \$30,000 / \$60,000 / \$10,000 Limits

<u>Region</u>	<u>Limited Tort</u>	<u>Full Tort</u>
Clearfield	\$1.10	\$1.70
Harrisburg	\$1.20	\$1.80
Pittsburgh	\$1.00	\$1.60
Philly Suburban	\$1.80	\$2.90
Philly Semi Sub	\$2.20	\$3.50
Philly Urban	\$3.60	\$5.70
Average	\$1.80	\$2.90

The percentage and dollar value results are shown graphically in Schedules AIS-5 and AIS-6, respectively.¹²

Hence, while increasing the minimum limits of bodily injury liability coverage will increase premium charges to some extent, it is not a drastic increase. It should also be remembered that this moderate cost needs to be balanced against the extra \$30,000 of bodily injury coverage and extra \$5,000 of property damage coverage that could be available for compensation. These additional funds could be used for items such as wage replacement and the payment of medical expenses, as well as for repairing damage to the policyholder's vehicle.

¹² Schedule AIS-7 provides more detailed information on the premium quotes in these graphs.

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December 6, 2011
Pennsylvania Senate Banking and Insurance Committee
Page 7 of 7

Proportion Of Pennsylvania Policyholders Impacted By The Change

Not all Pennsylvania policyholders will be impacted by a change in the minimum limits of bodily injury liability coverage. Only the policyholders currently purchasing minimum limits, or otherwise purchasing less than the proposed minimum limits of coverage will be impacted.

We estimate that only about 13% of policyholders currently purchase the minimum limits of bodily injury liability coverage of \$15,000/\$30,000; and only about another 12% purchase limits above the current minimum but lower than the proposed limits of \$30,000/\$60,000.^{13,14}

Hence, the vast majority of Pennsylvania policyholders will not be impacted at all by a change in minimum statutory bodily injury limits from \$15,000/\$30,000 to \$30,000/\$60,000.

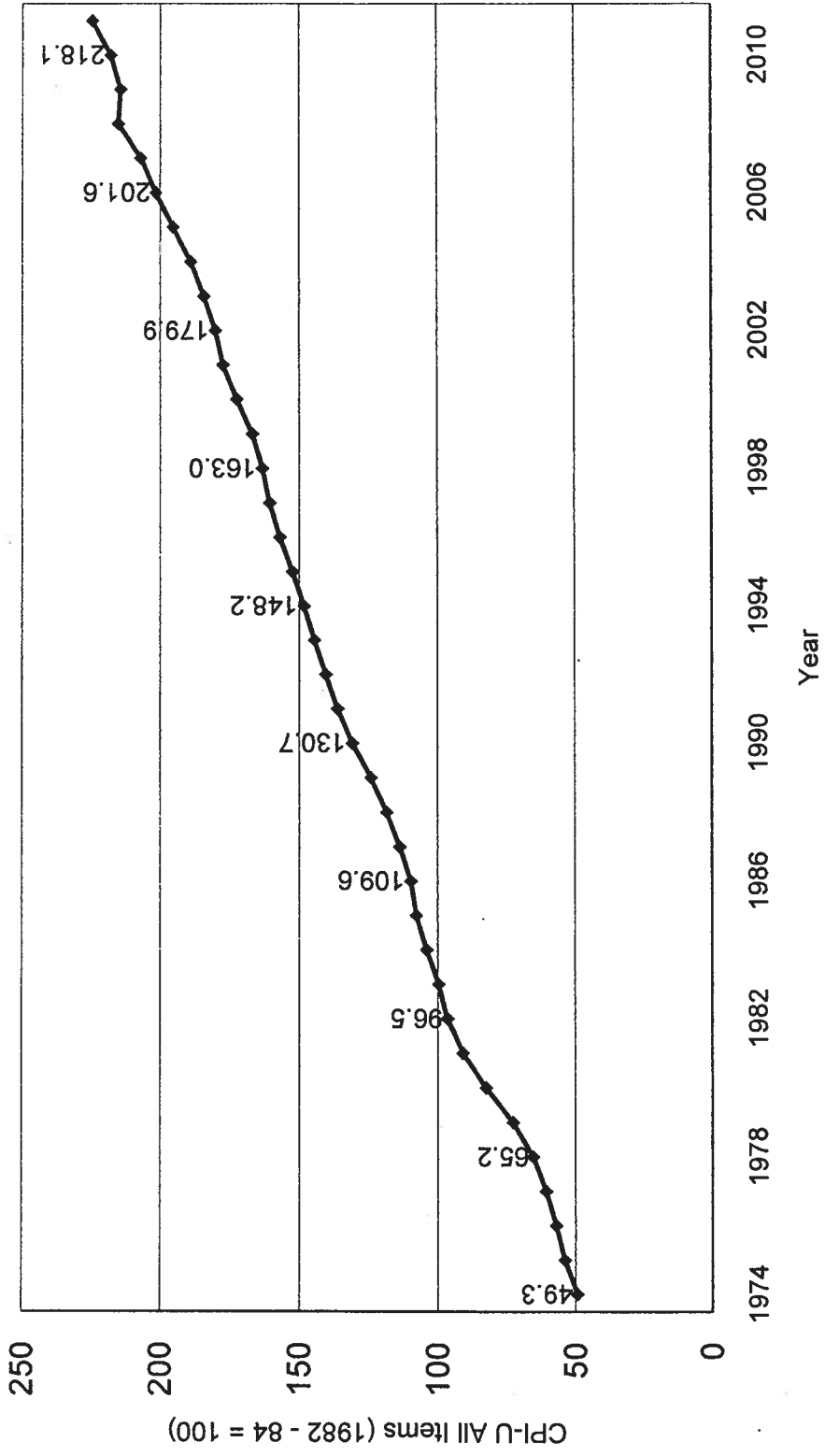
Please feel free to contact me if there is anything you would care to discuss.

