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# REFORMING MICHIGAN'S AUTO INSURANCE MARKET

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ABSTRACT
Michigan's unaffordably high auto insurance premiums result in large part from its unique requirement granting all policyholders unlimited lifetime medical benefits. Higher rates of medical utilization and significantly higher reimbursements for common medical claims than those paid by Medicare or private workers compensation insurers show how pervasive the problem has become. Allowing greater consumer choice, instituting a fee schedule for medical claims and making health insurers the default handlers of major medical claims could go a long way toward making insurance rates fairer and, in many cases, lower for Michigan residents.

CONTENTS



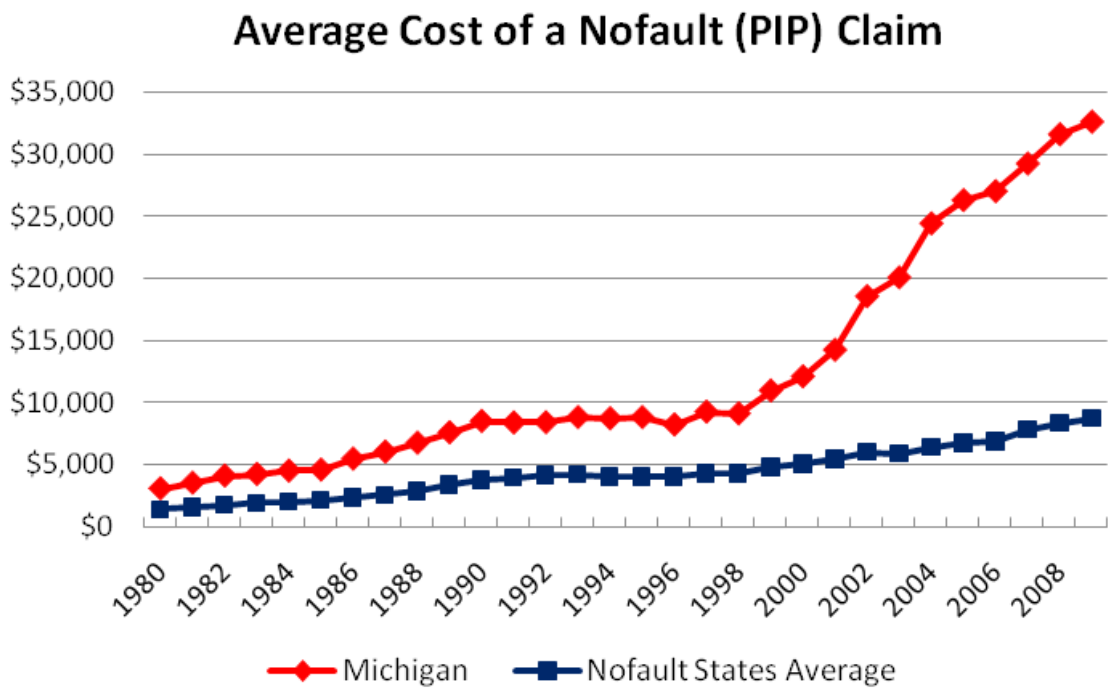
## THE STATE OF MICHIGAN'S AUTO INSURANCE MARKET

The Insurance Research Council says that Michigan's automobile insurance system is in crisis.[1] And it's hard to argue with that assessment: Michigan residents pay far more for insurance than those in neighboring states or in similar states across the country. With average annual quoted insurance premiums of $2,013, Michigan ranks third behind only Louisiana and Oklahoma for the most expensive rates in the nation, according to annual rankings compiled by Insure.com.[2] Compared to nearby states, the contrast is stark. Insure.com found average annual quoted premiums of $1,301 in Indiana, $1,192 in Illinois, $1,099 in Ohio, and $987 in Wisconsin. The RAND Institute for Civil Justice finds that premiums in Detroit are the highest of any city in the nation, with rates of about $5,491 to insure a small Chevy. "As a result, and ironically so in the Motor City, about half of Detroit's drivers are uninsured," RAND noted."[3]

In large part, the system's problems can be traced to a unique requirement that all policies provide for uncapped medical benefits. While 11 other states require insurers to offer coverage on a "no fault" basis, none has this system of uncapped medical benefits. (In other states, health insurance, charity, government programs, and individual resources cover claims above the amount insured by the auto insurer.)

