

EVERYTHING YOU NEED TO KNOW ABOUT THE **MICHIGAN CATASTROPHIC CLAIMS AUTHORITY** (MCCA) ISSUE

“...the call for more transparency from the MCCA is “a red herring,” ...

-Kevin Clinton, Director

Michigan Department of Financial and Insurance Services

The Detroit News, February 22, 2013

**Highlights of the
testimony given at the
House Insurance
Committee hearing on
the MCCA issue held
on March 21, 2013.**



On March 21, Michigan DFIS Director Kevin Clinton and Rick Fox, the chairman of the MCCA actuarial committee, testified for 90 minutes, answering every question members of either party had on the MCCA.

The testimony started with a PowerPoint presentation that explained why the MCCA was set up and how it works.

- MCCA is an unincorporated, private, nonprofit association that reinsures auto injury medical cost of more than \$500,000.
- Established in 1978 because insurance companies were finding it difficult to buy reinsurance for Michigan's unique unlimited personal injury protection (PIP) for catastrophic claims
- All insurers are required to be members
- Spreads the cost of the unlimited benefits proportionately across the entire industry. Members are charged a per vehicle assessment
- The MCCA is not a government agency and the liabilities of the MCCA are the responsibility of the member insurance companies.
- There is NO contractual relationship between the MCCA and individual drivers.

Who oversees the MCCA?

- Five member companies appointed by the Director of the Department of Insurance and Financial Services (DIFS) (representing at least 40% of premiums paid to the MCCA)
- Director serves as an ex-officio member
- DFIS financial analysis staff regularly monitor and examine in the same manner as any Michigan based insurance company
- MCCA Staff of 25 handles day to day operations

Is it Transparent?

Director Clinton was asked that question by Representative Leonard and responded with an emphatic "yes."

- The MCCA has the same reporting requirements as every other insurance company.
- The MCCA goes beyond normal insurance company reporting in numerous ways
- Publish a Financial statement that is reviewed by the DIFS staff
- Has an annual audit that is performed by Price Waterhouse Coopers
- DIFS conducts financial exam every three years
- ALL audits are published on the MCCA website at www.MichiganCatastrophic.com
- Every nickel that is invested by the MCCA is reported on their web site.

How is the MCCA per vehicle assessment established?

By statute, the assessments must be sufficient to cover present value of lifetime costs of injuries occurring that year. Mr. Fox explained that the MCCA uses the following criteria to set rates:

- Use standard national mortality tables to determine the average life of the accident victim and then reduce it to take into account the severity of the injuries
- These are the exact same tables used to determine pension fund costs.
- This year they used 77 years of age to determine future costs
- Since the average age of the claimants is 49, they assume they will collect for 28 years
- They estimate that medical cost will increase by 6.9% per year
- They also estimate the annual return on their investment at 5.5% rising to 7.5% percent
- Then they determine how much is needed in reserves to pay all claims and that amount is assessed on a per car basis to each insurance company

What is the current financial situation of the MCCA?

- It's estimated the current long term liabilities of the fund to pay all claims is \$69.6 billion
- The needed reserves to cover the costs to of all catastrophic injuries in current dollars is \$16.3 billion
- Current reserves are only \$14.2 billion leaving a deficit of \$2 billion
- Would cost \$300 per car to make up the current deficit
- MCCA is charging \$32 for each car to gradually make up the deficit

How does the cost of the MCCA charge per car break-down?

The current MCCA charge per car is \$175 and will increase to \$186 on July 1, 2013. The fee breaks down as follows:

- \$156.44 to cover catastrophic injuries incurred this year
- \$29.19 to gradually cover the deficit
- \$0.37 to cover the administrative costs.

How much money has been paid out of the MCCA to cover claims?

- Since 1978, the MCCA has paid out over \$9.9 billion in claims
- Costs keep increasing and in 2012 alone \$930 million was paid out
- Average of \$78 million every month

Other Testimony

"Rep. Tom Leonard (R – DeWitt Twp.) asked Clinton to shed light on the arguments of opponents of the MCCA who say they can't get access to information that would prove whether or not the MCCA is sustainable.

In response, Clinton read from a list of items the opponents sought. 'All of them,' Clinton said, are available.

'So as you sit here today then, you can look me in the eyes and say the MCCA is being transparent?' Leonard asked at one point.

Clinton responded simply, 'yes'.(From MIRS Capsule 3/21/2013)

Rep. Margaret O'Brien: "What is causing the increase in costs for Michigan auto insurance?"

Director Clinton: "Thirty-five cents out of \$175 is for administration, it's not that. It's medical costs. It's the cost providers charge. It's the hospital costs. It's the head injury clinic costs. It's the doctor costs. That's what drives the MCCA costs and we have no control over those costs. We don't regulate the hospitals – we don't regulate what they charge."

Rep. Margaret O'Brien: "So the model of the MCCA, for it to be sustainable, is that we have a captive audience required to pay and the way that it will be sustainable is we can increase the rates to whatever we need it to be and that is the definition of sustainability for the MCCA?"

Director Clinton: "Yes, but it comes at a cost though. You can sustain it by continuing to do that but its almost like that teeter-totter – you continue to raise prices and raise prices and then you're going to have more and more uninsured. They just can't afford it and it doesn't do our economy any good and it isn't helping those individuals that get in an accident and can't afford it and just go bare.

Rep. Margaret O'Brien: "And that's probably why Michigan is number two in the country for the cost of auto insurance and number one in the Great Lakes states by a huge margin including surpassing Illinois."

Director Clinton: "We have the Cadillac of all plans. We have the highest benefits in the nation and if you have a Cadillac plan you have to pay for a Cadillac."

Rick Fox (chair of MCCA Actuarial Committee): "We have a Cadillac plan and we don't have an effective system of controlling the costs of the Cadillac."

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