Enclosures

¹³ These 12% of policyholders, who almost all purchase \$25,000/\$50,000 limits, are expected to have a much smaller premium increase in going to \$30,000/\$60,000 limits than the 7% to 10% premium increase discussed earlier in relation to going from \$15,000/\$30,000 limits to \$30,000/\$60,000 limits.

¹⁴ More detailed information regarding the distribution of limits is set forth in Schedule AIS-8.

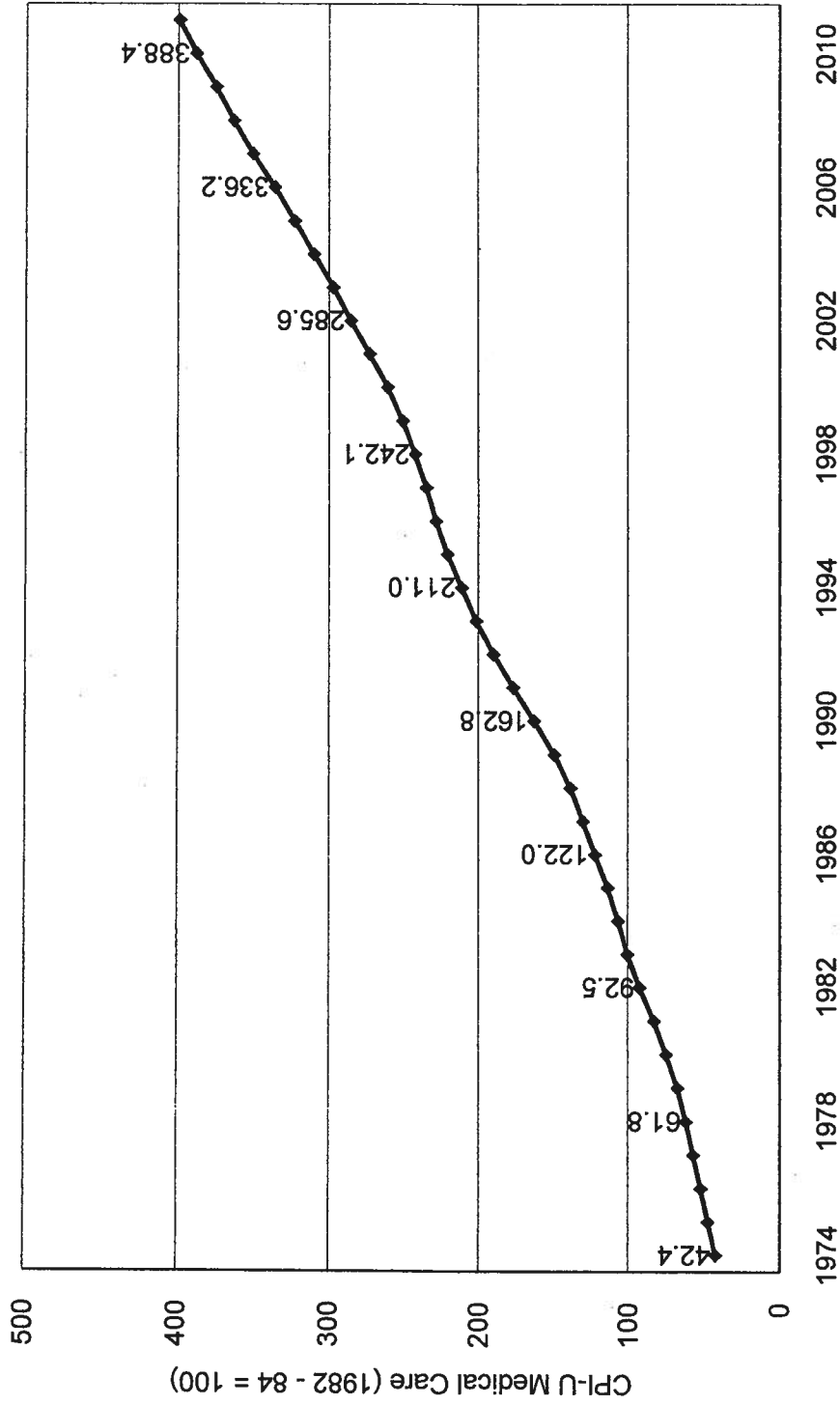
Consumer Price Index - All Urban Consumers All Items



