Auto Casualty

Michigan Auto No-Fault Reform: History and Overview

January 6, 2020
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Michigan recently passed Senate Bill 1, along with a variety of other legislation, that together will overhaul the Michigan auto no-fault system. The new regulations will allow for new policy limit options in Michigan, as well as mandate a new auto no-fault fee schedule, ultimately having a major impact on the auto casualty insurance market in Michigan. In this article, I will walk you through the history of auto insurance in Michigan and provide an overview of the new Michigan no-fault reform regulations.

History of Michigan's No-Fault Auto Insurance Law

Since 1973, Michigan's auto insurance market has operated under a no-fault system, meaning that when a driver gets in an accident, they are required to file a claim with their own insurance carrier regardless of if they caused the accident or not. In 1978, the state legislature amended the no-fault law to require unlimited lifetime coverage for medical expense resulting from auto accidents. The state founded the Michigan Catastrophic Claims Association, which reimburses insurance companies for any medical expenses for personal injury protection claims that exceed the current limit of $580,000. Michigan has been operating under the no-fault, unlimited lifetime coverage policy for more than 40 years. Today, Michigan is the most expensive state for car insurance in the nation, with premiums 79 percent higher than the 2019 average, according to insure.com.

How Bills Are Paid Today

Today, the state of Michigan does not have an auto fee schedule, meaning that across the board, insurance carriers are using different methods to determine the fairest price to pay providers for medical treatment. For example, one carrier might use benchmarking or usual, customary, and reasonable pricing, while another relies on provider networks, and a third on direct-to-provider negotiation. Many carriers use a combination of pricing

mechanisms to pay what is owed on claims. Without a fee schedule, providers often receive different amounts from different carriers for similar treatments. This discrepancy frequently leads to costly and time-consuming interactions between carriers and providers and may lead to disputes.

Michigan No-Fault Reform: Overview

The legislation passed in Michigan in 2019 will overhaul the no-fault system that has been in place since 1973 as it goes into effect in phases over the next two years. At Mitchell, we are reviewing and gaining clarification of the language and description on how to apply the various elements of the fee schedule. While we are still trying to completely grasp the details of the new law, there are key areas that will assist us in formulating our product plans.

Effective Date

Senate Bill 1 was approved in Public Act No. 1 on June 11, 2019. On July 2, 2020, the new policy provisions will go into effect. Then, on July 2, 2021, the state of Michigan will implement the new auto fee schedule. The Michigan Department of Insurance and Financial Services has sent bulletins clarifying the effective dates of each section of the new no-fault law (Bulletin 2019-18-INS).

New Policy Options

With the passage of Michigan Senate Bill 1 comes new insurance policy options for consumers who, under the current law, are required to purchase unlimited coverage. If qualified, Michigan residents will now be able to choose from three different policy limit choices or opt out altogether. New limits, in addition to unlimited, are:

- $50,000
- $250,000
- $500,000

The new options are intended to make auto insurance more affordable in the state and decrease the number of uninsured drivers in Michigan. Today, it is difficult to predict which option will be the most popular with consumers when the law goes into effect. Determining who qualifies for opt out or the lowest policy of $50,000 poses a challenge for insurance carriers.

Fee Schedule

Another major change for auto insurers and providers in Michigan will be complying with a new fee schedule. There are three pricing methods defined in the legislation for establishing fees. According to the legislation if the first method does not have a fee, the second is used and if no fee in the second, the third is applied, in priority order as listed below:

- Method 1: Amount payable to the person for the treatment or training under Medicare
- Method 2: Amount payable under the person’s charge description master in effect on January 1, 2019
- Method 3: The average amount the person charged for the treatment on January 1, 2019

There are also carve outs for indigent population, emergency medical services (ambulance) transport, trauma hospitalization and specific validations for freestanding rehabilitation facilities and neurological rehabilitation providers. In Michigan today, auto insurance carriers are responsible to pay for an unlimited amount of attendant

care for anyone who is catastrophically injured in an accident. The new fee schedule puts a cap on this benefit, requiring insurance carriers to pay for 56 hours per week for in-home care by a relative or friend. Carriers can write policies for more treatment than the 56 hour mandatory payments.

What's Ahead for Michigan No-Fault Reform?

Mitchell is currently following a four step plan to develop solutions and support our customers as we get closer to the implementation of the Michigan no-fault reform. Read more about our plan in the article Mitchell's Plan to Address Michigan SB1 No-Fault Legislation for Bill Review. Check back to mPower periodically, as Mitchell will continue to provide updates as we learn more about the Michigan no-fault reform and its potential effects on the insurance landscape in Michigan.



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