



Medical Costs of
No-fault Automobile
Insurance

Medical Costs of No-fault Automobile Insurance

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For the Michigan House Select Committee on Reducing Car Insurance Rates

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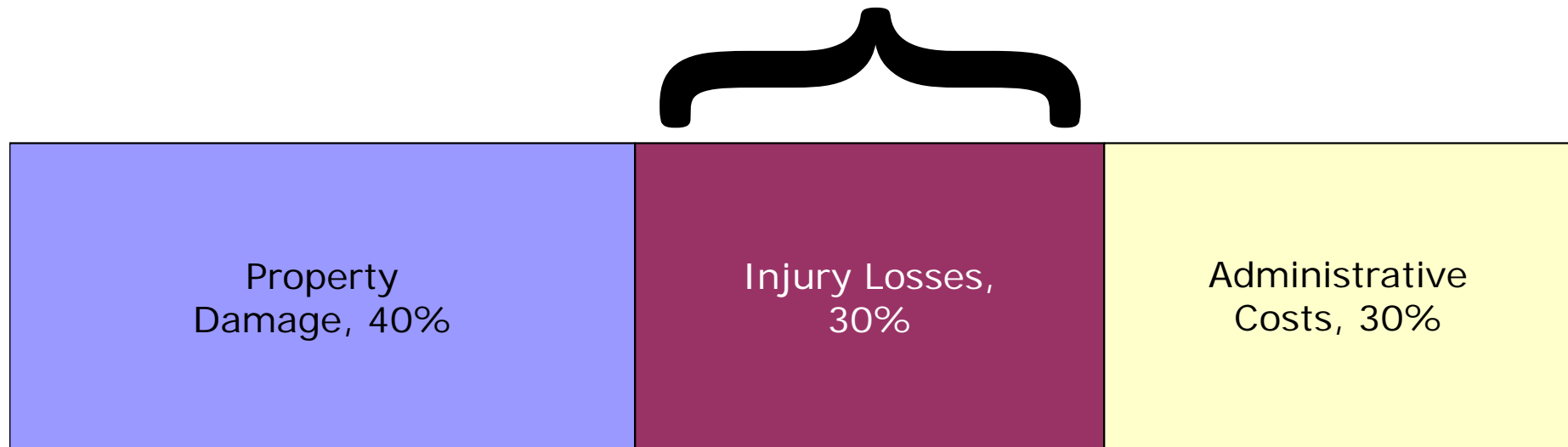
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Independent Research

- We did not receive any funds specifically related to this study
- We solicited input from key stakeholders for this research, but the final product is solely our own, and this work does not necessarily represent the views of any individual stakeholder.
- Our Board of Directors values our independence and does not exercise editorial control over the research. The views represented in this research do not necessarily reflect the views of the board members either collectively or individually.
- *Medical Costs of No-Fault Automobile Insurance*
Report 385, October 2013

Scope of Report



Distribution of Auto Insurance Premium Costs,
National Average

No Fault vs Tort Auto Insurance

No Fault vs Tort Systems

- No Fault auto insurance
 - Auto accident victim receives compensation from his/her own insurance company
 - Don't have to show fault of the other driver in order to recover compensation from that driver's insurance company
 - First-party insurance – an individual's own insurance company, rather than another person's insurer, provides the reimbursement
- Tort-based auto insurance
 - Auto accident victims must show fault of the other driver before recovering damages from the other party's insurance (a third party)

True No-Fault Auto Insurance is a Pipe Dream

- True no-fault auto insurance eliminates tort claims for auto accidents
 - It is neither necessary or possible to sue
 - Victims are compensated more fairly and promptly
- True no-fault exists only in theory
 - **Verbal Thresholds** allow lawsuits only when damages meet certain criteria
 - Michigan – lawsuits may only be pursued in cases involving serious impairment of body function, permanent disfigurement, or death
 - **Dollar Thresholds** limit lawsuits to cases where economic damages exceed a certain dollar amount

Michigan's History with No Fault

Michigan's History with Auto Insurance

- Public Act 294 of 1972
 - Enacted no-fault system by adding to Insurance Code requirement that all drivers purchase Personal Injury Protection (PIP) coverage
 - Goals
 - Lower premium costs
 - More equitable payment of claims
 - Fewer fraudulent claims
 - Faster claims processing

Summary of Michigan's Auto Insurance

- Requires drivers to purchase **personal injury protection (PIP)**
 - First priority for PIP benefit
 - Duplicative health care coverage (auto and health insurance)
- **No cap** on medical benefits
 - Claims above \$530K are reimbursed by the Michigan Catastrophic Claims Association (MCCA)
- **Bodily Injury** – insured drivers found legally responsible for an accident can be sued for damages
- **Verbal Tort Threshold** – limits tort access to cases of death, serious bodily impairment, or serious disfigurement

Michigan Catastrophic Claims Association

- Created to reinsure auto insurers from the financial risk associated with unlimited lifetime medical benefits of those injured in auto accidents
- PIP claims that exceed a certain amount (retention level) over the lifetime of the claim
 - July 1, 2019 through June 30, 2021 – \$580,000
- MCCA assesses each auto insurance company a fixed premium per vehicle to fund the reimbursements
 - Typically passed on to consumers
 - Currently \$192/vehicle

