

TESTIMONY OF PETER A. KUHNMUENCH
EXECUTIVE DIRECTOR, INSURANCE INSTITUTE OF MICHIGAN
OCTOBER 11, 2001 MICHIGAN HOUSE INSURANCE COMMITTEE

GOOD MORNING. MY NAME IS PETER KUHNMUENCH AND I AM EXECUTIVE DIRECTOR OF THE INSURANCE INSTITUTE OF MICHIGAN. AS YOU KNOW, IIM IS A PROPERTY/CASUALTY TRADE ASSOCIATION REPRESENTING INSURANCE COMPANIES THAT WRITE ABOUT 73 PERCENT OF THE AUTO INSURANCE POLICIES IN MICHIGAN. WE HAVE JOINED WITH OTHER STATE AND NATIONAL INSURANCE ORGANIZATIONS AND THE MICHIGAN CHAMBER OF COMMERCE IN SUPPORT HOUSE BILL 4936.

TODAY I'M GOING TO TAKE A PAGE FROM MR. GEORGE SINAS AND SHARE WITH YOU OUR TOP TEN REASONS TO SUPPORT HOUSE BILL 4936.

#1 – THIS REFORM PROPOSAL IS DESIGNED TO PRESEVE AND PROTECTS MICHGAN'S NO-FAULT SYSTEM... NOT DISMANTLE IT AS SOME WOULD HAVE YOU BELIEVE. YOU'VE BEEN PROVIDED WITH A LOT OF FINANCIAL INFORMATION AND PROJECTIONS WHICH DEMONSTRATE WHERE WE ARE HEADING...

- AN MCCA ASSESSMENT WHICH HAS GROWN FROM \$3.00 IN 1978 TO \$145.00 TODAY
- AVERAGE MICHGAN PIP CLAIMS WHICH HAVE GROWN FROM \$13,617 IN 2000 TO \$36,224 IN 2010, A 166% GOWTH IN JUST TEN SHORT YEARS, AND PROJECTIONS APPROACHING \$69,700 IN 2020.
- DR. SHARON TENNYSON'S DEMONSTRATION OF THE SPIRALING GROWTH IN COSTS ASSOCIATED WITH MICHGAN'S NO-FAULT SYSTEM AND THE PROJECTED GROWTH IN FUTURE CLAIMS, DUE TO THE DESIGN OF THE SYSTEM. THESE DESIGN FLAWS INCLUDE THE UNLIMITED NATURE OF THE BENEFIT MANDATE, THE SOCIALIZATION OF THOSE MANDATED COSTS AND THE LACK OF COSTS CONTROLS.

ALL OF THESE FACTS POINT TO AN UNSUSTAINABLE SYSTEM.

OUR RANKING NATIONALLY OF UNINSURED DRIVERS WAS 17TH HIGHEST IN 1997, IT WORSENEO TO THE 9TH HIGHEST LEVEL IN 2004, AND WAS RATED THE 7TH HIGHEST RATE IN THE COUNTRY IN 2010.

OUR AVERAGE PRMIUM RANKED IN THE MIDDLE OF THE PACK IN 1987 AT 22ND NATIONALLY. IN 1997 IT WORSENEO TO 18TH HIGHEST AND TODAY STANDS AT THE 11TH HIGHEST IN THE NATION.

NOW THE INDUSTRY DOESN'T SHARE THESE PROJECTIONS WITH YOU FOR OUR BENEFIT. QUITE FRANKLY, HIGHER SHORT TERM RETURNS WOULD PROBABLY COME FROM THE STAUUS QUO. BUT WE CANNOT CONTINUE TO HIDE OUR HEADS IN THE SAND AND HOPE THAT SOMEHOW, MIRACULOUSLY THIS WILL ALL RESOLVE ITSELF. INSTEAD, THE ACTUARIES AND FINANCIAL EXPERTS ARE TELLING US THAT WE MUST BE PRO-ACTIVE AND RESPPONSIBLE AND FIX THESE PROBLEMS NOW TO PRESEVE AND PROTECT MICHGAN'S NO-FAULT SYSTEM.

#2 – THIS PROPOSAL ADOPTS RESONABLE AND RESPONSIBLE COSTS CONTROLS, IN THE FORM OF A MEDCIAL FEE SCHEDULE TO HELP ADDRESS THESE ESCALATING COSTS.

IF WE AS A STATE, ARE GOING TO MANDATE THAT EVERY DRIVER REGARDLESS OF FINANCIAL CAPACITY, MUST PURCHASE THE MOST COMPREHENSIVE AND IN SOME PEOPLE'S ESTIMATION, THE MOST EXPENSIVE AUTO INSURANCE IN THE COUNTRY, THEN WE HAVE A DUTY TO HELP CONTROL THE COSTS OF THAT SYSTEM. HOUSE BILL 4936 PROPOSES THAT WE ADOPT THE SAME MEDICAL FEE SCHEDULE THAT HAS BEEN SUCCESSFULLY UTILIZED UNDER MICHIGAN'S WORKERS' COMPENSATION INSURANCE SYSTEM SINCE THE MID-1980'S.

