Michigan's Auto No-Fault System: Unsustainable Cost Growth Necessitates Reforms

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Testimony before the Michigan House Insurance Committee

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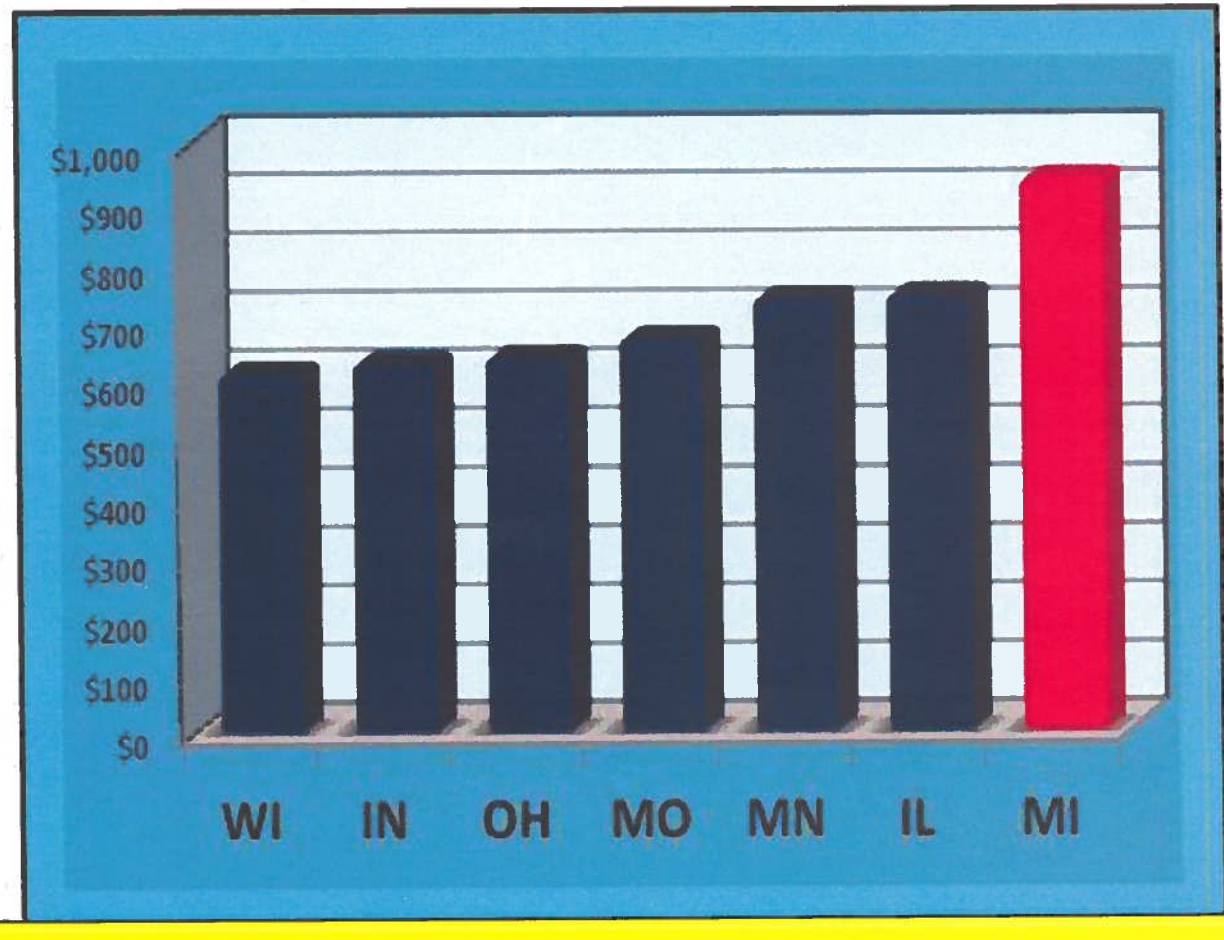
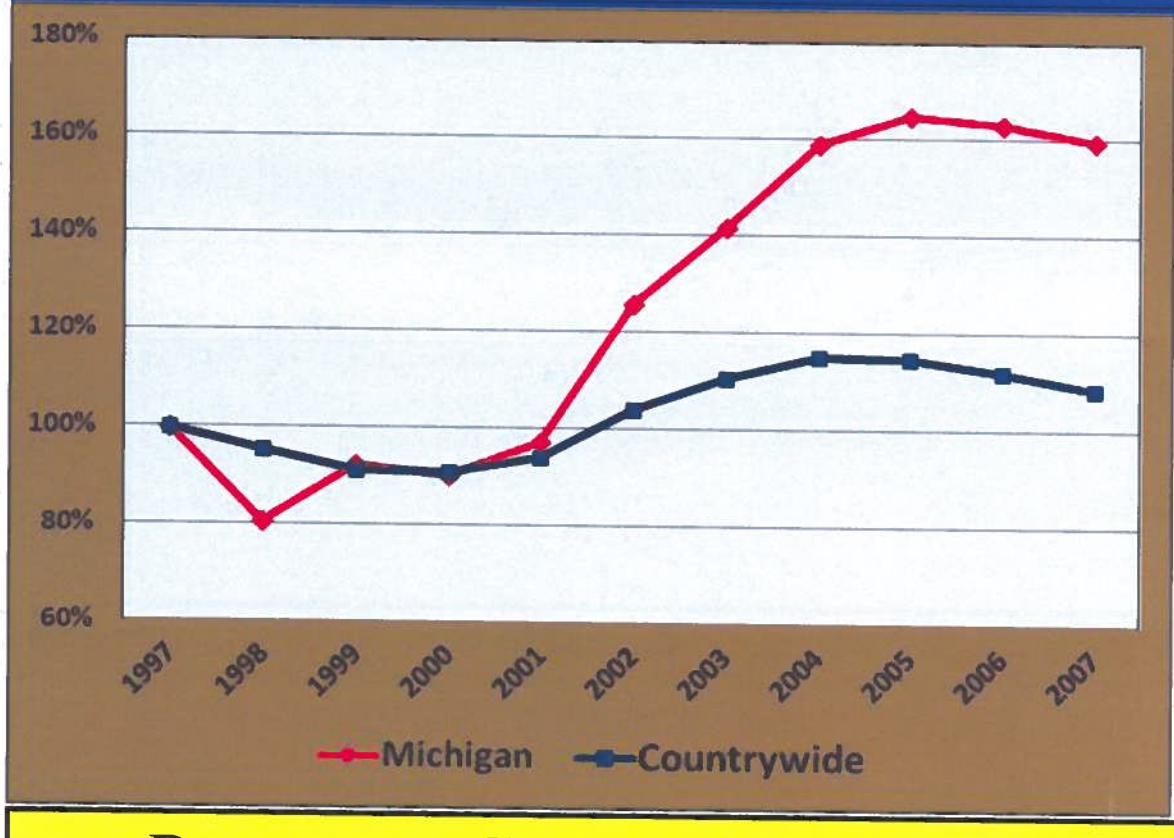
Michiganders Pay Higher Auto Premiums

