



Testimony of Tricia Kinley, Insurance Alliance of Michigan
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Michigan Senate Insurance and Banking Committee

Good Morning Senators and Chairwoman Theis, I am Tricia Kinley, with the Insurance Alliance of Michigan and on behalf of our member companies I appreciate the invitation to speak before you today about reforming Michigan's auto insurance system. We applaud your efforts to take a methodical approach to understanding this issue and look forward to working with you towards a common goal.

For those of you unfamiliar with IAM, we are the recently unified voice of 33-member companies who provide property/casualty insurance to the residents and employers of Michigan. Beyond auto insurance, our members provide coverage for home, business, workers comp, medical malpractice insurance and more. Property Casualty insurers employ over 16,500 employees directly in Michigan. Our members are the companies who help people put their lives back together when disaster strikes.

At IAM, we are seeing first-hand that Michigan's auto insurance system is unaffordable for many, and unsustainable in the long run.

IAM has supported many reforms over the last two decades. Today I will mention three and focus on one:

First, IAM strongly supports allowing consumer choice in the marketplace. While a handful of other states require a certain level of Personal Injury Protection (PIP) benefits, Michigan stands alone in the category of mandating the purchase of unlimited PIP benefits, resulting in the most costly insurance in the country. 26 states do not require residents to buy *any* PIP coverage. The next closest state to Michigan's unlimited requirement is New York which mandates just \$50,000 in minimum coverage. Allowing policyholders to select the amount of medical coverage that fits their needs under their auto policy, would be a meaningful way to lower costs.

Second, IAM strongly supports better efforts to combat fraud in the auto insurance system. The unlimited nature of the benefits, and the lack of cost-controls simply invites fraudulent behavior. It has been well-documented in the Detroit Free Press

investigative series that rampant auto insurance fraud is a real and growing problem in Michigan.

Third, IAM strongly supports the implementation of a medical fee schedule. Why? As you previously heard from the Citizens Research Council (CRC), it costs approximately 57% more to settle medical claims in Michigan compared to other states. Our own past study concluded that by 2009 the costs of no-fault claims in Michigan were nearly four-times those of other no-fault states.

In fact, just yesterday the Insurance Research Council issued a report looking at trends in auto injury claims. Not surprisingly Michigan has the dubious distinction of being top in all the measures we don't want to be top in.

The study showed:

Michigan is number one in terms of PIP claim "severity" (which is the average cost of claims paid). Perhaps more alarming is that the increase between 2008 and 2017 is 60%! That means claim costs are going up every year and outpacing the nation by nearly double.

The report also shows that Michigan is number one in PIP "loss costs" by state (this is the costs of paid claims *per insured vehicle*) which is more than double the next highest increase in New York.

This has to change.

The report does NOT suggest that Michigan drivers are worse drivers, or are in more, or *more severe* accidents. No - the report attributes Michigan's skyrocketing costs to our unique unlimited benefit system.

The medical provider costs charged to, and accepted as payment from, auto insurers are a key component to what is driving up these claim costs and putting Michigan in its own unflattering category.

You may hear from medical providers that what they charge is not what they generally accept from auto insurers. Our evidence proves otherwise, and the reality is that important case law has virtually cast in stone the ability for medical providers to charge whatever they want.

I've provided a handout of different amounts paid by our members between no-fault, workers' comp, and Medicare. As you can see there is a consistent pattern whereby healthcare providers from across the state (Detroit, Lansing, Grand Rapids) are consistently demanding higher amounts from auto insurers than they are for Medicare or workers' compensation carriers (for the same services). The payments on that chart are anywhere from 13% higher to 334%, simply because they are auto-related accidents.

Another example, one of many, is a company who was forced to pay \$901 to a diagnostics company in Dearborn for an auto-related cervical MRI, only to find themselves paying just \$171 for a workers' comp-related cervical MRI...the exact same procedure from the exact same facility. This is a 500%+ difference.

This is simply unfair, and the ultimate losers are Michigan drivers.

