AMERICAN ACADEMY of ACTUARIES

The Death, Disability, and Retirement Extended Reporting Endorsement
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This is the third in a series of informational fact sheets prepared by the American Academy of Actuaries[1] Medical Professional Liability Committee and intended for use by actuaries and the public.

Extended reporting endorsements (ERE) provide a limited time period of additional coverage for eligible[2] insurance claims reported after the expiration of a claims-made insurance policy, which covers claims reported during the policy term. Most medical professional liability (MPL) policies for individual practitioners are written on a claims-made coverage form. A medical provider that ceases to purchase claims-made coverage may choose to obtain an ERE.

Questions arose in the 1980s with regard to the cost of purchasing an ERE in the event of the death, disability, or retirement (DDR) of an insured, since the cost of an ERE might be burdensome for a disabled or retired insured or for the estate of a deceased insured. To address this concern, claims-made policies, particularly for professional liability coverage, generally include a provision waiving the premium for an ERE in the event of an insured's DDR.

Restrictions are often placed on the DDR benefit in the event of retirement. For example, insurers often require that the insured attain a certain age (e.g., age 55), and have been insured with the company for a set number of continuous coverage years (e.g., five) to qualify for the retirement-specific benefit. These types of restrictions generally do not apply to the benefit in the event of death or disability.

While technically it is not a distinct policy but an endorsement to the expiring claims-made policy, an ERE is commonly referred to as a "tail policy." This is largely because the ERE provides a new effective date and a renewed aggregate loss limit that cause it to function like a separate policy. Although the DDR coverage benefit is commonly referred to as "free" tail coverage, the associated cost is generally funded by an expense provision built into the insurer's claims-made coverage rates.

State insurance departments typically require companies to carry a liability reserve to ensure that sufficient funds will be available to provide for the net future costs associated with future DDR benefits. For MPL insurance coverage specifically, the established DDR reserve must be

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[2] To be eligible a claim must arise from an incident occurring on or subsequent to the policy's stated retroactive date and on or prior to the policy's expiration date.

disclosed in the Schedule P Interrogatories of the Statutory Annual Statement.[3] This DDR benefit reserve is typically carried on the balance sheet as part of the unearned premium reserve, but in special cases has been carried as part of a company's claim reserves with authorization from the company's domiciliary insurance regulator.

The associated claims may not occur until many years in the future. In estimating the DDR liability, the actuary may make assumptions regarding loss costs, rate levels, interest rates, trends, nonrenewal rates, age and tenure requirements in the contracts, age and tenure demographics of the insured population, mortality considerations, morbidity considerations, and pricing differentials (if any) related to the insureds. Various methodologies for estimating the DDR liability currently exist, relying on some or all of these parameters. These parameters, which are more typical of life insurance reserves, are rather unique among property/casualty reserve projections.[4]

[3] See the Academy's 2011 Practice Note on Statements of Actuarial Opinion on Property and Casualty Loss Reserves at http://actuary.org/pdf/casualty/2011_PN_final.pdf (last visited on January 30, 2012).
[4] For reference, a number of statutory accounting principles apply to this liability; please refer to: *Statement of Statutory Accounting Principles (SSAP) Issue Paper No. 5 - Liabilities, Contingencies and Impairments*; *SSAP No. 65 - Property and Casualty Contracts*; and *SSAP Issue Paper No. 65*.