



Michigan Catastrophic
Claims Association



**Michigan Catastrophic Claims Association
Annual Report to the Director of
Department of Insurance and Financial
Services (DIFS)
Fiscal Year Ended June 30, 2014**

The MCCA is a private, non-profit association whose mission is to protect the financial integrity of Michigan's auto insurance industry by providing an effective reinsurance mechanism for Personal Injury Protection (PIP) benefits.

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MCCA Year in Review

June 2013– June 2014

The premium paid to the Michigan Catastrophic Claims Association (“MCCA”) by member insurance companies will remain the same as last year at \$186.00 per insured vehicle effective July 1, 2014 to June 30, 2015. The \$186.00 is comprised of pure premium of \$155.90, deficit recoupment of \$29.71 and administration expenses of \$.39. The MCCA premium charge is determined each year following its annual actuarial evaluation. The MCCA reimburses auto insurance companies for Personal Injury Protection (PIP) benefits paid in excess of a set amount per claim. The member insurance retention level remained the same at \$530,000.

The MCCA deficit decreased by \$1.5 billion from the June 30, 2013 deficit of \$1.9 billion to the June 30, 2014 deficit of \$410 million. The primary reasons for the decrease were:

- Better than expected performance in the stock market
- The deficit recoupment of \$29.19 per car that was included in the assessment rate of \$186 per car

Please refer to Appendix 4 for a breakdown of the premium cost components.

From inception to June 30, 2014, the MCCA has 14,938 reported open claims and 16,908 reported closed claims. For all open and closed claims, payment has been made on 14,174 (44.51%) claims. Inception to date, \$11.9 billion has been paid on claims. Payments for the twelve months ended June 30, 2014 were \$1.0 billion which represents an average of \$85.6 million paid per month. Please refer to Appendices 5-8 for additional information on claim payments and injury trends.

Retention Level Increase 2015 - 2017

Public Act 3 of 2001 provides for a bi-annual adjustment of the member insurance company retention level. For a motor vehicle policy issued or renewed during the period July 1, 2015 to June 30, 2017 the member insurance company retention level will increase to \$545,000.

Premium Audit Program

The MCCA conducts a Premium Audit Program for all member companies. The objective of this program is to enhance the reliability of the premium data submitted by members and to identify members that may have incorrectly reported data in their Annual Assessment Report.

The Audit Procedures include standard procedures, which involve independent audit firms, and low-volume procedures, which do not. In addition, the MCCA conducts special audits where circumstances warrant a deeper inquiry. Follow-up audits will be based upon results reported by members or other risk factors identified by the MCCA.

The Agreed-Upon Procedures Audit are performed on a triennial basis by members with their independent auditor. All member companies selected for 2014 were required to submit their results by November 15, 2014.

Annual PricewaterhouseCoopers (PWC) Financial Audit

PricewaterhouseCoopers conducted their audit of the MCCA's statutory statements of admitted assets, liabilities, and accumulated deficit as of June 30, 2014 and 2013, and the related statutory statements of operations and accumulated deficit, and cash flows for the years then ended. PWC has issued an unqualified opinion and indicated the financial statements prepared by the MCCA present fairly, in all material respects, the admitted assets, liabilities, and accumulated deficit of the MCCA as of June 30, 2014 and 2013 on the basis of statutory accounting practices. PWC found no exceptions or audit adjustments and no Report to Management was required. The audited statements are in agreement with the MCCA's Annual Statement for the year ended June 30, 2014 that was filed with the Michigan Department of Insurance and Financial Services (DIFS).

Annual Financial Reporting Model Regulation Compliance

The MCCA completes an Annual Financial Reporting Model Audit Regulation ("AFRMR") compliance audit on an annual basis. In January 2014, the MCCA filed a report of internal controls of financial reporting with DIFS. No significant deficiencies or weaknesses were noted.

