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Unanswered questions about the pros and cons of reforming Michigan's no-fault auto insurance law

Kinda like the old Woody Allen movie: What you always wanted to know about (no-fault) but were too afraid to ask

By Jay Greene

I have some open-ended questions for readers and insurance experts about some of the charges and counter-charges leveled by supporters and opponents of the legislation to overhaul Michigan's no-fault auto insurance.

For those not plugged yet to what is happening, Michigan legislators are considering several bills to change the state's 38-year-old no-fault auto insurance laws.

First thing to know is Michigan is one of only 12 states with no-fault laws on its books. Other states include New York, New Jersey, Minnesota and Florida, my home state.

But Michigan is the only state in the land that has unlimited personal injury protection coverage and limitless provision for medical care to people injured in auto accidents.

There are facts held by both sides of the issue about how Michigan's open-ended medical coverage system impacts premiums, cost per claims and quality of health care services to those injured.

In two public hearings this week, the Michigan House insurance committee heard testimony on HB 4936. To read the bill, [click here](#).

The 42-page bill – introduced by Rep. Pete Lund, R-Shelby Township – would create a fee schedule to pay health care providers based on much lower workers' compensation fees.

Just that change alone, some say, would cut provider fees by one-third. For example, no-fault reimbursement for an MRI of a hurt neck costs \$3,258 in Detroit compared with allowable charges of \$769 under workers' compensation.

The second major part of HB 4936 would eliminate unlimited medical coverage for drivers, which costs each a surcharge of \$145 annually. Instead, drivers could choose lower cost coverage at four levels - \$250,000, \$500,000 \$1 million and \$5 million.

Critics of the bill say that insurers simply want to cost shift liability to hospitals, doctors, rehabilitation centers, Medicare, Medicaid and private insurers if the cost of health care services goes over those limits.

Proponents say they merely want to give people choices in lowering their premiums. They also say unlimited coverage creates opportunities for fraud and overtreatment that leads to overutilization and overbilling. In other words, unlimited coverage equals runaway health care costs, forcing up premiums.

There is a third major component of the bill that I won't go into much detail here. I was surprised, somewhat, to learn of it. It involves attendant care reimbursement.

Basically, attendant care is this: People injured in car crashes that go home can receive care by family members or those in the neighborhood. Those attendants can charge up to \$50 an hour for caring for injured parties. The bill would drastically lower those fees to something above what you might make at McDonald's but less than what a pharmaceutical sales rep makes, depending on your skill level.

So, here are the unanswered questions I have for readers and insurance experts.

I listed them in no particular order of importance.

If Michigan's no-fault auto insurance system is so costly to operate – with data that shows it has the nation's highest per claim costs and unlimited medical coverage – why is Michigan only 11th highest in the nation in auto premiums and not No. 1?

If Michigan's auto injury providers are totally ethical in treating accident victims and do not run up medical bills or do unnecessary treatments, why does Michigan top the nation at the average per claim cost of \$35,446? New Jersey, the second highest state, only averages \$16,000. All 12 states with no-fault laws average under \$10,000.

What evidence does the insurance industry have to back up their claims that there is a great amount of provider fraud and overtreatment of patients that contribute mightily to the steep rise in auto insurance premiums?

Why do two no-fault states like New Jersey and Florida, both of which have much lower PIP coverage limits, have higher premium rates than Michigan?

New Jersey, which has a minimum of \$250,000 coverage, has average premium of \$1,109 in 2007, \$175 more than Michigan. Florida, which has a \$10,000 minimum coverage, has average premium of \$1,097, \$163 higher than Michigan.

Louisiana, which has the highest premium in the nation at \$1,119, doesn't even have a no-fault system in place.

What gives? If Michigan's premiums are so high because of no-fault and unlimited medical coverage, why are New Jersey, Florida and even Louisiana higher?

Something else must be at work here. Hence, inclusion in the unanswered question column.

Is it true that the Michigan Catastrophic Claims Association, which pays providers for medical claims above \$500,000, has changed the way it actuarial projects future costs?

Several people told me the MCCA fund was changed recently to project out costs for 105 years. Is this correct? If so, no wonder there is a \$2 billion projected shortfall. Who or what entity plans that far in advance?

How many jobs will be lost if drivers save \$1 billion a year in premiums?

Opponents of the bill say 5,200 lost jobs over the first several years. Proponents say jobs will be created over the long-term because people and companies will have more money in their pockets to spend on other things.

This really isn't an unanswered question. I put in here more as a "say-what" type fact. Predictions like this always puzzle me because the future is usually different from what most people expect it to be.

For example, who could have predicted that somehow I end up working in Detroit after growing up in Florida, loving warm winters in which I could water ski in Sarasota Bay on Christmas Day?

How profitable are the auto insurers now in Michigan, and how much more profitable will they be if the reforms are adopted?

Auto insurance industry executives told me they will not earn higher profit margins - whatever they are now - if the bills are approved. To me that sounds like an unanswered question.

How profitable are the rehabilitation and long-term care facilities that cater to auto accident victims? How less profitable will they be in the future?

Some say those companies that have sprung up in the last four decades average less than a 10 percent profit margin. If the laws are changed, I am sure most will earn about what hospitals make these days - about a 2 to 3 percent margin.

If the bill is approved, how many people will suffer catastrophic injuries in auto crashes and exceed the limits of their chosen coverage?

The Anderson Economic Group, which was commissioned by providers opposed to the no-fault bills, estimated 638 and 765 people each year would be expected to be underinsured – with 70 percent choosing PIP minimum coverage levels – and suffer catastrophic injuries of more than \$500,000.

There are few estimates, however, about the extent to which other payers will pick up the costs of non-covered health care services.

However, both sides say Medicare, Medicaid and private insurers will pay for non-auto insured covered claims.

Some people will pay out of pocket, and possibly go bankrupt in doing so. Other people will sue other drivers for uncovered medical claims.

This raises a secondary question: How much will be cost-shifted from auto insurers and the MCCA fund to other payers?

How much will that increase federal and state taxes to pay for higher reimbursements from Medicare and Medicaid?

A recent study by Lansing-based Public Sector Consultants concludes that Michigan's Medicaid program could spend an additional \$30 million during the first year. The estimate is based on 500 Michigan drivers having a catastrophic auto accident and requiring long-term care in a skilled nursing or rehabilitation facility.

How much will the premiums of private insurance increase to cover more risk and liability coming their way from cost-shifting?

Anybody willing to take a shot at these questions? If so, go below where it says "add a comment," type in your responses or comments and click "submit." (Don't email your answers. A blog is intended to start a conversation about a topic)