



PIP Claiming Behavior and Claim Outcomes in Florida's No-Fault Insurance System

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Executive Summary and Key Findings

This Insurance Research Council (IRC) report is based on an analysis of 1,359 Florida personal injury protection (PIP) claims closed with payment in 2007. The study reveals escalating claim costs, high utilization rates for expensive diagnostic services, high chiropractor utilization rates, high rates of attorney involvement, and high rates of apparent claim fraud and claim buildup. Summary industry statistics through 2010 suggest that many of these trends and behaviors may have continued and perhaps even worsened since 2007.

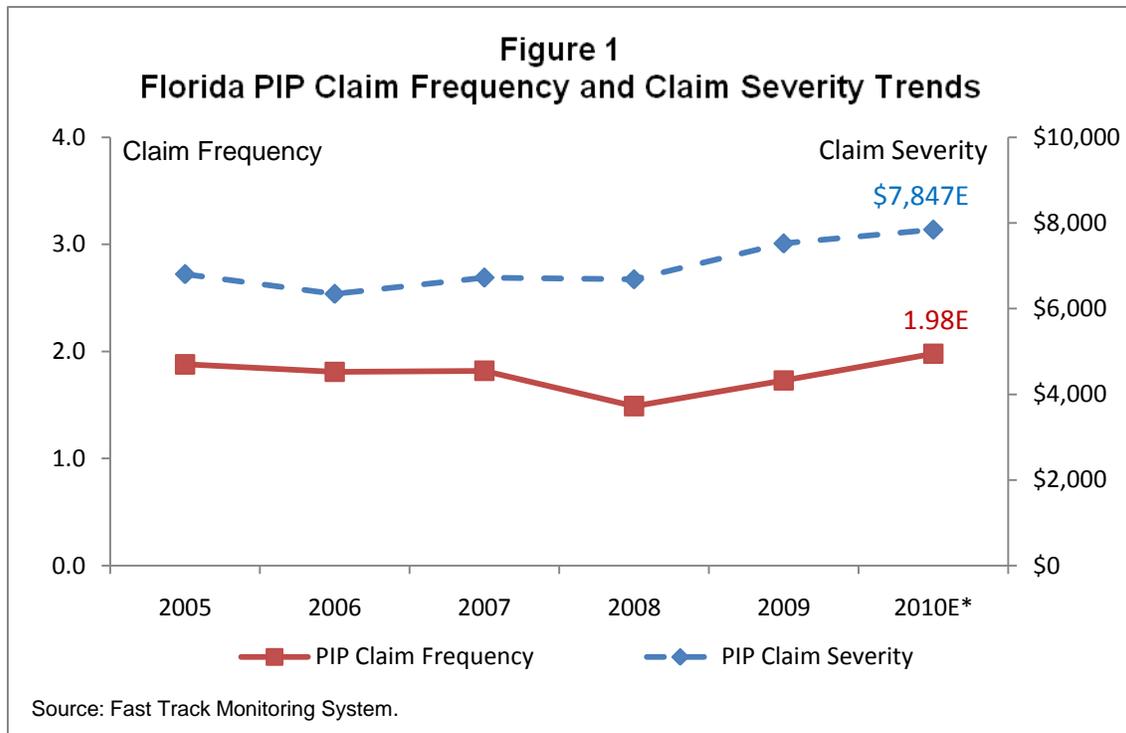
Previous IRC reports from 2001 and early 2007 documented many of the same trends and conditions described in this report.¹ Another IRC study, planned for late 2011, will update these findings with information on claims closed in 2011 and shed additional light on the problems plaguing Florida's no-fault auto insurance system.

Key Findings

- Summary industry statistics indicate that PIP claim costs per insured vehicle in Florida rose 55 percent from 2008 to 2010, due to increases in the frequency of PIP claims and the average cost of claims.
- Average claimed economic losses (primarily medical costs) and average claim payments rose dramatically from 1997 to 2007—significantly outpacing inflation.
- PIP claimed economic losses in the Miami metro area were approximately one-third again greater than claimed economic losses elsewhere in Florida in 2007.
- Two-thirds of 2007 Florida PIP claims involved a back or neck sprain or strain as the most serious injury. The proportion of PIP claims countrywide with a sprain or strain as the most serious injury was lower than in Florida.
- Florida's 33 percent utilization rate for expensive MRI procedures was significantly higher than the 22 percent utilization rate for PIP claims countrywide. In addition, the Florida MRI utilization rate grew significantly from 2002 to 2007.
- Florida PIP claimants in 2007 were much more likely to be treated by a chiropractor (43 percent) than were PIP claimants countrywide (33 percent). General practitioners were utilized much less often in Florida (25 percent) than countrywide (33 percent).
- Pain clinic utilization by Florida PIP claimants is growing rapidly and is significantly higher than utilization countrywide. From 2002 to 2007, the pain clinic utilization rate for Florida PIP claimants increased from 15 percent to 27 percent. Countrywide, pain clinics were utilized by 20 percent of PIP claimants in 2007.