More Statutory History

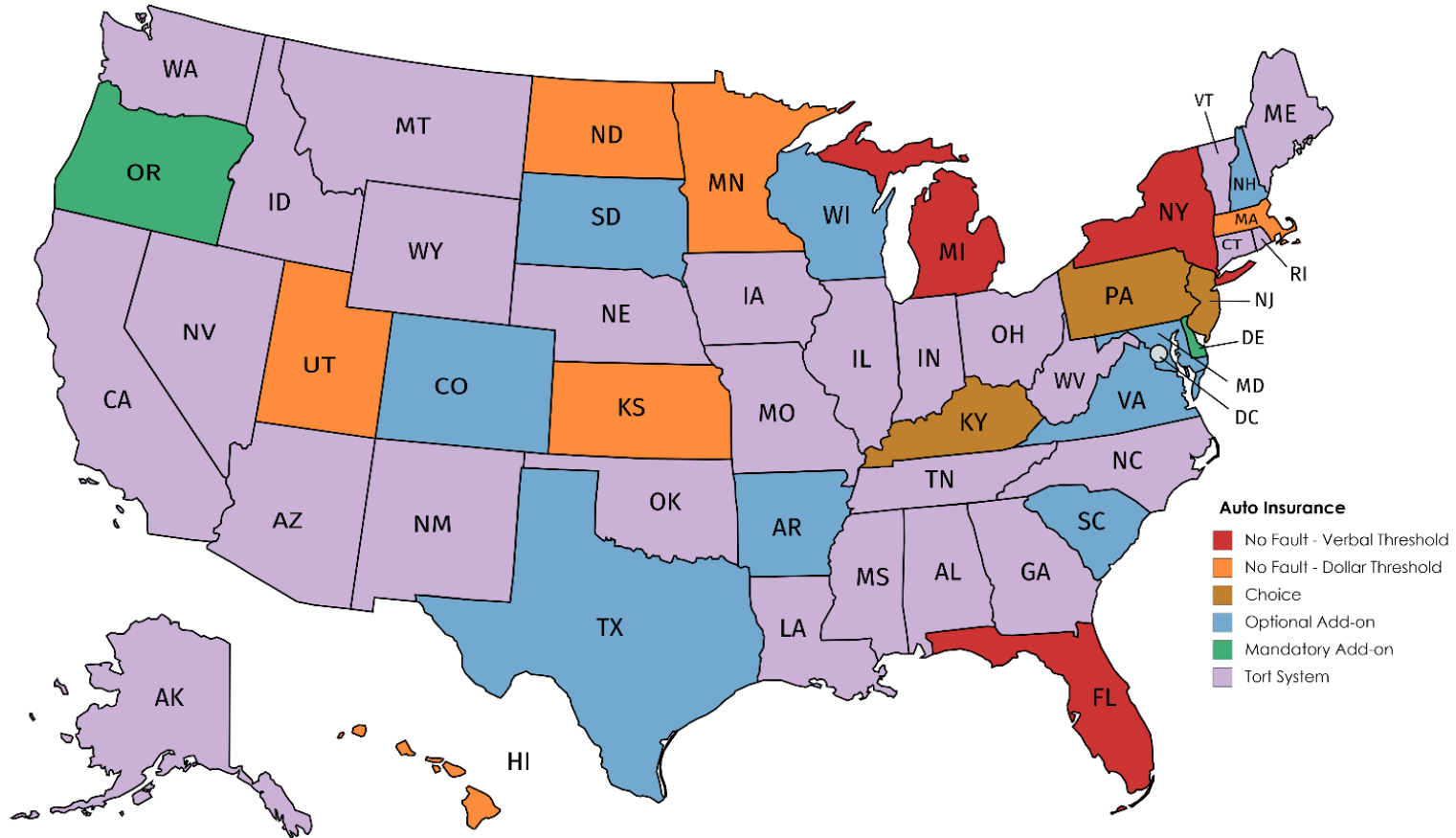
- Modified by PAs 145 and 147 of 1978 (Essential Insurance Act)
 - Michigan Supreme Court ruled part of the original law unconstitutional
 - Law could not require auto owners to purchase PIP if insurers were not offering PIP
 - Changes made insurance more affordable and available
 - Delayed requirement to purchase PIP
 - Establish objective criteria as sole basis for risk classifications
 - Restrict range of rates which insurers could impose in different geographic areas
- 1986 Amendments (PA 10)
 - Suspended territorial restrictions in Essential Insurance Act for 5 years
 - Subsequently extended for another year

No-Fault Initiative and Referendum Reform Efforts

- Proposal D of 1992
 - Enforcing rate reductions of 20%
 - \$250,000 cap on medical benefits
 - Optional coverage up to \$5 million
 - Mandatory benefit coordination
 - Defeated 62.6% to 37.4%
- Proposal C of 1994
 - Referendum on Public Act 143 of 1993
 - \$1 million cap on benefits (option of additional coverage up to \$5 million)
 - Insurers required to reduce insurance rates by at least 16%
 - Strengthened verbal threshold categories
 - Defeated 60.9% to 39.1%

