MICHIGAN
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TESTIMONY OF THE MICHIGAN CHAMBER OF COMMERCE
AUTO NO-FAULT INSURANCE REFORM (HB 4612)

Presented by Wendy Block, Director of Health Policy & Human Resources
House Insurance Committee
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Good morning Mr. Chair and members of the Committee. My name is Wendy Block and I am the Director of Health Policy and Human Resources for the Michigan Chamber.

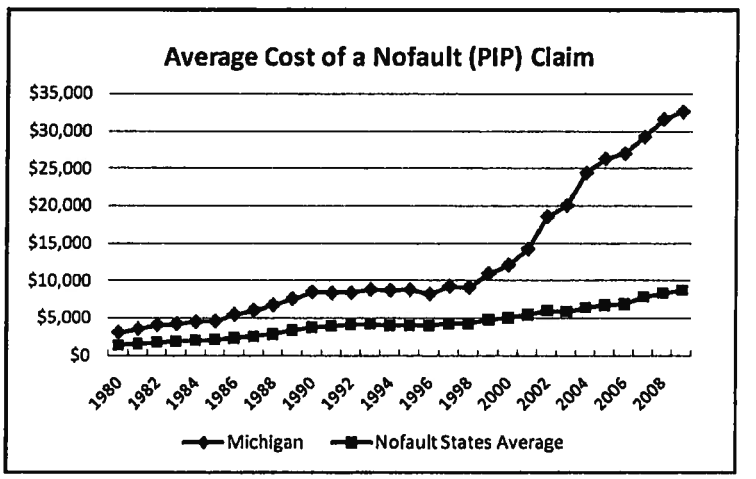
On behalf of our 6700 members, I'd like to thank you for the opportunity to be here this morning to voice our support for HB 4612, legislation to reform Michigan's auto no-fault insurance system.

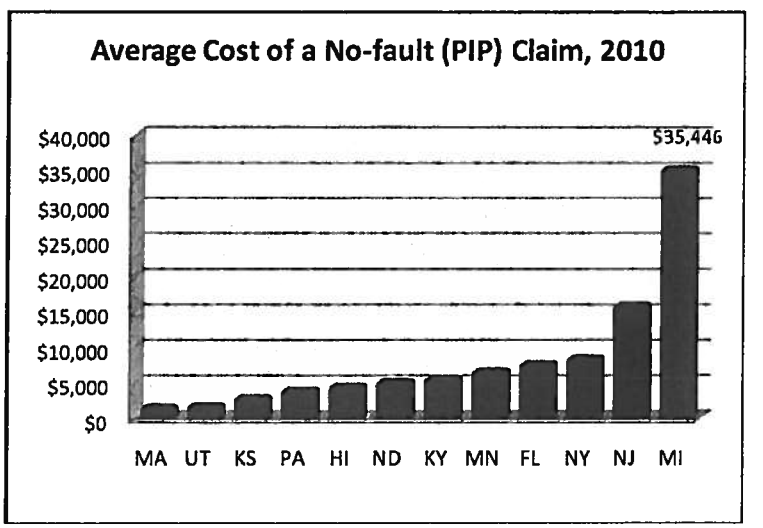
Over its 50+ year history, the Michigan Chamber has taken an active role in insurance debates. Increasingly, we have been concerned that Michigan's auto no-fault system is becoming too expensive to sustain. In 2008, the Michigan Chamber's 83 member Board of Directors voted to support no-fault reform. Our members believe Michigan's no-fault is worth preserving, but that major reforms are needed to prevent a cost crisis that could ultimately destroy the system.

Our members believe this is a general business and competitiveness issue for Michigan, as the most recent data from National Association of Insurance Commissioners draws a stark contrast between Michigan and its surrounding states. The average auto insurance premium in Michigan is over $260 higher than Illinois, over $350 higher than Indiana, over $400 higher than Ohio and over $390 higher than Wisconsin. Given all the work the Legislature has done in recent years to increase our state's overall competitiveness, Michigan still ranks the 8th highest state for auto insurance premiums. Clearly there is work to be done.

