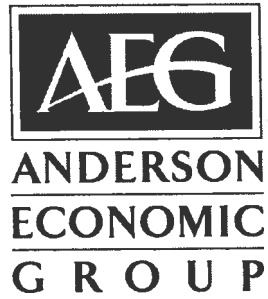
Impact of Proposed "PIP Choice" Law in Michigan

The Potential Effects of Changes to Personal Injury Protection Liability Law



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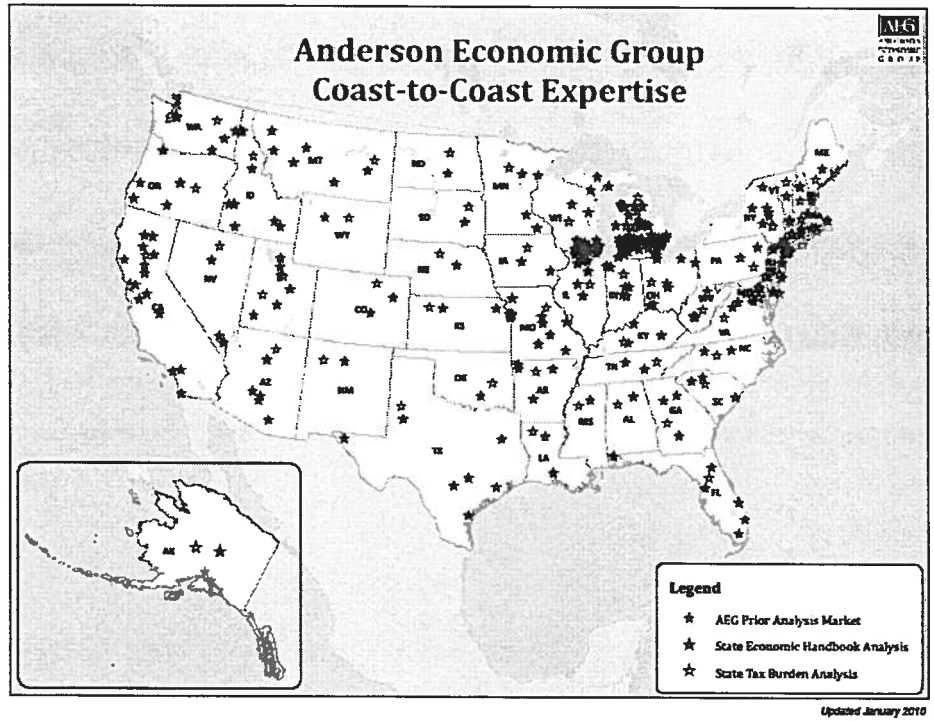
About Anderson Economic Group, LLC

- Research and consulting firm specializing in economics, public policy, industry research, and business valuation.

- Offices in East Lansing, Michigan and Chicago, Illinois.

- Clients include trade associations, corporations, non-profits, state governments, and local governments throughout U.S.



Updated January 2010

Purpose of Report and Analysis

- Our September 2011 report, "Impact of Proposed PIP Choice Law in Michigan" studied H.B. 6094. The report focused:
  - Outlining how the personal injury segment of Michigan's auto insurance market works.
  - Discussing the impact of the proposed law on individual drivers.
  - Discussing the impact of the proposed law on employment in Michigan.

- Since then, the bill has changed (and become H.B. 4936).

Overview of Approach and Assumptions

- Outline industry's unusual structure
  - "No-fault."
  - Required unlimited personal injury protection.
  - Catastrophic claims association funds certain claims.
- Model the effects of the new law on individuals
  - Effect on purchases
  - Effect on care and services for accident victims with catastrophic costs
- Estimated net effect on jobs in Michigan

Findings

1. Proposed law:

- Indeed "gives consumers choice" about insurance coverage, and therefore premium costs.
- Consumers would exercise this choice, with predictable results
- Likely effect: 75%-90% of auto insurance customers choose the minimum coverage.

Findings

2. The likely effect of these choices:

- Each year 638-765 drivers who suffer injuries of catastrophic costs will find that they have chosen insufficient PIP coverage.
- Many of these injured will have multi-year and chronic needs for care, rehabilitation, and even specialized residential care.
- Much of the care and services needed are not covered by traditional health insurance (even "good" insurance).
- Much of the residential care needed is more intensive than can be provided by traditional Medicaid-funded nursing facilities.
  - Update for HB 4936:
    - We expect a similar number of drivers to choose the minimum allowed coverage.
    - The $5 million cap on PIP coverage would add to the number of people with insufficient coverage, as the average expected future claim for existing claimants funded by the MCCA is greater than $5 million.