But also receive higher benefits than in other states, through unlimited no-fault medical benefits



Unfortunately, the situation is not this simple.

Premiums are Rising Faster in Michigan



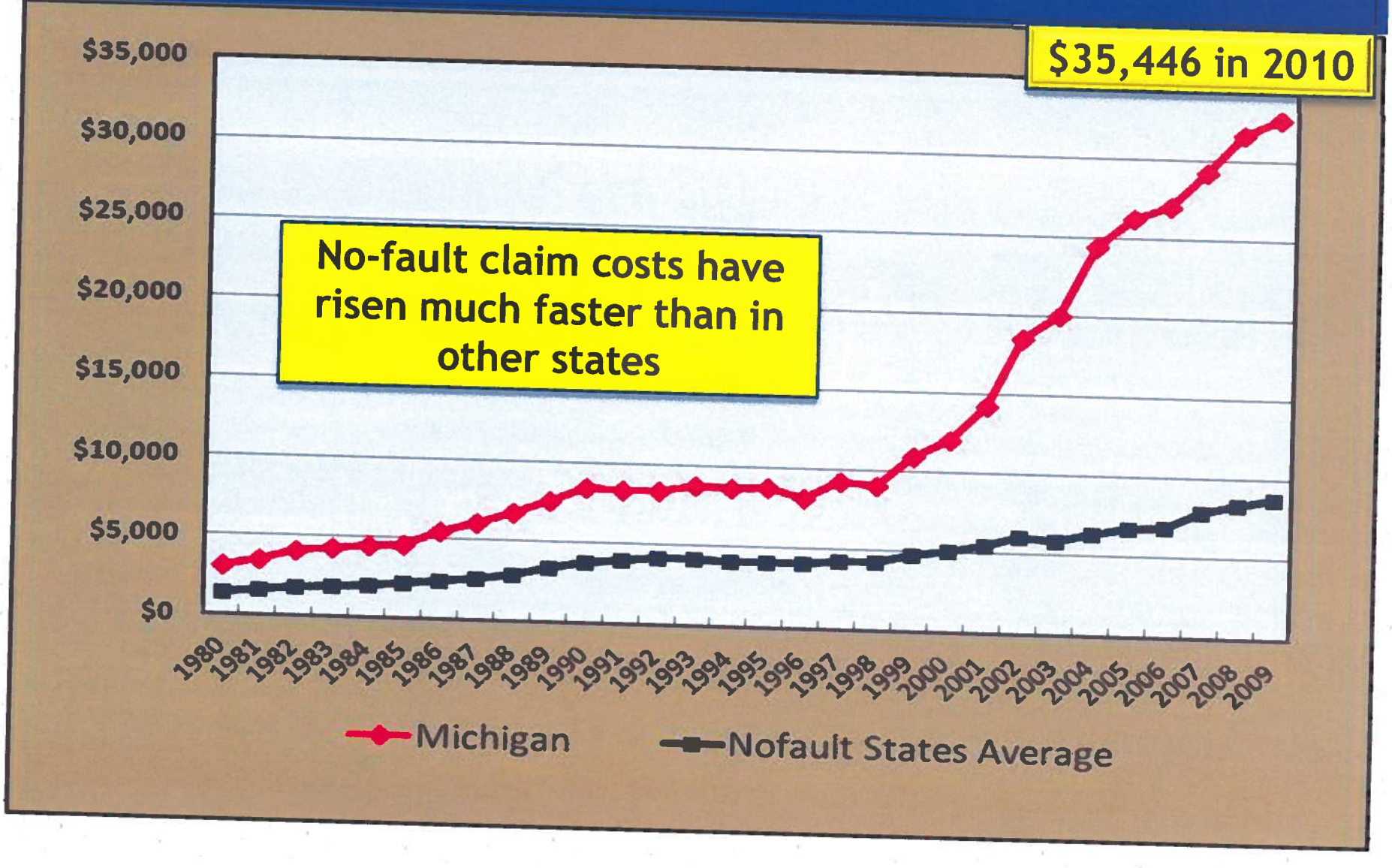
Michigan's Auto Insurance Cost Ranking Relative to Other States:

2007: 11th highest
1997: 18th highest
1987: 22nd highest

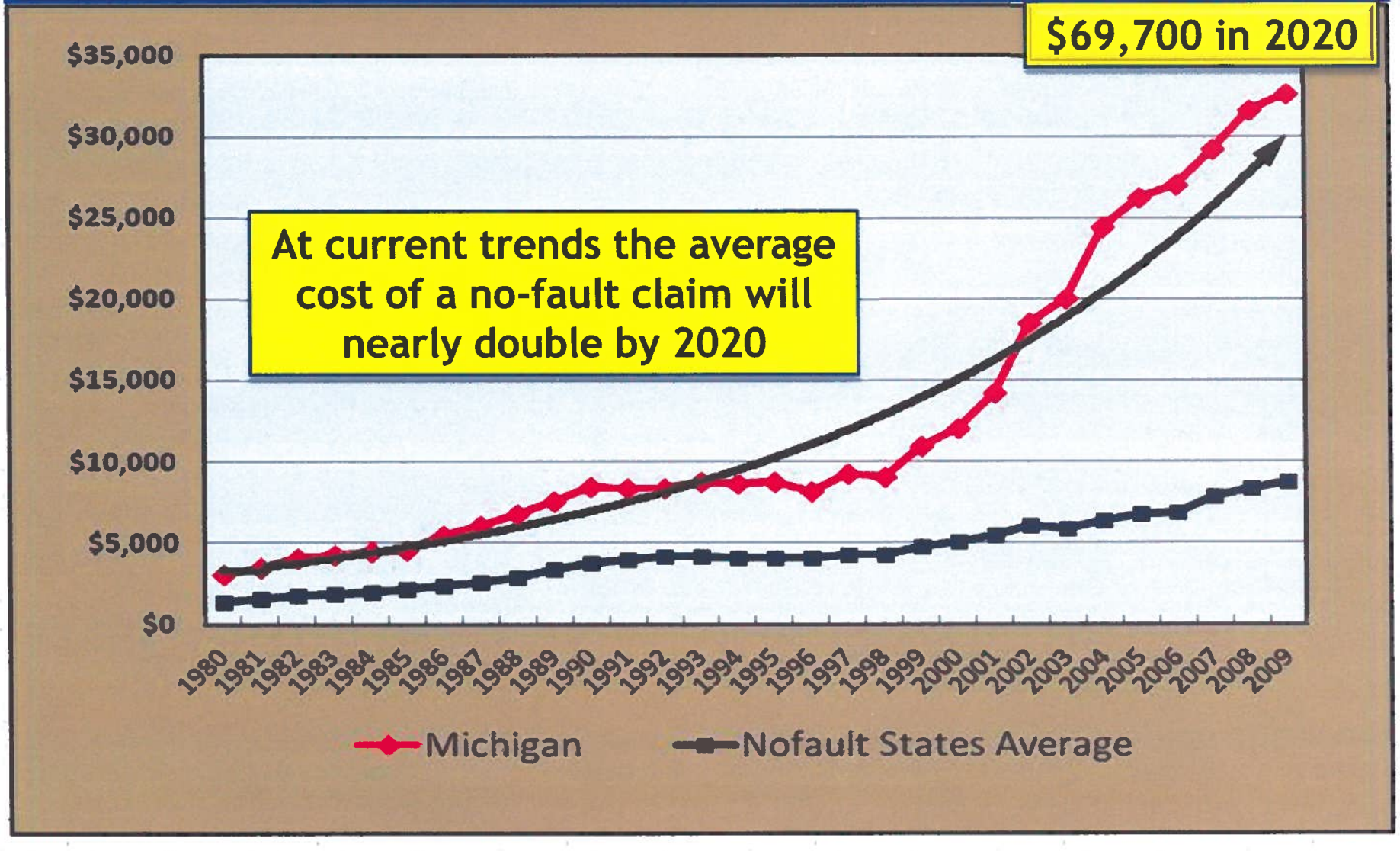
Percentage Change, 1997 to 2007	Michigan	Countrywide
Average Liability Premium	45.2%	9.7%
Average Private Passenger Auto Premium	29.7%	13.9%

