

Personal Auto Insurance Affordability in Michigan

Michigan has been one of the least affordable states for auto insurance for many years, thanks to its unique no-fault system and its generous medical benefits. However, since the state enacted significant auto insurance reform in 2019, auto insurance affordability has improved markedly.

In 2017 and 2018, Michigan households paid 2.4 percent of their income to insure each vehicle, making it the third least affordable state in the country, behind only Florida and Louisiana. This affordability crisis prompted policymakers to enact major amendments to its no-fault system, after which average expenditures for personal auto insurance fell significantly in Michigan, in contrast to increases countrywide. In 2022 (the latest year for which expenditure data is available), personal auto insurance expenditures accounted for 1.9 percent of the median household income in Michigan, a decline of 0.5 percentage points from the pre-reform peak. However, Michigan's expenditure share remains higher than the percentage in the U.S. overall and in 44 other states.

Michigan's auto insurance affordability ranking has improved in the wake of significant no-fault reforms, but the state continues to be one of the least affordable in the country.

Prior to the reforms, Michigan drivers were required to purchase unlimited personal injury protection (PIP) coverage; in comparison, the second highest mandated amount of PIP coverage was \$50,000 in New York. The unlimited medical benefits and other features, such as attendant care benefits and no medical fee schedule, led to Michigan's extremely high average auto injury claim severity, which has been the primary cost driver in the state.

Michigan's auto reform, signed in 2019 and effective starting mid-2020, introduced the option for policyholders to choose limits to PIP coverage in exchange for lower premiums. [Industry data shows that an increasing number of drivers are choosing to forgo the unlimited coverage.](#) The available options of \$250,000 or \$500,000 (or lower for drivers enrolled in Medicare or Medicaid) are still much higher than the mandated minimum in any other no-fault state. Other aspects of the reform included the introduction of a medical fee schedule, an increase in the required limits for bodily injury liability (BI) coverage, antifraud measures, and changes to ratemaking rules.

Litigation appears to be another cost driver in the state, with the rate of lawsuit filing for private passenger auto claims well above that in other states. Moreover, legal challenges and proposed statutory changes to the 2019 reforms have the potential to undermine the recent improvement in affordability in Michigan.