In July 2012, premiums paid by member insurance companies to the MCCA – a state-sponsored reinsurer that covers the cost of catastrophic motor vehicle-related medical claims that exceed $500,000 – rose 21 percent to $175 per vehicle, which includes a roughly $32.72 per vehicle charge to address the association's estimated $2 billion deficit.[4] In an April 2011 paper commissioned by the Michigan Chamber of Commerce, Sharon Tennyson of Cornell University demonstrated Michigan drivers have paid more than $7.3 billion to support the MCCA's operations over the past decade.[5]

1. Pete Daly, "Crisis Predicted In No-Fault's Unlimited Coverage," Proquest LLC, June 8, 2012 http://insurancenewsnet.com/article.aspx?id=345423&type=propertycasualty#.ULS_6oaQn3V
2. Barbara Marquand, "Car insurance rates by state: The most and least expensive places to buy auto insurance in 2012," Insure.com, March 5, 2012. http://www.insure.com/car-insurance/car-insurance-rates.html
3. Paul Heaton, "PIP mandate keeps Michigan's auto premiums high," Detroit News, July 18, 2012. http://www.rand.org/blog/2012/07/pip-mandate-keeps-michigans-auto-premiums-high.html
4. Melissa Anders, "Illegal immigrants, drunk drivers and felons wouldn't get injury coverage under proposed auto insurance reform," Mlive.com, May 25, 2012 http://www.mlive.com/politics/index.ssf/2012/05/illegal_immigrants_felons_and.html
5. Sharon Tennyson, "The High Costs of Michigan's No-Fault Auto Insurance: Causes and Implications for Reform," Michigan Chamber of Commerce, April 22, 2011.




*SOURCE: Michigan Chamber of Commerce*

According to the Michigan Insurance Coalition, the MCCA currently holds about $13 billion in reserves, but has roughly $80 billion in liabilities for open claims not yet paid.[6] Since its introduction in 1979, the MCCA has received more than 28,000 claims and paid out roughly $85 billion, including $927 million in 2011.[7]

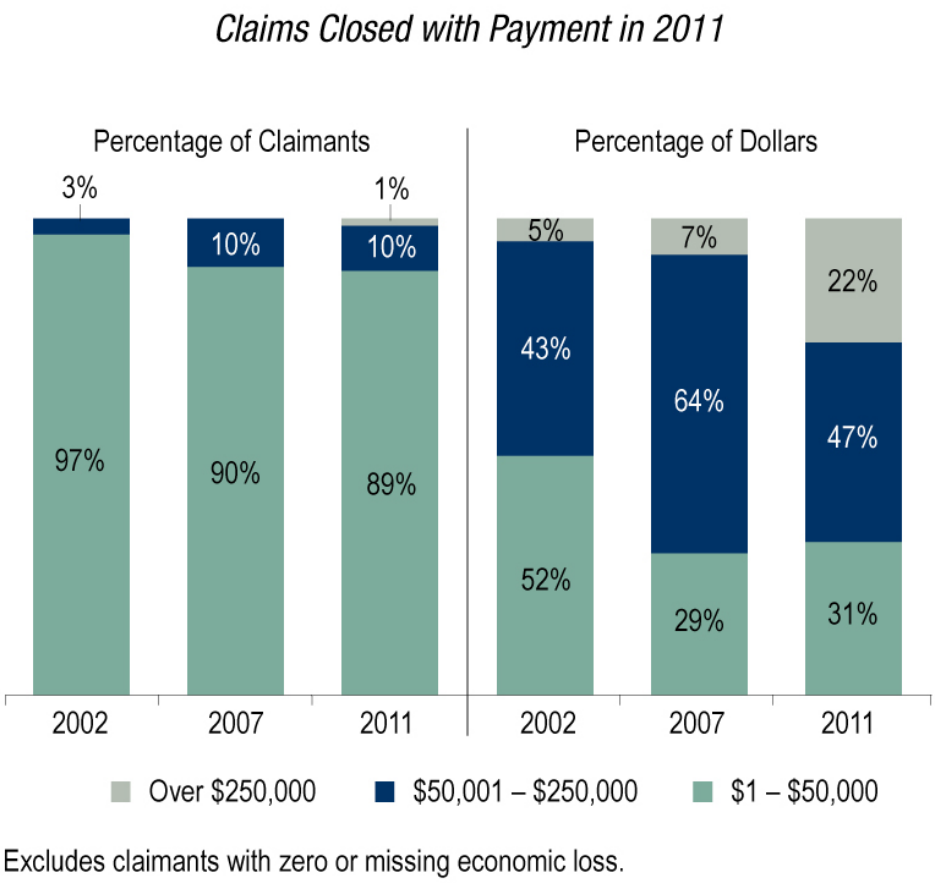
Under Michigan's personal injury protection system, PIP benefits are paid on a no-fault basis to cover lifetime medical costs incurred by the insured in a motor vehicle accident, as well as up to 85 percent of lost income, up to a maximum a maximum of $5,100 a month, for up to three years following the incident. The coverage also provides up to $20 a day to cover incidental costs such as home maintenance if the injured can no longer perform those duties for himself or herself. [8]