Auto Insurance in the States

Auto Insurance in the 50 States



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Optional and Choice States

- **Add-on insurance** – PIP coverage is added on to a conventional tort system
 - No limitations on accessing the tort systems, but consumers may or must have PIP coverage as well
 - **Mandatory** – require purchase of PIP coverage
 - **Optional** – require insurers to offer PIP coverage
- **Choice** – consumers may choose between traditional tort systems and limited tort insurance

Average Cost of Car Insurance Premiums in 2019

Location	Annual Premiums	Notes
United States Average	\$1,470	
Great Lakes Average	\$1,399	
Michigan	\$2,693	Highest in U.S.
Detroit	\$5,464	Highest in U.S.
New Orleans	\$3,686	2 nd Highest in U.S.
New York City	\$2,814	

The Zebra. "The State of Auto Insurance," 2019 (<https://www.thezebra.com/state-of-insurance/auto/2019/#full-report>, accessed 2/16/19).

Medical Issues in Michigan's No-Fault Auto Insurance

How Victims use the Systems

- In theory, verbal thresholds should reduce medical costs and number of tort cases
 - Studies have found that the opposite is happening
 - Tort thresholds tempt victims to run up medical costs to gain access to tort system
- No-fault states may see more lawsuits
 - Accumulation of costs creates perceived need for monetary recompense
 - In tort states, victims may be more likely to accept first settlement offers in order to pay necessary medical bills
- Medical expenditure per claim are higher in no-fault insurance states
 - Higher number of claims
 - Higher number of fraudulent claims
 - Higher reimbursement rates
 - Fewer safety features in insured vehicles

Issue Summary

- Health care costs are growing in Michigan 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
- 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

- **Auto insurers pay higher prices**
- Medical prices paid by auto insurers are higher than Medicare, workers' compensation insurance, and most private health insurers
- Most payers are *charged* the same, but many pay less than the amount charged
- Michigan'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*

Michigan Insurance Code and Case Law

- Section 3157 of the Insurance Code states,
 - “A physician, hospital, clinic or other person or institution lawfully rendering treatment to an injured person for an accidental bodily injury covered by personal protection insurance, and a person or institution providing rehabilitative occupational training following the injury, **may charge a reasonable amount** for the products, services and accommodations rendered. The charge **shall not exceed the amount the person or institution customarily charges** for like products, services and accommodations in cases not involving insurance.”
- *Munson Medical Center v Auto Club Insurance Association* (1996)
 - Amount a person or institution “customarily charges” means **the standard amount a provider bills**, regardless of whether the provider routinely accepts less than this amount

Medical Fee Comparison (2013 prices)

Service Description	Average Price Paid			Percent No-Fault Reimbursement Exceeds...	
	No-Fault Reimbursement	Medicare Reimbursement	Statewide Workers' Compensation	Medicare	Statewide Workers' Compensation
PT – Therapeutic Exercises (15 min)	\$79.38	\$30.66	\$41.57	159%	91%
Chiropractic manipulative treatment	\$72.60	\$36.43	\$48.67	99%	49%
ER Visit – Moderate	\$297.04	\$65.70	\$90.75	352%	227%
PT – Ultrasound	\$66.26	\$12.50	\$16.73	430%	296%
Office Visit – Est. Patient	\$151.30	\$107.90	\$133.85	40%	13%
Neck CT Scan	\$1,820.09	\$261.50	\$418.78	596%	335%

Drivers of Higher Auto Accident Related Medical Spending

- **Auto accident victims in no-fault states use more medical services**
- Victims in states with no-fault more likely to
 - Visit the emergency room
 - Have an overnight hospital stay
 - Visit a chiropractor, physical therapist, dentist, or psychotherapist
- Michigan's structure contributes to this more than other states
 1. All reasonable charges
 2. Limited ability to constrain service use
 3. More necessary services

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

Drivers of Higher Auto Accident Related Medical Spending

- **Michigan offers unlimited lifetime medical benefits**
- Large amounts for relatively small number of claimants
- Health care costs need to be paid by someone
 - Health insurers, Medicaid, or victims themselves
- Tort states impose treatment and usage limitations
 - Possibly higher out-of-pocket expenses
- Medicaid states provide low reimbursement rates and may require assets spend down

Unlimited Lifetime Medical Benefits

- Michigan 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

Drivers of Higher Auto Accident Related Medical Spending

- Medical prices may be higher if health services are higher quality
- Victims do not have to wait to receive care
 - Could bring about more fraud and abuse
- Health providers will not hesitate to provide quality care
 - They know they will be paid for their services
- Suggests the need for audit function or third party validation of costs

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

4. Change from Mandatory to “Add-on” PIP

- 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 Michigan 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

Final Comments

- Research shows that medical claims for auto accidents cost 57% more in Michigan than for similar crashes in other states
- Our paper outlines policy options that can potentially be used to lower these costs
 - We are *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 Michigan's higher spending on auto accident related medical costs, the policy options involve tradeoffs that policymakers should keep in mind.

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