¹ Insurance Research Council, *Auto Injury Claiming Behavior in No-Fault States, An Analysis of Florida PIP Trends*, April 2001, and, *Florida Auto Injury Insurance Claim Environment, 2007 Final Report*, February 2007.

- In 2007, attorney involvement among PIP claimants in Florida also was much higher than for PIP claimants countrywide—41 percent compared to 31 percent. From 2002 to 2007, the attorney representation rate in Florida grew significantly. For PIP claims involving similar injuries, claims where the claimant was represented by an attorney were 62 percent more costly than claims without attorney involvement.
- Florida PIP claims in 2007 were significantly more likely than PIP claimants countrywide to involve fraud. Ten percent of Florida PIP claims appeared to involve fraud in 2007 compared to 6 percent of PIP claims countrywide. In addition, claim fraud appears to be increasing in Florida, up 3 percentage points, from 7 percent in 2002.
- Claim buildup appears much more frequently among Florida PIP claims than claim fraud and is growing more rapidly. Almost one-third of all Florida PIP claims in 2007 appeared to involve claim buildup, compared to 20 percent of PIP claims countrywide. The prevalence of claim buildup in Florida also has grown more rapidly than countrywide.

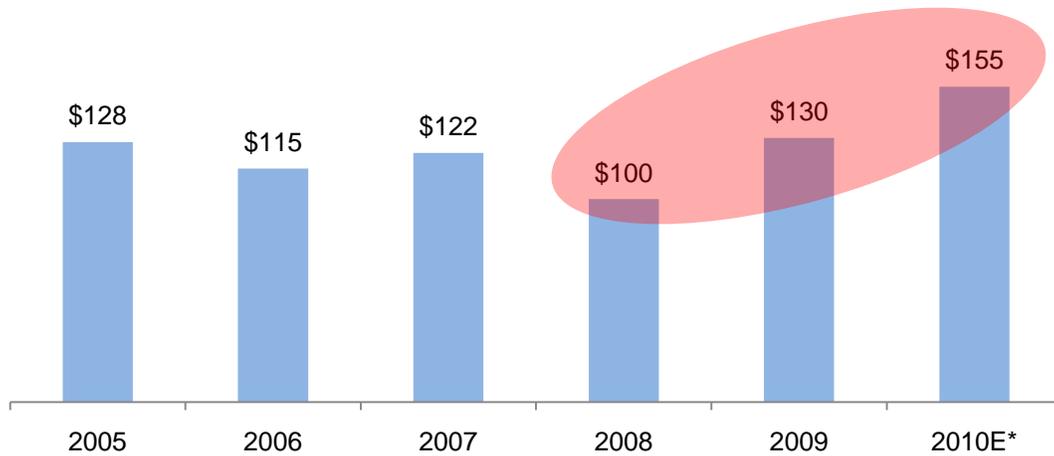


*IRC estimates based on four quarters of experience ending in the third quarter of 2010.

Key Findings

- Claim severity is the average paid loss on claims paid in a given year. IRC estimates that PIP claim severity was approximately \$7,847 in 2010, increasing 24 percent since 2006. This trend continues a long-term trend of increasing claim severity over many years. Since 1990, PIP claim severity in Florida increased approximately 135 percent.
- Claim frequency is the number of paid claims per 100 insured vehicles. PIP claim frequency in Florida has remained relatively stable since the late 1980s. However, this long term trend may now be over. Florida PIP claim frequency jumped 33 percent, from 2008 to 2010. A new trend of increasing claim frequency, should it continue, combined with a continuing trend of increasing claim severity, may have significant implications for the Florida auto insurance system.

Figure 2
Average Cost of PIP Claims Per Insured Vehicle in Florida



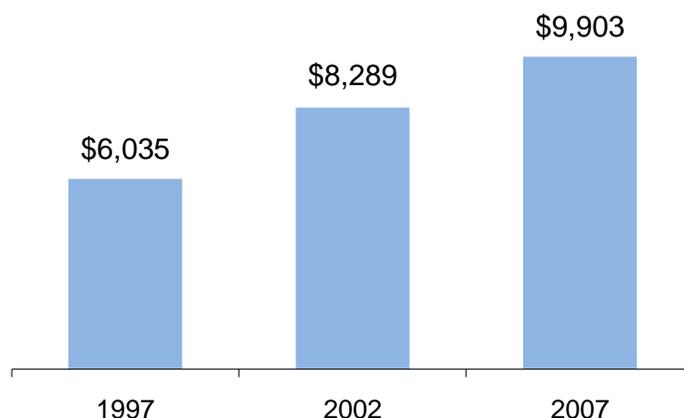
Source: Fast Track Monitoring System.

**IRC estimate based on four quarters of experience ending in the third quarter of 2010.*

Key Findings

- Relatively stable claim frequency over many years has helped moderate the effect of increasing claim severity on overall claim costs. Since 2008, however, combined increases in PIP claim severity and claim frequency have resulted in rapid increases in overall claim costs in Florida.
- “Loss cost” refers to the average cost of paid claims per insured vehicle. It is the average cost of insurance company claim payments for every vehicle insured in the state. The implication of the combination of rising claim severity and rising claim frequency is clearly seen in Figure 2, as PIP loss costs in Florida rose 55 percent, from \$100 in 2008, to \$155 in 2010.