MCCA Membership System (MMS)

The MCCA has a web based paperless claims and assessment system called MMS. MMS has been in operation since 2009 using 2007 technology. The MCCA has begun the process of rebuilding MMS to incorporate a new business process manager (BPM) and upgrade supporting software products to the latest versions. The MCCA commenced the rebuild project in June 2014 and is scheduled to release the new version of MMS in September 2015. Other MMS related activities include:

- Annual Security Assessment
- Annual Disaster Recovery Test

Relevant Case Law That Impacted the MCCA

Coalition Protecting Auto No-Fault and Brain Injury Association of Michigan v MCCA, Michigan Court of Appeals

In late 2011 and early 2012, the MCCA denied Freedom of Information Act ("FOIA") requests from the Coalition Protecting Auto No-Fault and the Brain Injury Association of Michigan ("BIAMI") on the ground that the MCCA is exempt from FOIA by statute. CPAN and BIAMI then brought a FOIA lawsuit against the MCCA in Ingham County Circuit Court. In 2013, the Circuit Court ruled in favor of CPAN and BIAMI, ordering the MCCA to produce documents reflecting certain MCCA claim and actuarial information. The MCCA appealed

and, in 2014, the Court of Appeals ruled in favor of the MCCA, holding that the MCCA's statutory exemption from FOIA is constitutional and that various common law theories espoused by CPAN and BIAMI do not require the MCCA to produce the documents sought. CPAN and BIAMI have sought leave to appeal from the Michigan Supreme Court.

Appendix 1

MCCA Organizational History

ORGANIZATIONAL HISTORY

The MCCA was established by Public Act 136 of 1978, which amended the no-fault law by adding Section 3104 effective July 1, 1978. The Legislature created MCCA because insurance companies had difficulty obtaining reinsurance for Michigan's automobile no-fault policies, which provided for unlimited lifetime medical benefits for people who are catastrophically injured in auto accidents.

The MCCA is a private, non-profit, unincorporated association of which every insurer that sells automobile or motorcycle coverage in Michigan is required to be a member.

The MCCA is funded by an annual premium assessment to its member insurance companies based on the number of policies covering automobiles and motorcycles written in Michigan. The MCCA is required to assess an amount each year that is sufficient to cover the lifetime claims of all persons catastrophically injured in that year and in addition, may adjust future assessments for excesses or deficiencies in prior assessments.

ORGANIZATIONAL STRUCTURE

MCCA is governed by a Board of Directors which consists of five member companies appointed by the Director of the Department of Insurance and Financial Services (DIFS). The Director, or his/her representative, serves as an ex-officio member of the Board. The Board is responsible for the administration of the Plan of Operation and the management of the affairs and operations of the Association consistent with the Plan and the Michigan Insurance Code, including section 3104 of the No-Fault Insurance Act (the "Act").

A staff of 28 MCCA employees handles the day to day operations and includes:

- Executive Director
- Controller
- Assistant Controller
- Accountant
- Information System Manager
- 3 Claim Supervisors
- 17 Claim Examiners
- 3 Claim Technicians

MCCA contracts for the following services:

- Actuarial
- Auditing
- Legal
- Investment consulting and management
- Payroll
- Information system support

The following standing committees provide assistance in the operation of the MCCA:

Actuarial Committee

Provide actuarial analysis and other analytical support for premium calculation and reserving estimates.

Audit Committee

Provide oversight of the financial and regulatory reporting process of the Association.

Claim Committee

Review claims procedures and practices of both the Association and member companies and conduct semi-annual claim audits for claim handling practices and reserve appropriateness.

Communication Committee

Oversee the Association's communications with its members and third parties, and make recommendations to the Board relating to such communications.

Information Technology Committee

Assess the Association's technology strategy and make recommendations regarding technology investments.

Investment Committee

Recommend to the Board an investment policy for the Association and to oversee the investments of the Association.

Personnel Committee

Make recommendations to the Board relating to staffing, compensation, and employment policies of the Association.

REPORTING REQUIREMENTS

Annual Statements

MCCA's annual financial statement, available on the public website (www.michigancatastrohic.com), is prepared on the basis of statutory accounting practices as prescribed or permitted by the State of Michigan DIFS. MCCA is subject to all the reporting, loss reserve, and investment requirements of the Director of the DIFS, to the same extent as would a member company of the Association. The Association's fiscal year is on a June 30 basis. In conjunction with the annual statement filing, the Association's consulting actuary

prepares a statement of actuarial opinion that is filed with DIFS. The opining actuary is required to comply with all applicable actuarial standards of practice.

