



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, 2016**

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 2015– June 2016

The premium paid to the Michigan Catastrophic Claims Association (“MCCA”) by member insurance companies increased to \$160 per insured vehicle effective July 1, 2016 to June 30, 2017. This represents an increase of \$10.00 (6.7%) over the 2015-2016 MCCA charge of \$150.00. The \$160.00 is comprised of pure premium of \$140.26, deficit recoupment of \$19.34 and administration 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 \$545,000 on July 1, 2015. Please refer to Appendix 4 for a breakdown of the premium cost components.

The MCCA deficit increased by \$1.1 billion from the June 30, 2015 deficit of \$691 million to the June 30, 2016 deficit of \$1.7 billion. The primary reasons for the increase were:

- Updated economic assumptions increased MCCA claim reserves
- Investment performance was less than expected
- Unexpected increase in reserve estimates

From inception to June 30, 2016, the MCCA has 16,053 open claims and 19,222 closed claims. For all open and closed claims, payment has been made on 15,483 (44%) claims. Inception to date, \$14.1 billion has been paid on claims. Payments for the twelve months ended June 30, 2016 were \$1.1 billion which represents an average of \$93.1 million paid per month. Please refer to Appendices 5-7 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 2016 were required to submit their results by November 15, 2016.

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, 2016. 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, 2016 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, 2016 that was filed with the Michigan Department of Insurance and Financial Services (DIFS).

Michigan Department of Insurance and Financial Services (DIFS) Examination

DIFS conducted a risk-focused examination of the MCCA for the period from July 1, 2010 to June 30, 2015. There were no findings or recommendations resulting from this examination.

In addition, DIFS engaged an independent actuarial consultant to determine the adequacy of the MCCA's reserves and related actuarial items. The consultant's statement of actuarial opinion, regarding loss and loss adjustment expense reserves reflected in MCCA's financial statements, indicated the following:

- a) Meet the requirements of the insurance laws of the State of Michigan, including laws specific to the MCCA and its special purpose;
- b) Are consistent with amounts computed in accordance with accepted actuarial standards and principles; and
- c) Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the MCCA under the terms of its contracts and agreements.

Annual Financial Reporting Model Regulation Compliance

Accretive Solutions conducted an Annual Financial Reporting Model Regulation ("AFRMR") compliance audit as of June 30, 2016. No significant deficiencies or weaknesses were noted. The MCCA files a report of internal controls of financial reporting with DIFS.

MCCA Membership System (MMS)

The MCCA implemented a web based paperless claims and assessment system called MMS in June 2010 to replace an older paper based system. An updated version of MMS was released in September 2015. The MCCA continues to support and enhance the software components of MMS. Other related activities include:

- Annual Security Assessments
- Annual Disaster Recovery Test
- 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 have filed an application for leave to appeal to 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 MCCA consistent with the Plan and the Michigan Insurance Code, including section 3104 of the No-Fault Insurance Act (the "Act").

A staff of 32 MCCA employees handle the day to day operations and includes:

- Executive Director
- Controller
- Assistant Controller
- Accountant
- Information System Manager
- 4 Claim Supervisors
- 21 Claim Examiners
- 2 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

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, 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 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.

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 results of these annual audits 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. 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 list of MCCA Oversight 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) 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