Increase from 1974 through October 2011: Total = 356% Annual = 4.2%

\$15,000 / \$30,000 Limits in 1974 is equivalent to Limits in 2011 of \$68,000 / \$137,000

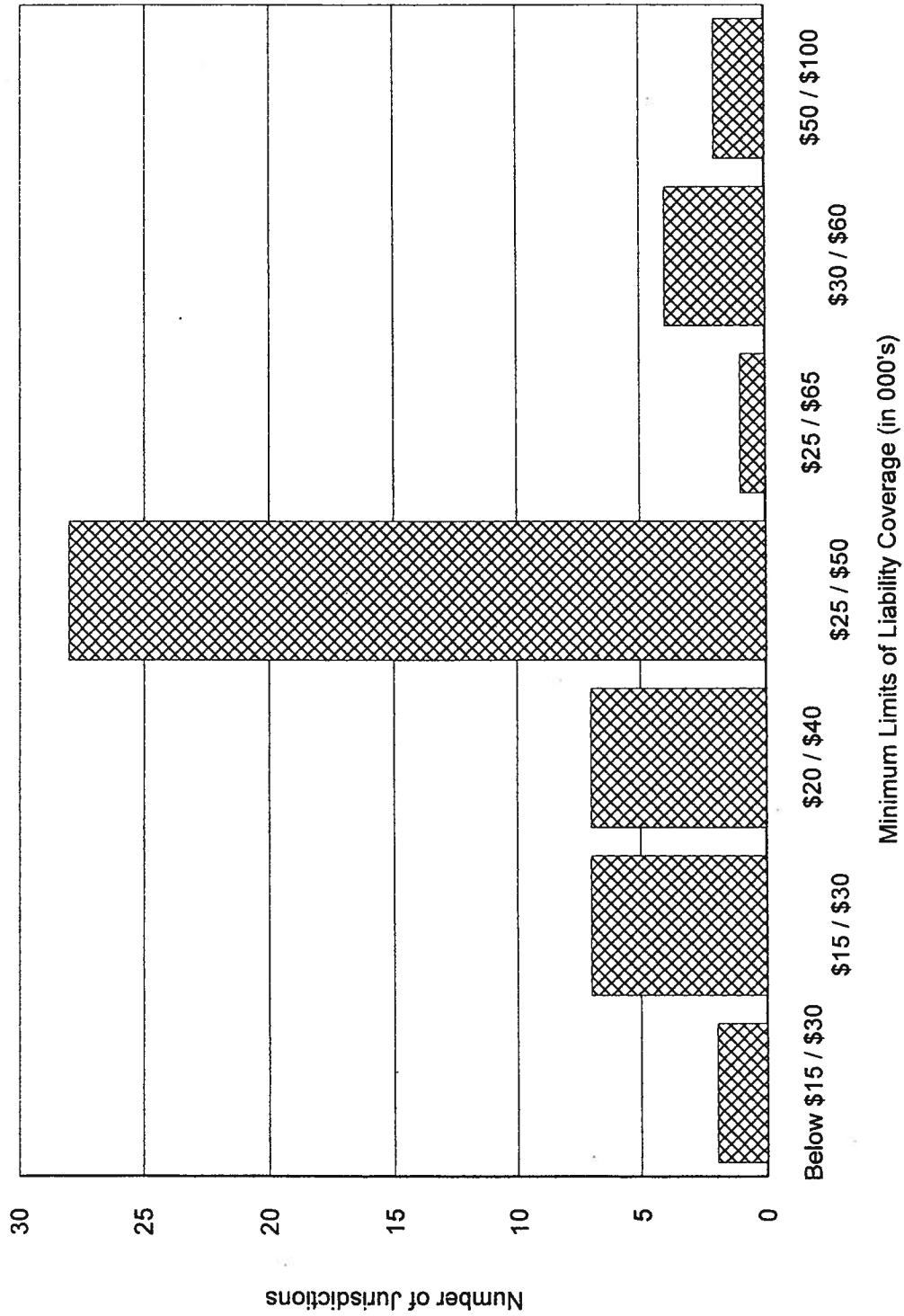
Consumer Price Index - All Urban Consumers Medical Care



