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## **Michigan Among Least-Affordable States for Auto Insurance Due to Extremely High Claim Costs**

**MALVERN, Pa., April 8, 2019**—Michigan ranks as the third-least-affordable state in the country for auto insurance, according to a new study from the Insurance Research Council (IRC). Michigan's affordability index was 2.21 percent from 2013 through 2016, compared with 1.58 percent countrywide. The affordability index is the ratio of average expenditures on auto insurance to median household income, and only Louisiana and Florida experienced higher relative insurance costs than Michigan. Key drivers of the state's high auto insurance costs include the high cost of personal injury protection (PIP) claims, the rapidly increasing frequency of bodily injury (BI) liability claims, and the increasing litigiousness of the system.

The high cost of PIP claims can be traced to the state's unlimited medical benefits for auto-related injuries, high utilization of expensive medical services (including CT scans, emergency room doctors, and diagnostic radiologists), and the absence of a medical fee schedule to help control the prices paid for medical services—in 2017, the average cost of a PIP claim in Michigan was more than six times the national average and was increasing nearly twice as fast.

"The affordability of auto insurance continues to pose a major problem for Michigan households," said Elizabeth Sprinkel, CPCU, senior vice president of the IRC. "PIP claim costs are continuing to increase at an alarming rate. An understanding of all the cost drivers in the state's unique environment will be needed to address the affordability of auto insurance for Michigan's consumers."

BI liability claim costs in Michigan are relatively low compared with the national average, but the frequency of BI claims in the state is increasing twice as rapidly as the countrywide rate and is becoming a much more significant cost driver. The rapid increase in BI claim frequency is widely attributed to a 2010 Michigan Supreme Court decision that lowered the threshold for determining when an individual can seek compensation for "pain and suffering" following an accident.

Another major cost driver in Michigan's auto insurance system has been growing attorney involvement and litigation. Attorney involvement in auto injury claims is strongly associated with higher medical

expenses and higher ultimate claim costs, even when controlling for the seriousness of the injury. In Michigan, the percentage of PIP claimants represented by attorneys rose from 13 percent in 2012 to 18 percent in 2017. At the same time, the percentage of PIP claims involving a lawsuit increased from 2 percent to 14 percent.

The report, *Auto Insurance Affordability: Cost Drivers in Michigan*, combines information from IRC closed-claim research and other sources and is part of IRC's ongoing research into the factors driving the affordability of auto insurance. For more information on the study's methodology and findings, contact David Corum at (484) 831-9046 or by email at [IRC@TheInstitutes.org](mailto:IRC@TheInstitutes.org).

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