



Michigan Catastrophic
Claims Association



Annual Report

of the

Michigan Catastrophic Claims Association

To The Director

Department of Insurance and Financial Services

For the Fiscal Year Ended June 30, 2017

Issued December 2017

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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Year in Review

June 2016 – June 2017

The premium paid to the Michigan Catastrophic Claims Association (“MCCA”) by member insurance companies increased to \$170 per insured vehicle effective July 1, 2017 to June 30, 2018. This represents an increase of \$10.00 (6.3%) over the 2016-2017 MCCA charge of \$160.00. The \$170.00 is comprised of a pure premium (expected cost per vehicle) of \$143.33, deficit recoupment of \$26.27 and other underwriting expenses of \$0.40. 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. That amount increased to \$555,000 on July 1, 2017. Please refer to Appendix 4 for a breakdown of the premium cost components.

The MCCA deficit increased by \$900 million from the June 30, 2016 deficit of \$1.7 billion to the June 30, 2017 deficit of \$2.6 billion. The primary reasons for the increase were updated economic assumptions that increased claim reserves and an unexpected increase in reserve estimates. Partially offsetting the increase were better than expected investment performance and the deficit recoupment provision included in the assessment rate. In projecting claim payments for long-term claims in which medical benefits are unlimited, there is considerable uncertainty due to the difficulty in predicting (a) life expectancies, (b) medical cost inflation, (c) investment returns, and (d) claim frequency.

From inception to June 30, 2017, of the 37,364 claims reported to the MCCA, 16,510 are open and 20,854 are closed. For all open and closed claims, payment has been made on 16,170 (43%) claims. Inception to date, \$15.3 billion has been paid on claims. Payments for the twelve months ended June 30, 2017 were \$1.2 billion, which represents an average of \$100.0 million paid per month. Approximately 76% of the \$1.2 billion in payments are comprised of the following payment categories: (1) residential care: 20%, (2) attendant care – family: 18%, (3) attendant care – agency: 18%, (4) hospitalization: 10%, and (5) prescriptions: 10%. Please refer to Appendices 5 and 6 for additional information on claim payments and injury trends.

Retention Level Increase 2017 - 2019

Public Act 3 of 2001 provides for a biennial adjustment of the member insurance company retention level. For a motor vehicle policy issued or renewed during the period July 1, 2017 to June 30, 2019 the member insurance company retention level is \$555,000. The prior retention level was \$545,000 for the period July 1, 2015 to June 30, 2017.

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. 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 is performed on a triennial basis by members. All member companies selected for 2017 were required to submit their results by November 15, 2017.

Annual Independent Financial Audit

Plante Moran conducted an audit of the MCCA's statutory statements of admitted assets, liabilities, and accumulated deficit, and the related statutory statements of operations and accumulated deficit, and cash flows as of June 30, 2017. Plante Moran has issued an unmodified opinion and indicated the statutory financial statements prepared by the MCCA present fairly, in all material respects, the financial position of the MCCA as of June 30, 2017 and the results of its operations, changes in capital and surplus, and its cash flows for the year then ended based on statutory accounting practices. Plante Moran found no exceptions or audit adjustments. The audited statements are in agreement with the MCCA's Annual Statement for the year ended June 30, 2017 that was filed with the Michigan Department of Insurance and Financial Services (DIFS).

Annual Financial Reporting Model Regulation Compliance

Accretive Solutions conducted an Annual Financial Reporting Model Regulation ("AFRMR") compliance audit as of June 30, 2017. No significant deficiencies or weaknesses were noted. The MCCA files a report of internal controls of financial reporting with DIFS.

MCCA Membership System (MMS)

All claim and assessment transactions are processed through a web-based paperless claims and assessment system called MMS. The MCCA continues to support and enhance the software components of MMS. Other related activities include: (1) Cyber security: (a) annual security risk assessment, and (b) semi-annual penetration and web application security tests, (2) annual disaster recovery test, and (3) security awareness program.

