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BILL ANALYSIS



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Senate Bills 412 and 413 (as introduced 6-18-15)
Sponsor: Senator Marty Knollenberg
Committee: Insurance

Date Completed: 12-9-15

CONTENT**Senate Bill 412 would amend the Insurance Code to do the following:**

- **Eliminate a requirement that the Michigan Catastrophic Claims Association (MCCA) require and accept the payment of premiums from its member motor vehicle insurers, and instead require the MCCA annually to advise the Secretary of State (SOS) of the calculated State average premium and accept premium payments collected by the SOS.**
- **Require member premiums due to the MCCA on the bill's effective date to be paid immediately.**

Senate Bill 413 would amend the Michigan Vehicle Code to require the SOS to collect the State average premium calculated by the MCCA from each motor vehicle owner along with the vehicle registration tax.

The bills are tie-barred. They would take effect 90 days after enactment.

Senate Bill 412

The MCCA is an unincorporated, nonprofit association. Each insurer engaged in writing insurance coverage that provides the security required by Section 3101(1), as a condition of its authority to transact insurance in Michigan, must be a member of the MCCA. (Section 3101(1) requires the owner or registrant of a motor vehicle required to be registered in Michigan to maintain security for payment of benefits under personal protection insurance (commonly referred to as "no-fault" insurance), property protection insurance, and residual liability insurance.) The MCCA must provide and each member must accept indemnification for 100% of the amount of ultimate loss sustained under personal protection insurance coverage in excess of certain amounts prescribed in the Code.

On behalf of its members, the MCCA must calculate and charge to members a total premium sufficient to cover the Association's expected losses and expenses that will likely be incurred during the period for which the premium is applicable. Each member must be charged an amount equal to that member's total written car years of insurance providing the security required by Sections 3101(1) and 3103(1) written in Michigan during the period the premium applies to, multiplied by the average premium per car. (Section 3103(1) prescribes liability insurance requirements for an owner or registrant of a motorcycle.) The average premium per car is the total premium calculated divided by the total written car years of insurance providing the required security written in Michigan of all members during the premium period. The average premium for a historic vehicle is 20% of the premium charged for an insured car.

The MCCA must require and accept the payment of premiums from Association members as provided for in the Association's plan of operation. The MCCA must either require payment of the premium in full within 45 days after the premium charge, or require payment to be made periodically to cover the Association's actual cash obligations. The bill would delete these requirements. Instead, the MCCA annually would have to advise the Secretary of State of the calculated State average premium and State average premium for historic vehicles, and accept payment of the premiums collected by the SOS.

The bill would replace a number of references to the premium "charged" by the MCCA with references to the premium "calculated" by the Association, and revise other provisions to reflect the proposed change in the premium payment mechanism.

Currently, premiums charged to members by the MCCA must be recognized in the rate-making procedures for insurance rates in the same manner as expenses and premium taxes are recognized. The bill would delete this requirement.

The bill would require the immediate payment of premiums charged to members and due on the effective date of the removal of the requirement that members pay premiums to the MCCA.

Senate Bill 413

The bill would prohibit the SOS from issuing or renewing a registration for a motor vehicle unless, in addition to the vehicle registration tax, the applicant paid an amount for the State average premium or State average premium for historical vehicles, as applicable, as calculated by the MCCA under the Insurance Code.

The SOS would have to pay the money it collected under the bill to the MCCA as provided in the Association's plan of operation.

MCL 500.3104 (S.B. 412)
Proposed MCL 257.805a (S.B. 413)

Legislative Analyst: Julie Cassidy

FISCAL IMPACT

State: The bills would have a significant yet indeterminate fiscal impact on the Department of State. The Department has not determined the actual cost of tracking and receiving MCCA premiums, but has indicated that the costs could be significant and additional appropriations could be required for the Department to implement the bills' requirements. Costs to the Department would include additional programming costs to enable the Secretary of State to collect the premiums, administer the funds, and transfer the funds to the Michigan Catastrophic Claims Association, as well as the costs of carrying out those responsibilities.

The Department could not issue a vehicle registration unless the registrant paid the MCCA premium. Registration taxes are a principal source of revenue for the Michigan Transportation Fund (MTF). The MTF generally provides road funds for the State Trunkline Fund, county road agencies, and cities and villages. It is unknown whether this requirement would affect the number of issued registrations. To the extent that fewer registrations were issued, the MTF would see a corresponding decrease.

The 2015-2016 annual MCCA premium is \$150 per vehicle. In 2014-2015, the annual premium was \$186 per vehicle. On average, passenger vehicle registration taxes are \$98 per year. According to the MCCA, \$1.0 billion in claims was paid by the MCCA in 2014, amounting to \$149 per insured vehicle.

The bills' potential impact on the MCCA is indeterminate. The MCCA is a private association created under State statute, and its funds are not State funds. Currently, the State is not involved in the calculation, receipt, or administration of the funds, or payment of any MCCA claims. However, this analysis considers the effects of the bills on the MCCA since it is a creature of statute.

Since registrants would be required to pay the full MCCA premium, regardless of the actual time period that the registrant carries auto insurance, the MCCA could see an increase in premium receipts. Currently, insurers may, and often do, charge MCCA premiums to consumers periodically over the year to cover the actual costs of the Association, rather than charge one time for the entire year. To the extent that registrants carry auto insurance for only part of the year, and would pay the full annual MCCA premium, MCCA funds would increase. To the extent that fewer registrations were issued (as discussed above), MCCA funds would decrease. Since the MCCA is tasked with calculating a premium to meet existing and future estimated liability, annual MCCA premium rates likely would be adjusted accordingly.

Local: The bills would have no fiscal impact on local government.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.