The state's Office of Financial and Insurance Regulation estimates that Michigan auto insurers paid out more than $2 billion in PIP claims in 2011. Data from the National Association of Insurance Commissioners shows that roughly 41 percent of auto insurance premiums in the state went to PIP coverage in 2010, up from 27 percent in 2002. The National Independent Statistical Service finds that the average cost of PIP claims in Michigan has more than quadrupled from $8,365 in 1991 to $36,229 in 2011.[9]

In her research, Tennyson demonstrated that, while average PIP costs have gone up across all no-fault states, the average cost of a claim in Michigan has increased nearly four times as fast as in in other no-fault states. [10]

In its study of 1,100 Michigan no fault claims, the Insurance Research Council found that average claimed losses grew 13 percent annually from 2002 to 2011. That compares with average annual medical inflation of just 4 percent over the same time period[11] or an average increase in the Consumer Price Index of just 2.35 percent.[12] While just 1 percent of claims closed for losses above $250,000 these claims account for 22 percent of claimed losses. Until July 2002, MCCA coverage attached at $250,000. Legislation passed in 2001 phased in higher attachment points of $300,000

6. Desiree Baughman, "Michigan Makeover–Another State Seeks PIP Reform," InsuranceQuotes.com, October 17, 2012. http://www.insurancequotes.org/2012/10/17/michigan-makeover-another-state-seeks-pip-reform/
7. Daly, Ibid.
8. Anders, Ibid.
9. Anders, Ibid.
10. Tennyson, Ibid.
11. Insurance Research Council, "Michigan's No-Fault System Pressured by Catastrophic Claims, Changes in Treatment Patterns," PRWeb.com, April 12, 2012. http://www.prweb.com/releases/IRCMichiganNoFault/April2012/prweb9395620.htm
12. CPI Inflation Calculator, U.S. Bureau of Labor Statistics. http://www.bls.gov/data/inflation_calculator.htm




*SOURCE: Insurance Research Council*

in 2002, $325,000 in 2003, $350,000 in 2004, $375,000 in 2005, $400,000 in 2006, $420,000 in 2007, $440,000 in 2008, $460,000 in 2009, and $480,000 in 2010, before finally reaching the current $500,000 in July 2010.[13]

IRC found that medical expenses now account for roughly 83 percent of the cost of closed claims and 90 percent of open catastrophic claims (those that have not yet settled with payment), with hospital utilization and changes in treatment patterns acting as drivers of the cost increases. While just 8 percent of claimants reported receiving magnetic resonance imaging scans in 2002, that percentage doubled to 16 percent in 2011. Computed tomography scans likewise increased from 16 percent of claims to 25 percent.

Those findings were echoed in research from the RAND Institute for Civil Justice, which found that compared to other states, Michigan drivers were 38 percent more likely to get a CT scan following a crash, 25 percent more likely to visit the emergency room, and 12 percent more likely to get an X-ray. RAND concluded that it was the unlimited nature of Michigan's auto insurance medical benefits that drove the increase in utilization.[14] As Paul Heaton, the institute's acting director, wrote:

> Buying PIP in Michigan today is like buying a luxury automobile. If everyone who wanted to drive had to buy a Cadillac, a lot of people would find themselves on foot. Michigan's current rules require every resident to purchase Cadillac-level auto insurance. That keeps premiums high and auto insurance unaffordable for many. By offering consumers more flexibility in PIP coverage, the Michigan legislature can reduce costs for many drivers while enabling those who want the best coverage to continue to buy it.[15]

13. Michigan Senate Fiscal Agency, "S.B. 199: FLOOR ANALYSIS," February 14, 2001. http://www.legislature.mi.gov/documents/2001-2002/billanalysis/Senate/pdf/2001-SFA-0199-F.pdf

14. Heaton, Ibid.
15. Ibid.

MOTORCYLE HELMET REPEAL COULD SPELL FUTURE TROUBLES FOR MCCA

The April 2012 repeal of the state's 40-year-old mandatory motorcycle helmet law may make an already bad situation worse. The MCCA estimates that motorcyclists account for 8 percent of the association's catastrophic claims in excess of $500,000. But a study from the Michigan Office of Highway Safety Planning projects the impact of the helmet repeal will be to increase motorcycle fatalities and incapacitating injuries 88 percent from the five-year average of 773 to 1,457. The Insurance Institute of Michigan, cited data from the National Highway Traffic Safety Administration, has noted that prior repeals of other states' motorcycle helmet laws have been accompanies by subsequent increases of motorcycle fatalities of 50 percent in Kentucky, 81 percent in Florida, and 100 percent in Louisiana.[16]

## RECENT LEGISLATIVE PROPOSALS FOR REFORM

As a result of these problems state lawmakers have proposed a number of reforms to the system. The most significant of these -- House Bill 4936, introduced in September 2011[17] – would end universal unlimited medical benefits and instead give drivers the option of purchasing coverage limits of $500,000, $1 million or $5 million, all of which would be significantly higher than the mandatory minimum coverage limit of $50,000 in New York, the state with the next-highest minimum liability coverage requirement.

