



Get Uninsured Cars Off the Road Through Reforming No-Fault

By Michael Van Beek

Summary

Every fifth car on Michigan roads is uninsured. Lawmakers should make auto insurance more affordable by reforming the state's insurance laws.

Main text word count: 710

Owning and operating a car in Michigan is expensive and it's going to get more expensive soon. Fuel taxes and vehicle registration fees will increase next January. Another cost to driving is being insured, which is increasingly pricey. Having raised the cost of driving by hiking taxes and fees, policymakers owe it to taxpayers to make an effort to bring down the cost of auto insurance in Michigan.

The case for reforming Michigan's auto insurance laws is straightforward: Michigan has the highest average rate in the entire country at \$2,738 per year, according to Insure.com. That's more than twice the national average of \$1,325 and 19 percent higher than the second-highest state. Since there's nothing exceptional about Michiganders' driving habits (despite the anecdotal evidence you may see on the highway), that high average can be attributed to Michigan's unique auto insurance laws.

Without a doubt, the most important feature governing auto insurance here is the requirement that every driver purchase "unlimited personal injury protection," coverage that provides lifetime medical benefits for someone injured in an accident. No other state forces everyone to buy this type of insurance. New York has the second-highest requirements for PIP insurance, and it only requires \$50,000 worth of coverage.

Uncapped PIP benefits mean that there is no limit to what medical facilities can charge insurance companies for servicing individuals injured in automobile accidents. And only a tiny portion of people injured in car accidents even need this type of coverage: A 2007 analysis of approximately 70,000 PIP claims found that 94 percent of them were under \$50,000 and averaged just \$3,966 per claim.

Michigan also uses a no-fault insurance system, which is rare among the states — only 12 have a similar approach. Michigan's no-fault experiment started in 1973, and it requires that, after an accident, each involved party's insurance company pay for all the medical expenses, wage losses and property damage no matter who is at fault. In other states, drivers who cause accidents are liable for more of the costs incurred by the accident and those not at fault can sue for additional damages. No-fault insurance does reduce litigation and administrative costs, but given Michigan's sky-high rates, it needs to be reconsidered.

Due to the nature of the auto insurance market, it is important to keep rates as low as possible, especially for low-income individuals. The more uninsured

continued on back



Auto insurance in Michigan averages over \$2,700 per year.

drivers there are, the higher the costs of providing insurance for everyone. But the higher the costs of providing insurance, the higher the premiums companies must charge, and the more likely it is for people not to be able to afford insurance. In other words, there's a snowball effect that occurs when insurance rates increase. No surprise, then, that Michigan, with its absurdly high rates, has the fifth-most uninsured drivers in the country. According to the Insurance Information Institute, every fifth car you see on a road in Michigan is uninsured.

While the snowball effect can work to drive insurance premiums up, it can work in the other direction, too. If insurance rates drop, more people will buy insurance, which will put downward pressure on insurance costs since there will be fewer uninsured. In a virtuous circle, then, premiums will become more affordable for more people, and so on.

To improve the current situation, policymakers should ditch the one-size-fits-all mandates of unlimited PIP and no-fault insurance and allow consumers to choose the level of coverage they want. Some drivers may still want to pay extra for unlimited PIP and no-fault, and that's perfectly fine. Others would trade less generous coverage for lower premiums. These lower-cost options are especially important for drivers who are currently priced out of the market. They may not end up with ultra-generous unlimited PIP and no-fault benefits, but some insurance coverage is definitely better than none at all.

The high cost of insuring vehicles in Michigan is not a new problem. Michigan's had the highest rates nationally for three years running, and Gov. Snyder and leaders in the Legislature have made proposals to reduce these costs. Yet nothing significant has gotten done. Pricey insurance rates increase the costs of doing business in Michigan and force some people to choose between driving illegally and holding a job. The time has come for reform.

#####

Michael Van Beek is the director of research at the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Michigan. Permission to reprint in whole or in part is hereby granted, provided that the author and the Mackinac Center are properly cited.

Policymakers should ditch the one-size-fits-all mandates of unlimited PIP and no-fault insurance and allow consumers to choose the level of coverage they want.

Attention Editors and Producers

Viewpoint commentaries are provided for reprint in newspapers and other publications. Authors are available for print or broadcast interviews. Electronic text is available for this Viewpoint at mackinac.org/pubs/viewpoints.

Please contact:

MICHAEL VAN BEEK
Director of Research
140 West Main Street
P.O. Box 568
Midland, Mich. 48640

Phone: 989-631-0900
Fax: 989-631-0964
VanBeek@mackinac.org

Mackinac.org

Facebook.com/MackinacCenter

Twitter.com/MackinacCenter