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Auto insurers' coordinated benefits policies under fire

By Jay Greene

A coalition of hospitals, physicians and consumer groups is calling for the state Office of Financial and Insurance Services to review its policies to ensure that people who purchase automobile insurance and choose to coordinate medical benefits with their health insurers receive appropriate premium discounts.

About 80 percent of auto insurance policies sold in Michigan are coordinated, which means the driver's medical insurance pays first when someone is hurt in an auto accident, according to the Coalition Protecting Auto No-Fault. There are an estimated 3 million policies in effect, CPAN said.

"OFIS should be setting up policies and procedures, or it should order a refund to policyholders," said Kevin McKinney, a CPAN spokesman and president of McKinney and Associates, a Lansing-based lobbying firm. The 28-member coalition includes the Michigan Health and Hospital Association, the Michigan State Medical Society, the Brain Injury Association of Michigan and the Michigan Consumer Federation.

McKinney said consumers who choose to coordinate benefits are overpaying.

OFIS spokesman Jason Moon said the department reviews auto insurance policies according to all state laws.

"The OFIS staff reviews auto insurers' rate filings to ensure that all no-fault insurers are offering coordinated coverage at reduced premium rates, as required by law," said Moon.

But in a deposition taken as part of a lawsuit Jack Darmer filed in October 2003 against Howell-based Citizens Insurance Co., an OFIS official said the state does not have standards to ensure that premium rates are appropriately reduced when people choose coordinated policies, said George Sinas, CPAN legal counsel and attorney for Darmer.

Moon and Teri Morante, Citizens' assistant vice president in the office of the general counsel, disagree.

Darmer was injured in a 2002 auto accident. He sued Citizens because the insurer deducted his long-term disability benefits from his work-loss benefits, thus reducing his monthly wage-loss payments, Sinas said.

In a Dec. 4, 2007, deposition, Randy Parlor, OFIS' deputy manager in charge of product review, was asked, "Has, since 1974, your agency ever undertaken a process

or procedure for reviewing auto insurance policies to determine if the premium rates are appropriately reduced in the case of policies offered ... where such policies contain exclusions for other health and accident coverage?"

Parlor, who has worked for OFIS since 1987, said, "Our agency does not have a particular process for that."

Two of the chief provisions of Michigan's No-Fault Act (MCL 500.3109a) require that insurers reduce premiums for people who choose to coordinate coverage and that OFIS must give prior approval that the reduction was appropriate, Sinas said.

Morante said in a statement to Crain's that OFIS regularly reviews Citizens' auto policy rate filings.

"All of the coordinated policies used by Citizens were filed with OFIS before use," Morante said.

Asked whether Citizens reduces premiums when a policyholder chooses to coordinate benefits, Morante said, "Absolutely."

But on March 5, Ingham County Circuit Court Judge Paula J.M. Manderfield ruled against Citizens and said Darmer's coordinated policy was not properly reviewed by OFIS.

Morante said Citizens will appeal the decision. "We believe that the record is clear that OFIS did approve the rates and properly did its job," she said.

Moon said OFIS is always exploring ways to improve its rate filing review process and will make changes if they are identified.

McKinney said policyholders should never choose to coordinate benefits. "It is a windfall to auto insurers," he said.

In addition, those drivers who become severely injured in an accident and choose to coordinate benefits could run out of medical benefits, he said. That is because most health insurance policies have lifetime caps of \$1 million to \$2 million that limit the total amount of coverage, McKinney said.

"If you get a catastrophic head injury, you will burn through that money relatively quickly and exhaust your health coverage," he said.

McKinney said the insurance department should begin an investigation to determine if all coordinated policies have had premiums properly reduced. If not, CPAN wants Insurance Commissioner Ken Ross to order cash refunds to those consumers who have not had their premiums reduced.

McKinney said CPAN plans to lobby the Legislature and may request that hearings be held. "I don't want to talk about our legislative strategy," he said.

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