Figure 3
Average PIP Claimed Economic Losses in Florida

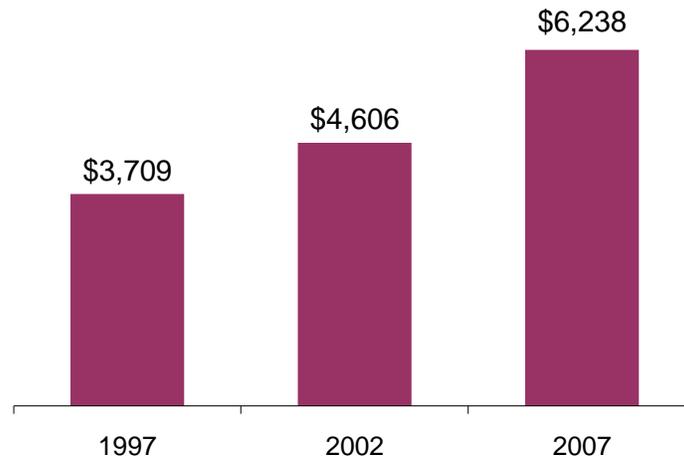


Excludes permanent total disability and fatality claimants and claimants with zero or missing economic loss.

Key Findings

- The long term trend of increasing PIP claim severity is due largely to an increase in claimed economic losses – primarily medical costs, but also including wage loss and other economic costs. Medical costs represent 90 percent or more of all claimed economic losses.
- IRC studies of PIP claims closed with payment in 1997, 2002, and 2007, document the substantial increase in claimed economic losses in Florida. Over the ten-year period, average claimed economic losses grew from \$6,035 to \$9,903 – an increase of 64 percent.

Figure 4
Average PIP Claim Payments in Florida

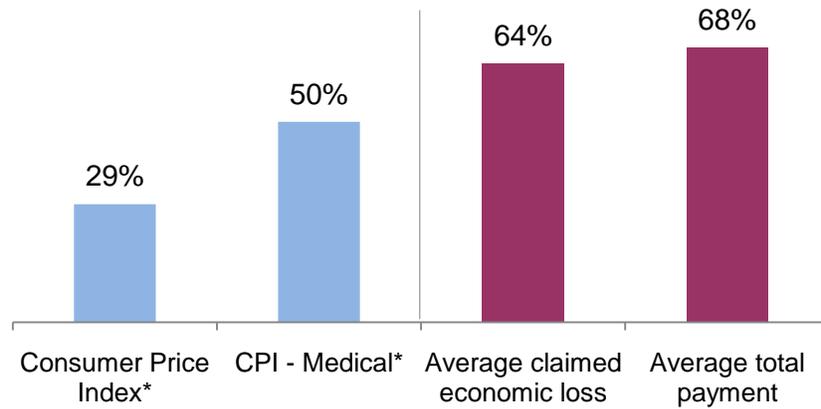


Excludes permanent total disability and fatality claimants and claimants with zero or missing economic loss.

Key Findings

- Insurance company PIP claim payments have grown at a rate similar to the rate of growth of claimed economic losses. Average claim payments increased approximately 68 percent, from \$3,709, in 1997, to \$6,238, in 2007.
- Average PIP claim payments are typically less than claimed economic losses. Insurance companies regularly review claimed losses to apply network discounts and statutory limits on wage-loss reimbursement, and to identify cost items that may be fraudulent or otherwise ineligible for reimbursement. As claimed economic losses have grown, insurance company efforts to review, investigate, and adjust claimed losses also have grown.

Figure 5
Growth in Florida PIP Claim Losses & Payments Exceeds Inflation
Percentage Increase From 1997 to 2007

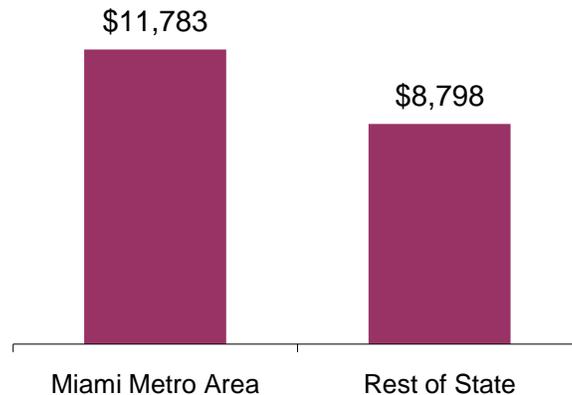


*Countrywide.

Key Findings

- Growth in claimed PIP economic losses and average PIP claim payments outpaced inflation for the ten-year period from 1997 to 2007. Average economic losses and payments grew at a rate 30 percent or more greater than the Consumer Price Index for medical care, and over twice the rate for inflation generally.
- The fact that average claimed losses and payments increased more rapidly than inflation suggests that increased utilization of medical care may have contributed to the growth in PIP losses and payments.