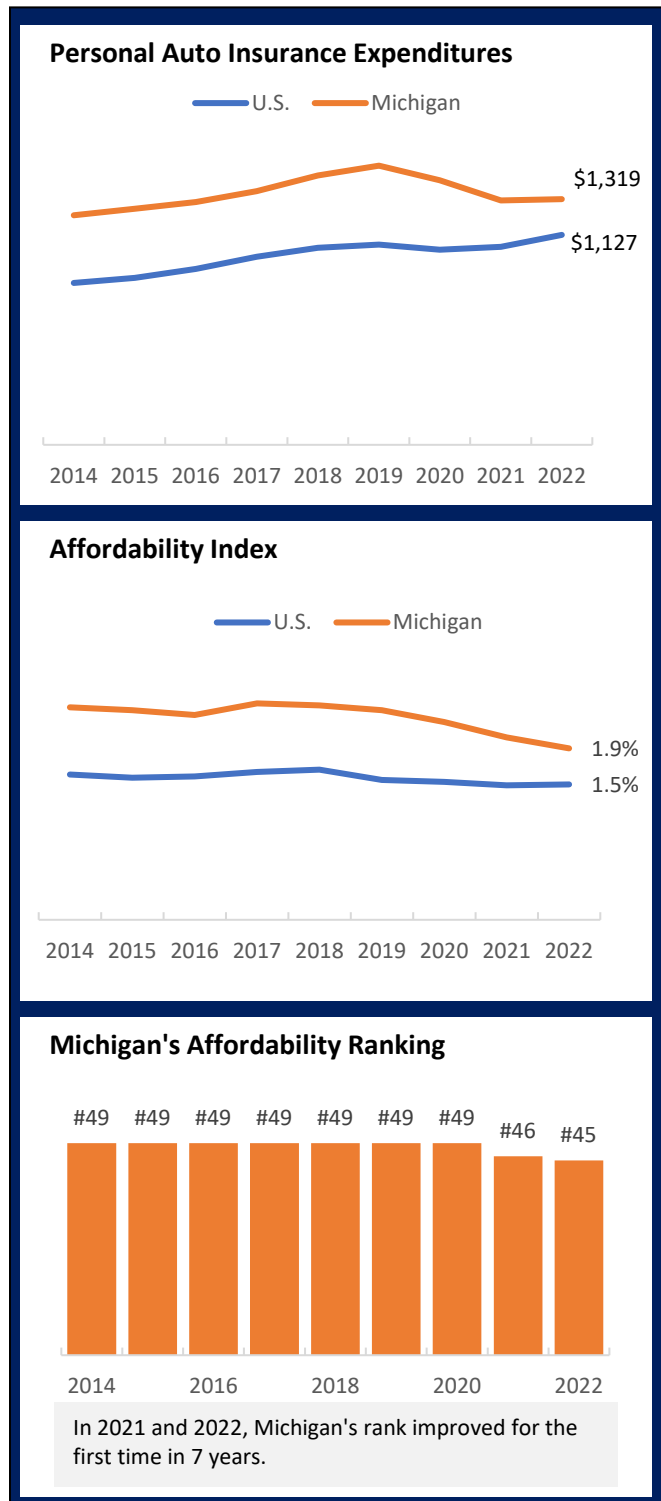
Michigan's Improving Affordability

While Michigan remains one of the least affordable states for personal auto insurance, as determined by the ratio of average personal insurance expenditures to median household income, the recent reforms have led to significant improvement.

With its system of generous medical benefits, Michigan has traditionally seen personal auto expenditures well above the countrywide average. In 2022, the most recent year for which information is currently available, Michigan households spent \$1,319 to insure each vehicle, nearly 20 percent above the national average. However, in the years since reform, expenditures have fallen in Michigan while increasing in almost every other state. From 2019 to 2022, the average expenditure for auto insurance in Michigan fell 12 percent compared with an increase of 5 percent in the U.S. overall.

As a share of household income, auto insurance expenditures in Michigan peaked at 2.4 percent in 2017 and 2018, then fell to 1.9 percent in 2022. For many years, Michigan maintained the low rank of 49 on the list of auto insurance affordability in U.S. jurisdictions, with only Florida and Louisiana less affordable. As of 2022, Michigan has become more affordable than Mississippi, New York, Georgia, and South Carolina.

Ultimately, personal insurance affordability is determined by the underlying key cost drivers, which must be addressed to improve affordability. IRC compiled several factors that contribute to the rising cost drivers not only in Michigan, but also across the country. These factors are examined in the next section of this research brief.



Auto Insurance Cost Drivers: How Michigan Compares

Efforts to improve auto insurance affordability must begin with the underlying cost drivers. The two key cost drivers for Michigan are injury claim severity and litigation.¹

Accident frequency: Car accidents are slightly more frequent in Michigan, as measured by the number of collision claims per 100 insured vehicles.

Repair cost severity: Collision claim severity is slightly higher in Michigan than in the rest of the country.

Injury claim relative frequency: The propensity to file injury claims once an accident has occurred appears to be much lower in Michigan than in the nation as a whole.