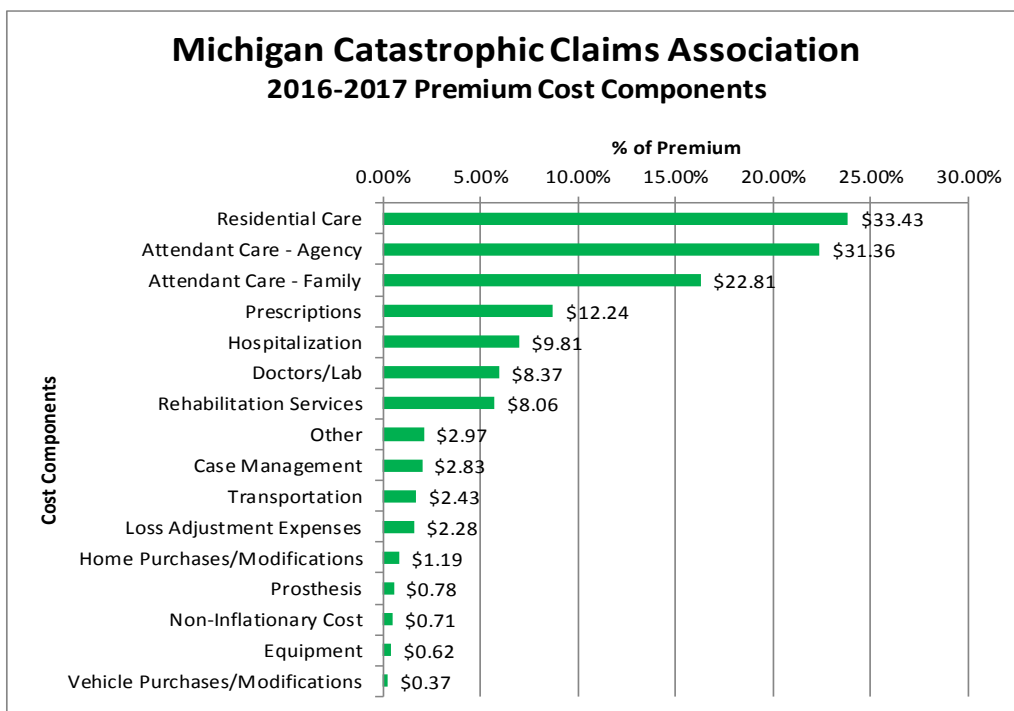
Allstate Insurance Company
Amerisure Companies
Auto Club Insurance Association
Auto-Owners Insurance Company
Citizens Insurance Company of America
Farm Bureau Insurance Group
Frankenmuth Mutual Insurance Company
Grange Mutual Casualty Company
Hastings Mutual Insurance Company
Pioneer State Mutual Insurance 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 audits 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
- 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



Cost Components	Estimated	
	Cost	%
Residential Care	33.43	23.83%
Attendant Care - Agency	31.36	22.36%
Attendant Care - Family	22.81	16.26%
Prescriptions	12.24	8.73%
Hospitalization	9.81	6.99%
Doctors/Lab	8.37	5.97%
Rehabilitation Services	8.06	5.75%
Other	2.97	2.12%
Case Management	2.83	2.02%
Transportation	2.43	1.73%
Loss Adjustment Expenses	2.28	1.63%
Home Purchases/Modifications	1.19	0.85%
Prosthesis	0.78	0.56%
Non-Inflationary Cost	0.71	0.51%
Equipment	0.62	0.44%
Vehicle Purchases/Modifications	0.37	0.26%
Total Premium Cost:	\$140.26	100.0%

Total Premium Cost:	\$140.26
Deficit Reduction:	\$19.34
Expenses:	\$0.40
Total 2016-2017 MCCA Assessment	\$160.00

Appendix 5

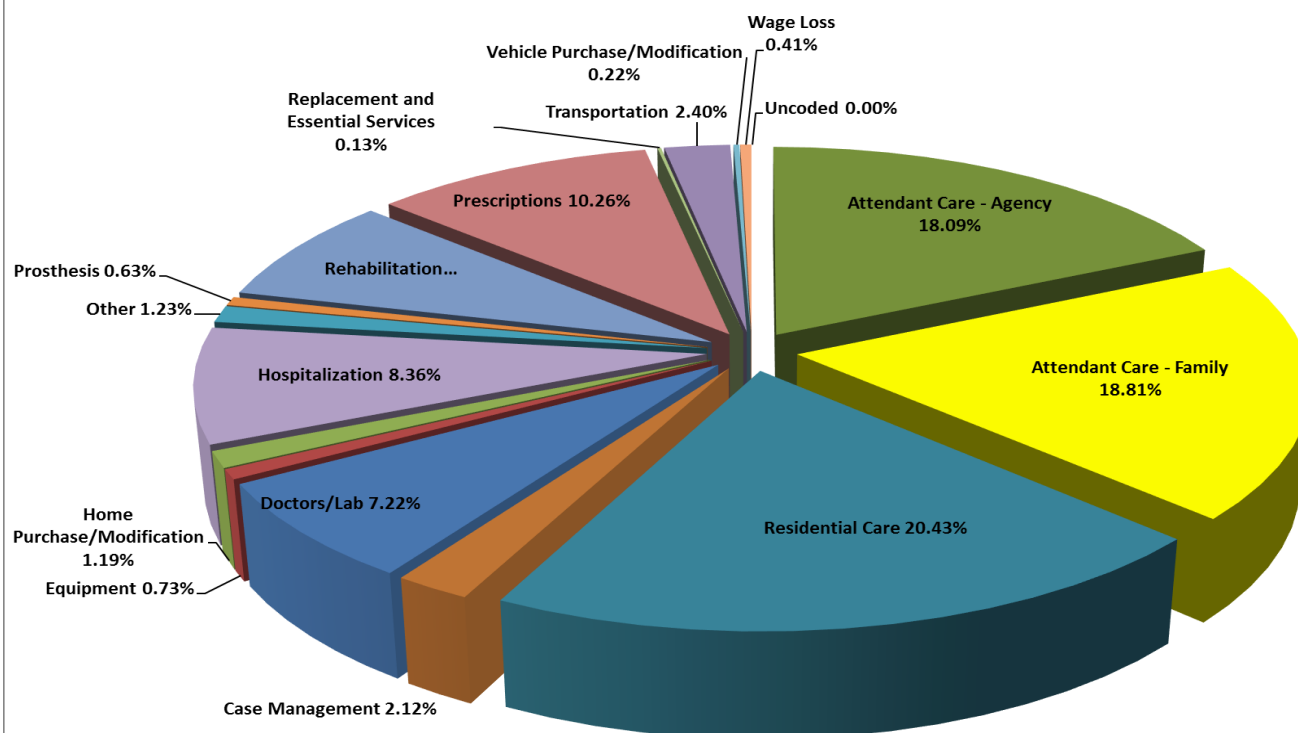
MCCA Financial and Statistical Highlights