The bill also would institute limits on benefits paid for in-home nursing, attendant care, and other services. While the bill was reported out of the House Insurance Committee, it did not receive consideration on the floor of the Legislature. A companion bill, S.B. 649, also was introduced, but did not clear the state Senate Insurance Committee.

Legislation introduced in May 2012 by the state's House Republicans (H.B. 4993 and 5587-5589) proposed that Personal Injury Protection benefits would be denied to those not authorized under U.S. immigration law to be present in the country; for drivers who use a vehicle in the commission of or fleeing from the scene of a crime that would be punishable by more than one year in prison; drivers who were intoxicated, visibly impaired or tested for any amount of a controlled substance in their system; and passengers who knew or should have known that they were traveling in a stolen vehicle. [18]

However, the measures faced opposition from health insurers, hospitals, and other health care providers, who argue that denying PIP coverage would shift costs to these other sources. At the time of the measures' introduction, the Michigan Live news group quoted a home health care provider on the subject, who suggested the changes would be damaging to the state's economy:

> "This is a very bad idea economically for Michigan," said John Prosser II, vice president at Health Partners Inc., a Southfield-based home health care provider that serves patients with catastrophic injuries.
>
> "Compassion matters as well," he said. "They have already been punished by the accident and by their injury."

Lynn Brouwers, president the Michigan Brain Injury Provider Council, testified to the Legislature in May that the insurance industry lacked appropriate drug testing protocols to determine the cause or source of intoxication, which she said could lead to many patients who take necessary prescription medications being denied insurance benefits. Moreover, she said that experts believe up to 38 percent of auto injury fatalities involve drugs or alcohol.[19]

> Hospitals will treat people who are intoxicated at the time of their injuries. Hospitals will be faced with millions in uncompensated care after using all avenues, including third party collection agencies, to get their bills paid. The highest injury group is 16-to-24 year olds. Families will have to foot the bills for their (stupid) teenagers or family members. And the State of Michigan will have to step in to cover medical care when families have spent down to having less than $2,000 in the bank.

Because current Michigan law prohibits consumers from choosing policies that best fit their risk preferences, many – particularly in lower-income groups – choose to go uninsured.

The current system also removes all incentives for consumers to monitor the cost of their treatments, thus inducing moral hazard. In a 2010 paper published by the Heartland

16. Les Rosan, "The Freedom of Choice," The Morning Sun, May 26, 2012 http://www.themorningsun.com/article/20120526/OPINION03/120529760/les-rosan-the-freedom-of-choice
17. HOUSE BILL No. 4936, September 13, 2011, Introduced by Rep. Lund and referred to the Committee on Insurance. http://www.legislature.mi.gov/documents/2011-2012/billintroduced/House/pdf/2011-HIB-4936.pdf
18. Melissa Anders, "Illegal immigrants, drunk drivers and felons wouldn't get injury coverage under proposed auto insurance reform," Mlive.com, May 25, 2012 http://www.mlive.com/politics/index.ssf/2012/05/illegal_immigrants_felons_and.html
19. Lynn Brouwers, "Testimony on Behalf of the Brain Injury Association of Michigan and the Michigan Brain Injury Provider Council," Michigan Brain Injury Provider Council, May 22, 2012. http://house.michigan.gov/sessiondocs/2011-2012/testimony/Committee12-5-31-2012.pdf

Institute, Eli Lehrer makes the case that returning consumer choice to the market, including making purchase of auto liability insurance optional for those who have health insurance.

> Consumers should play the dominant role in Michigan's auto insurance system. The state should aim to create a system that gives them maximum choice and control over the auto insurance policies they purchase. It should strive to create a system that allows motorists happy with their current coverage to keep it, while opening up new options for those who want them.

## REIMBURSEMENT DIFFERENTIALS BETWEEN MEDICARE AND PIP

A frequent cause of concern about proposals to end unlimited medical benefits under Michigan's PIP program is that it would cause a higher proportion of those costs to be shifted from auto insurance consumers to health insurance consumers and, in the case of public programs like Medicare, the State Children's Health Insurance Program, and Medicaid, to taxpayers. If such shifts produced no net benefit, changing only the method of payment for catastrophic care, then it would be reasonable to oppose them. However, state-level data on claims payment trends demonstrates amply that public and private health insurers, with their extensive hospital networks and emphasis on managed care models, stand in much better position to negotiate appropriate rates for catastrophic care services than do auto insurers, with their standard indemnity model.