Independent Financial Audit

An annual audit of MCCA's financial statements is conducted by the independent public accounting firm PricewaterhouseCoopers LLP. The results of these annual audits are available on the MCCA public website (www.michigancatastrophic.com).

Evaluation of Internal Controls

An annual financial reporting model audit regulation compliance audit is conducted by the independent public accounting firm Accretive Solutions.

Department of Insurance and Financial Services (DIFS) Oversight

Pursuant to Section 3104(23) of the Michigan Insurance Code, the Director of the DIFS or an authorized representative of the Director may visit the Association at any time and examine any and all the Association's affairs. In addition, the DIFS periodically reviews the financial condition of the MCCA. The most recent financial examination by the DIFS was for the period of July 1, 2006 to June 30, 2010. The examination included an independent actuarial analysis, which was consistent with the results of the MCCA's opining actuary. The report of the examination and accompanying statement of actuarial opinion is available on the MCCA public website (www.michigancatastrophic.com).

Please refer to appendix 3 for a summary of the MCCA System of Controls.

Reference material available on the MCCA public website (www.michigancatastrophic.com)

The following documents are available on MCCA's website:

- Background Information
- Financial Information
 - Annual Statement (3 years)
 - Report of independent auditors (3 years)
 - Department of Insurance and Financial Services (DIFS) financial examination report of MCCA
 - Assessment History
- Consumer Information
 - Claim Statistics
 - Injury Type Summary
 - Summary of Payments by Cost Category
 - Motorcycle Statistics
 - Frequently Asked Questions

Appendix 2

MCCA Board of Directors and Standing Committees

Board of Directors

Auto Club Insurance Association
Auto-Owners Insurance Company
Citizens Insurance Company of America
Farmers Insurance Group
State Farm Mutual Automobile Insurance Company
Director of the Department of Insurance and Financial Services (Ex-Officio Member)

Insurance Companies Serving on Standing Committees

Allstate Insurance Company
Amerisure Companies
Auto Club Insurance Association
Auto-Owners Insurance Company
Citizens Insurance Company of America
Farm Bureau Insurance Group
Frankenmuth Mutual Insurance Company
Grange Mutual Casualty Company
Hastings Mutual Insurance Company
Liberty Mutual Insurance Company
Michigan Millers Mutual Insurance Company
Progressive Insurance Company
State Farm Mutual Automobile Insurance Company
West Bend Mutual Insurance Company
Wolverine Mutual Insurance Company

