



# Know Your Insurance

## Auto

Courtesy of Sterling Insurance Group

## Michigan's No-fault Auto Insurance Reforms

On average, Michigan drivers pay some of the highest auto insurance costs in the United States. In an effort to make coverage more affordable for residents, create a better no-fault system and strengthen consumer protections, Michigan Gov. Gretchen Whitmer signed comprehensive reform legislation on May 30, 2019. This Know Your Insurance article provides an overview of the changes to Michigan's auto insurance laws, which apply to policies issued or renewed after July 1, 2020.

### Why Reforms Were Necessary

Before examining the changes to Michigan's auto insurance laws, it's important to have a basic understanding of the state's no-fault auto insurance system, which was first passed in 1973. Under this system, drivers injured in a car accident were required to make a claim under their own auto insurance policies, regardless of who was at fault. This system was designed to:

- Simplify the claims process for auto accident victims, particularly if multiple drivers were involved in an accident.
- Help individuals injured in an auto accident collect benefits in a timely manner.
- Reduce lawsuits related to auto accidents.

Notably, under the no-fault system, drivers were required to purchase unlimited lifetime medical benefits for personal injury protection (PIP), which is commonly secured through PIP insurance. Under this requirement, individuals injured in an auto accident could receive unlimited lifetime medical benefits immediately following an accident. That is to say that injured parties did not have to wait for a settlement to be reached in order to receive coverage for reasonable and necessary medical expenses.

This requirement was meant to quickly compensate accident victims for medical costs and lost income. However, bodies like the Insurance Alliance of Michigan believe that offering unlimited lifetime medical benefits is one of the factors—along with rising costs related to health care, auto repairs and lawsuits—that drove up the cost of auto insurance in Michigan. In fact, the cost of auto insurance is so high that many drivers opted out of coverage altogether, which put more stress on the system and necessitated sweeping reform.

### A Summary of the Reforms

Put simply, Michigan's reformed no-fault system gives drivers more choices related to their auto insurance, particularly when it comes to selecting PIP coverage that best represents their needs and budget. The table below highlights the major changes to Michigan's auto insurance requirements, which, again, apply to policies issued or renewed after July 1, 2020:

Requirement	Before the Reform	After the Reform
<b>PIP insurance</b>	Drivers must secure unlimited lifetime benefits through PIP insurance. This covers a driver's medical expenses for life following an accident. In addition, PIP insurance can provide coverage for rehabilitation costs, lost wages and attendant care (i.e., services related to caring for an injured person).	<p>Drivers can now select from the following PIP coverage options:</p> <ul style="list-style-type: none"> <li>• <b>Unlimited coverage</b>—This covers all allowable expenses related to a person's care, recovery and rehabilitation following a covered accident. Those choosing this option will pay more for coverage, but will enjoy lower out-of-pocket expenses in the event of a claim. This option was mandatory prior to the reforms.</li> <li>• <b>Up to \$500,000 in coverage per person, per accident</b>—This option will typically cost less than unlimited coverage. However, any expenses over \$500,000 will either be paid for through health insurance or out of the policyholder's pocket.</li> <li>• <b>Up to \$250,000 in coverage per person, per accident</b>—This option will likely cost less than policies with higher coverage limits. However, any expenses over \$250,000 will either be paid for through health insurance or out of the policyholder's pocket.</li> <li>• <b>Up to \$250,000 in coverage per person, per accident, with exclusions</b>—Under this option, some or all of the drivers on a policy (e.g., you, your spouse, a relative or household member) can be excluded from PIP medical coverage, provided they have in place qualified health coverage that is not Medicare. Drivers will pay lower premiums under this option due to the coverage exclusions.</li> <li>• <b>Up to \$50,000 in coverage per person, per accident</b>—This option is only available for those enrolled in Medicaid and who meet additional eligibility requirements. This option will likely cost less than policies with higher coverage limits. However, any expenses over \$50,000 will either be paid for through health insurance or out of the policyholder's pocket.</li> <li>• <b>No PIP coverage</b>—This option is available for drivers who have Medicare Parts A and B, and whose household members covered by the policy have qualified health coverage or PIP coverage under another auto policy.</li> </ul>
<b>Personal protection insurance (PPI)</b>	Drivers must secure PPI, which pays up to \$1 million for any damage a policyholder's car does to someone else's property.	There are no changes to this requirement.
<b>Residual bodily injury and property damage (BI/PD) liability coverage</b>	BI/PD pays for a policyholder's legal defense costs and damages should they be found liable for an auto accident where someone was killed or seriously injured.	<p>Following the reform, minimum BI/PD coverage limits for policies issued or renewed after July 1, 2020, include:</p> <ul style="list-style-type: none"> <li>• Up to \$50,000 per person injured or killed in an auto accident</li> </ul>

	<p>Specifically, policyholders must secure the following minimum coverage limits:</p> <ul style="list-style-type: none"><li>• Up to \$20,000 for a person who is hurt or killed in an accident</li><li>• Up to \$40,000 for each accident in the event several people are hurt or killed</li><li>• Up to \$10,000 for damage a policyholder’s vehicle does to property in another state</li></ul>	<ul style="list-style-type: none"><li>• Up to \$100,000 for each accident for all people injured or killed</li><li>• Up to \$10,000 for damage your car does to property in another state</li></ul> <p>Please note that drivers are responsible for injuries to others and may be liable for damages for their pain and suffering, as well as the costs of their medical and other care that exceeds their coverage under their auto insurance policy. The bodily injury liability limit of your policy will pay for such damages, but only up to the amount of the limit you choose. You will be required to pay any amount over the limit you choose.</p>
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In addition to the above, the reforms will include the following changes to further reduce auto insurance costs and improve the system overall:

- Insurance companies will be required to reduce PIP premium rates for eight years. Reductions will depend largely on the type of coverage selected and individual circumstances related to the policyholder.
- Auto insurance companies will no longer be allowed to use nondriving-related factors—like a driver’s sex, marital status, homeownership status, credit score, educational level, occupation and ZIP code—to set insurance rates for personal auto policies.
- Policyholders will now be allowed to select their PIP and bodily injury liability coverage at each renewal. Furthermore, rates must be approved before they are offered to consumers.
- A new fraud investigation unit will be established. This unit, which will work alongside the Michigan Department of the Attorney General, will investigate criminal and fraudulent activity related to insurance and financial markets. Additionally, increased fines and penalties can be imposed on insurance companies, agencies and licensed agents should they violate the law.
- A new fee schedule will be put in place to help control costs medical providers may charge auto insurers.

**Securing a Policy That’s Right for You**

Auto insurance is complex, and it can be difficult to know how much coverage you need. That’s why it’s important to work alongside a qualified insurance professional to not only secure coverage that complies with state laws, but also meets your individual needs and budget. Contact Sterling Insurance Group today to discuss your options.