Insurance Institute
of Michigan

Insurance Institute of Michigan Position
The Michigan Catastrophic Claims Association
House Bill 4675, 4676, 4677, 4678
As of November 28, 2007

The Insurance Institute of Michigan (IIM) opposes legislation that would increase regulatory oversight of the Michigan Catastrophic Claims Association (MCCA). As a private, nonprofit association, the MCCA should not be subject to the type of legislative scrutiny that applies to public entities.

House Bills 4675 would require the MCCA to comply with the Freedom of Information Act and Open Meetings Act. House Bill 4676 would require the MCCA to be subject to the Open Meetings Act. House Bill 4678 would expand membership on the MCCA Board of Directors.

The Open Meetings and Freedom of Information Acts do not apply to private organizations, including the MCCA. As a safeguard for the public, Michigan's Insurance Commissioner represents the state's interest as a member of the MCCA board. Moreover, claims decisions involve discussions about private, sometimes sensitive, information from personal files of individuals, which should not be open to the general public.

IIM will continue to oppose any measures that subject Michigan insurers to overly burdensome regulation and attempts to erode the private nature of the MCCA. Current law requires the MCCA fund to be backed up by the full faith and credit of private insurance companies, therefore, its board and business decisions should continue to be exclusively representative of those companies.

House Bill 4677 would subject the private, nonprofit MCCA to a duplicative and unnecessary audit.

Currently, the MCCA board annually secures actuarial analyses from two independent firms to assist in the determination of the annual assessment. Additionally, under current law and its own Plan of Operation, the MCCA must develop annually a report of the operations of the association (MCL 500.3104(16)). The MCCA also commissions an annual audit by a public accounting firm.

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All actuarial analyses, annual report and annual audit documents are provided to all members of the MCCA board, including the Commissioner of Michigan Office of Financial and Insurance Services (OFIS). Once these documents are in the possession of OFIS, they are public documents, accessible through the normal Freedom of Information Act process. Many of the documents can be obtained on
OFIS' website at: http://www.michigan.gov/ofis (Click on "Publications" along left margin, then "Guides"; scroll down to "Automobile/Motorcycle Insurance – MCCA").

Further, under current law, the OFIS Commissioner has the authority to visit the association "any time and examine any and all the association's affairs" (MCL 500.3104(23)). Accordingly, in 2003, OFIS undertook an examination of the financial condition, operations, and management of the MCCA for the period from July 1, 1996 to June 30, 2002. This report was filed as a Public Document on February 27, 2004 by current OFIS Commissioner Linda A. Watters. There were no specific findings or recommendations resulting from this examination. More recently, OFIS conducted an audit for the period July 1, 2002 to June 30, 2006.

Given the already intense level of past and ongoing scrutiny of the operations of the MCCA, another layer of annual oversight is unnecessary and would consume public resources needed elsewhere.

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Michigan Catastrophic Claims Association (MCCA)

Every year, consumers hear about the assessment for the Michigan Catastrophic Claims Association (MCCA). What is the MCCA? And, why is it unique to Michigan?

What is the MCCA?

The Michigan Catastrophic Claims Association (MCCA), an unincorporated non-profit association, was created by the state Legislature in 1978. The MCCA reimburses auto no-fault insurance companies for Personal Injury Protection (PIP) claims paid in excess of the current threshold of $420,000. That means that the injured party's insurance company pays the first $420,000 of medical expenses and the MCCA reimburses the insurance company for costs over that amount. That threshold is increased annually.

What is the purpose of the MCCA?

Michigan is the only state in the United States that provides ***unlimited*** coverage for medical expenses which result from auto accidents. So, individuals who are injured in auto accidents will receive reasonable and necessary medical benefits for their entire lifetime. The cost to run such a system is expensive. Without the MCCA, the stability of any insurance company could be threatened if it were faced with a series of catastrophic claims.

The MCCA currently pays out $55 million each month for claim costs resulting from catastrophic injuries. The majority of these catastrophic injuries involve severe closed-head injuries, paraplegia, quadriplegia and burns.

How is the MCCA funded?

The 1978 law requires all insurance companies that write automobile insurance in the state of Michigan to be members of the MCCA. The law specifies that the MCCA must distribute losses among all auto insurance companies doing business in the state of Michigan. The assessments paid to the MCCA by insurance companies are reflected in the auto insurance premiums paid by Michigan policyholders.

How does the MCCA determine its annual assessment?

The law requires the Association to assess an amount that is sufficient to cover the lifetime claims of all persons catastrophically injured in that year. During the period of July 1, 2007

through June 30, 2008, it is estimated that 1,300 individuals will be catastrophically injured in auto accidents. The MCCA also adjusts the annual assessment to compensate for surpluses or deficits from previous assessments.