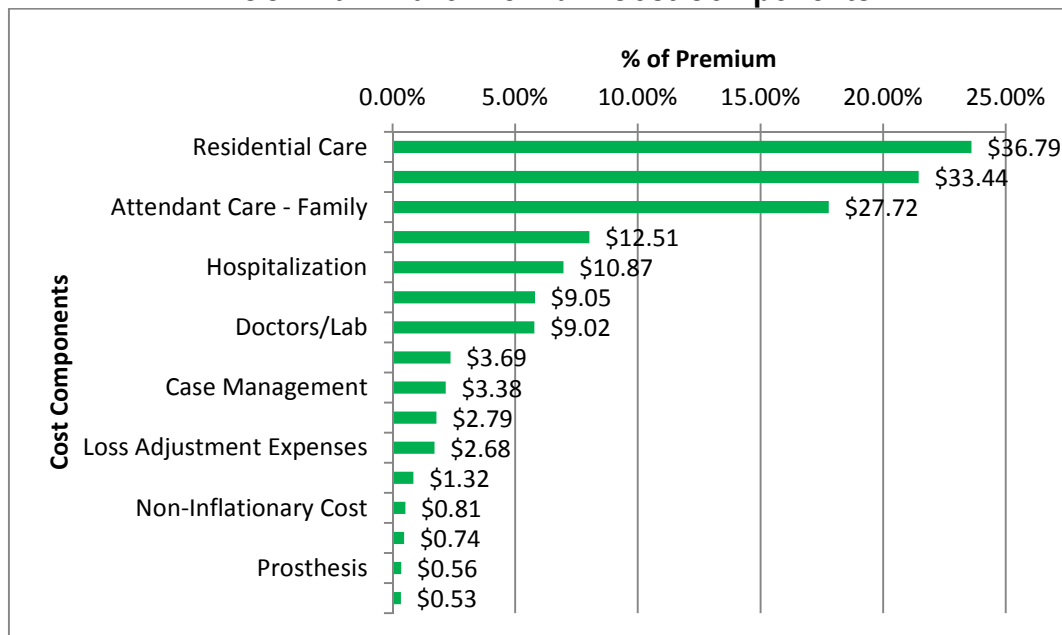
Appendix 3

MCCA Oversight

- The MCCA files annual financial statements with the Department of Insurance and Financial Services (DIFS)
- An independent auditor audits the MCCA's financial statements on an annual basis
- DIFS conducts financial audits of the MCCA every five years, most recently for the period July 1, 2006 to June 30, 2010.
 - DIFS engages an independent actuary to review the work of MCCA's actuaries and issues a report
- DIFS has the right to examine any and all of the MCCA's operations and the Director and/or his designated representative attends all Board meetings
- The MCCA completes an Annual Financial Reporting Model Audit Regulation compliance audit on an annual basis which reviews internal financial controls and files a report of internal controls with DIFS
- MCCA engages an independent actuary to estimate the sufficiency of reserves
- The MCCA Actuarial Committee, comprised of eight credentialed actuaries, reviews the report and recommendation by the independent actuary
- The MCCA has implemented a Premium Audit Program to audit and verify assessable exposure information submitted by member companies
- The MCCA has retained an investment consultant to review the economic assumptions used by the MCCA independent actuary on an annual basis

Appendix 4

MCCA 2014-2015 Premium Cost Components



Cost Components	Estimated Cost	%
Residential Care	36.79	23.6%
Attendant Care - Agency	33.44	21.4%
Attendant Care - Family	27.72	17.8%
Prescriptions	12.51	8.0%
Hospitalization	10.87	7.0%
Rehabilitation Services	9.05	5.8%
Doctors/Lab	9.02	5.8%
Other	3.69	2.4%
Case Management	3.38	2.2%
Transportation	2.79	1.8%
Loss Adjustment Expenses	2.68	1.7%
Home Purchases/Modifications	1.32	0.8%
Non-Inflationary Cost	0.81	0.5%
Equipment	0.74	0.5%
Prosthesis	0.56	0.4%
Vehicle Purchases/Modifications	0.53	0.3%
Total Premium Cost:	\$155.90	100.0%

Total Premium Cost: \$155.90

Deficit Reduction: \$29.71

Expenses: \$0.39

Total 2014-2015 MCCA

Assessment \$186.00

Appendix 5**MCCA Financial and Statistical Highlights**

	Inception to June 30,		Change
	2014	2013	
Total Assets	\$17,634,099,000	\$15,547,701,000	\$2,086,398,000
Total Liabilities	18,044,631,000	17,420,023,000	624,608,000
Total Surplus	(410,532,000)	(2,047,889,000)	1,461,790,000
Amount of Reimbursement	11,934,249,000	10,907,219,000	1,027,030,000
Undiscounted (gross) Loss Reserves	67,695,992,000	67,343,618,000	352,374,000
Discounted Loss Reserves	16,855,230,000	16,336,755,000	518,475,000
Claims Reported	31,846	30,177	1,669
Claims Closed	16,908	15,932	976
Claims Open	14,938	14,245	693
Claims Reimbursed	14,174	13,496	678