Data from NAIC

Average Cost of a No-fault Claim



Claim Cost Growth is Unsustainable

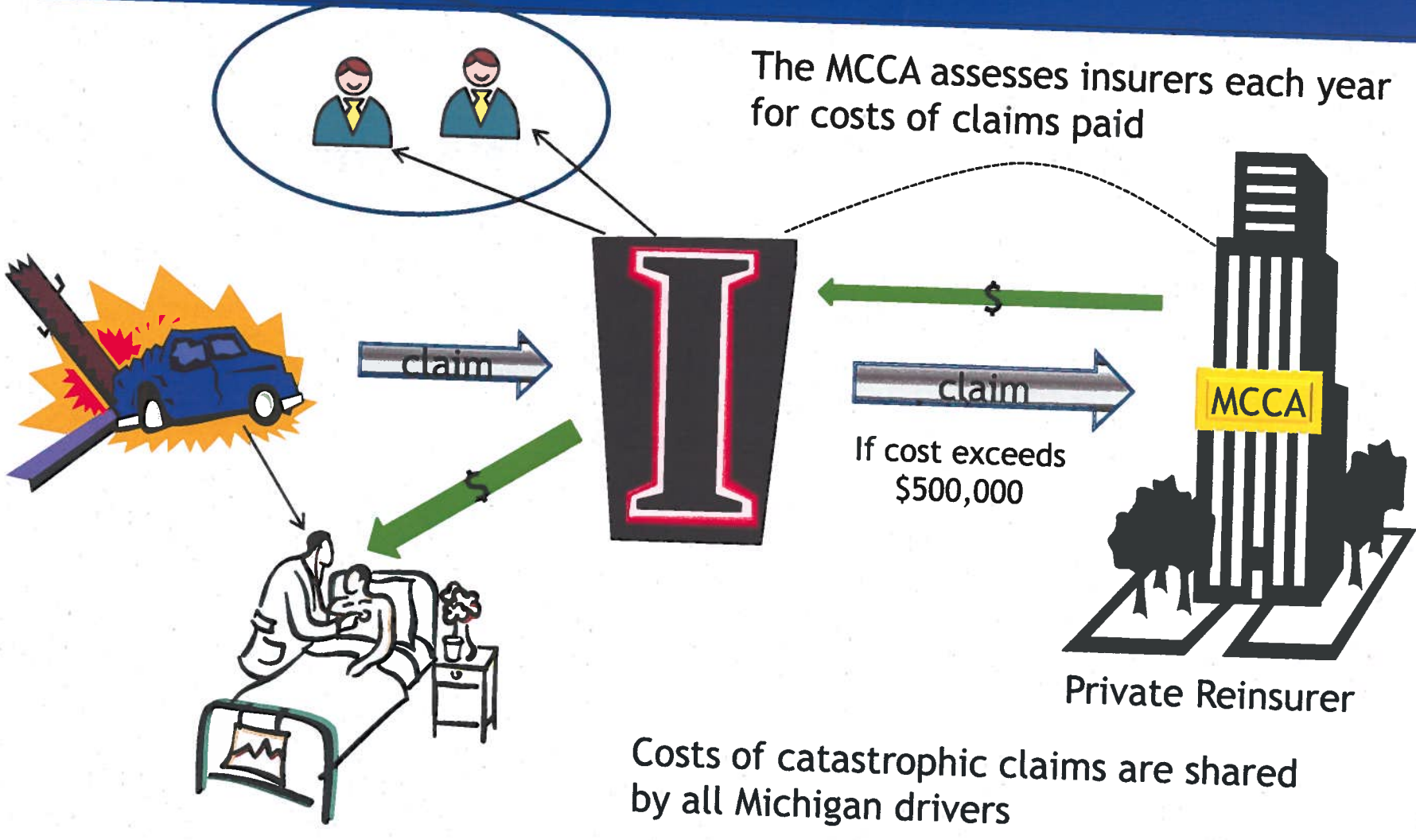


What is Going On?