Findings

3. The policy change could affect MCCA's ability to pay existing claims

- The MCCA currently has fewer assets ($11.2 billion) than expected future liabilities ($13.6 billion).
- The existing system has a mechanism for dealing with such deficits over several years by assessing a "deficit adjustment" to auto insurance companies on a per-driver basis. This mechanism has been used many times in the past, including to refund excess assets with a negative "deficit adjustment" in 1997,1998, and 2001.
- The proposed law would reduce the number of vehicles over which this deficit adjustment could be spread by 75%-90%, calling into question whether the deficit can be made up.
  - Update for HB 4936:
    - Separating pre- and post-July-2012 claims into separate accounts moves beyond "calling into question" whether current drivers can be assessed sufficient deficit adjustments to close the deficit—it explicitly forbids it.
    - The fee schedule portion of the bill could reduce expected future clams somewhat by lowering the cost of paying for care and by restricting patients' access to providers willing to participate in the system.

Findings

4. The proposed law could shift employment from Michigan to other states.

- Approximately $800 million in reduced demand for care and services otherwise funded by the MCCA.
- Assume $500 million funded some other way
- Net decrease in demand for health care and services: $306 million
  - Result: Loss of 5,900 jobs, 3,300 of which in health and services industry
- Approximately $1 billion in decreased premiums paid by drivers each saving $137 annually.
- Subtract $500 million in reduced demand to fund health care and services
- Subtract $200 million in spending out of state
- Net increase in demand for consumer discretionary expenditures: $300 million
  - Gain of 3,336 jobs from increased private spending

Findings

4. The proposed law could shift employment from Michigan to other states.

- **Net change in Michigan employment of 2,556**

- NOTE: Evaluating this law is not primarily a jobs issue. We note the impact on jobs to provide facts to the debate.
  - Update for HB 4936:
    - Change in premium similar for drivers choosing the minimum
    - Additional $15-25 fall in annual premium for drivers electing maximum coverage, who are now purchasing less coverage.
    - Additional decreases in demand for care and services and increases in private spending caused by $5 million cap in coverage.

Response to Initial Criticisms

- AEG finding 1: Changing the law would result in "consumer choices" that are exercised, resulting in less premiums, less coverage, and less carea and services for severely injured drivers.
- *Known initial criticisms: None*

Response to Initial Criticisms

- AEG finding 2: Each year 638-765 drivers who suffer injuries of catastrophic costs will find that they have chosen insufficient PIP coverage.
- *Known initial criticisms: None*

Response to Initial Criticisms

- AEG finding 3: The policy change could affect MCCA's ability to pay existing claims.
- *Known initial criticisms: None*

- Note: Our report focused on HB 6094
  - HB 4936 goes further, eliminating the use of deficit payments to make up past deficits past June 2012.
  - Fee schedule portion of HB 4936, which we have not analyzed, could in principle reduce the deficit in two ways:
    - Less cost: Reduced expected future claims due to lower prices paid for care.
    - Less care: Reduced expected future claims due to reduced access to care by injured insured drivers as price controls affect the supply side of the market.
  - We have not evaluated the net effect of these factors.

Response to Initial Criticisms

- AEG finding 4: Net change in employment of 2,556
- *Known initial criticisms: Hillsdale Policy Group report states that this law is not appropriately analyzed by input-output economic models of the type we used.*

- Response:
  - We have used this model properly by accounting for the behavior of insured drivers, not double-counting inputs, and accounting for substitution.
  - Input-output modeling has its limitations, but some net job loss is inevitable.
  - There are some factors we did not analyze, including
    - The extent to which employers will change Michigan location and investment decisions in the face of auto insurance premiums that are lower by $116 annually.
    - The extent to which providing less care for several thousand severely injured drivers could cause spill-over cost savings throughout the health care industry.
    - The extent to which under-insured drivers could turn to lawsuits or uncompensated care by hospitals to partially fund the care and services they need, potentially raising auto liability insurance and private health insurance premiums.
    - The effects on the labor force of severely injured drivers having less access to rehabilitation services that improve function or family members leaving the labor force to care for loved ones who cannot afford residential facilities.