A 2011 study prepared for the Michigan Chamber by Dr. Sharon Tennyson, an economist and professor at Cornell University, highlights the fact that recent and projected trends in claims costs and premiums suggest Michigan's auto no-fault system is becoming too expensive to sustain, primarily because the average cost of claims in Michigan are increasing 4 times higher than the average no-fault state. Dr. Tennyson concludes that, while catastrophic claims account for only 1-2 percent of no-fault claims, they account for over 45 percent of claims costs, resulting in Michigan drivers paying premium surcharges of nearly $1 billion each year to support these claims.

Michigan is currently the only no-fault state to provide for unlimited medical benefits. The next most generous states are New Jersey, which pay medical benefits up to $250,000, and Pennsylvania, which pays benefits up to $177,500. However, it's important to note that both states allow drivers to choose much lower limits of coverage. Among the states in which no-fault benefits are mandatory, New York, provides up to $50,000 in medical benefits, making them the second most generous state. These benefit distinctions are directly associated to the cost of claims and, thus, premiums. Dr. Tennyson's analysis of the average cost of a no-fault PIP claims shows that Michigan's average cost per auto no-fault claim in 2010 was $35,446. The second highest cost no-fault state is New Jersey, where the average cost is just over $16,000. All other no-fault states have average claim costs under $10,000, and about half of the no-fault states have claims costs averaging under $5,000. The state with the lowest average cost per no-fault claim is Massachusetts, at just over $1,800 per claim.





Source: Sharon Tennyson, Ph.D., *The High Costs of Michigan's No-Fault Auto Insurance: Causes and Implications for Reform*, Michigan Chamber Study, 2011 - http://www.michamber.com/files/michamber.com/Auto%20No-Fault%20Insurance%20Reform%20Study%200911.pdf.

It's not surprising, then, that insurance premiums in Michigan have increased more rapidly than those costs in other states. In 1997, Michigan had the 18th highest costs of auto insurance in nation. By 2007, Michigan was the 11th highest state and by 2010 (the most recent year for which we have data), Michigan ranked the 8th highest state. Over the

same period, premiums rose by 30.5 percent, more than twice as fast as the national average.

While many would label Michigan's no-fault system "the best in the nation", it is clear that cost remains a fundamental issue. But what is causing the astronomical growth in no-fault costs? This, too, is an issue we asked Dr. Tennyson to study. She found that health care cost inflation plays a role but cannot explain why Michigan's costs are growing faster than those in other states. She concluded that much of Michigan's excessive no-fault cost growth is directly due to the costs of catastrophic injury claims. The provision of unlimited medical benefits for auto injuries means that some claims cost a very large amount and extend over a very long period of time, making the cost of claims difficult to predict and creating a very risky exposure for insurers, despite the existence of the MCCA. Comparing the MCCA claim and loss data to Michigan's auto insurance market as a whole reveals that catastrophic losses account for only one to two percent of no-fault claims by number but over 45 percent of no-fault loss costs.

High benefit levels are not the only reason for the high insurance costs in Michigan. Specifically, auto insurance companies are currently paying hospitals and medical providers at rates substantially higher than those paid by private health insurance carriers. In addition, the no-fault law does not contain sufficient cost and utilization controls on providers and patients, which has led to overutilization of costly services and procedures.

The Michigan Chamber supports HB 4612 because it addresses the primary cost-drivers of Michigan's no-fault system, while continuing to offer the most generous life-long medical benefits in the nation in exchange for strict limitations on the right to sue an at-fault party for non-economic damages (i.e., pain and suffering).

It is important to note that under the $1 million cap, more than 99.5 percent of all accident-related medical claims would be covered. Of the remaining claims, the injured party would have the same options they have in all other states, whether it be a tort claim, health insurance claim or claim against the at-fault party's auto insurance carrier. Others yet may be eligible for coverage under Medicare or Medicaid. We recognize that some are concerned about the impact this proposal may have on the state budget. However, statistics show that approximately 98 percent of claimants will have coverage for ALL of their medical costs. In addition, it's important to note that due to the cost controls on reimbursements to providers, $1 million in coverage will go a lot farther than it does under today's system.

If this proposal is adopted, drivers will see a mandatory $125 reduction in their auto insurance rates. This is good news not just for your constituents but also for the many job providers who purchase auto insurance coverage for their businesses, including commercial fleets of vehicles. We are confident that, moving forward, the free market principles embodied in HB 4612 will make Michigan a more attractive place to write auto insurance, which in turn will make rates even more competitive.

This concludes my testimony, Mr. Chair. Thank you for your time and attention. I'd be happy to answer any questions.