We are also in the process of asking members to run cost *saving* estimates using a variety of different cost-saving scenarios. As an example, members have found if you were to implement the workers compensation fee schedule, they'd predict a 10-13% savings compared to current unlimited PIP costs.

Similarly, using the Medicare fee schedule one could realize potentially 12-15% in savings.

And again, using a fee schedule of 125% of Medicare: one could realize potentially 10-13% in savings.

Keep in mind these are estimates of just the PIP portion of medical charges, for just a handful of scenarios and are independent of other potential reform benefits.

Furthermore – there are many services covered under no-fault for which there are no corresponding workers comp codes, making our estimates conservative at best.

But we simply want to give you a feel for the savings of doing what other states, and other insurance models incorporate every day.

Medical fee schedules are used universally to contain costs – except in the Michigan auto insurance system. A fee schedule that has brought predictability to the workers' compensation and Medicare market, and coupled with allowing choice in the marketplace, would result in significant cost relief to consumers.

I appreciate the opportunity to be here and would be happy to take any questions.

Michigan No-Fault Reform

PrcCode	Description	No-Fault Reimbursement			Medicare Reimbursement		Workers Comp (What Brooks Pays)
		Detroit	Lansing	Grand Rapids	Detroit	Rest of Michigan	
97110	Therapeutic exercises for strength (each 15 minutes); usually charged by Physical Therapist	79.38	56.17	57.97	30.66	29.03	41.57
98941	Chiropractic manipulative treatment; spinal, 3-4 regions	72.60	60.67	57.05	36.43	34.22	48.67
97140	Manual therapy (each 15 minutes) - physical therapy	60.80	43.02	44.41	28.91	27.37	38.03
97014	Electrical stimulation - physical therapy	56.05	34.84	34.92	13.20	12.35	19.27
97124	Massage (each 15 minutes) - physical therapy	52.36	37.05	38.24	25.07	23.67	32.96
99284	Emergency department visit; severe medical complexity	443.68	422.68	380.90	124.98	115.24	170.35
99283	Emergency department visit; moderate medical complexity	297.04	282.98	255.01	65.70	60.92	90.75
98940	Chiropractic manipulative treatment; spinal, 1-2 regions	56.47	47.19	44.37	25.94	24.61	34.98
99213	Office visit, established patient; typically 15 minutes	104.40	98.57	95.81	72.84	67.81	89.23
97012	Mechanical traction - physical therapy	56.94	35.39	35.47	15.99	15.06	20.79
97035	Ultrasound (each 15 minutes) - physical therapy	66.26	49.80	43.82	12.50	11.74	16.73
99214	Office visit, established patient; typically 25 minutes	151.30	142.85	138.85	107.90	100.61	133.85
97530	Therapeutic activities, improve functional performance (each 15 minutes); generally charged by Occupational Therapists	53.72	64.70	60.04	33.44	31.62	43.10
97112	Neuromuscular re-education (each 15 minutes) - physical therapy	77.69	54.97	56.74	32.05	30.33	42.08
72040	X-ray, spine, cervical; 2 or 3 views	161.96	124.57	128.38	41.59	38.29	54.76
72125	CT Scan - Neck	1,820.09	1,142.25	1,176.14	261.50	244.59	418.78
72141	MRI - Neck	3,258.68	2,045.08	2,105.76	483.98	452.40	769.63
72148	MRI - Low Back	3,278.55	2,057.55	2,118.60	484.31	452.56	765.57
72193	CT Scan - Pelvis	1,828.04	1,147.24	1,181.28	305.65	285.66	477.59
72050	X-Ray - Spine	227.55	175.02	180.37	55.89	51.79	77.06
29826	Surgery - Shoulder	2,806.13	2,201.71	3,041.06	730.70	654.87	939.98

