

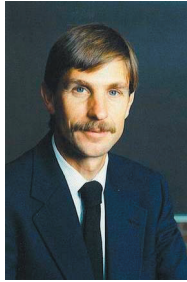
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Mackinac Center: Michigan stands out on high cost of car insurance

By Gary Wolfram

Detroit Free Press guest writer

A recent study found that Michigan's car insurance rates are the highest in the nation. When looked at as a percent of annual median household income, Michigan drivers spend 8% on car insurance, according to CarinsuranceQuotes.com.



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The next highest state was Louisiana at 5.5%. Michigan's rates as a percentage of income were nearly double that of the fifth most expensive state, Mississippi, which came in at 4.04%.

When looking at the median price of an annual car insurance policy, the result is the same. Michigan is No. 1 at \$4,490, and by far the most expensive state for car insurance. Only one other state has a median price above \$2,500, and that is New Jersey at \$2,556. The District of Columbia has the second highest rate at \$2,570.

The findings on 2012 rates are consistent with other studies of auto insurance. In a 2011 study, Professor Sharon Tennyson of Cornell University found that Michigan's average insurance premiums grew 30.5% from 1997 to 2007, while national average premiums rose by 13.7%.

There are a number of reasons that Michigan has high rates for auto insurance. It is one of only 12 states to use no-fault insurance. Massachusetts was the first state to adopt no-fault insurance in 1971, and several states adopted it in the 1970s, but its popularity has waned. In a RAND study examining no-fault insurance, the authors found that no-fault states have higher premiums than tort law states -- where the driver at fault is responsible for paying medical expenses and other damages -- generally due to higher medical costs in no-fault states.

Michigan stands out among all states in being the only one to require drivers to purchase unlimited

personal injury protection. The state with the next highest required amount of personal injury protection insurance is New York, where the mandated coverage is \$50,000.

Another RAND study on auto insurance in Michigan found that it costs 57% more to settle a Michigan claim for person injury than the same injury would cost in another state. It also showed that Michigan injury losses per insured vehicle were 40% higher than in the U.S. as a whole.

The reason for this higher cost is not that the share of claimants who seek medical treatment after an accident are appreciably higher in Michigan, but it is that the mix of services is much more costly. Unlimited personal injury protection results in incentives to use the most costly procedures available, since insurance will pay for it, and it creates enormous uncertainty about what the cost of any accident might be. Both of these factors drive up premiums.

Conducting a study for AAA Michigan, Mitchell DecisionPoint found that the cost of the same medical procedure in Detroit was significantly higher if paid by no-fault insurance than otherwise. For example, an MRI on the neck was \$3,258 when required because of a car accident and paid for in a no-fault insurance claim, and \$483 under Medicare. Shoulder surgery was four times more costly when paid for under no-fault insurance than under Medicare.

Clearly, Michigan has very high auto insurance premiums, and there are economic distortions in the insurance market that result in loss of efficiencies. The Legislature should continue with its analysis of the insurance market, in particular the aspect of the market that sets Michigan apart from every other state -- the unlimited personal injury protection requirement.

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