Increase from 1974 through October 2011: Total = 842% Annual = 6.2%

\$15,000 / \$30,000 Limits in 1974 is equivalent to Limits in 2011 of \$141,000 / \$282,000

Distribution Across States of the Minimum Limits of Bodily Injury Liability Coverage



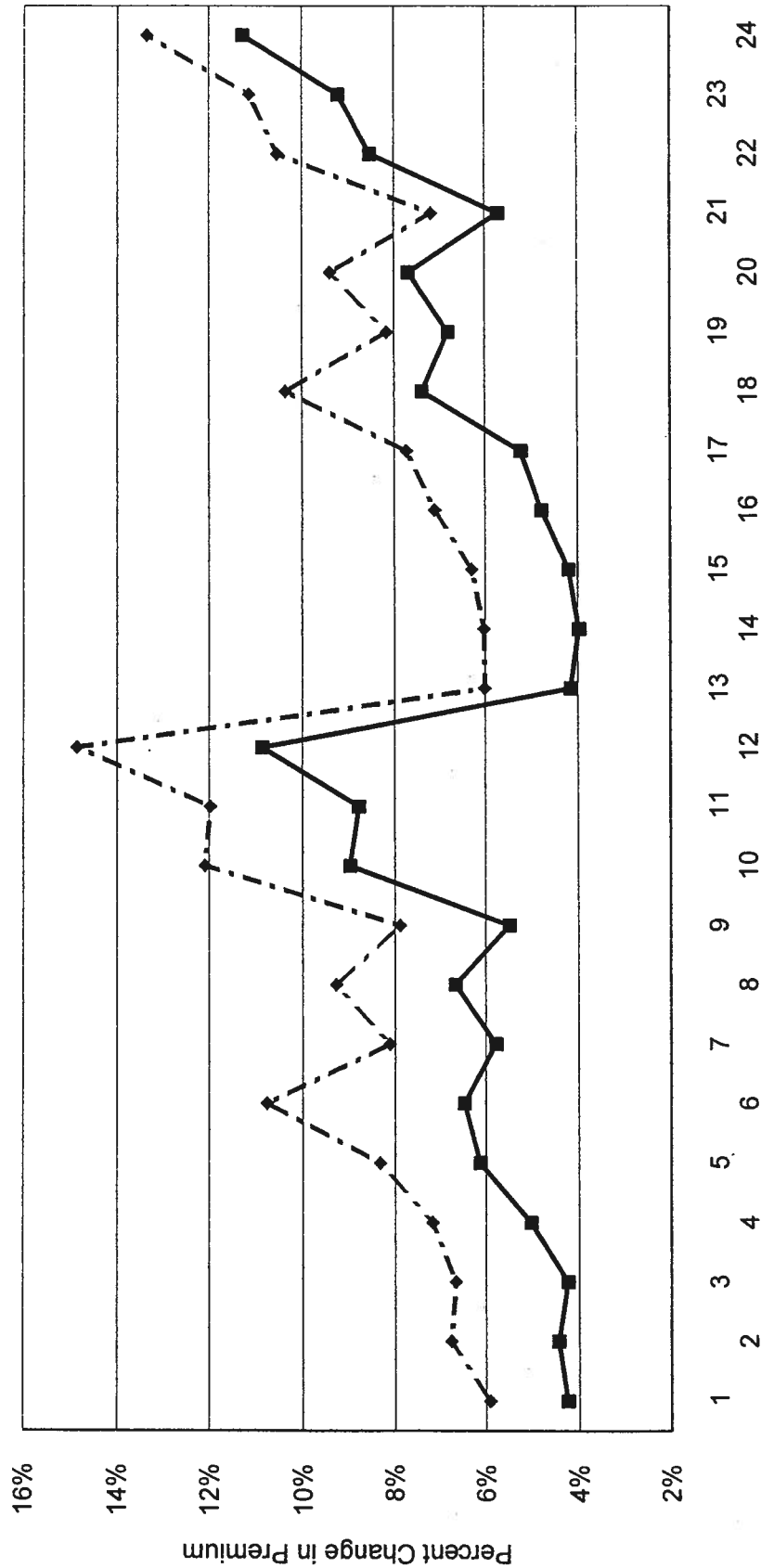
Source: Insurance Information Institute study "Compulsory Auto / Uninsured Motorists" at http://www.iii.org/issues_updates/compulsory-auto-uninsured-motorists.html