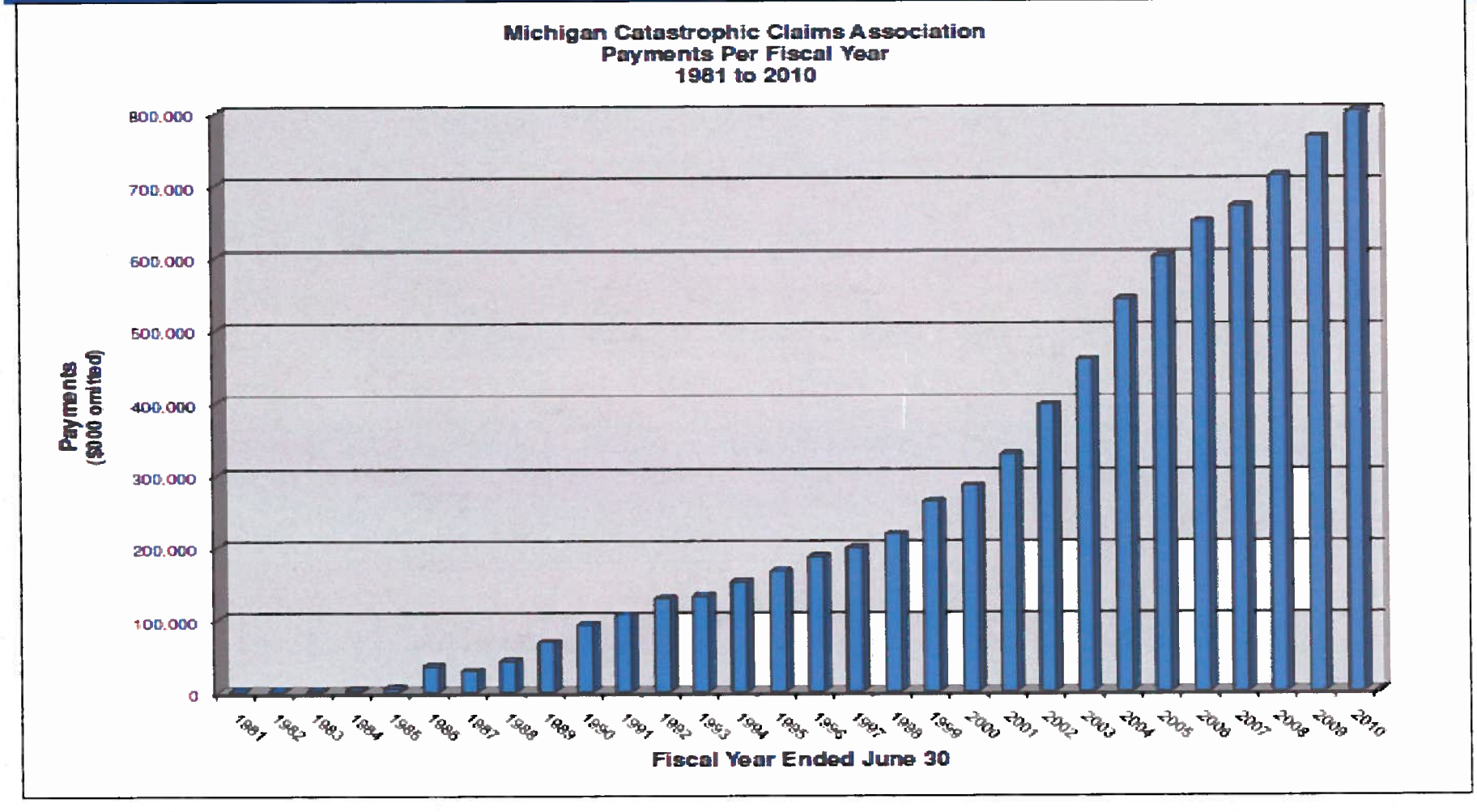
No-fault System Cost Spiral

- The current design of the no-fault system is the cause of the spiraling cost growth:
  - ***Unlimited lifetime benefits*** burden the auto insurance system with the highest-cost cases
  - ***Socialized insurance costs*** reduce private incentives to hold down costs
  - ***Lack of cost controls*** shifts costs onto auto insurance

Paying for Catastrophic Claims



Catastrophic Claim Costs: A Ticking Time Bomb



MCCA Surcharges to Michigan Drivers

Fiscal Year	Per Car MCCA Assessment	Total Cost to Michigan Drivers
2011[a]	**$143.09**	**$889,851,669**
2010[a]	$124.89	$776,669,054
2009[a]	$104.58	$650,364,719
2008[a]	$123.15	$765,848,299
2007	$137.33	$863,312,891
2006	$141.70	$898,004,691
2005	$127.24	$805,010,771
2004	$100.20	$639,415,128
2003	$69.00	$442,974,894
2002[b]	$78.36	$505,703,327
2001[c]	$10.01	$64,665,006
2000[d]	$5.60	$35,915,975

