



DAVID CHAPMAN AGENCY

Making Insurance and Bonds Easy

IMPORTANT CHANGES TO BUSINESS AUTO INSURANCE

Automobile insurance in Michigan is changing. Last year No-Fault Reform was signed into law in an effort to make personal insurance more affordable, but it also affects business auto and truck insurance. Most of the new law takes effect in **July of 2020**. At your next renewal after July new medical coverage options will be available and you will need to make a decision about what is right for your business. As your agent we are here to answer questions and help make the process easy for you. We want to begin by providing preliminary information about no-fault and its reform.

For almost 50 years all personal and business auto insurance in Michigan has provided unlimited lifetime medical expense coverage to drivers, passengers, pedestrians, and motorcyclists injured in an auto or truck accident. This is on a no-fault basis meaning injured people collect the benefit from their own, or their employer's, auto insurance and avoid the time and expense of legal action to collect medical costs from an at-fault party. This medical expense coverage is part of Personal Injury Protection (**PIP**) on your insurance policy. Not only is the cost of doctors and hospitals covered, but also prescriptions, rehabilitation, physical therapy, long term care in nursing homes, attendant care at home, equipment, accessibility modifications to vehicles and house, and more. Employees who have an auto accident in the course of their work rarely use this medical coverage, because workers compensation pays all their medical and rehabilitation costs.

In addition to the medical benefit PIP provides up to three years wage loss coverage, replacement services for things you cannot do while injured, limited funeral, and survivor benefits. Sometimes injured employees collect these non-medical PIP benefits in addition to workers comp benefits. However, these non-medical benefits are not affected by the new reform law.

New PIP Options

The unlimited PIP medical benefit is still available under the new law, but you will have the option to choose a lower medical limit. These options will reduce your insurance cost slightly. However, you will want to carefully consider who is using your company vehicles and how their medical expenses will get paid if they sustain a serious long term injury. Keep in mind workers comp only pays if the injury arises out of and in the course of work. Use of a company vehicle after hours, for personal use, or while driving to work in the morning and home in the evening is not in the course of work and therefore not covered by workers comp. Health insurance and Medicare do not cover all types of expenses covered by PIP and have deductibles and co-pays that PIP does not have. Also, health insurance stops paying if the policy ends or is canceled which might happen if the injured person is unable to return to their job. PIP, like workers comp, pays the medical expenses for as long as the injury and treatment continues. Sole Proprietors by law and some other business owners by choice are excluded from workers comp coverage. Some health insurance plans exclude auto accident injuries. So it is important to do a careful review before selecting a limited PIP medical option, then notify employees who have furnished vehicles.

The new PIP medical benefit options are as follows:

- 1) Unlimited.** If you make no other selection you will continue to have the unlimited lifetime benefit.
- 2) \$500,000 limit on medical benefits.** Applies to each covered person injured.
- 3) \$250,000 limit on medical benefits.** Applies to each covered person injured.

Who is Covered for PIP?

In general the only persons who can collect PIP benefits from your business auto insurance are an **employee**, their spouse, or a relative of either domiciled in the same household, who are injured while in your vehicle. Any other person driving or riding in your vehicle will need to seek PIP benefits from their own personal auto insurance or the insurance of a relative they reside with. If they have no auto insurance **and they are a Michigan resident** they can collect PIP benefits through the State Assigned Claim Plan which has a \$250,000 medical limit. So if you furnish

company vehicles to persons who are not true employees then you will want to carefully evaluate whether they have any PIP coverage available to them. If you furnish company vehicles to employees who do not have their own personal auto insurance on some other vehicle in their household, you may want to purchase broadened PIP coverage for them on your policy to provide PIP benefits when they are not in your vehicle. Please contact us about any furnished autos you have so we can discuss how PIP applies to your specific situation.

If the named insured on your business auto insurance policy is your personal name, not a corporation, limited liability company, or other business entity, then your business auto insurance provides PIP benefits to you, your spouse, and relatives of either that are domiciled in your household in the same way as personal auto insurance.

The Michigan Catastrophic Claim Association (MCCA)

The MCCA is a non-profit association created by the legislature and governed by a board appointed by the Director of the Department of Insurance and Financial Services. All insurance companies operating in Michigan are required to belong to MCCA and pay a fee for each vehicle they insure. With that fee the MCCA pays PIP medical claims to the extent the claim exceeds \$580,000. So your insurance company pays the first \$580,000 and the MCCA pays the rest. Currently the fee to the MCCA is \$220 per vehicle per year and that fee is passed on to you in your premium. The fee is adjusted annually and consists of two parts; one to cover new claims expected to occur during the year and the other part to cover any shortage in the fund for old claims that are still being paid. Due to anticipated savings on both new and old claims from a medical expense fee schedule that is part of the new law, the MCCA fee will reduce on your next renewal from \$220 to \$100 per vehicle if you continue to purchase unlimited PIP medical benefits. That \$100 is entirely for anticipated new claims this year, there is no charge for any shortage in the fund at least for the coming year. If you choose to limit your PIP medical benefit to \$500,000 or \$250,000 then your MCCA fee will be \$0 per vehicle on the next renewal since your new claims will be limited to less than \$580,000 and not involve the MCCA. So there will be an MCCA fee savings for every business of either \$120 or \$220 per vehicle which is good news, because it will help offset increases in auto liability and physical damage coverage cost.

New 3rd Party Liability Requirements

Lawsuits will be more common and settlements larger under the new law, because injured persons that don't have enough PIP medical coverage will now be able to sue at-fault and partially at-fault drivers for medical expenses. That could be someone in another car, a passenger in your company vehicle, a pedestrian, a motorcycle rider, or even their medical providers who don't get paid for services. This was not an issue under the old law, because everyone in Michigan had unlimited PIP medical. Now personal car owners have even more options than businesses, and you may injure a person with very limited or even no PIP medical coverage. So you may want to consider higher liability limits on your auto insurance to protect you. In fact the new Law has increased the minimum required liability coverage, and established a new standard coverage limit that is a combined total of \$510,000 for bodily injury and property damage. You can choose less, but we recommend businesses have a limit even higher than this standard. To maintain a limit lower than the new standard, you will be required by the law to sign a form at each renewal or your coverage will be increased to the \$510,000 standard. In addition to the limit on your auto insurance **we strongly encourage every business to consider an excess umbrella policy** which is available in million dollar increments. Please contact us if you are interested in an umbrella.

Mini- Tort

There is one change in the law affecting damage to vehicles. The owner of a vehicle damaged in a collision will still get coverage for that damage from their own insurance regardless of who was at-fault in the accident. However, if the owner has no collision coverage or has a deductible they can collect up to \$3,000 from another at-fault driver. This part of the law which is commonly known as mini-tort was previously limited to \$1,000.

We are Here to Help

We realize these changes may seem complicated and even confusing. Please contact us with any questions you have as you consider your options and how the new law affects you.