The MCCA Board of Directors is comprised of five insurance company members appointed by the Commissioner of the Michigan Office of Financial and Insurance Services. The Commissioner is also a non-voting member of the Board of Directors. After a comprehensive actuarial review, the MCCA Board of Directors determines the assessment.

What is the current assessment for the MCCA?

The 2007-8 assessment for the unlimited benefits is $123.15 per motor vehicle and $24.63 for historic vehicles. The assessment represents $106.63 per vehicle for pure premium (for accidents arising under insurance policies with the effective dates between July 1, 2007, and June 30, 2008), $16.42 for a partial deficit recoupment and 10 cents for administrative expenses. The $16.42 only recoups part of the deficit, currently estimated to be $165.31 per car.

How many claims have been reported to the MCCA?

Since 1979, there have been over 21,272 claims reported to the MCCA, which will cost an estimated $58 billion., This figure assumes inflating costs for products, services and accommodations necessary for the care, recovery and rehabilitation of injured persons throughout their lives.

In 2006 alone, the MCCA paid out $668 million for claim costs resulting from catastrophic injuries.

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RESIDUAL MARKETS AND SPECIAL PROGRAMS -

Michigan Catastrophic Claims Assoc.

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Compiled from reports published by the Michigan Catastrophic Claims Association.

MICHIGAN CATASTROPHIC CLAIMS ASSOCIATION ASSESSMENT HISTORY

Assessment Period	Months	Pure Premium	(Surplus) Deficit Adjustment	Administration Expense	Assessment
7/1/78 to 6/30/79	12	$3.00	$0	0	$3.00
7/1/79 to 12/31/79	6	$6.28	$5.40	0	$11.68
1/1/80 to 12/31/80	12	$6.36	($0.36)	0	$6.00
1/1/81 to 12/31/81	12	$7.14	($0.58)	$.20	$6.76
1/1/82 to 12/31/82	12	$6.64	($0.81)	$.10	$5.93
1/1/83 to 12/31/83	12	$7.55	($2.12)	$.10	$5.53
1/1/84 to 12/31/84	12	$8.24	($2.44)	$.11	$5.91
1/1/85 to 12/31/85	12	$10.55	$1.40	$.10	$12.05
1/1/86 to 12/31/86	12	$11.24	$3.07	$.09	$14.40
1/1/87 to 12/31/87	12	$15.77	$6.81	$.09	$22.67
1/1/88 to 12/31/88	12	$24.41	$8.10	$.09	$32.60
1/1/89 to 12/31/89	12	$33.44	$10.12	$.09	$43.65
1/1/90 to 12/31/90	12	$48.12	$18.37	$.15	$66.64
1/1/91 to 12/31/91	12	$68.33	$32.50	$.17	$101.00
1/1/92 to 12/31/92	12	$77.69	$32.77	$.12	$110.58
1/1/93 to 12/31/93	12	$90.43	$28.14	$.12	$118.69
1/1/94 to 12/31/94	12	$98.71	$16.89	$.12	$115.72
1/1/95 to 12/31/95	12	$98.07	($1.24)	$.12	$96.95
1/1/96 to 12/31/96	12	$87.53	($15.06)	$.10	$72.57
1/1/97 to 12/31/97	12	$62.03	($47.19)	$.10	$14.94
1/1/98 to 12/31/98	12	$63.87	($58.37)	$.10	$5.60
1/1/99 to 12/31/99	12	$56.31	($50.81)	$.10	$5.60
1/1/00 to 12/31/00	12	$52.30	($46.79)	$.09	$5.60
1/1/01 to 12/31/01	12	$61.53	($47.21)	$.09	$14.41
1/1/02 to 6/30/02	6	$71.05	$0	$.10	$71.15
7/1/02 to 6/30/03	12	$68.90	$0	$.10	$69.00
7/1/03 to 6/30/04	12	$79.30	$20.80	$.10	$100.20
7/1/04 to 6/30/05	12	$95.93	$31.21	$.10	$127.24
7/1/05 to 6/30/06	12	$116.43	$25.17	$.10	$141.70
7/1/06 to 6/30/07	12	$113.48	$23.75	$.10	$137.33
7/1/07 to 6/30/08	12	$106.63	$16.42	$.10	$123.15

- Since July 1, 1978 when the fund was started, 20,700 claims have been reported to the MCCA, which will cost an estimated $59 billion.

*The **Insurance Institute of Michigan** (IIM) is a government affairs and public information association proud to represent more than 90 property/casualty insurance companies and related organizations operating in Michigan. IIM members write almost $8 billion in annual premium, or approximately 52 percent of the state's property/casualty insurance. IIM's purpose is to serve the Michigan insurance industry and the insurance consumer as a central focal point for educational, media, legislative and public information on insurance issues.*