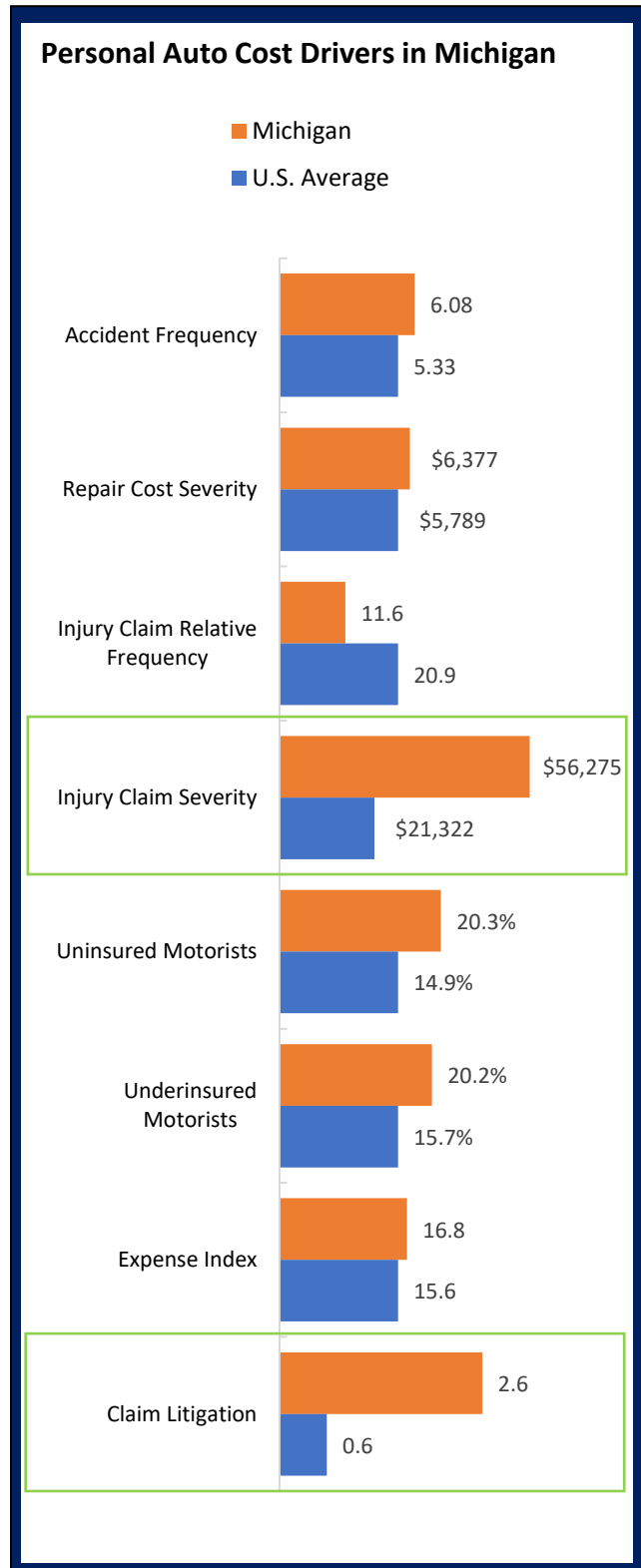
Injury claim severity: The average amount paid per claim for auto injury insurance claims is dramatically higher in Michigan, more than double the U.S. average and 1½ times the second highest state.

Uninsured motorists (UM): The uninsured rate in Michigan remains materially higher than the national average.

Underinsured motorists (UIM): Michigan’s rate of underinsured motorists is also materially above the national average.

Expense index: The costs associated with claim settlement are slightly higher in Michigan than in the country overall, as measured by the amount insurers spent to process, investigate, and litigate claims (loss adjustment expenses) as a percentage of incurred losses.

Claim litigation: The rate of litigation in personal auto claims in Michigan was significantly higher than the rate in the median state. While litigation measures vary, the recent reforms remain under threat by legal challenges.