Figure 6
Average Florida PIP Claimed Economic Losses
by Accident Location
2007 PIP Claims Closed With Payment

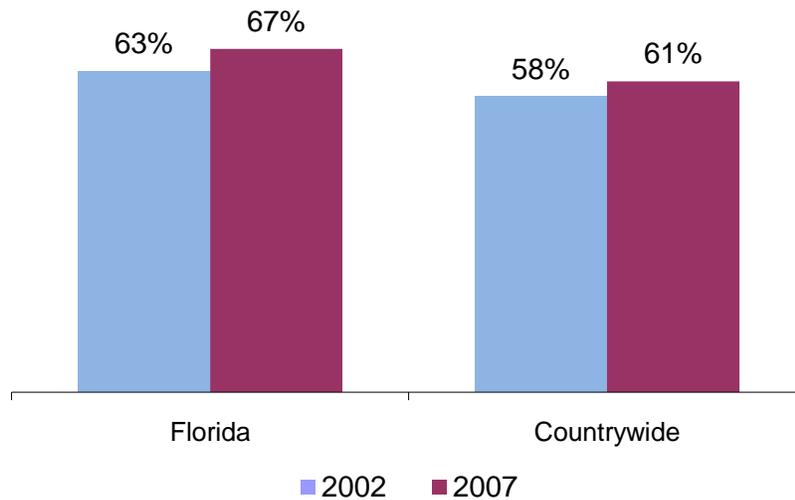


Includes only claims with back and neck sprains and strains reported as most serious injury.
Excludes permanent total disability and fatality claimants and claimants with zero or missing economic loss.

Key Findings

- Claimed economic losses tend to be higher in urban areas. In 2007, average claimed economic losses for PIP claims closed with payment in the Miami metropolitan area, and with a back or neck sprain or strain reported as the most serious injury, were approximately one-third greater than for comparable claims elsewhere in the state—\$11,783 compared to \$8,798.
- Higher claim costs in the Miami area are due, in part, to higher utilization rates for many types of medical services. For example, 43 percent of Miami area claimants with back and neck sprains and strains, were treated in a pain clinic, compared to 28 percent of similar claimants elsewhere in the state. Miami area claimants also were more likely to receive treatment from a chiropractor than claimants elsewhere in the state. Medical price differences between Miami and other areas also likely explain at least some of the cost differences.

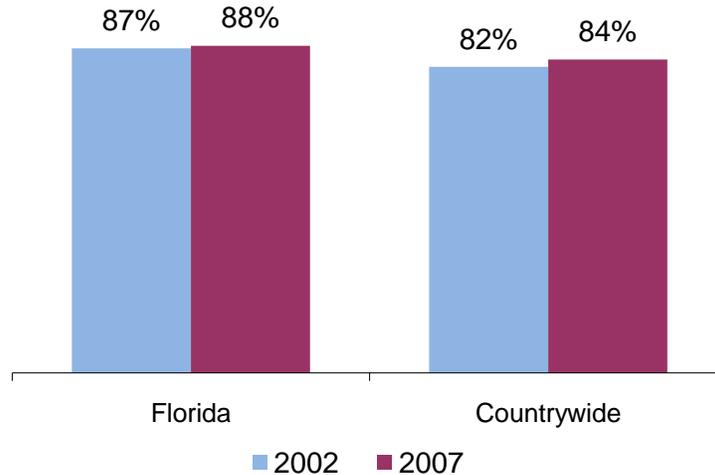
Figure 7
Neck and Back Sprains and Strains
As Most Serious Injury
Percentage of PIP Claimants