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 ("CPAN") 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. After CPAN and BIAMI filed an application for leave to appeal, the Supreme Court sought additional briefing on the question whether the MCCA is a public body subject to FOIA. Subsequently, the Supreme Court remanded the case to the Court of Appeals to answer that question. The Court of Appeals in 2016 held that the MCCA is a public body for FOIA purposes, and also held, for the second time, that the MCCA's statutory exemption from FOIA is constitutional. CPAN and BIAMI filed an application for leave to appeal to the Michigan Supreme Court. The Supreme Court denied the application on May 17, 2017. Accordingly, MCCA's statutory exemption from FOIA is constitutional.

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 MCCA consistent with the Plan and the Michigan Insurance Code, including section 3104 of the No-Fault Insurance Act (the "Act").

A staff of 36 employees handle the day-to-day operations of the MCCA including general administration, claim administration, accounting, legal, and information systems.

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

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

Audit Committee

Provides oversight of the financial and regulatory reporting process of the MCCA.

Claim Committee

Reviews claims procedures and practices of both the MCCA and member companies and conducts semi-annual claim audits for claim handling practices and reserve appropriateness.

Communication Committee

Oversees the MCCA's communications with its members and third parties, and makes recommendations to the Board relating to such communications.

Information Technology Committee

Assesses the MCCA's technology strategy and makes recommendations regarding technology investments.

Investment Committee

Recommends to the Board an investment policy for the MCCA and oversees the investments of the MCCA.

Personnel Committee

Makes recommendations to the Board relating to staffing, compensation, and employment policies of the MCCA.

REPORTING REQUIREMENTS

Annual Statement

MCCA's annual financial statement 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 DIFS, to the same extent as would a member company of the MCCA. The MCCA's fiscal year is on a June 30 basis. In conjunction with the annual statement filing, the MCCA'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. The annual statement is available on the MCCA public website (www.michigancatastrophic.com)

Independent Financial Audit

An annual audit of MCCA's financial statements is conducted by an independent public accounting firm. Most recently Plante Moran LLP performed this audit. The independent auditor reports are available on the MCCA public website (www.michigancatastrophic.com).

Evaluation of Internal Controls

An annual financial reporting model regulation compliance audit is conducted by an independent public accounting firm. Most recently Accretive Solutions performed this audit.

Department of Insurance and Financial Services (DIFS) Oversight

Pursuant to Section 3104(23) of the Michigan Insurance Code, the Director of DIFS or an authorized representative of the Director may visit the MCCA at any time and examine any and all the MCCA's affairs. In addition, DIFS periodically reviews the financial condition of the MCCA. The most recent financial examination by DIFS was for the period of July 1, 2010 to June 30, 2015. There were no findings or recommendations resulting from the examination. The examination also 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 list of MCCA Oversight controls.

REFERENCE MATERIAL AVAILABLE ON THE MCCA PUBLIC WEBSITE

The following documents are available on MCCA's website (www.michigancatastrophic.com):

- Background Information
- Financial Information
 - Annual Statement (3 years)
 - Report of independent auditors (3 years)
 - Department of Insurance and Financial Services (DIFS) Report of Examination 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