NOW IF I WERE A PROVIDER, I WOULDN'T LIKE THE FEE SCHEDULE EITHER. WHY ACCEPT A MEDICARE RATE? WHY ACCEPT A BC/BS RATE OR EVEN A WORKERS' COMPENSATION FEES SCHEDULE WHEN I CAN COLLECT UP TO FIVE TIMES MORE? I WOULDN'T WANT TO CHANGE THAT EITHER. BUT WE BELIEVE THAT WITHOUT COST CONTROLS, CONSUMERS WILL SUFFER AND MICHIGAN'S AUTO NO-FAULT SYSTEM WILL BECOME UNSUSTAINABLE.

IT IS INTERESTING TO NOTE THAT NO ONE WAS CLAIMING THAT THE WORKERS' COMPENSATION MEDICAL FEE SCHEDULE WAS SOMEHOW INADEQUATE UNTIL THEY WERE PROPOSED AS A FEATURE OF NO-FAULT REFORMS. IN FACT A PERMANENT, ONGOING REVIEW OF THOSE MEDICAL FEE LEVELS IS UNDERTAKEN EVERY YEAR, AND QUITE FRANKLY, THE DECK IS STACKED AGAINST THE INSURANCE COMPANIES IN THAT REVIEW PROCESS.

THAT 15 MEMBER HEALTH CARE SERVICES ADVISORY COMMITTEE UNDER THE WORKERS' COMPENSATION AGENCY IS COMPOSED OF FIVE CARRIER REPRESENTATIVES (G.M., ACCIDENT FUND, FORD, AN ASSOCIATION AND CITIZENS INSURANCE), FIVE EMPLOYEE REPRESENTATIVE (IRON WORKERS UNION, UAW, MESSA, PLAINTIFF ATTORNEY AND MICHIGAN STATE AFL/CIO) AND FINALLY FIVE PROVIDER REPRESENTATIVES (MI PHYSICAL THERAPY ASSOCIATION, MICHIGAN

STATE MEDICAL SOCIETY, MICHIGAN HEALTH AND HOSPITAL ASSOCIATION, A DO
FROM WESTERN MI UNIVERSITY AND A CHIROPRACTOR).

IN MY DISCUSSIONS WITH THE WORKERS COMPENSATION BUREAU, THERE HAVE
BEEN NO REPORTS OF LACK OF ACCESS TO MEDICAL CARE ON THE PART OF
WORKERS COMPENSATION CLAIMANTS DUE TO THE FEE SCHEDULE. AND THAT
SYSTEM, CONTARY TO PREVIOUS TESTIMONY, FOR YEARS HAS SERVICED AUTO
ACCIDENT VICTIMS WHO ARE INJURED ON THE JOB. AND IF THERE IS A
PROCEDURE THAT IS NOT COVERED UNDER THE MEDICAL FEE SCHEDULE, THAT
PROCEDURE, IF LEGITIMATE, IS REIMBURSED THROUGH A "BY REPORT" PROCESS.

#3 – THIS PROPOSAL GIVES CONSUMERS TRUE CHOICE.

WHEN HAS CHOICE BECOME A BAD THING? OUR CURRENT INSURANCE MANDATE
FORCES CITIZENS TO PURCHASE A ONE-SIZE-FITS-ALL PRODUCT, THAT MANY DO
NOT NEED, AND MANY OF WHOM CANNOT AFFORD.

YOU KNOW, WE CHOOSE WHO WE WILL MARRY, WE CHOOSE WHAT PROFESSION
WE WILL PURSUE, UP UNTIL THE FULL IMPLEMENTATION OF THE NEW NATIONAL
HEALTH CARE MANDATE WE CAN CHOOSE THE TYPE AND LEVEL OF HEALTH CARE

WE PURCHASE. WE CHOOSE HOW MUCH LIFE INSURANCE IS ADEQUATE TO PROTECT OUR FAMILIES AND WE CHOOSE WHAT RETIREMENT PLANS AND ACCOUNT ARE SUFFICIENT TO COVER OUR FUTURE NEEDS. BUT WE CANNOT MAKE A DECISION ON HOW MUCH AUTO INSURANCE WE NEED.

OUR SENIOR CITIZENS ARE PERFECT EXAMPLE OF A GROUP OF CONSUMER WHO ARE HELD HOSTAGE BY THE NO-CHOICE MICHIGAN NO-FAULT SYSTEM. I WOULD VENTURE TO GUESS THAT THE MAJORITY OF OUR SENIOR CITIZENS ON MEDICARE ALSO CARRY A MEDI-GAP POLICY WHICH PUTS THEM ON PAR WITH MOST MAJOR MEDICAL PLANS, AND THEY ALSO LIKELY PURCHASE THE PRESCRIPTION DRUG RIDER AS WELL. YET MICHIGAN LAW FORCES OUR SENIOR TO CARRY DUPLICATIVE HEALTH CARE COVERAGE. UNDER REPRESENTATIVE LUND'S PROPOSAL, THESE SENIOR COULD PURCHASE THE MINIMUM \$250,000 IN COVERAGE AND KNOW THAT 99% OF THE TIME THEY WOULD BE FULLY COVERED FOR ANY ACCIDENT CLAIMS UNDER THEIR NO-FAULT PLANS AND HAVE THE BACKSTOP OF THEIR MEDICARE COVERAGE, FOR WHICH THEY PAY A SIZABLE MONTHLY PREMIUM. FOR ANYONE WHO BELIEVES IN PERSONAL FREEDOM, CHOICE MAKES SENSE.