Trends in Auto Injury Claims

2019 EDITION



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Figure 10

2017 PIP Claim Severity by State

	Type of Law	Average PIP Claim Payment	2008–17 Change
Michigan	NF (V)	\$57,291	60%
New Jersey	CH	\$16,889	7%
New York	NF (V)	\$12,080	46%
Countrywide		\$8,929	30%
Florida	NF (V)	\$8,277	21%
Minnesota	NF (\$)	\$7,820	18%
Delaware	AO	\$7,681	7%
Washington, D.C.	AO	\$6,120	24%
North Dakota	NF (\$)	\$6,081	33%
Kentucky	CH	\$5,424	8%
Hawaii	NF (\$)	\$5,177	24%
Washington	AO	\$4,595	23%
Pennsylvania	CH	\$4,196	3%
Oregon	AO	\$4,161	23%
Massachusetts	NF (\$)	\$3,543	14%
Kansas	NF (\$)	\$3,417	19%
Texas	AO	\$3,417	27%
Maryland	AO	\$2,820	11%
South Carolina	AO	\$2,744	17%
Utah	NF (\$)	\$2,185	15%

State auto insurance laws: T = tort liability, AO = add-on, NF (\$) = no-fault with monetary threshold, NF (V) = no-fault with verbal threshold, CH = choice.

- The countrywide average payment for a PIP claim in 2017 was \$8,929, an increase of 30 percent from 2008. The countrywide average was greatly influenced by extremely high claim severity in Michigan (\$57,291). The median state claim severity, \$5,177 (Hawaii), was 40 percent less than the countrywide average (mean) because the states with above-average severity were also large states. The lowest PIP claim severity in 2017 was \$2,185, in Utah.

- * • Michigan's comparatively high PIP claim severity is due to the unlimited nature of PIP benefits in the state. In other states, policy limits cap total PIP benefits at a specified level. In contrast, PIP benefits in Michigan are not subject to a cap. Michigan PIP coverage also includes benefits for in-home attendant care, the cost of which has increased significantly in recent years.²³
- Three of the four states with the greatest PIP claim severities were no-fault states with verbal thresholds. Add-on and choice states were no more likely to experience higher- or lower-than-average PIP claim severities than no-fault states were.
- The largest increases in PIP claim severity from 2008 through 2017 occurred in Michigan (60 percent), New York (46 percent), and North Dakota (33 percent).

²³ For more information about Michigan's no-fault system and factors related to its high PIP claim severity, see "No-Fault Auto Injury Claims in Michigan: A Study of Closed Claims and Open Catastrophic Claims," Insurance Research Council, March 2012.

Figure 14

2017 PIP Loss Costs by State

	Type of Law	2017 PIP Loss Costs	2008–17 Change
Michigan	NF (V)	\$467.93	71%
New Jersey	CH	\$182.48	-3%
New York	NF (V)	\$166.31	35%
Florida	NF (V)	\$156.62	33%
Delaware	AO	\$133.33	10%
Countrywide		\$113.27	26%
Minnesota	NF (\$)	\$75.23	-8%
Kentucky	CH	\$67.25	8%
Oregon	AO	\$61.04	1%
Maryland	AO	\$53.80	18%
Pennsylvania	CH	\$53.53	-10%
Washington	AO	\$49.74	-8%
Hawaii	NF (\$)	\$44.01	-3%
North Dakota	NF (\$)	\$36.77	14%
Texas	AO	\$35.21	17%
South Carolina	AO	\$33.56	28%
Massachusetts	NF (\$)	\$32.61	-5%
Kansas	NF (\$)	\$27.33	-16%
Utah	NF (\$)	\$25.39	-2%
Washington, D.C.	AO	\$15.27	1%

State auto insurance laws: T = tort liability, AO = add-on, NF (\$) = no-fault with monetary threshold, NF (V) = no-fault with verbal threshold, CH = choice.

- PIP loss costs in 2017 also varied significantly across states, ranging from \$15 in Washington, D.C., to \$468 in Michigan. From 2008 through 2017, PIP loss costs countrywide increased 26 percent, from \$90 to \$113.
- Three of the four states with the highest PIP loss costs had no-fault systems with verbal thresholds. Five of the eight states with the lowest PIP loss costs were also no-fault systems, but with dollar thresholds. The remaining three states with relatively low PIP loss costs were add-on systems.