Data from MCCA

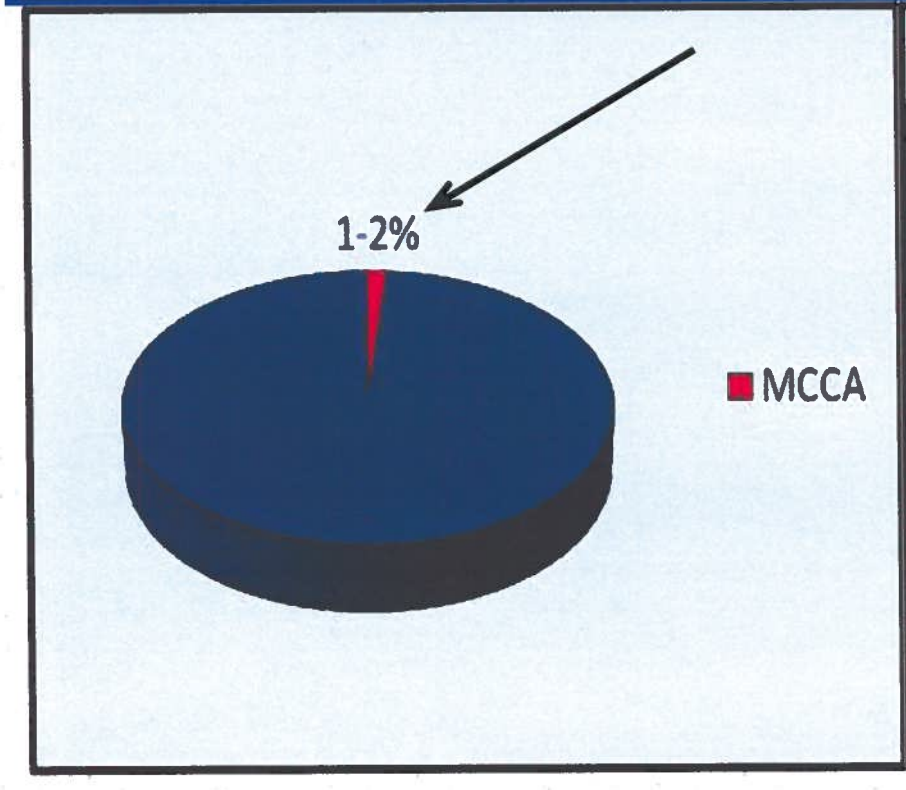
FY 2012 assessment is $145

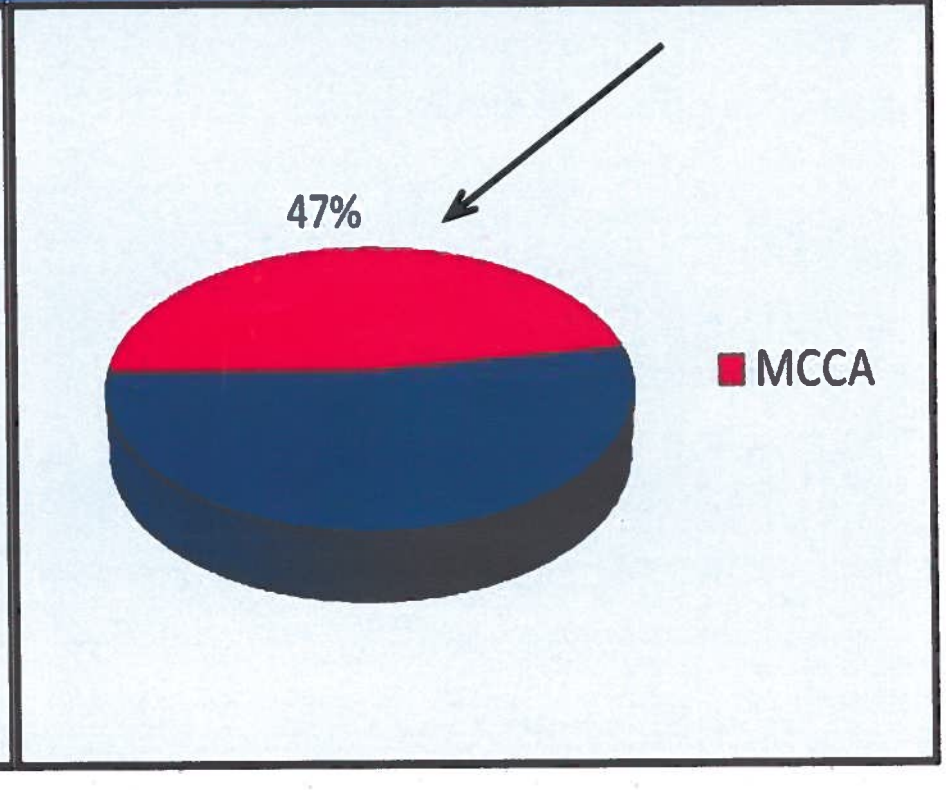
Supporting the MCCA has added over $7.3 billion to Michigan automobile insurance premiums in the last decade alone.

Future Costs of Past Claims: A Hidden Tax on Citizens

- MCCA estimates future charges of **$66 billion** from accidents that have *already occurred*.
  - Agreed-upon accounting rules allow the MCCA to report these costs in present-value terms on its balance sheet. This reduces the recorded amount to around $13 billion.
- Those costs are not captured in today's premiums or in MCCA surcharges to drivers.
- As more claims are reported to MCCA each year, these future costs will grow ever larger.

A Few Claims Account for Vast Costs



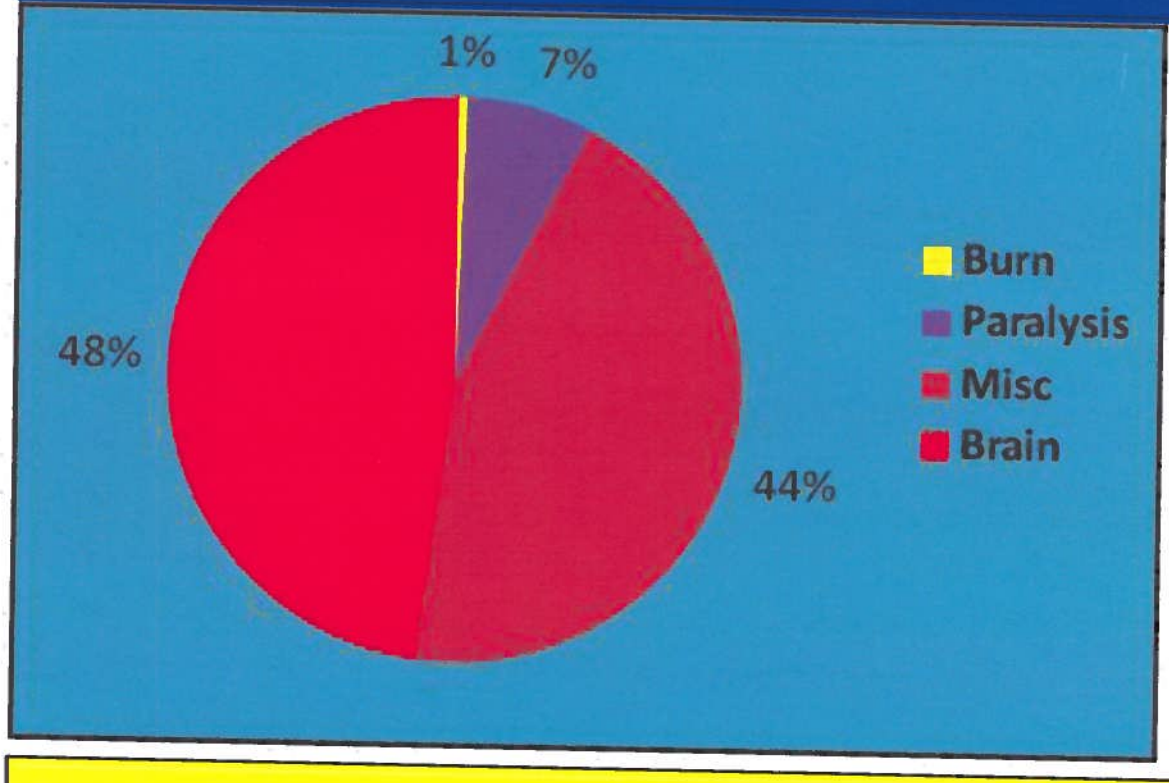


Catastrophic claims are only 1% to 2% of claims...