Key Findings

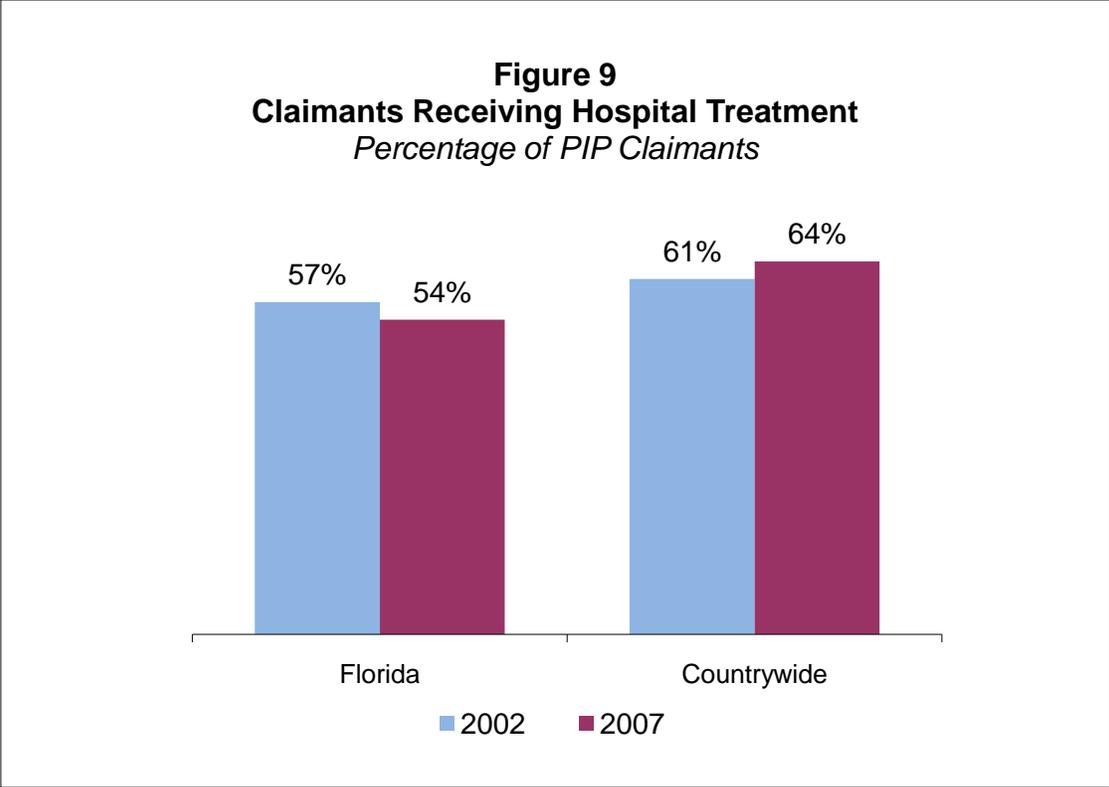
- For approximately two-thirds of all PIP claims closed in 2007, the most serious reported injury was a neck or back sprain or strain. The prevalence of sprain and strain claims has grown steadily in the last twenty years. As shown in Figure 7, the percentage in Florida grew by 4 percentage points, from 2002 to 2007. For PIP claims countrywide, the percentage grew 3 points.
- A somewhat higher proportion of PIP claims in Florida than countrywide had a sprain or strain as the most serious injury. In 2007, 61 percent of PIP claims countrywide, compared with 67 percent in Florida, reported a neck or back sprain or strain as the most serious injury.
- Sprains and strains tend to be less serious than many of the other kinds of injuries that occur in motor vehicle accidents. A higher proportion of less serious injuries is a positive consequence of long term efforts to improve motor vehicle and highway safety.
- Neck and back sprains and strains also present unique challenges for the cost control efforts of auto insurance companies. Sprains and strains are more difficult to verify, diagnose, and treat than many other kinds of injuries. The primary symptom of a sprain or strain is often pain, which is difficult to objectively verify or measure. Treatment for sprains and strains varies substantially within the medical community, with less certainty about preferred treatment than for other medical conditions. For these and other reasons, sprain and strain injuries may be associated with criminal activity by some claimants and unscrupulous medical providers.

Figure 8
PIP Claimants With Fewer Than 10 Days
of Restricted Activity
Percentage of PIP Claimants



Key Findings

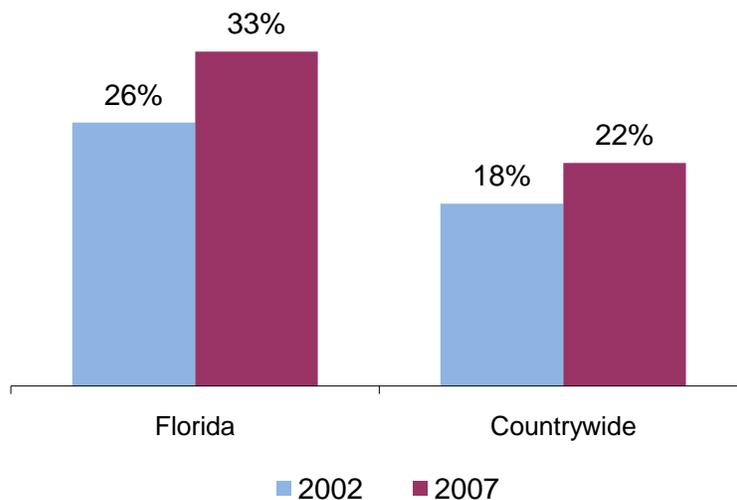
- Another indication of the declining seriousness of injuries is the number of claimants experiencing less than 10 days of restricted activity. For the last two decades, the proportion of PIP claimants with less than 10 days of restricted activity has risen steadily, if not dramatically. In 2007, 88 percent of PIP claimants in Florida had less than 10 days of restricted activity.
- As with the prevalence of sprains and strains, Florida PIP claimants were slightly more likely to experience less than 10 days of restricted activity than were PIP claimants countrywide.



Key Findings

- A final indication of the seriousness of auto accident injuries is the proportion of PIP claimants receiving hospital treatment. Hospital treatment could include inpatient care, emergency room treatment, or outpatient treatment.
- Relatively fewer PIP claimants in Florida receive hospital treatment than do PIP claimants countrywide – 54 percent in Florida versus 64 percent countrywide, in 2007. In addition, the percentage receiving hospital treatment declined from 2002 to 2007 in Florida, while the percentage increased for PIP claimants countrywide.

