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Legislators want data before changing auto no-fault

By LESTER GRAHAM

Michigan legislators are looking at changing the state's mandatory auto no-fault insurance. But some of the legislators say the information they need from insurance companies to make an informed decision has not been available to them. Regulators say legislators and the public wouldn't be able to understand the information even if it were made available.



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In Michigan, if you get severely hurt in an auto accident under the state's mandatory insurance program you're first covered by \$500 thousand. Then, if your medical and rehabilitation costs exceed that, there's a backstop. It's a pool of money that insurance companies keep in reserve for those really bad accidents. Everyone who buys auto insurance pays into that pool. It's managed by the Michigan Catastrophic Claims Association, a group of insurance executives. Most people call that group and the fund it manages the MCCA.

Each year the MCCA decides what drivers will pay into the pool of money to keep it adequately funded. This year, the fee was \$145 for each policy. For that, anyone who's involved in an auto accident gets unlimited benefits for necessary medical care and rehabilitation for life if required.

The insurance industry says although it's worked since 1978, the MCCA fund can no longer afford to offer those kinds of benefits.

Pete Kunmeunch is with the Insurance Institute of Michigan, an insurance trade group.

"So, I think what we need to do is try to responsibly address the system that we have. It's been a great system for our consumers, but in the long term it needs some repair."

The insurance industry says the MCCA fund is “unsustainable.” It cannot keep operating, giving generous benefits to everyone who gets badly hurt in a car wreck, without auto-insurance rates getting much higher. Sure, keep the people who are getting benefits in the system now, but restrict their medical payments and generally end that kind of coverage for people who are catastrophically injured in the future.

Some leading legislators agree. Representative Pete Lund chairs the insurance committee in the House.

“The Michigan Catastrophic Claim Association is just getting to the point where the costs are so high if we don’t do something it eventually is not going to be able to sustain itself.”

And the chief insurance regulator in the state is in line with that thinking. Kevin Clinton is Governor Snyder’s Commissioner of the Office of Financial and Insurance Regulation.

“The uncertainty in estimating unlimited, lifetime benefits makes our current system unsustainable and may have significant adverse consequences to our citizens if the MCCA assumptions don’t pan out.”

Those assumptions about how much money will be needed for medical costs in the future and how much the MCCA investments will pay off are the big questions.

Although all insured auto-owners pay into the MCCA fund, the public is not privy to the assumptions made to determine the fee they pay each year. The insurance executives decide the amount and by law auto-owners pay it. But that amount has varied widely in the last 15 years. When the stock market was up and MCCA investments were paying off, auto-owners have paid much less or even have gotten refunds. Now that the stock market is down, the annual fee has gone up.

You might think if the MCCA was planning for the long term, decades into the future, the annual fee would be more regular, keeping them steady during the good times knowing that sooner or later the stock market would drop or that medical costs would go up faster than expected. But, apparently not.

Now the MCCA says there’s an estimated \$1 billion deficit.

But, that \$1 billion deficit is an estimate by the same people whose job it was to assess the annual fee to keep the fund healthy. How did they miscalculate by that much?

That’s the question some of the legislators want to know. But, so far they haven’t been given that information.

Representative Kate Segal sits on the House insurance committee.

“You know, the House Democrats have been fighting for years to have the Michigan Catastrophic Claims Association opened up to public input and transparency so we can actually see where our money is going. That’s the public’s money of Michigan. If you drive, you pay that fee. So, you have a right to know where that money is going and why it’s going to go up or down in any given year. And we have yet to get that legislation through the Republicans.”

LG: Well, the industry says, ‘Hey, it’s unsustainable. You gotta trust us on this. And, you know, they’re the experts. So, why shouldn’t we trust them?’

“Well, I think the people of Michigan are a lot smarter too. And I think if you would give us the information, then we could have an open discussion on it. I want to see the numbers and I don’t think that’s too much to ask.”

But the state’s top regulator, Insurance Commissioner Kevin Clinton, told the legislative insurance committee during a hearing it wouldn’t do any good to make the MCCA data transparent because it’s so complex. Pressed on the issue by committee members, Clinton finally said maybe they could reveal some of that information to the legislators.

“You know what, I think if you’d ask them, though, I think they’d be certainly willing to be more transparent. I just don’t think it’s going to do any good, to tell you the truth.”

No doubt it’s complex, but if they were given the information, legislators could get experts to help explain it. As it is, the insurance industry is telling them, “Trust us.” I asked Representative Kate Segal as it stands now, does she have any real insight into why legislators were being asked to change auto no-fault insurance, basically scrap access to MCCA funds for people badly hurt in car accidents in the future.

“No I don’t. In fact, that’s what we’ve asked numerous questions on in committee as well as trying to submit FOIA requests, Freedom of Information Act requests, to get that information. It is hard to make a decision on a group that is supposedly unsustainable without the facts to back that up.”

Despite the up and down annual fee assessments and the now projected \$1 billion deficit, the state’s Insurance Commissioner doesn’t think there’s any problem with how the MCCA is managing the fund.

“Uh, I believe the actuaries for the MCCA are doing an outstanding job of trying to estimate these costs in a process that has a great deal of uncertainty. And the uncertainty exists because of the length of time benefits are paid and because of the unlimited nature of the benefits. Imagine trying to estimate what healthcare costs

will be decades from now. Imagine trying to estimate what interest rates will be decades from now.”

The ironic thing about this is the insurance commissioner and the insurance industry say the Michigan Catastrophic Claims Association fund could become so under-funded it would collapse and leave auto-owners on the hook to pay the cost. Of course, that’s all based on data and assumptions the legislators and the public have not seen.

But, the solution, the insurance industry argues, is to generally end access to it in the future and restrict the pay outs for those who are benefiting now. Either way, it would effectively end the auto no-fault Personal Injury Protection that Michigan auto-owners have had for decades.