but account for over 45% of no-fault claim costs

Based on data from MCCA and FastTrack

Prevalence of Hard-to-Verify Claims

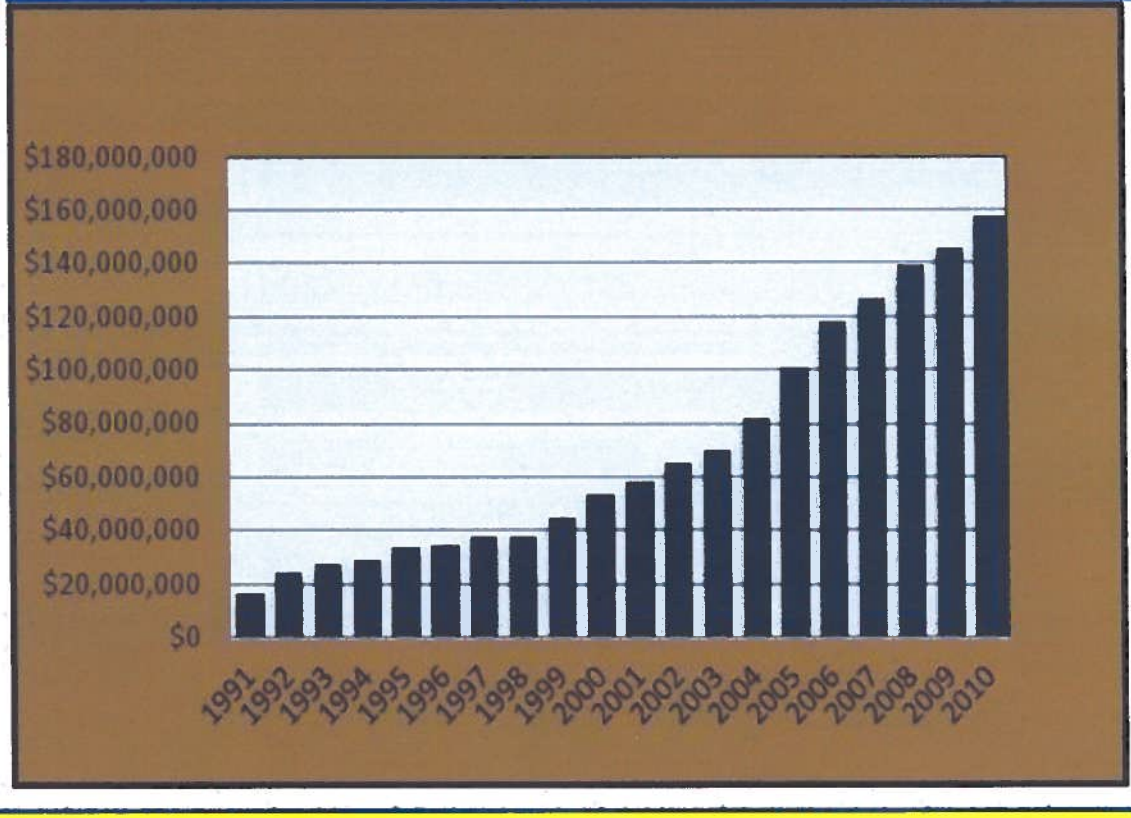


Traumatic Brain Injuries (TMI) account for nearly one-half of all claims reported to MCCA

Brain injury rates are far higher in Michigan auto insurance than in other states, based on a sample of claims from the Insurance Research Council's closed claim survey database (2007).