A review of data provided to R Street by the Insurance Institute of Michigan on average reimbursement rates paid in Detroit and in two other representative Michigan cities for common medical codes associated with PIP claims by no-fault auto insurers, the Medicare program and workers compensation insurers shows some of these tremendous gaps.

To offer just a small sampling of the discounts provided by Medicare and workers' comp insurers, when compared to reimbursements paid by no-fault auto insurers for the same procedures: In Detroit, no-fault auto insurers pay $1,820.09 for CT neck scans, $3,278.55 for lower back MRIs, and $3,258.68 for a neck MRI, compared with $261.50, $484.31, and $483.98, respectively, paid by Medicare for the same treatments in the same city.

DETROIT REIMBURSEMENT RATES FOR COMMON PIP CLAIMS

| PrcCode | Description | No-Fault – Detroit ($) | Medicare-Detroit ($) | Workers Comp ($) | Workers Comp Discount (%) | Medicare Discount (%) |
|---|---|---|---|---|---|---|
| 97710 | Therapeutic strength exercises | 79.38 | 30.66 | 41.57 | 47.63 | 61.38 |
| 98941 | Chiropractic spinal manipulation, 3-4 regions | 72.6 | 36.43 | 48.67 | 32.96 | 49.82 |
| 97140 | Manual physical therapy | 60.8 | 28.91 | 38.03 | 37.45 | 52.45 |
| 97014 | Electrical stimulation therapy | 56.05 | 13.2 | 19.27 | 65.62 | 76.45 |
| 97124 | Massage therapy | 52.36 | 25.07 | 32.96 | 37.05 | 52.12 |
| 99284 | Emergency visit, severe complexity | 443.68 | 124.98 | 170.35 | 61.61 | 71.83 |
| 99283 | Emergency visit, moderate complexity | 297.04 | 65.7 | 90.75 | 69.45 | 77.88 |
| 98940 | Chiropractic spinal manipulation, 1-2 regions | 56.47 | 25.94 | 34.98 | 38.06 | 54.06 |
| 99213 | 15 minute office visit, established patient | 104.4 | 72.84 | 89.23 | 14.53 | 30.23 |
| 97012 | Mechanical traction | 56.94 | 15.99 | 20.79 | 63.49 | 71.92 |
| 97035 | Ultrasound | 66.26 | 12.5 | 16.73 | 74.75 | 81.13 |
| 99214 | 25 minute office visit, established patient | 151.3 | 107.9 | 133.85 | 11.53 | 28.68 |
| 97530 | Occupational therapy to improve functional performance | 53.72 | 33.44 | 43.1 | 19.77 | 37.75 |
| 72040 | Spinal or cervical X-ray, 2 or 3 views | 161.96 | 41.59 | 54.76 | 66.19 | 74.32 |
| 97112 | Neuromuscular re-education | 77.69 | 32.05 | 42.08 | 45.84 | 58.75 |
| 72125 | CT scan – Neck | 1820.09 | 261.5 | 418.78 | 76.99 | 85.63 |
| 72141 | MRI – Neck | 3258.68 | 483.98 | 769.63 | 76.38 | 85.15 |
| 72148 | MRI – Lower back | 3278.55 | 484.31 | 765.67 | 76.65 | 85.23 |
| 72193 | CT scan – Pelvis | 1828.04 | 305.65 | 477.59 | 73.87 | 83.28 |
| 72050 | X-ray – Spine | 227.55 | 55.89 | 77.06 | 66.13 | 75.44 |
| 29826 | Surgery – Shoulder | 2806.13 | 730.7 | 939.98 | 66.50 | 73.96 |