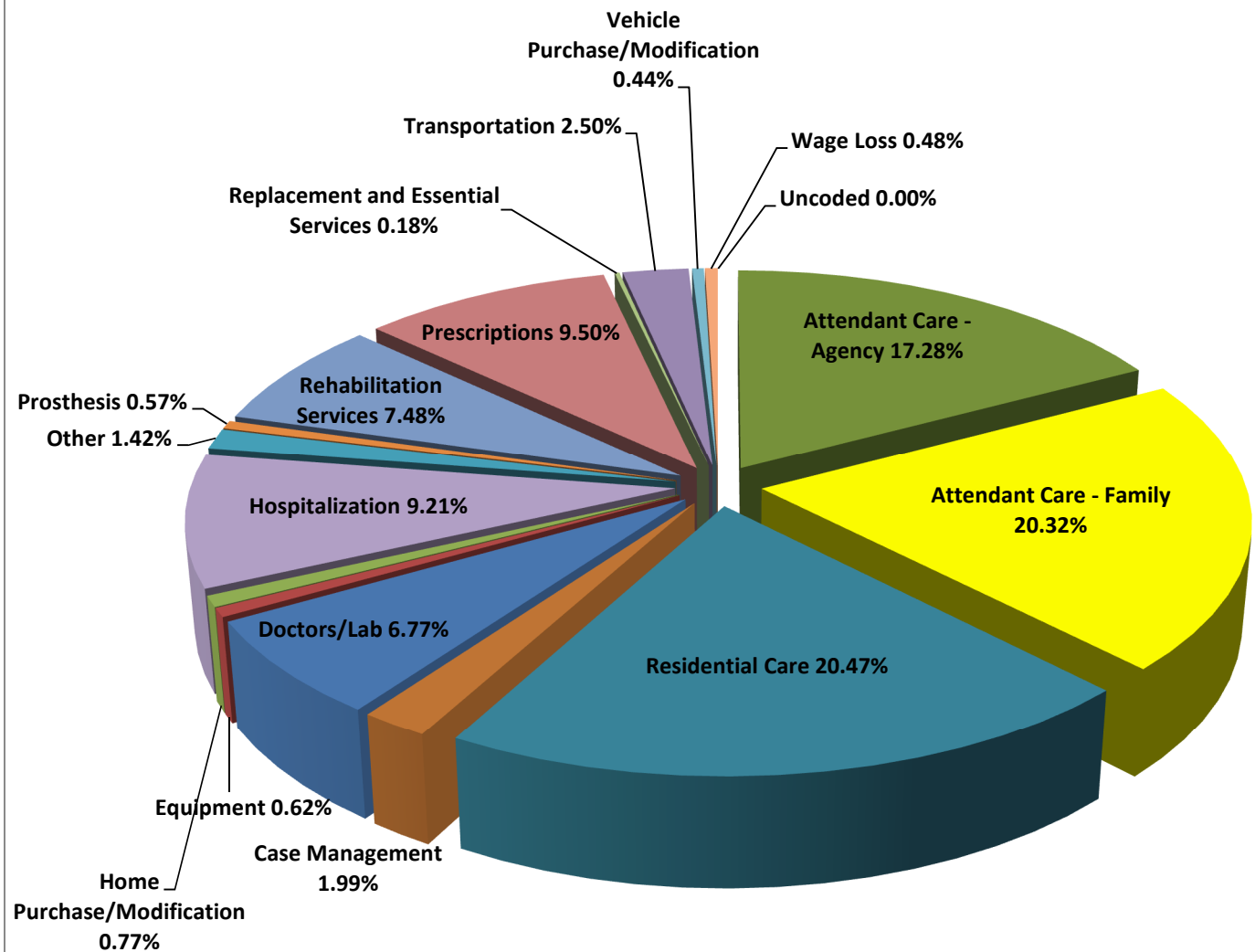
	12 Months Ended June 30,		Change
	2014	2013	
Assessment Income	\$1,280,988,000	\$1,136,491,000	\$144,497,000
Investment Income	778,821,000	581,410,000	197,411,000
Amount of Reimbursement	1,027,030,000	983,133,000	43,897,000
Average Monthly Reimbursement	85,586,000	81,928,000	3,658,000
Claims Reported	1,669	1,389	280
Claimants Reported:			
Brain	538	449	89
Quad	18	17	1
Para	13	19	(6)
Burn	7	6	1
Miscellaneous	1,203	986	217
In-Process/Not Coded	1	16	(15)
NPLC*/Denied	385	400	(15)
Total	2,165	1,893	272
Claims Closed	976	847	129
Claims Breaching Retention	678	660	18