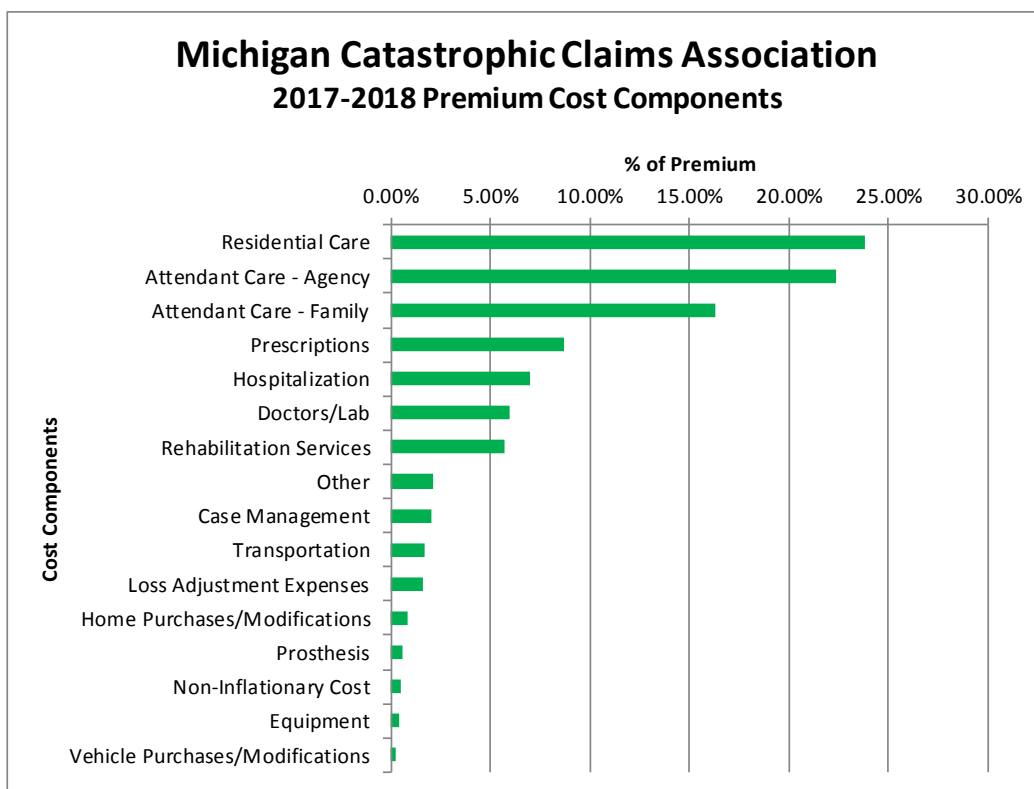
Allstate Insurance Company
Amerisure Companies
Auto Club Insurance Association
Auto-Owners Insurance Company
Citizens Insurance Company of America
Farm Bureau Insurance Group
Frankenmuth Mutual Insurance Company
Grange Mutual Casualty Company
Hastings Mutual Insurance Company
Nationwide Insurance Company
Pioneer State 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 examinations of the MCCA every five years, most recently for the period July 1, 2010 to June 30, 2015
 - DIFS engages an independent actuary to review the work of MCCA's actuary 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
- The MCCA conducts a Premium Audit Program to audit and verify assessable exposure information submitted by member companies
- MCCA engages an independent actuary to estimate the sufficiency of reserves
- The MCCA Actuarial Committee, comprised of nine credentialed actuaries, reviews the report and recommendation by the independent actuary
- The MCCA engages an investment consultant to review the economic assumptions used by the MCCA independent actuary on an annual basis