Minimum Liability Limits by Jurisdiction

<u>Jurisdiction</u>	<u>Minimum Liability Limits</u>		
Alabama	\$25,000	/	\$50,000 / \$25,000
Alaska	\$50,000	/	\$100,000 / \$25,000
Arizona	\$15,000	/	\$30,000 / \$10,000
Arkansas	\$25,000	/	\$50,000 / \$25,000
California	\$15,000	/	\$30,000 / \$5,000
Colorado	\$25,000	/	\$50,000 / \$15,000
Connecticut	\$20,000	/	\$40,000 / \$10,000
Delaware	\$15,000	/	\$30,000 / \$10,000
District of Columbia	\$25,000	/	\$50,000 / \$10,000
Florida	\$10,000	/	\$20,000 / \$10,000
Georgia	\$25,000	/	\$50,000 / \$25,000
Hawaii	\$20,000	/	\$40,000 / \$10,000
Idaho	\$25,000	/	\$50,000 / \$15,000
Illinois	\$20,000	/	\$40,000 / \$15,000
Indiana	\$25,000	/	\$50,000 / \$10,000
Iowa	\$20,000	/	\$40,000 / \$15,000
Kansas	\$25,000	/	\$50,000 / \$10,000
Kentucky	\$25,000	/	\$50,000 / \$10,000
Louisiana	\$15,000	/	\$30,000 / \$25,000
Maine	\$50,000	/	\$100,000 / \$25,000
Maryland	\$30,000	/	\$60,000 / \$15,000
Massachusetts	\$20,000	/	\$40,000 / \$5,000
Michigan	\$20,000	/	\$40,000 / \$10,000
Minnesota	\$30,000	/	\$60,000 / \$10,000
Mississippi	\$25,000	/	\$50,000 / \$25,000
Missouri	\$25,000	/	\$50,000 / \$10,000
Montana	\$25,000	/	\$50,000 / \$10,000
Nebraska	\$25,000	/	\$50,000 / \$25,000
Nevada	\$15,000	/	\$30,000 / \$10,000
New Hampshire	\$25,000	/	\$50,000 / \$25,000
New Jersey	\$15,000	/	\$30,000 / \$5,000
New Mexico	\$25,000	/	\$50,000 / \$10,000
New York	\$25,000	/	\$50,000 / \$10,000
North Carolina	\$30,000	/	\$60,000 / \$25,000
North Dakota	\$25,000	/	\$50,000 / \$25,000
Ohio	\$12,500	/	\$25,000 / \$7,500
Oklahoma	\$25,000	/	\$50,000 / \$25,000
Oregon	\$25,000	/	\$50,000 / \$20,000
Pennsylvania	\$15,000	/	\$30,000 / \$5,000
Rhode Island	\$25,000	/	\$50,000 / \$25,000
South Carolina	\$25,000	/	\$50,000 / \$25,000
South Dakota	\$25,000	/	\$50,000 / \$25,000
Tennessee	\$25,000	/	\$50,000 / \$15,000
Texas	\$30,000	/	\$60,000 / \$25,000
Utah	\$25,000	/	\$65,000 / \$15,000
Vermont	\$25,000	/	\$50,000 / \$10,000
Virginia	\$25,000	/	\$50,000 / \$20,000
Washington	\$25,000	/	\$50,000 / \$10,000
West Virginia	\$20,000	/	\$40,000 / \$10,000
Wisconsin	\$25,000	/	\$50,000 / \$10,000
Wyoming	\$25,000	/	\$50,000 / \$20,000
Average	\$23,775	/	\$47,843 / \$15,539
Median	\$25,000	/	\$50,000 / \$15,000

