Medical Costs of No-Fault Automobile Insurance

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- CRC did not receive any funds specifically related to this study
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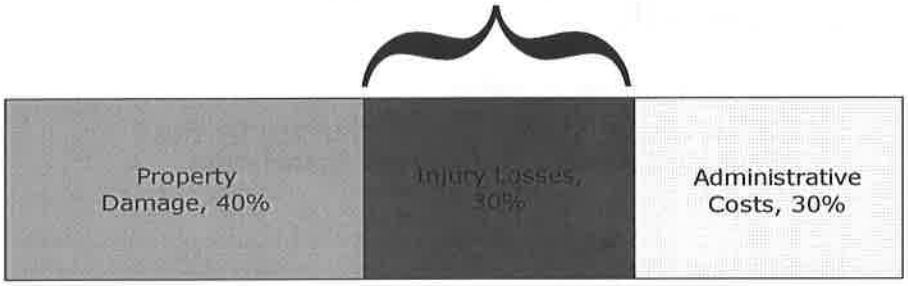
CRC Report

- *Medical Costs of No-Fault Automobile Insurance*
- Report 385, October 2013
- Available at: www.crcmich.org
- Outline:
  - Discussion of medical costs associated with no-fault auto insurance
  - Outline of potential policy to address medical costs

Report Objectives

- Follow-up to earlier report *Health Care Costs in Michigan: Drivers and Policy Options,* May 2013
- Determine if and how no-fault is driving health care costs
- Evaluate the benefits and tradeoffs associated with potential policy reforms

Scope of Report



Distribution of Auto Insurance Premium Costs, National Average

Data Sources

- RAND Institute for Civil Justice, a nonpartisan, independent, research institution
- Interviews with:
  - Michigan Catastrophic Claims Association (MCCA)
  - Auto Insurers
  - Health and Hospital Association
  - Health Insurers
- Price data from independent third-party. Data collection commissioned by Insurance Institute of Michigan.
- Limited data from industry funded reports

Summary of MI's Auto Insurance

- Requires drivers to purchase personal injury protection (PIP)
- No cap on medical benefits
  - Claims above $530K are reimbursed by the Michigan Catastrophic Claims Association (MCCA)
- Verbal Tort Threshold
  - Limits tort access to cases of death, serious bodily impairment, or serious disfigurement

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Issue Summary

- Health care costs are growing in MI and nationally
  - Recently growth slowed but often growth is faster than the rate of inflation
  - Health outcomes are not growing commensurately with the rate of spending
- No-fault insurance (PIP) is associated with higher medical spending compared to all other types of auto insurance in the U.S.
- According to RAND Institute for Civil Justice, in accidents with similar characteristics (severity, demographics) it costs 57% more to settle medical claims in Michigan.

Drivers of Higher Auto Accident Related Medical Spending

1. Auto insurers pay higher prices
2. Auto accident victims in no-fault states use more medical services
3. Michigan offers unlimited lifetime medical benefits
4. Medical prices may be higher if health services are higher quality

Higher Prices

- Medical prices paid by auto insurers are higher than Medicare, workers' compensation insurance, and most likely private health insurers
  - Supported by data and interviews with stakeholders
- Most payers are charged the same, but many pay less than the amount charged
- MI's Insurance Code states that providers may charge auto insurers an amount that does not exceed the amount *customarily charged*
  - *Munson Medical Center v. Auto Club Insurance Association* held that auto insurers must pay the amount they are charged, regardless of whether the provider routinely accepts less from other payers.