#4 – UNDER THIS PROPOSAL YOU WILL SAVE MONEY.

THE FEE SCHEDULE ALONE CAN REDUCE PREMIUMS BY 12% TO 30%.

COORDINATING COVERAGES THROUGH CHOICE WILL SAVE EVEN MORE.

WILL PROVIDERS BE ASKED TO TAKE LESS?

WILL COMPANIES COLLECT LESS PREMIUM?

WILL AGENTS MAKE LESS COMMISSION?

WILL CONSUMERS PAY LESS?

THE ANSWER IS YES! AND ALL OF THOSE SAVINGS WILL GO BACK INTO THE MICHIGAN ECONOMY...

#5 – UNDER THIS PROPOSAL WE WILL STILL HAVE THE MOST COMPREHENSIVE NO-FAULT SYSTEM IN THE COUNTRY, AND AT THE SAME TIME SAVE MONEY THROUGH A MEDICAL FEE SCHEDULE AND BY UTILIZING OTHER INSURANCE COVERAGES AND RESOURCES OUR CITIZENS CONTINUE TO PAY A PREMIUM FOR. EVEN AT THE LOWEST \$250,000 IN COVERAGE, OVER 99% OF ALL PIP CLAIMS ARE COVERED.

NO OTHER STATE EVEN COMES CLOSE TO SAYING THAT, AND FOR THOSE VERY FEW THAT EXCEED THAT MANDATORY MINIMUM LEVEL OF COVERAGE:

66.1% HAVE PRIVATE HEALTH INSURANCE AS A BACKSTOP;

17.3% HAVE PUBLIC HEALTH COVERAGE AS A BACKSTOP; AND

10.9% HAVE MEDICAID AS A BACKSTOP.

AND IF A LACK OF COVERAGE AT \$250,000 IS AS SIGNIFICANT AS SOME WOULD HAVE US BELIEVE, THEN MANY CONSUMERS WILL CERTAINLY BUY THE HIGHER LIMITS TO FURTHER REDUCE THEIR POTENTIAL EXPOSURE.

NO OTHER STATE PROVIDES SUCH COMPREHENSIVE COVERAGE.

#6 – WHILE NOT DESIGNED TO ADDRESS THE UNINSURED, THIS PROPOSAL WILL HELP MAKE COVERAGE MORE AFFORDABLE AND HOPEFULLY STOP THE TIDE OF AN INCREASING RATE OF UNINSURED DRIVERS IN THIS STATE. PERHAPS MORE CONSUMERS WILL BE ENCOURAGED TO DRIVE LEGALLY, AND HOW IS THAT NOT GOOD FOR MICHIGAN?

#7 – BUSINESSES SAVE MONEY TOO!

BY DECREASING THE COST TO INSURE BUSINESS VEHICLES, WE ARE HELPING MICHIGAN-BASED BUSINESSES BECOME MORE COMPETITIVE.

#8 – LOWER PREMIUMS AND GREATER FLEXIBILITY IN COVERAGE WILL MAKE MICHIGAN A MORE ATTRACTIVE PLACE TO LIVE.

I CAN'T TELL YOU THE NUMBER OF PEOPLE WHO HAVE MOVED TO MICHIGAN FROM OTHER STATES AND WHO HAVE COMMENTED ON HOW ASTOUNDED THEY WERE WITH THE COST OF AUTO INSURANCE IN THIS STATE.

#9 – THE NEED FOR REFORM AND THE APPROACH IN THIS LEGISLATION IS SUPPORTED BY MICHIGAN'S MAJOR NEWSPAPERS. MANY OF YOU HAVE RECEIVED COPIES OF SEVERAL OF THESE EDITORIALS IN THE COALITION FOR AUTO INSURANCE REFORM PACKETS, AND I HAVE INCLUDED SEVERAL MORE TODAY.

THE DETROIT NEWS

THE DETROIT FREE PRESS

THE OAKLAND PRESS

THE JACKSON CITIZEN PATRIOT

#10 – IT JUST MAKES SENSE!

CONSUMER CHOICE, PROVEN COSTS CONTROLS AND COORDINATED COVERAGES,
ALL DESIGNED TO PROTECT AND PRESERVE OUR NO-FAULT SYSTEM FOR THE NEXT
38 YEARS.

I THANK YOU FOR THE OPPORTUNITY TO SHARE THESE VIEWS WITH YOU THIS
MORNING, AND WITH THE CHAIRMAN'S PERMISSION WOULD BE HAPPY TO
ANSWER ANY QUESTIONS.