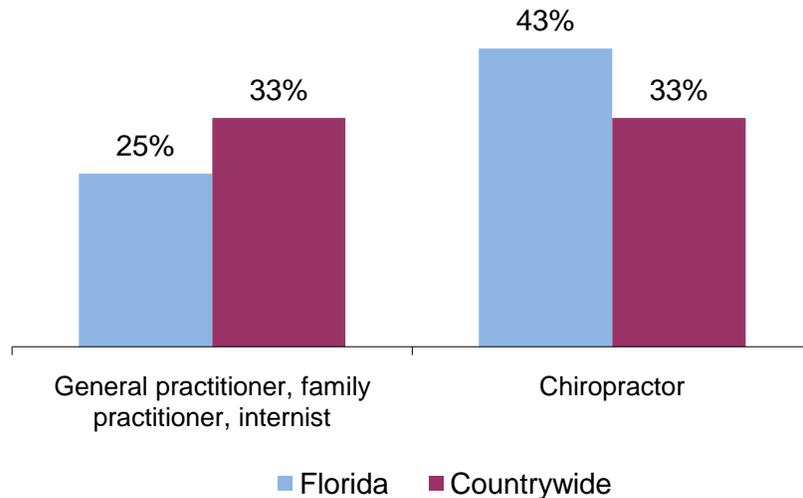
Figure 10
Trends in MRI Utilization
Percentage of PIP Claimants



Key Findings

- A major factor in rising auto insurance claim costs is the growing utilization of expensive diagnostic tests, such as magnetic resonance imaging (MRI) procedures. The average cost of an MRI for PIP claims countrywide was \$1,474 in 2007.
- PIP claimants in Florida were 50 percent more likely to have an MRI in 2007 than were PIP claimants countrywide. In 2007, 33 percent of Florida PIP claimants received an MRI, compared with 22 percent of PIP claimants countrywide.
- MRI utilization also is growing more rapidly in Florida than countrywide. From 2002 to 2007, the MRI utilization rate in Florida grew from 26 percent to 33 percent. Countrywide, the MRI utilization rate grew from 18 percent to 22 percent.

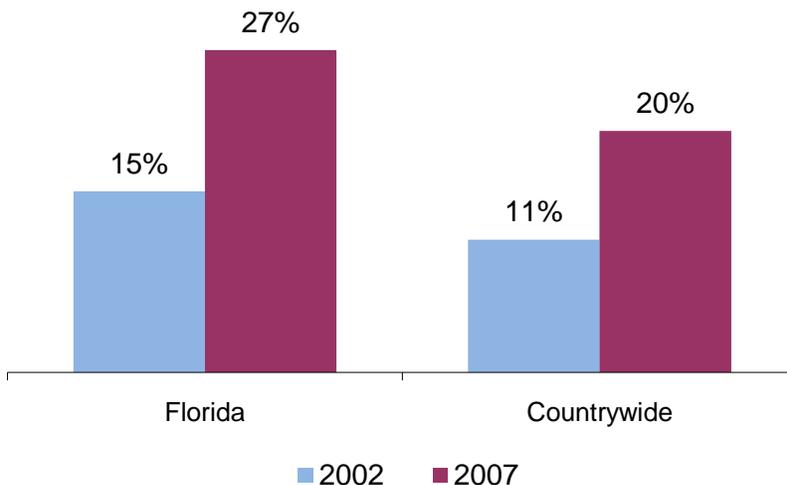
Figure 11
Trends in Provider Utilization
Percentage of 2007 PIP Claimants



Key Findings

- Auto injury claimants utilize a variety of medical providers. For most types of providers, Florida utilization patterns are similar to utilization patterns in other states. Two important exceptions involve general practitioners (GPs) and chiropractors.
- Twenty-five percent of Florida PIP claimants in 2007 were treated by a GP. Forty-three percent were treated by a chiropractor. The chiropractor utilization rate in Florida was 18 percentage points greater than the GP utilization rate. In contrast, 33 percent of claimants countrywide were treated by a GP and 33 percent were treated by a chiropractor.
- Chiropractor utilization by Florida PIP claimants has increased rapidly in recent years. In 2002, 33 percent of Florida PIP claimants were treated by a chiropractor—the same proportion as for PIP claimants countrywide in 2007. From 2002 to 2007, the chiropractor utilization rate for Florida PIP claimants increased 10 percentage points.
- Treatment by general practitioners tends to involve many fewer visits than treatment by other types of providers. For PIP claims countrywide closed in 2007, claimants treated by general practitioners had 4.8 GP visits, on average. In contrast, PIP claimants treated by a chiropractor had 21.7 chiropractor visits, on average.