Other Indicators of Cost Problems

Uninsured Motorists Costs are Growing

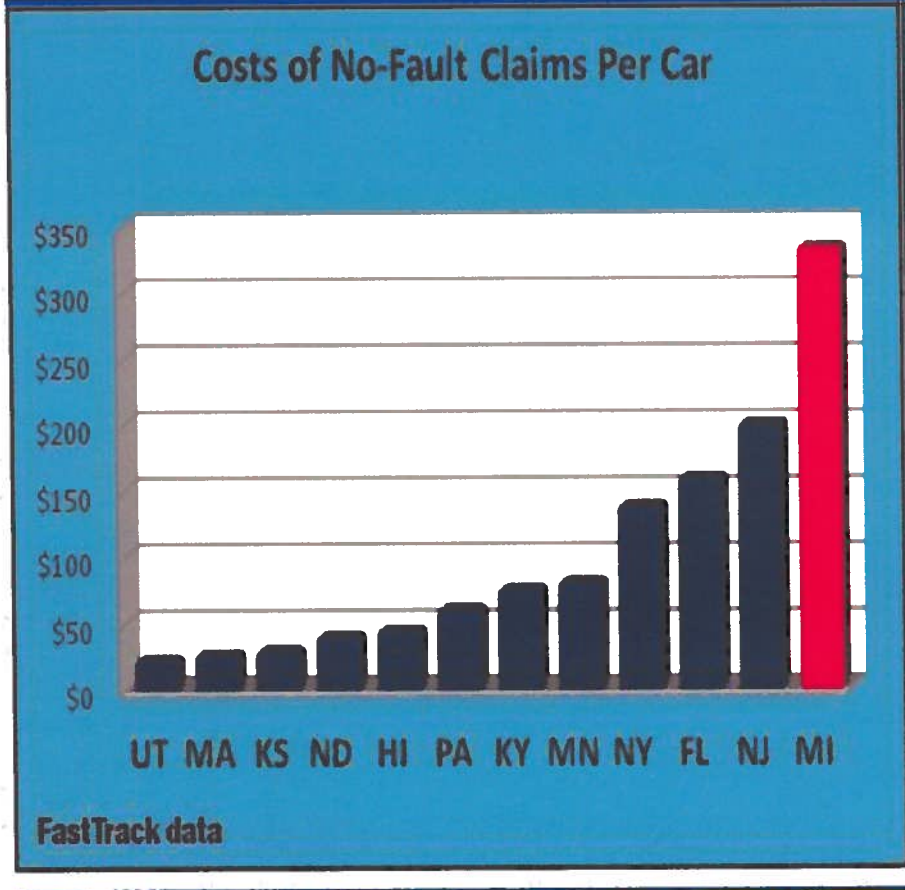


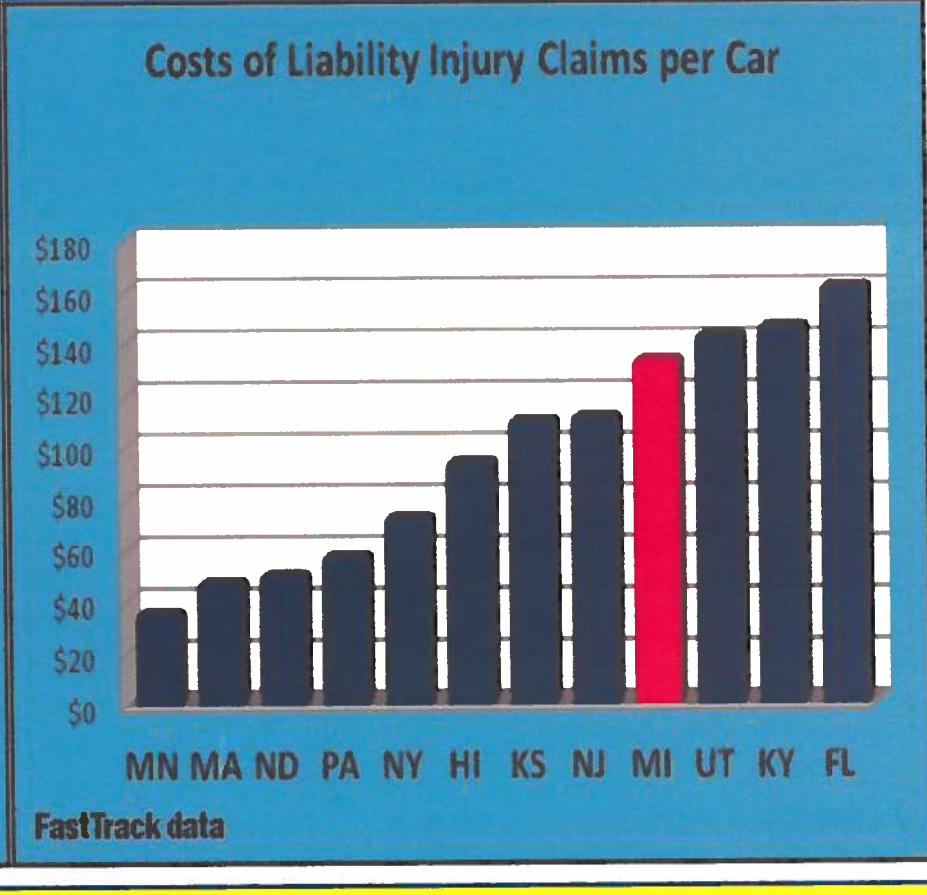
Michigan's Uninsured Driving Rate Relative to Other States

2010: 7th highest
2004: 9th highest
1997: 17th highest

Michigan's Assigned Claims Facility provides injury benefits for some accidents involving uninsured drivers. Costs of claims have tripled in the last 10 years and increased tenfold since 1991.

Both No-fault and Liability Costs are High





Generous first-party benefits have not reduced the costs of liability claims below those in states with lower benefits

Pressure is Building

- Without significant reforms, premium payments to cover rising costs will become a larger and larger percentage of consumer and business spending over time.

- Excess costs must be removed from the system.
  - *Projected costs of current claims must be reduced.*
  - *Costs of future claims must be reduced.*

Recommendations

- Place **upper limits** on no-fault benefits
- Allow consumers to **choose** the amount of benefits they purchase
- Introduce **cost controls** for benefit payments
- Require insurers to keep some **"skin in the game"** for claims reinsured by MCCA

For further questions or follow-up, please contact:

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