	Inception to June 30,		Change
	2016	2015	
Total Assets	\$18,505,781,000	\$18,056,729,000	\$449,052,000
Total Liabilities	20,247,211,000	18,747,661,000	1,499,550,000
Total Deficit	(1,741,430,000)	(690,932,000)	(1,050,498,000)
Amount of Reimbursement	14,127,385,000	13,010,256,000	1,117,129,000
Undiscounted (gross) Loss Reserves	61,400,069,000	68,003,801,000	(6,603,732,000)
Discounted Loss Reserves	19,465,364,000	17,755,489,000	1,709,875,000
Claims Reported	35,275	33,289	1,986
Claims Closed	19,222	17,936	1,286
Claims Open	16,053	15,353	700
Claims Breaching Retention	15,483	14,848	635
	12 Months Ended June 30,		Change
	2016	2015	
Assessment Income	\$1,167,201,000	\$1,320,004,000	(\$152,803,000)
Investment Income	352,916,000	1,398,419,000	(1,045,503,000)
Amount of Reimbursement	1,117,129,000	1,076,007,000	41,122,000
Average Monthly Reimbursement	93,094,000	89,667,000	3,427,000
Claims Reported	1,986	1,443	543
Claimants Reported:			
Brain	696	529	167
Quad	13	14	(1)
Para	29	12	17
Burn	2	11	(9)
Miscellaneous:			
Amputation	45	47	(2)
Back & Neck	631	423	208
Multiple Fractures	704	471	233
Other	121	62	59
Sub-Total Miscellaneous	1,501	1,003	498
Non-Probable Life Time Care/Denial	394	369	25
Total	2,635	1,938	697
Claims Closed	1,286	1,028	258
Claims Breaching Retention	635	674	(39)

Appendix 6

MCCA Loss Payment Summary by Category

Period: 07/01/2015 to 06/30/2016



Payment Category	Total Loss Payments	%	
Residential Care	\$227,186,021.21	20.43%	
Attendant Care - Family	209,125,973.41	18.81%	57.33%
Attendant Care - Agency	201,153,548.95	18.09%	
Prescriptions	114,027,912.73	10.26%	
Hospitalization	92,948,338.24	8.36%	
Rehabilitation Services	86,385,630.41	7.77%	
Doctors/Lab	80,228,098.10	7.22%	
Transportation	26,692,950.26	2.40%	
Case Management	23,619,933.15	2.12%	
Other	13,632,255.15	1.23%	
Home Purchase/Modification	13,254,063.38	1.19%	
Equipment	8,092,736.83	0.73%	
Prosthesis	7,046,995.60	0.63%	
Wage Loss	4,522,679.95	0.41%	
Vehicle Purchase/Modification	2,415,268.07	0.22%	
Replacement and Essential Services	1,492,220.15	0.13%	
Uncoded	8,531.43	0.00%	
Total Loss Paid:	\$1,111,833,157.02	100.00%	

Appendix 7

MICHIGAN CATASTROPHIC CLAIMS ASSOCIATION
 Reported Claimants Requiring Lifetime Care by Injury and Fiscal Years
 As of 06/30/2016