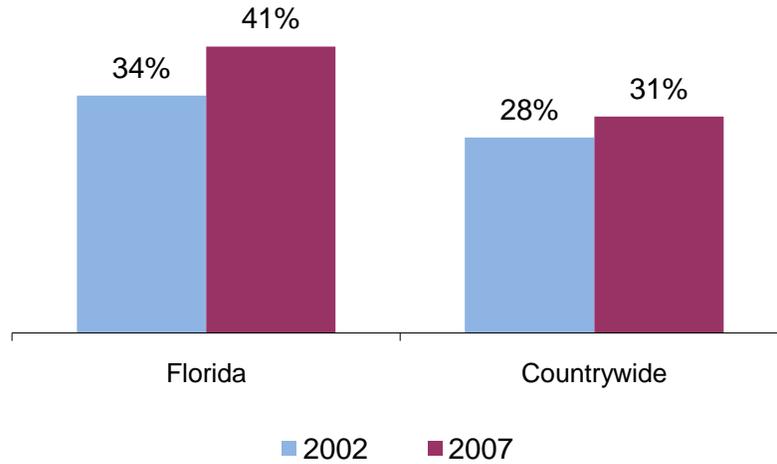
Figure 12
Pain Clinic Utilization
Percentage of PIP Claimants



Key Findings

- Multidisciplinary treatment facilities, also known as “pain clinics,” provide “one-stop shopping” for auto injury claimants receiving a wide range of diagnostic and treatment services.
- Pain clinic utilization by Florida PIP claimants is growing rapidly and is significantly higher than utilization countrywide. From 2002 to 2007, the pain clinic utilization rate for Florida PIP claimants increased from 15 percent to 27 percent. In 2007, the pain clinic utilization rate in Florida was 7 percentage points greater than the utilization rate countrywide (20 percent).

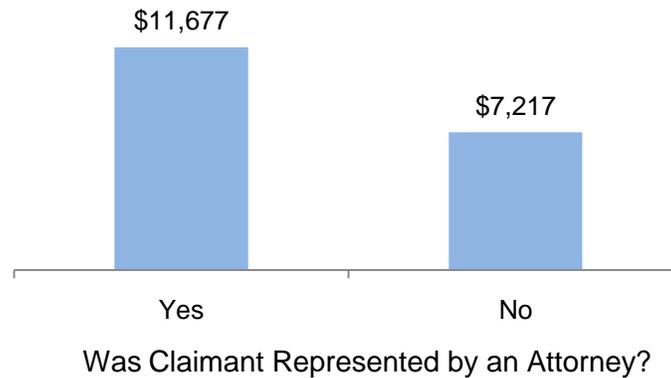
Figure 13
Attorney Involvement by PIP Claimants
Percentage of PIP Claimants



Key Findings

- Florida's no-fault insurance system, like all no-fault insurance systems, was originally conceived as a means to deliver medical and wage-loss benefits to auto accident victims quickly—without attorney involvement or litigation. In fact, attorney involvement among Florida PIP claimants is extensive and growing steadily.
- The attorney representation rate for Florida PIP claimants in 2007 (41 percent) was 10 percentage points greater than the countrywide rate of 31 percent. From 2002 to 2007, the attorney representation rate in Florida grew 7 percentage points, from 34 percent in 2002.

Figure 14
Average Claimed Economic Loss by Attorney Involvement
2007 Florida PIP Claims

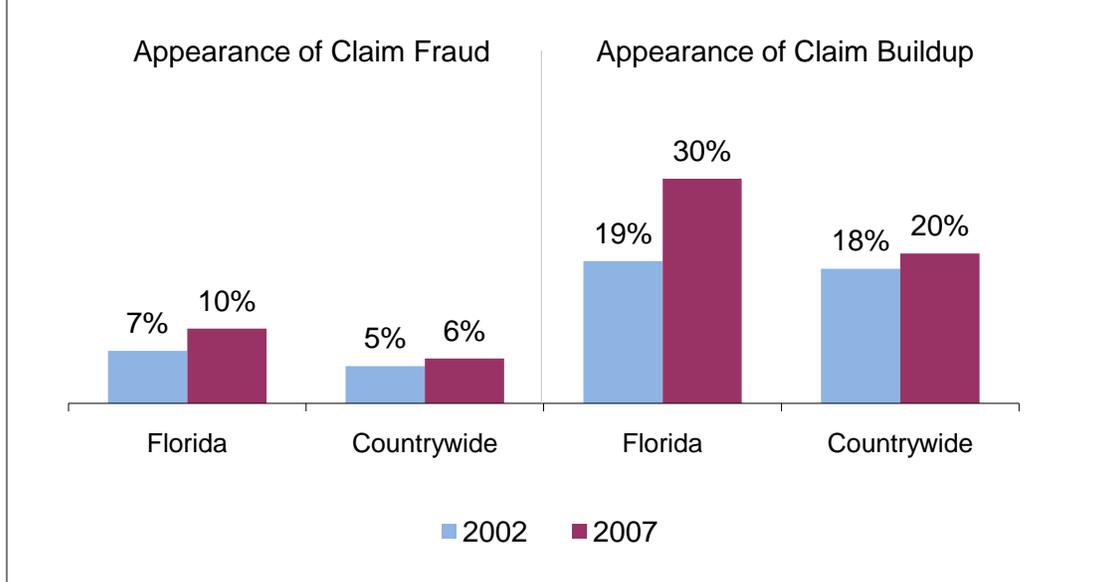


Includes only claims with back and neck sprains and strains reported as most serious injury.
Excludes permanent total disability and fatality claimants and claimants with zero or missing economic loss.