*SOURCE: Insurance Institute of Michigan*

## REST OF MICHIGAN REIMBURSEMENT RATES FOR COMMON PIP CLAIMS

| PrcCode | Description | No-Fault – Lansing ($) | No-Fault – Grand Rapids ($) | Medicare-Rest of Michigan ($) | Workers Comp ($) | Workers Comp Discount - Lansing (%) | Workers Comp Discount - Grand Rapids (%) | Medicare Discount - Lansing (%) | Medicare Discount - Grand Rapids (%) |
|---|---|---|---|---|---|---|---|---|---|
| 97710 | Therapeutic strength exercises | 56.17 | 57.97 | 29.03 | 41.57 | 25.99 | 28.29 | 48.32 | 49.92 |
| 98941 | Chiropractic spinal manipulation, 3-4 regions | 60.67 | 57.05 | 34.22 | 48.67 | 19.78 | 14.69 | 43.60 | 40.02 |
| 97140 | Manual physical therapy | 43.02 | 44.41 | 27.37 | 38.03 | 11.60 | 14.37 | 36.38 | 38.37 |
| 97014 | Electrical stimulation therapy | 34.84 | 34.92 | 12.35 | 19.27 | 44.69 | 44.82 | 64.55 | 64.63 |
| 97124 | Massage therapy | 37.05 | 38.24 | 23.67 | 32.96 | 11.04 | 13.81 | 36.11 | 38.10 |
| 99284 | Emergency visit, severe complexity | 422.68 | 380.9 | 115.24 | 170.35 | 59.70 | 55.28 | 72.74 | 69.75 |
| 99283 | Emergency visit, moderate complexity | 282.98 | 255.01 | 60.92 | 90.75 | 67.93 | 64.41 | 78.47 | 76.11 |
| 98940 | Chiropractic spinal manipulation, 1-2 regions | 47.19 | 44.37 | 24.61 | 34.98 | 25.87 | 21.16 | 47.85 | 44.53 |
| 99213 | 15 minute office visit, established patient | 98.57 | 95.81 | 67.81 | 89.23 | 9.48 | 6.87 | 31.21 | 29.22 |
| 97012 | Mechanical traction | 35.39 | 35.47 | 15.06 | 20.79 | 41.25 | 41.39 | 57.45 | 57.54 |
| 97035 | Ultrasound | 49.8 | 43.82 | 11.74 | 16.73 | 66.41 | 61.82 | 76.43 | 73.21 |
| 99214 | 25 minute office visit, established patient | 142.85 | 138.85 | 100.61 | 133.85 | 6.30 | 3.60 | 29.57 | 27.54 |
| 97530 | Occupational therapy to improve functional performance | 64.7 | 60.04 | 31.62 | 43.1 | 33.38 | 28.21 | 51.13 | 47.34 |
| 72040 | Spinal or cervical X-ray, 2 or 3 views | 124.7 | 128.38 | 38.29 | 54.76 | 56.09 | 57.35 | 69.29 | 70.17 |
| 97112 | Neuromuscular re-education | 54.97 | 56.74 | 30.33 | 42.08 | 23.45 | 25.84 | 44.82 | 46.55 |
| 72125 | CT scan – Neck | 1142.25 | 1176.14 | 244.59 | 418.78 | 63.34 | 64.39 | 78.59 | 79.20 |
| 72141 | MRI – Neck | 2045.08 | 2105.76 | 452.4 | 769.63 | 62.37 | 63.45 | 77.88 | 78.52 |
| 72148 | MRI – Lower back | 2057.55 | 2118.6 | 452.56 | 765.67 | 62.79 | 63.86 | 78.00 | 78.64 |
| 72193 | CT scan – Pelvis | 1147.24 | 1181.28 | 285.66 | 477.59 | 58.37 | 59.57 | 75.10 | 75.82 |
| 72050 | X-ray – Spine | 175.02 | 180.37 | 51.79 | 77.06 | 55.97 | 57.28 | 70.41 | 71.29 |
| 29826 | Surgery – Shoulder | 2201.71 | 3041.06 | 654.87 | 939.98 | 57.31 | 69.09 | 70.26 | 78.47 |

