



Date: April 12, 2012

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Michigan's No-Fault System Pressured by Catastrophic Claims, Changes in Treatment Patterns

MALVERN, PA—New findings from an Insurance Research Council (IRC) study of no-fault auto injury insurance claims show that average claimed losses for medical expenses, lost wages, and other expenses related to injuries from auto accidents in Michigan grew 192 percent, or 13 percent per year, on average, between 2002 and 2011. Over the same period, the annual inflation rate for medical care averaged approximately 4 percent. Unlike any other state, Michigan requires drivers to purchase insurance providing unlimited lifetime medical coverage for auto crash-related injuries. The study found that a small number of very expensive claims have been a significant cost driver in the Michigan system. Among claims that have been closed with payment, just 1 percent involved losses greater than \$250,000. These claims, however, accounted for 22 percent of total claimed losses among all claims closed with payment. These findings are consistent with other research indicating that all catastrophic claims, including open as well as closed claims, represent 1-2 percent of all claims but more than 45 percent of total injury-related claim losses.

The IRC study, *No-Fault Auto Injury Claims in Michigan: A Study of Closed Claims and Open Catastrophic Claims*, also shows that the share of total claimed losses attributable to medical expenses has risen considerably—to 83 percent, for closed claims, and 90 percent, for open catastrophic claims, in 2011. Much of this growth has been due to shifts in treatment patterns. For example, the percentage of (closed claim) claimants with expensive MRI procedures grew from 8 percent in 2002 to 16 percent in 2011. Similarly, the percentage of (closed claim) claimants with CT scans, over the same period, grew from 16 percent to 25 percent. The average charge for an MRI in 2011 was \$4,453, while the average charge for a CT procedure was \$2,720.

Another factor in the significant growth of medical costs in Michigan PIP claims has been a much higher than average hospital utilization rate. The study shows that approximately three-quarters (76 percent) of (closed claim) claimants in 2011 received some form of hospital treatment. In contrast, the average hospital utilization rate countrywide in 2007 (the latest year for which data are available) was 61 percent.

"This report provides further evidence of the role that a relatively small number of very large claims play in the increased costs to the entire Michigan no-fault system," said Elizabeth Sprinkel, Senior Vice President of the IRC. "Moreover, as other no-fault states move to crack down on PIP fraud, the availability of unlimited benefits in the Michigan system may prove a powerful lure to unscrupulous providers looking to shift their operations to new, more vulnerable markets."

The study included findings from a detailed analysis of catastrophic claims that were still active and open at the time of the study. Among these claims, all with an accident date of 2004 or later, only 40 percent of the estimated final payment had been made at the time of the survey. One of the most striking features of these open catastrophic claims was the use of attendant care, especially claims for care provided by family members, which is unique to the Michigan system. Nearly 60 percent of open catastrophic claims included expenses for family-provided attendant care.

The IRC study examines detailed claim information from nearly 640 claims closed with payment in 2011 and nearly 440 open claims with expected losses of \$250,000 or more and an accident date of 2004 or later. Seven primary insurers, representing approximately 55 percent of the private passenger auto insurance market in Michigan, participated in the study and were the sole source of the claim data analyzed for the study. For more detailed information on the study's methodology and findings, contact David Corum, at (484) 831-9046, or by e-mail at irc@TheInstitutes.org. Copies of the study are available for \$125 for an electronic version, or \$140 for a printed copy. Visit IRC's Web site at www.insurance-research.org for more information.

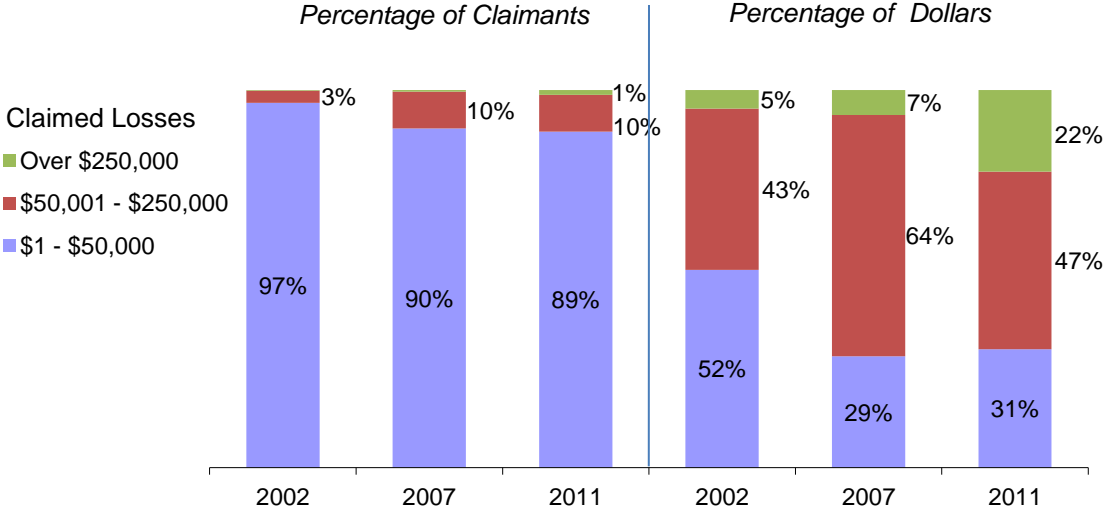
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Catastrophic Claims Are Relatively Rare but Account for a Growing Share of Total Claimed Losses

Claims Closed with Payment in 2011



Insurance Research Council