Key Findings

- Attorney involvement is frequently associated with higher PIP claim costs, which is clearly the case in Florida. In addition, attorney representation significantly delays the payment of claims, undermining the original intent of the no-fault law.
- To examine the cost implication of attorney involvement, IRC examined a relatively narrow subset of PIP claims—those where the most serious reported injury was a back or neck sprain or strain. In addition, PIP claimants with permanent total disabilities and fatalities were excluded from the analysis. The result was a relatively homogeneous group of claims where, theoretically, medical treatment and economic costs should not vary significantly.
- In fact, average claimed economic losses for 2007 Florida PIP claimants represented by an attorney were 62 percent greater than for those not represented by an attorney—\$11,677 compared to \$7,217. Much of the greater costs for attorney-represented claimants can be traced to more intensive utilization of a wider range of medical providers and diagnostic services.

Figure 15
Appearance of Claim Fraud and Claim Buildup
Percentage of 2007 PIP Claimants

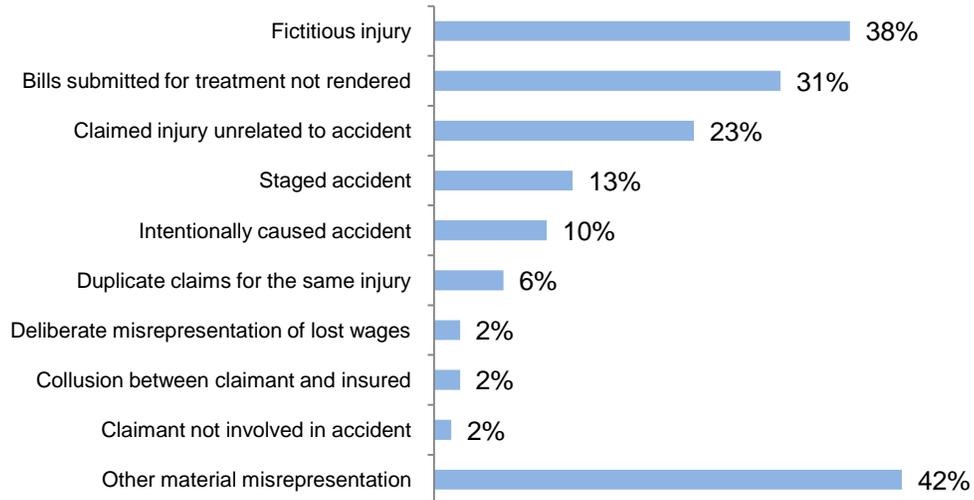


Key Findings

- Claim fraud has been noted as a serious problem in Florida’s no-fault auto insurance system. Evidence from IRC’s analysis of closed PIP claims from 2002 and 2007 confirms that the appearance of claim fraud is extensive and growing.
- IRC’s analysis of PIP claims includes an assessment by file reviewers regarding the appearance of claim fraud and claim buildup. Claim fraud occurs when a claimant, attorney, medical provider, or other participant in the claim materially misrepresents all or some aspects of the claim. Claim buildup occurs when injuries are exaggerated or reported losses are inflated by unnecessary or excessive treatment or other expenses.
- Florida PIP claims in 2007 appeared to be significantly more likely than PIP claimants countrywide to involve fraud. Ten percent of Florida PIP claims appeared to involve fraud in 2007 compared to 6 percent of PIP claims countrywide. In addition, claim fraud appears to be increasing in Florida, up 3 percentage points, from 7 percent in 2002.
- Claim buildup appears much more frequently among Florida PIP claims than claim fraud and is growing more rapidly. Almost one-third of all Florida PIP claims in 2007 appeared to involve claim buildup, compared to 20 percent of PIP claims countrywide. The prevalence of claim buildup in Florida also has grown much more rapidly than countrywide.

Figure 16
Elements of Claim Fraud

*Percentage of 2007 Florida PIP Claims With Each Element of Fraud, Among Those Claims With the Appearance of Claim Fraud**



* Multiple responses allowed. Percentages do not add to 100.

Key Findings

- Florida PIP claims in 2007 with the appearance of fraud were most likely to involve a fictitious injury than any other single element of claim fraud. Thirty-eight percent of PIP claims with apparent fraud involved a fictitious injury.
- The next most frequently seen elements of claim fraud were bills submitted for medical treatment that wasn't provided (31 percent) and a claim for an injury that was unrelated to the accident associated with the PIP claim (23 percent).
- Forty-two percent of PIP claims with apparent fraud involved other various forms of misrepresentation, attesting to the varied nature of fraudulent claims.