*SOURCE: Insurance Institute of Michigan*

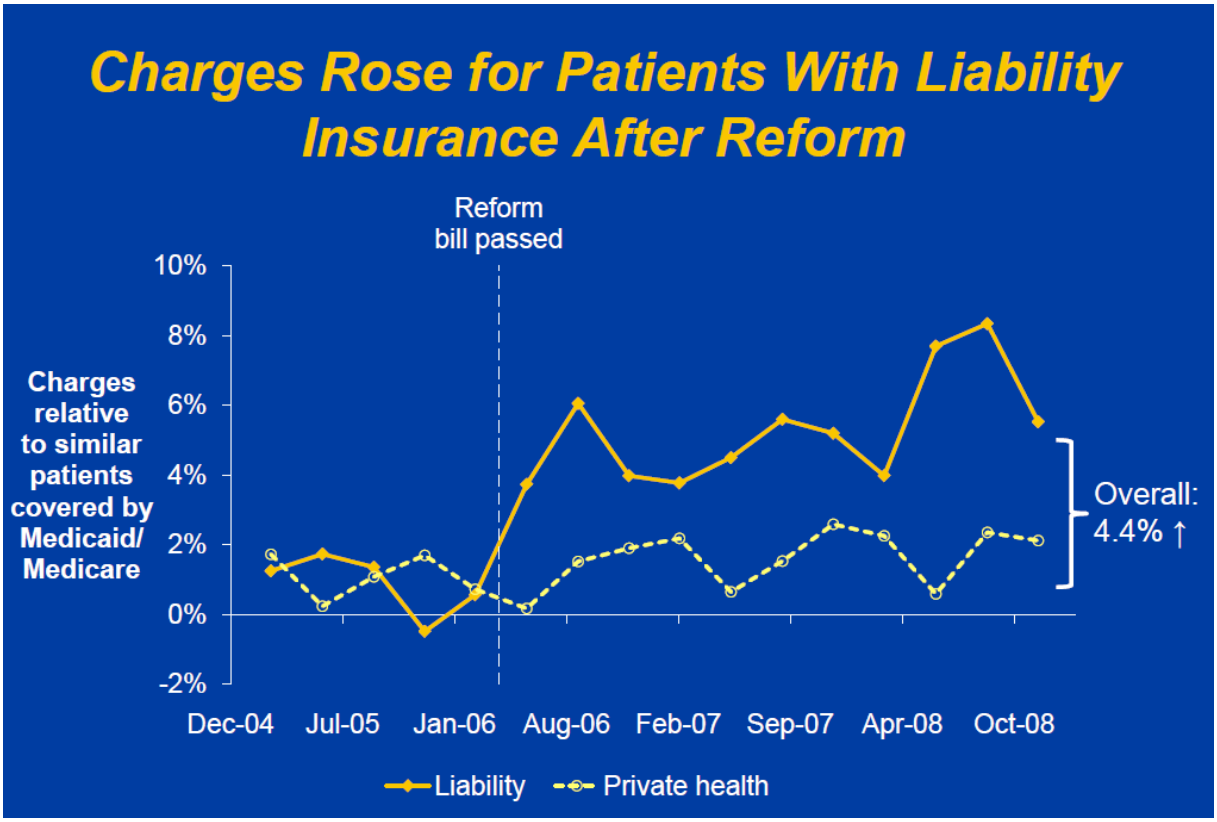
In the rest of Michigan, Medicare would pay just $244.59 for a CT neck scan (compared to $1,142.25 in Lansing and $1,176.14 in Grand Rapids by no-fault auto insurers); $452.56 for a lower back MRI (no-fault pays $2,057.55 in Lansing and $2,118.60 in Grand Rapids); and $452.40 for a neck MRI (no-fault pays $2,045.08 in Lansing and $2,105.76 in Grand Rapids.

For every procedure under analysis, typical reimbursements paid by auto insurers are higher, in some cases several times higher, than those paid by Medicare, suggesting that significant costs savings can be realized by migrating catastrophic claims from PIP to public and private health insurers.

Reimbursements are also uniformly higher, although by not quite as dramatic a degree, as those paid by private workers' comp insurers. Workers' comp insurers paid just $418.78 for CT neck scans, $766.67 for lower back MRIs and $769.63 for neck MRIs. Workers' comp insurers pay $16.73 for ultrasound tests, compared to $66.26 for auto insurers in Detroit, $49.80 for those in Lansing, and $43.82 for those in Grand Rapids. For an emergency room visit of moderate medical complexity, workers' comp insurers pay $90.75, compared to $297.04 for auto insurers in Detroit, $282.98 for those in Lansing, and $255.01 for those in Grand Rapids.

While not as stark as the differentials presented by Medicare reimbursements, the relatively more affordable reimbursement costs for workers comp insurers suggest that savings also could be realized by moving toward a fee schedule similar to that employed by workers comp insurers.

The desirability of both medical fee schedules and shifting more of the burden of catastrophic care from auto insurers




*SOURCE: RAND Institute for Civil Justice*

and the MCCA and to health insurers, Medicare and Medicaid is bolstered when we anticipate coming effects from the implementation of the Patient Protection and Affordable Care Act.

An early window into the effects that PPACA could have on the property and casualty industry is offered by analysis of claims trends in Massachusetts following its own health care reform experiment. While there are some notable differences between PPACA and the 2006 Massachusetts health reform, the core elements of the latter – an individual mandate to purchase coverage, mandates for large employers to provide coverage, an exchange on which health insurance policies are bought and sold, government subsidies for low-cost plans and expansion of Medicaid – are all also key features of the former.

The RAND Institute for Civil Justice studied the spillover effects from the Massachusetts reforms on both the workers' compensation market[20] and auto liability insurers, finding very different impacts for the two markets.[21] While the reforms reduced the number of workers compensation bills by between 5 percent and 10 percent – largely accounted for by increased coverage of the Medicaid population – the changes increased liability insurers bills by more than 4 percent.