* NPLC - Non Probable Lifetime Care

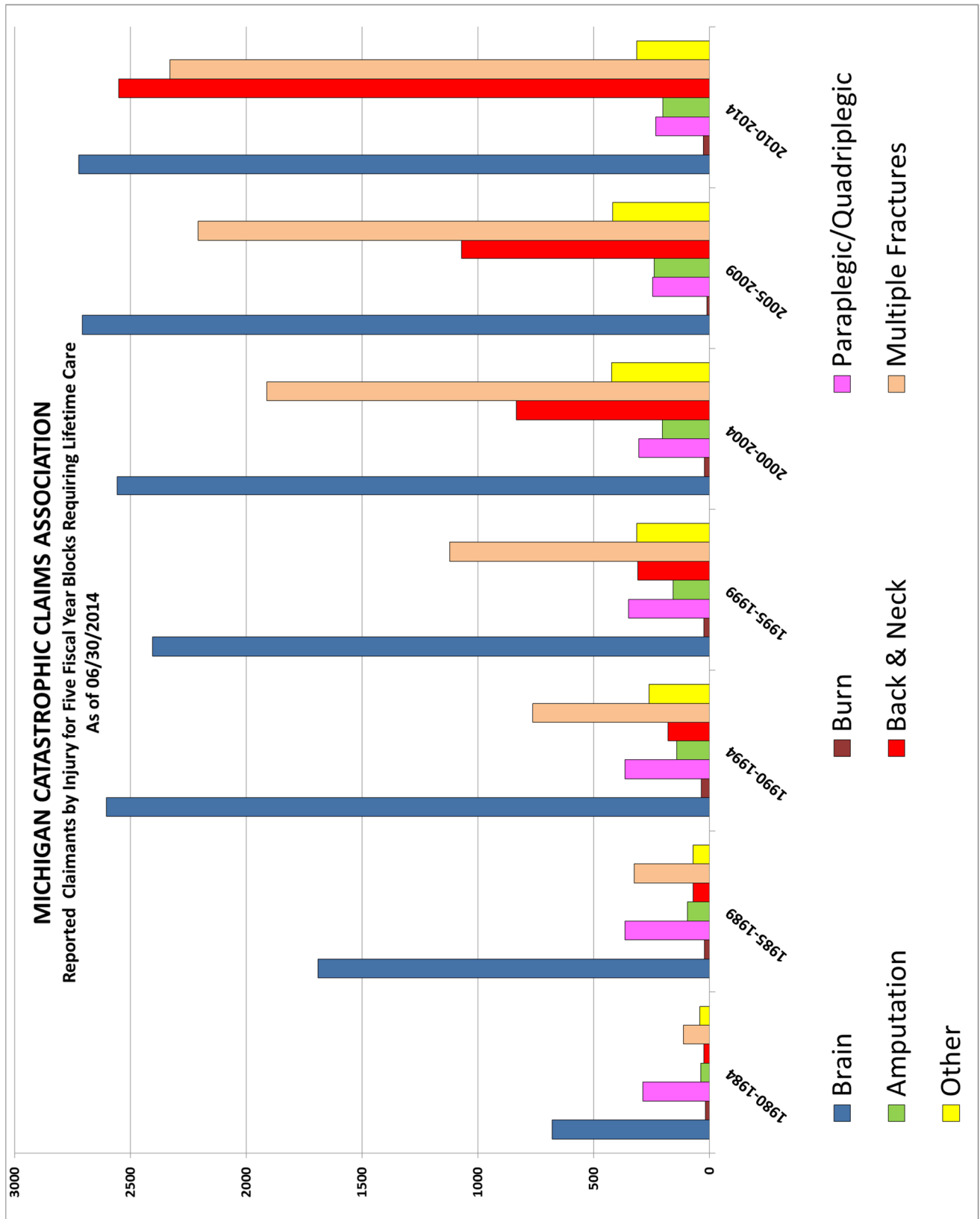
Appendix 6

MCCA Loss Payment Summary by Category

Period: 07/01/2013 to 06/30/2014

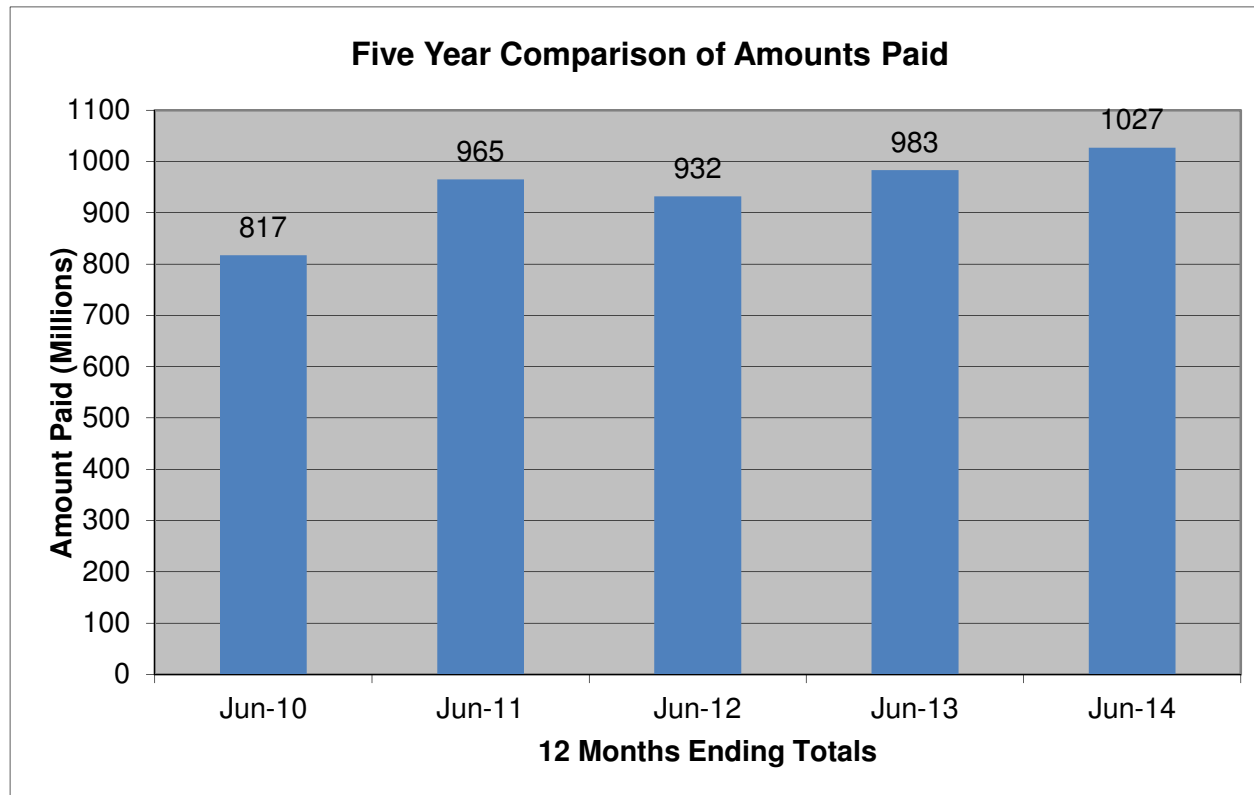


Appendix 7



Appendix 8

MICHIGAN CATASTROPHIC CLAIMS ASSOCIATION PAID CLAIMS SUMMARY AS OF JUNE 30, 2014



12 Months Ending	Bill Review	Loss Payments	Total	% Difference	Average Monthly Payments
06/30/2010	7,383,663	809,586,095	816,909,758	0.00%	68,075,813
06/30/2011	5,724,891	959,085,675	964,810,566	18.10%	80,400,881
06/30/2012	5,270,596	926,419,116	931,689,712	-3.43%	77,640,809
06/30/2013	5,370,402	977,762,426	983,132,828	5.52%	81,927,736
06/30/2014	5,585,278	1,021,445,094	1,027,030,372	4.47%	85,585,864

Inception to Date:

Total Paid: \$11,934,249,148