Source: Insurance Information Institute study "Compulsory Auto / Uninsured Motorists" at http://www.iii.org/issues_updates/compulsory-auto-uninsured-motorists.html

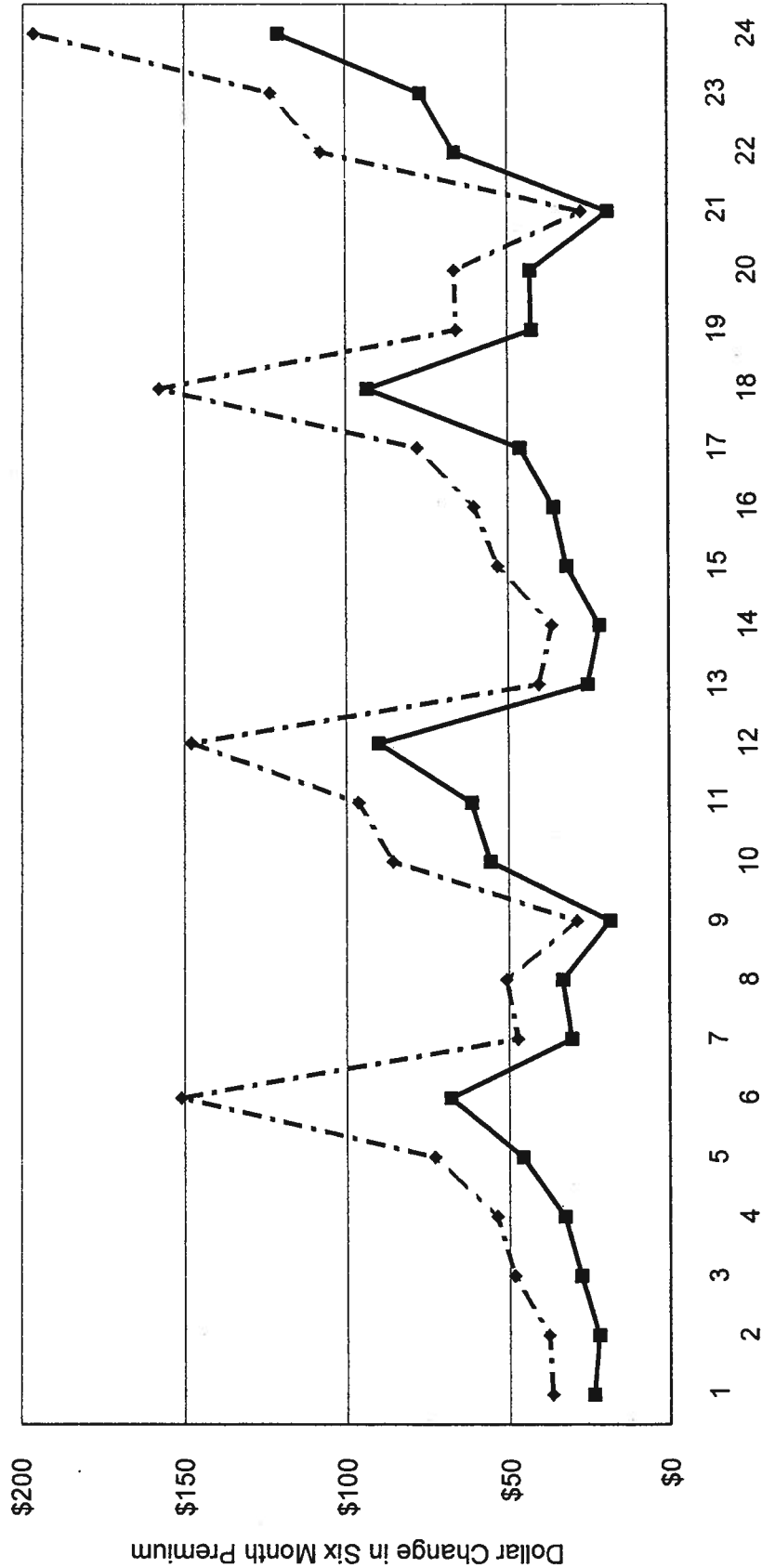
Percent Impact on Premium for Liability & Physical Damage Coverage of 30/60/10 Limits Compared to 15/30/5 Limits



Quote Code Number (See Enclosed Description)

30/60/10 Compared to 15/30/5 : Limited Tort
 ••••• 30/60/10 Compared to 15/30/5 : Full Tort