Analyzing micro-data from the federal Agency for Healthcare Research and Quality's Healthcare Cost and Utilization Project, for 9.5 million Massachusetts emergency room visits between 2005 and 2008, RAND found that Massachusetts liability insurers paid for 12 percent of all ER visits for traumatic injuries and 60% of ER visits for auto injuries.

Following health care reform, emergency room charges for liability insurers rose 4 percent. Emergency charges for Massachusetts liability insurers were about $150 million annually. The charges grew most in less profitable hospitals, which RAND found to be consistent with cost-shifting away from public and private health insurance and to liability insurers.

20. Paul Heaton, "The Impact of Health Care Reform on Workers' Compensation Medical Care: Evidence from Massachusetts," RAND Institute for Civil Justice, 2012. http://www.rand.org/content/dam/rand/pubs/technical_reports/2012/RAND_TR1216.pdf

21. Paul Heaton, "How Will Health Care Reform Affect Property-Casualty Insurers? : Evidence from Massachusetts," presentation to the AIA Law and Regulation Committee, November 2011

## CONCLUSION

The cost spiral of PIP claims in Michigan, already unsustainable, could soon be accelerated by such external factors as the state's decision to strike its mandatory motorcycle helmet law and cost shifts associated with changes brought on by the Affordable Care Act. In order to avoid increasing the deficits faced by, and the assessments charged by, the MCCA, the state should pursue reforms of its auto insurance system. We offer the following three recommendations for legislative changes:

1. **Encourage the use of health insurance as primary payor for medical benefits:** It already is permissible under Michigan for an insured to opt to designate his or her health insurer, health maintenance organization or other health benefit plan as the primary payor for injuries arising from automobile accidents. Where a consumer has opted to make this switch, PIP benefits would still apply on an excess basis, paying for those necessary benefits that are not covered by a health insurance policy or health benefits plan. Medicare and Medicaid may not be selected as primary insurers for auto accidents, although both may provide coverage on a secondary basis.[22]

   Because of Michigan's uncapped medical benefits regime, consumers have typically had little incentive to consider making health insurance their primary payor. Health insurance plans are typically more restrictive in where and how care is delivered and frequently included steeper deductibles and co-payments. However, as the data shows, Michigan auto insurers have not been successful in controlling medical costs, and shifting more care into the health insurance market is likely to have positive benefits for cost containment. Moreover, the Affordable Care Act makes it mandatory for all Americans to carry health insurance coverage. We suggest state lawmakers can make it easier to take advantage of these positive features of the health insurance market by allowing auto insurers to set as a policy default that health insurance will serve as a primary payor. Those who agree to this default coverage arrangement would see their premiums significantly discounted compared to those who instead choose to keep PIP as primary payor.

2. **Institute a medical fee schedule based on the state workers' compensation fee schedule.** As demonstrated by the data above, reimbursements paid by workers' comp insurers according to a pre-determined fee schedule represent a significant discount to those paid by auto insurers (although not as significant as the even lower reimbursements paid by Medicare.) The experience of fee schedules in controlling medical cost inflation has been broadly positive across most states that have implemented them. In August 2012, NCCI Holdings Inc. published analysis of more recent workers' comp fee schedules adopted in Tennessee in July 2005 and Illinois in February 2006.[23] NCCI found price level declines of more than 7 percent in Tennessee and 5 percent in Illinois, and reductions in the rate of inflation of 0.3 percentage points in Tennessee and 0.6 percentage points in Illinois.

   We believe legislation that limits reimbursements to physicians, hospitals and clinics that render treatment to those injured in automobile accidents to the levels set by current Michigan workers' compensation fee schedules for medical care would have similar effects in controlling medical inflation that threatens to cripple the Michigan auto insurance market.

3. **Permit consumers more choice in auto insurance plans.** As proposed by by H.B. 4936, we believe the market would be best served by permitting consumers the option to choose the level of medical benefits they wish to obtain through their auto insurance carrier. In 49 states and the District of Columbia, consumers are able to obtain auto insurance coverage with minimum liability or PIP benefits of no more than $50,000, the level required in New York. Michigan's unique system forces drivers to purchase more coverage than they otherwise would, resulting in among the highest levels of auto insurance premiums, high levels of uninsured drivers, and a wasteful and inefficient financing system of catastrophic care.

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22. Centers for Medicare and Medicaid Services, "Medicare and Other Health Benefits: Your Guide to Who Pays First" http://www.medicare.gov/Pubs/pdf/02179.pdf

23. Frank Schmid and Nathan Lord, "The Impact of Physician Fee Schedule Introductions in Workers Compensation: An Event Study," NCCI Holdings, August 3, 2012. https://www.ncci.com/documents/Impact-PhysicianFee-Schedule-Intro-WC-Study.pdf