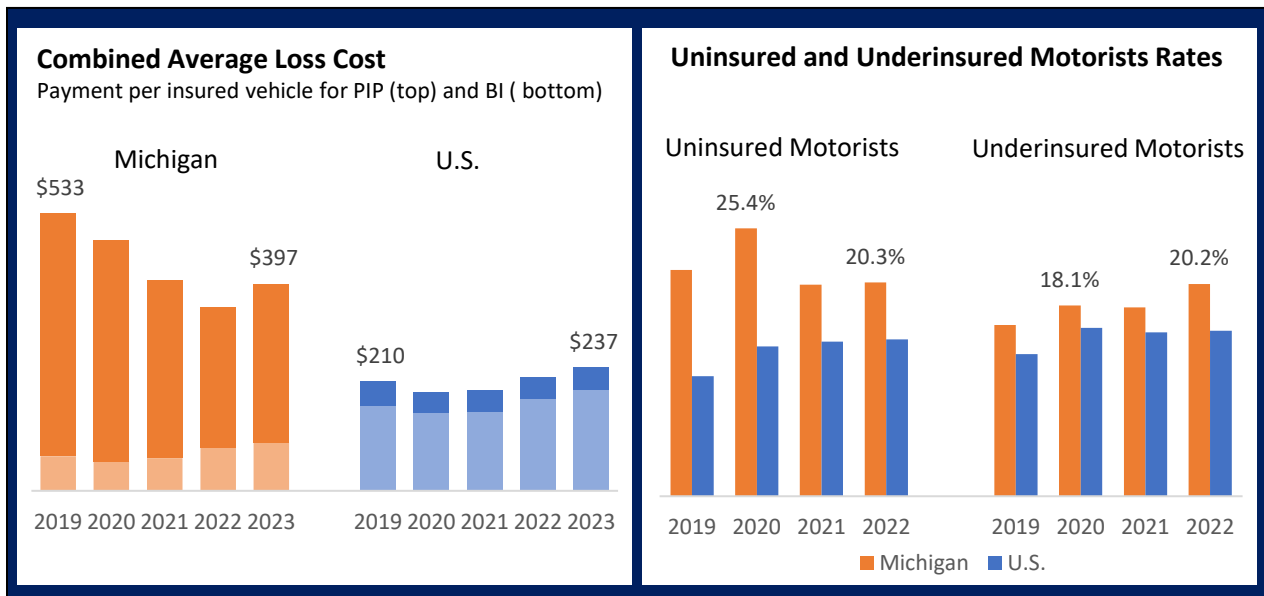


Recent Movement in Key Cost Drivers

The 2022 affordability data does not fully reflect many recent countrywide challenges to affordability, such as economic inflation, higher replacement costs, legal system abuse, and deteriorating driving behavior. However, the movement of several key indicators illustrate the positive effect of the Michigan policymakers' efforts to improve affordability in their state.

According to combined average loss costs, which measure the dollars paid under both BI and PIP coverages averaged over all insured vehicles, including those without accidents, claim costs in Michigan remain significantly higher than the countrywide average but have declined significantly in recent years. Countrywide and in Michigan, the combined average loss cost declined in 2020 due to the pandemic shutdowns. By 2023, the countrywide loss cost was 13 percent higher than in 2019. In contrast, the average loss cost in Michigan was 26 percent lower in 2023 compared to 2019, due to dramatic declines in average PIP claim severity. One likely impact from the Michigan reforms is to shift some claim costs from PIP coverage to BI coverage, but the overall impact is significantly lower costs.

Uninsured and underinsured motorists are both a symptom and a cause of affordability issues. In 2019, Michigan had the highest rate of uninsured drivers in the country, with more than one in four motorists lacking the required liability coverage. UM rates around the country rose in 2020 with the onset of the pandemic. However, while the countrywide rates have remained elevated, the UM rate in Michigan dropped 5 percentage points between 2020 and 2022. The underinsured motorist rate in Michigan has moved in the opposite direction, increasing slightly from 2020. In 2022, 20 percent of Michigan drivers were underinsured, compared with 16 percent countrywide.



Notes

1. For more information about how these cost drivers are defined, see IRC's 2022 report [State Variations in Auto Insurance Affordability](#) or 2021 research brief [Auto insurance Affordability: Countrywide Trends and State Comparisons](#).

Since Michigan's vehicle property damage liability insurance is not comparable to that in other states, physical damage claim measures are based on collision coverage instead.

- Accident frequency is measured with collision frequency, as described in the IRC study [Trends in Personal Auto Insurance Claims: 2002–2022](#), updated for 2023 data.
- Repair costs reflects collision claim severity as described in the IRC study [Trends in Personal Auto Insurance Claims: 2002–2022](#), updated for 2023 data.
- Injury claim relative frequency is the number of bodily injury and personal injury protection claims for every 100 collision claims, as described in the IRC study [Trends in Personal Auto Insurance Claims: 2002–2022](#), updated for 2023 data.
- Injury claim severity is the mean payment for bodily injury and personal injury protection claims combined, as described in the IRC study [Trends in Personal Auto Insurance Claims: 2002–2022](#), updated for 2023.
- Uninsured motorists rate is the ratio of uninsured motorists claim frequency to bodily injury claim frequency in 2022, from IRC's report [Uninsured Motorists, 2017–2022](#).
- Underinsured motorists rate is the ratio of underinsured motorists claim frequency to bodily injury claim frequency in 2022, from IRC's report [Uninsured Motorists, 2017–2022](#).
- Expense index reflects loss adjustment expenses as a percentage of incurred losses, 2017–2022 average, based on data from NAIC's [Report on Profitability by Line by State](#).
- Claim litigation reflects the percentage of personal auto claims with litigation, based on data from NAIC's [Market Conduct Annual Statement Scorecard](#) and measured by the ratio of suits opened to claims closed without payment multiplied by the ratio of claims closed without payment to the total claims closed.

About the Insurance Research Council

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