



**House
Legislative
Analysis
Section**

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**REDUCE MCCA PREMIUM FOR
HISTORIC VEHICLES**

**House Bill 4007 as enrolled
Public Act 662 of 2002
Sponsor: Rep. Ron Jelinek**

**House Committee: Insurance and
Financial Services
Senate Committee: none**

First Analysis (1-8-03)

THE APPARENT PROBLEM:

Under Michigan's no-fault auto insurance law, the personal injury protection (PIP) coverage of an auto policy pays unlimited medical, hospital, and rehabilitation expenses. In cases of serious injury, covered expenses include home health care, a per diem amount for hiring someone to help with household chores, home and car modifications, and up to three years of wage loss benefits. Because the medical and other expenses for a serious injury as a result of an auto accident can be quite expensive, insurance companies protect their financial stability by purchasing reinsurance. This enables an insurer to spread the risk among a larger group of insurers.

The Michigan Catastrophic Claims Association (MCCA) was created under the no-fault law to act as the reinsurer. All companies providing auto insurance in the state must be a member of the MCCA. Auto insurers must pay the first \$300,000 of a medical claim. (This statutory liability amount is currently set at \$300,000, but this amount will increase over the next decade until it reaches \$500,000.) An insurer can be reimbursed from the MCCA for a claim that exceeds the statutory limit. To fund the MCCA, an auto insurer pays an assessment for each vehicle insured under a no-fault policy. These assessments are passed on, in whole or in part, to policyholders as part of their auto insurance premium.

Reportedly, this year the assessment fee for each insured vehicle rose from about \$14.41 to around \$70. To those who own or collect antique vehicles, the increase in the MCCA assessment fee is considered to be an unwarranted hardship, especially considering that antique or classic cars are not used for routine transportation, but generally for

appearances in parades or classic car shows, and that collectors often own several of these cars. Because such vehicles are rarely driven or are driven many fewer miles than the typical family car, they are seldom (some believe never) involved in traffic accidents that result in injuries serious enough to require an insurer to exceed the statutory liability threshold. Some believe, therefore, that these vintage vehicles should only be assessed a fraction of the amount assessed for a regular car or motorcycle.

THE CONTENT OF THE BILL:

The bill would amend the Insurance Code to reduce the premium charged for historic vehicles for the Michigan Catastrophic Claims Association (MCCA). Under the bill, the premium charged for a historic vehicle would be 20 percent of the premium otherwise charged for each car and motorcycle. The definition for "car" would be rewritten to exclude a historic vehicle.

The term "historic vehicle" would be defined to refer to a vehicle that is a registered historic vehicle under the Michigan Vehicle Code (MCL 257.803a and 257.803p). [Note: According to the code (MCL 257.20a), such vehicles must over 25 years old and be owned solely as a collector's item and for participation in club activities, exhibitions, tours, parades, and similar uses. A historic vehicle cannot be used for general transportation, and some insurance companies restrict the car to being driven only 2,500 miles a year.]

The bill would take effect July 1, 2003.

MCL 500.3104

House Bill 4007 (1-8-03)

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, the bill would have no fiscal impact on state or local governments. (12-4-02)

ARGUMENTS:

For:

Quite simply, owners of historic vehicles feel that they are paying a disproportionate share of the assessment passed on by insurers that is used to fund the Michigan Catastrophic Claims Association (MCCA). The fund is used to reimburse Michigan insurance companies for medical claims in excess of the statutory liability limit, currently set at \$300,000. Since the use and purpose of historic vehicles is restricted by law (e.g., they can be driven in parades, etc., but not for general transportation, they are typically a collector's item, or are a means of participation in club activities), they are rarely, if ever, involved in serious accidents. Reportedly, insurers of such vehicles have never needed to collect from the MCCA. When the annual per car assessment to fund the MCCA was under \$15, paying the same for a classic car as for the family van wasn't an issue. However, the per car assessment fee was raised this year to about \$70 a vehicle, with possible increases in the future. This increased fee can represent a substantial cost for a classic car owner, who typically owns more than one historic vehicle in addition to a vehicle that is used for general transportation.

Since historic vehicles are considered by some to represent a lesser risk of a catastrophic injury needing reimbursement from the MCCA fund, it is believed that a fairer solution would be to decrease the amount of the fee levied on these vehicles. The bill would reduce the MCCA assessment fee portion of an insurance premium for a historic vehicle to 20 percent of that assessed for a car or motorcycle. In this way, owners of historic vehicles would still be paying into the fund, but at a level that is more proportionate to the amount that such vehicles are actually in use.

[This amount was selected because the figure represents twenty percent of the mileage allowed annually on the typical car rental contract. Most car rental contracts only permit a vehicle to be driven 12,000 miles a year (mileage over this amount is subject to a per mile charge). Some insurance companies limit a historic vehicle to 2,500 miles a year, which is 20 percent of that allowed for rental cars.]

Against:

Several concerns have been raised about the bill:

- It could be viewed as being the beginning of a “slippery slope” of creating different risk categories. A similar argument could be made for owners of antique farm equipment, regular farm equipment that are used only a few months of the year, and commercial vehicles that are used on an irregular basis. Creating different risk categories would also create an administrative nightmare for insurance companies in trying to determine the appropriate category for a particular vehicle.
- Decreasing the premium for even one category of vehicles could result in an increase in the assessment that would have to be borne by owners of other vehicles.
- According to the commissioner of the Office of Financial and Insurance Services, the MCCA fund is the most volatile fund administered by the agency. Because a single accident can result in payouts of millions of dollars over the lifetime of a severely injured person (reportedly, one insurer is looking at a claim that may exceed 20 million over the injured person's lifetime), just one or two accidents more than what had been predicted for a particular type of vehicle can significantly impact the health and stability of the fund.
- Many factors, such as decreases in investment returns and the difficulties and uncertainties in predicting the risk of a catastrophic injury and the cost to treat the resulting injury (especially with ever-increasing medical and rehabilitation costs) already result in fluctuations of the annual assessment as the fund experiences deficits and surpluses. According to an OFIS analysis of an earlier version of the bill, dated 11-8-02, a measure – such as proposed by the bill - that would require the MCCA to predict risk for a particular type of vehicle, and calculate and prepare two separate calculations based upon loss experience for each specific type of vehicle, could result in even greater variances in the assessment fee from year to year. In addition, such fluctuations from year to year could lead to greater consumer dissatisfaction with the MCCA assessment.

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