Medical Service Use

- Victims and their medical providers submit claims for more services than in other states
- Auto insurers cover all "reasonably necessary" products, services, and accommodations
  - Typically a high threshold for care
  - Other insurance has more specific criteria

Unlimited Lifetime Medical Benefits

- MI is only state with no cap on medical benefits
- MCCA has limited ability to contain costs
- The number of new cases each year is increasing
- More cases are being opened than closed each year

Quality Insurance

- A higher quality auto insurance product could also explain higher costs. May explain:
  - Higher premium costs, generally
  - Higher medical spending if better and more comprehensive care is provided
- Consumers of no-fault are slightly more satisfied with the amount and speed of their no-fault reimbursement compared to tort systems
- We do not have information on whether victims are attaining better health outcomes

Policy Options to Address Medical Costs and Spending

1. Fee Schedule

- Benefits
  - Set an industry standard for prices that would be lower than what is paid now
- Tradeoffs
  - Government may find it difficult to ascertain the correct level for prices, potentially creating problems for consumers and providers

2. Increase Number of Health Insurers as Primary Payers

- Currently, policyholders can elect to coordinate auto insurance with health or disability insurance
- Benefits
  - Health insurers pay lower prices on average than auto insurers
- Tradeoffs
  - Shifts costs to health insurer
  - Auto insurers still cover services not reimbursed by health insurers
  - Many policies are already coordinated so savings may be small

3. Auto Insurers Pay Amount Customarily Received

- Change insurance code to allow auto insurers to pay an amount other than what is customarily charged
- Benefits
  - Puts auto insurance prices in line with other payers
- Tradeoffs
  - Lower prices may create fiscal pressure on providers and how they will react will vary by provider

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4. "Add-on" PIP

- Would create a tort system with either mandatory or optional PIP that is "added-on"
- Benefits
  - States with add-on PIP have lower medical spending
  - May prevent victims from using more medical care to prove a more serious injury in order to gain access to tort
- Tradeoffs
  - Why medical spending is less under "add-on" is uncertain
  - May increase access to tort system
  - Difference may not be as dramatic in MI where accident victims may not be incentivized to increase spending to gain access

5. Create a Choice System- No-fault or Tort

- Customers choose between more expensive tort system and less expensive no-fault system
- Benefits
  - May provide better value for customers who do not want access to tort system
- Tradeoffs
  - Would increase number of tort cases
  - Policyholders who choose tort system would not have access to many of the same benefits as no-fault customers

6. Customer Choice in PIP Coverage Level

- Allow auto insurers to offer several choices in the level of PIP coverage
- Benefits
  - Levels can be set in ways that would cover most accidents
  - Customer choice may reduce costs for those sensitive to premium prices
- Tradeoffs
  - Some policyholders will underinsure themselves and will have to rely on other sources to cover medical expenses

7. Dollar Tort Threshold

- Benefits
  - States with dollar tort thresholds have lower medical cost levels
- Tradeoffs
  - Only three states have verbal thresholds
  - More research should be done to explore correlation

8. Give Auto Insurers Additional Tools to Contain Costs

- Currently, auto insurers have limited ability to contain medical spending
- Benefits
  - To reduce costs, auto insurers can utilize many of the same tools as health insurers
- Tradeoffs
  - Depending on how implemented, could increase cost-sharing and reduce scope and scale of care for auto accident victims

9. Medical Benefits Cap

Benefits

- Reduces costs associated with catastrophic care

- Tradeoffs
  - Those whose claims exceed the cap would rely on public (Medicaid and/or Medicare) or private health insurance

10. Medical Costs Paid by Health Insurers

- Benefits
  - Health insurers pay lower prices for the same services

- Tradeoffs
  - Will reduce the scale and scope of medical benefits for most accident victims
  - May result in higher health insurance premiums

11. Reinstate a Tort Insurance System

- Benefits
  - Medical prices and service use are lower under tort systems
- Tradeoffs
  - Would result in an entirely new auto insurance system with a different set of benefits and weaknesses

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Final Comments

- Research shows that medical claims for auto accidents cost 57% more in MI than for similar crashes in other states
- CRC's paper outlines policy options that can potentially be used to lower these costs
  - CRC is not making a specific policy recommendation with respect to no-fault insurance reform
- This report outlines potential benefits of each of these reforms. There is uncertainty regarding the degree to which benefits will materialize if these reforms are implemented.
- While these reform options will address MI's higher spending on auto accident related medical costs, the policy options involve tradeoffs that policymakers should keep in mind.

Thank you!

Questions?