Dollar Impact on Six Month Premium for Liability & Physical Damage Coverage of 30/60/10 Limits Compared to 15/30/5 Limits



Quote Code Number (See Enclosed Description)

—■— 30/60/10 Compared to 15/30/5 : Limited Tort -◆- 30/60/10 Compared to 15/30/5 : Full Tort

**Description of Insurance Companies, Territories,
Coverage and Insured Profile Used for Sample Premium Quotes**

<u>Quote Code</u>	<u>Insurance Company</u>	<u>Territory</u>
1	Erie	Clearfield
2	Erie	Harrisburg
3	Erie	Pittsburgh
4	Erie	Philly Suburban
5	Erie	Philly Semi Sub
6	Erie	Philly Urban
7	Geico	Clearfield
8	Geico	Harrisburg
9	Geico	Pittsburgh
10	Geico	Philly Suburban
11	Geico	Philly Semi Sub
12	Geico	Philly Urban
13	Allstate	Clearfield
14	Allstate	Harrisburg
15	Allstate	Pittsburgh
16	Allstate	Philly Suburban
17	Allstate	Philly Semi Sub
18	Allstate	Philly Urban
19	Nationwide	Clearfield
20	Nationwide	Harrisburg
21	Nationwide	Pittsburgh
22	Nationwide	Philly Suburban
23	Nationwide	Philly Semi Sub
24	Nationwide	Philly Urban

Liability Only Coverage includes the following:

Bodily Injury, Property Damage, Medical Payments at \$5,000, along with Uninsured Motorists and Underinsured Motorists with Limits equal to the Bodily Injury Limits.

Full Coverages Includes the following:

Liability Only plus Collision and Comprehensive at a \$500 Deductible.

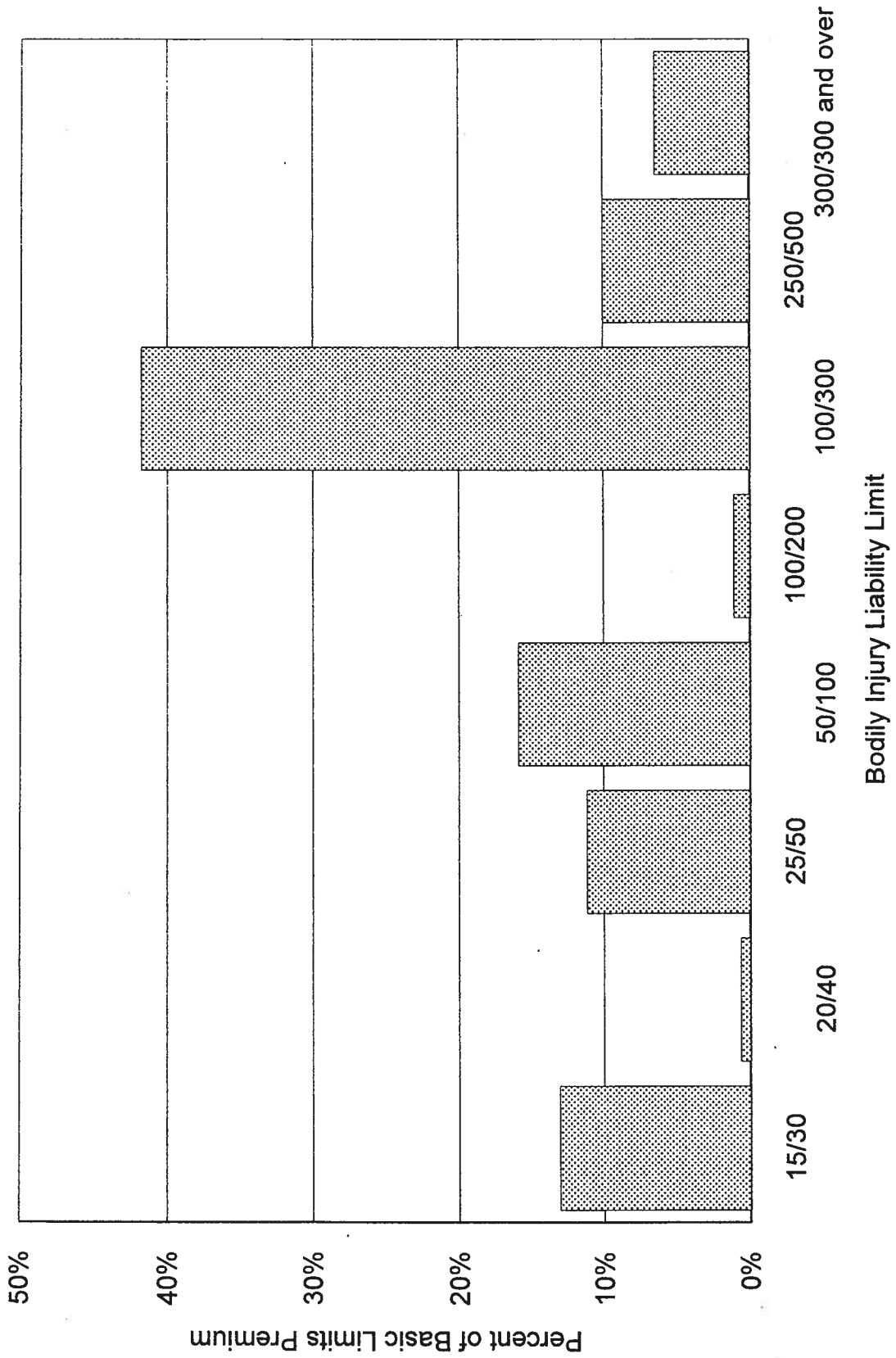
Insured Profile same as on PADOI Website which is the following:

A married adult, age 35, driving a 2008 Ford Taurus Limited 4-Door Sedan, VIN 1FAHP25W, ISO rating symbol 13, equipped with driver and passenger frontal air bags, a passive antitheft device, anti-lock brakes, driven to work 10 miles one way, 12,000 miles annually, by an experienced operator with no accidents or violations.

Erie full coverage includes comprehensive transportation expense.

Rate quotes were obtained for 25/50/10 limits then adjusted to 30/60/10 limits using increased limits factors.

Distribution of Premiums by Bodily Injury Liability Limit



ALLAN I. SCHWARTZ
President
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EDUCATION

Cooper Union, B.S., Physics, 1975

PROFESSIONAL DESIGNATIONS

Casualty Actuarial Society, Fellow - 1981, Associate - 1979

Society of Actuaries, Associate - 1983

American Academy of Actuaries, Member - 1979

Conference of Consulting Actuaries, Fellow - 1989, Member - 1983

Associate in Reinsurance - June 1998
(Received Reinsurance Association of America Award for Academic Excellence)

Associate in Claims - September 1998

Associate in Premium Auditing - May 1999

Associate in Underwriting - June 1999

Associate in Insurance Accounting and Finance - June 2002
(Received National Association of Mutual Insurance Companies Award for Academic Excellence)

Associate in Risk Management - September 2002

Associate in Personal Insurance – January 2008

Associate, Customer Service – March 2008 (With Honors)

Certified Rate of Return Analyst – April 2011

WORK EXPERIENCE

AIS RISK CONSULTANTS, INC.

President - 11/84 to Present

Responsibilities include performing actuarial analyses for all lines of property/casualty insurance. Loss reserve and rate level studies for insurance companies, reinsurance companies, state insurance funds, self-insurers, captive insurers, brokerage firms and attorneys. Work also involves projection of payment patterns, excess insurance studies, production of management information systems and development of individual risk rating plans. Has been qualified as an expert in property/casualty insurance in numerous jurisdictions. Has provided testimony in regulatory and legislative hearings. Work has been cited in court decisions.

NEW JERSEY DEPARTMENT OF INSURANCE

Assistant Commissioner - 5/88 to 1/90

Supervised a staff of 20+ which regulated rates, rules and policy forms in New Jersey for property/casualty insurance to determine compliance with the applicable statutes and regulations. Provided advice to the Insurance Commissioner and other senior staff members of the Insurance Department regarding the impact of proposed legislation, regulations and overall policy directives.

NORTH CAROLINA DEPARTMENT OF INSURANCE

Chief Actuary - 6/86 to 4/88

Responsible for all actuarial studies performed in the Department of Insurance covering property / casualty / life / health / accident insurance. This included the analysis of filings made by insurance companies and the evaluation of reserves. Provided advice to the Insurance Commissioner and other senior staff members of the Insurance Department regarding the impact of proposed legislation, regulations and overall policy directives.

WOODWARD & FONDILLER

Senior Actuary - 8/77 to 11/84

Consulting property/casualty actuarial studies (see description under AIS Risk Consultants, Inc.)

NATIONAL COUNCIL ON COMPENSATION INSURANCE

Actuarial Trainee - 3/76 to 8/77