Appendix 4

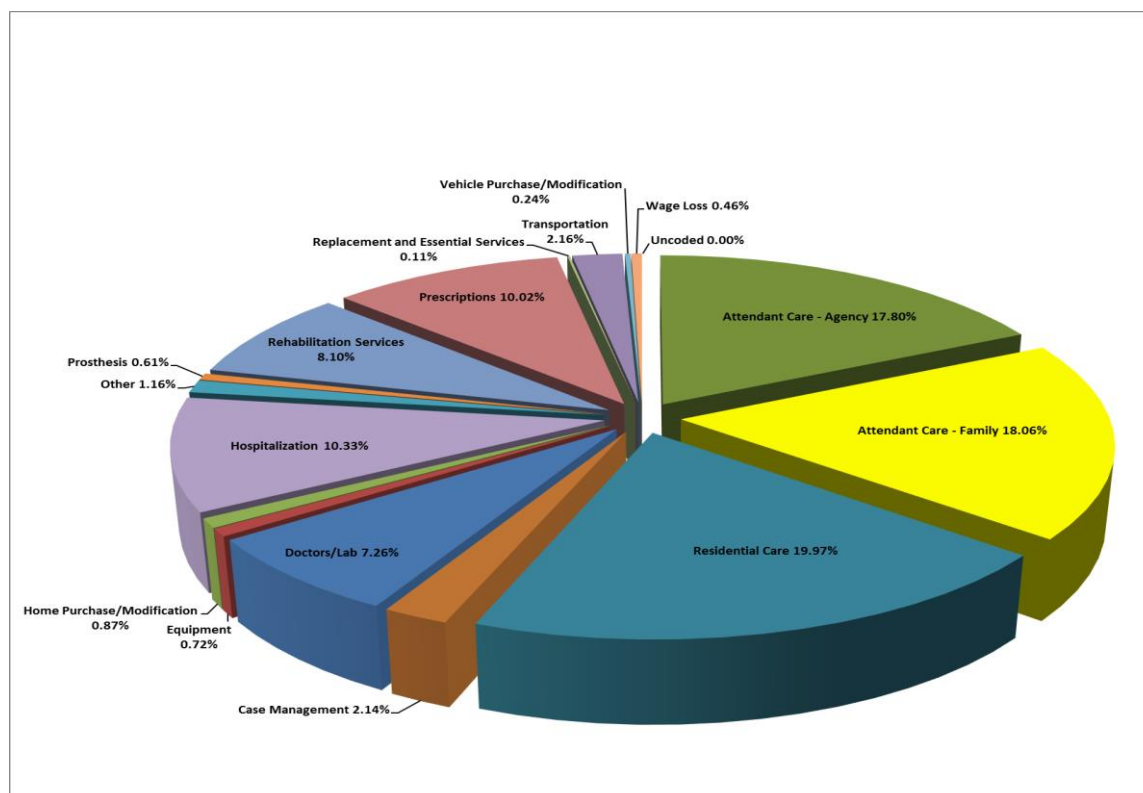


Cost Components	Estimated	
	Cost	%
Residential Care	\$34.18	23.85%
Attendant Care - Agency	32.07	22.37%
Attendant Care - Family	23.32	16.27%
Prescriptions	12.51	8.73%
Hospitalization	10.03	7.00%
Doctors/Lab	8.56	5.97%
Rehabilitation Services	8.24	5.75%
Other	3.03	2.11%
Case Management	2.89	2.02%
Transportation	2.49	1.74%
Loss Adjustment Expenses	2.26	1.58%
Home Purchases/Modifications	1.22	0.85%
Prosthesis	0.80	0.56%
Non-Inflationary Cost	0.72	0.50%
Equipment	0.64	0.45%
Vehicle Purchases/Modifications	0.37	0.26%
Total Premium Cost:	\$143.33	100.0%

Total Premium Cost:	\$143.33
Deficit Reduction:	\$26.27
Other Underwriting Expenses:	\$0.40
Total 2017-2018 MCCA Assessment	\$170.00

Appendix 5

MICHIGAN CATASTROPHIC CLAIMS ASSOCIATION MCCA Loss Payment Summary by Category 07/01/2016 to 06/30/2017



Payment Category	Totals Paid	%	
Residential Care	238,255,035.74	19.97%	
Attendant Care - Family	215,450,228.62	18.06%	55.82%
Attendant Care - Agency	212,355,061.34	17.80%	
Hospitalization	123,273,714.23	10.33%	
Prescriptions	119,532,492.33	10.02%	
Rehabilitation Services	96,691,027.14	8.10%	
Doctors/Lab	86,606,966.62	7.26%	
Transportation	25,755,521.30	2.16%	
Case Management	25,556,993.49	2.14%	
Other	13,800,926.57	1.16%	
Home Purchase/Modification	10,348,512.20	0.87%	
Equipment	8,583,975.91	0.72%	
Prosthesis	7,292,423.89	0.61%	
Wage Loss	5,513,481.52	0.46%	
Vehicle Purchase/Modification	2,857,101.20	0.24%	
Replacement and Essential Services	1,325,884.48	0.11%	
Uncoded	32,237.89	0.00%	
Total Loss Paid:	\$1,193,231,584.47	100.00%	

Appendix 6

MICHIGAN CATASTROPHIC CLAIMS ASSOCIATION
 Reported Claimants Requiring Lifetime Care by Injury and Fiscal Years
 As of 06/30/2017

