MICHIGAN CATASTROPHIC CLAIMS ASSOCIATION

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ASSESSMENT BULLETIN

FOR FISCAL YEAR ENDING JUNE 30, 2019

(ASSESSMENT PERIOD JULY 1, 2018 TO JUNE 30, 2019)

MARCH 2018

This bulletin contains five informational items of which Member companies should be aware:

- Summary of assessment for fiscal year ending June 30, 2019
- Scheduled Changes in Member Insurance Companies' Retention Level
- DIFS bulletin on reporting guidelines for Members
- Premium audit program
- Financial and Statistical Highlights

1. ***SUMMARY OF ASSESSMENT FOR FISCAL YEAR ENDING JUNE 30, 2019***

For the Period July 1, 2018 to June 30, 2019, the annual assessment rates are as follows:

- Per Written Car Year **– $192.00**

- Per Written Historic Vehicle Year **– $38.40**

- Percentage of the applicable commercial auto PIP written premium - **53%**
  (Applicable only for commercial fleets written on a gross receipts basis or where commercial auto vehicle years cannot be identified)

The components of the $192.00 assessment per written car year are as follows: (a) $161.00 to cover the estimated annual pure premium and expenses (expected cost per vehicle), and (b) $31.00 representing the partial cost of deficit recoupment. As discussed below, by statute, the assessment for historic vehicles is 20% of the premium assessment charged per car.

A. Economic Assumptions

The economic assumptions used in the assessment calculations include projections for investment returns and claim cost inflation. For the current actuarial analysis, (1) the assumed general inflation rate is 2.30% for the short-term, gradually progressing to 2.70% in the long-term and the assumed real rate of return is 2.83% for the short-term, gradually progressing to 3.51% in the long-term, which together compound to produce annual nominal investment return assumptions of 5.20% for the short-term, gradually progressing to 6.30% in the long-term and (2) the assumed annual change in claim costs for fifteen different cost component categories other than for non-inflated costs range between 0.55% and 5.90% for the short-term, gradually progressing to between 1.10% and 6.50% in the long-term.

For last year's actuarial analysis, (1) the assumed general inflation rate was 2.10% for the short-term, gradually progressing to 2.70% in the long-term and the assumed real rate of return was 3.23% for the short-term, gradually progressing to 3.51% in the long-term, which together compounded to produce annual nominal investment return assumptions of 5.40% for the short-term, gradually progressing to 6.30% in the long-term and (2) the assumed annual change in claim costs for fifteen different cost component categories other than for non-inflated costs ranged between 0.00% and 5.50% for the short-term, gradually progressing to between 1.00% and 6.40% in the long-term.

B. Pure Premium

The estimated annual pure premium of $161.00 per car is composed of an estimated frequency of approximately 13.13 claims per 100,000 written exposures and an estimated discounted severity of approximately $1,225,000 per claim (in excess of the Member company's retention of $555,000). For auto accidents arising under insurance policies with effective dates between July 1, 2018 and June 30, 2019, it is estimated that over 1,000 Michigan insured's will be catastrophically injured with the majority of those involving brain and spinal cord injuries, multiple fractures, and back and neck injuries.

A breakdown of the $161.00 pure premium per car by cost component is as follows:

Cost Component Category	Estimated 2018/19 Costs	Percentage
Residential Care	$38.37	23.8%
Attendant Care - Agency	36.00	22.4%
Attendant Care - Family	26.18	16.3%
Prescriptions	14.04	8.7%
Hospitalization	11.26	7.0%
Doctors/Lab	9.61	6.0%
Rehabilitation Services	9.25	5.7%
Other	3.49	2.1%
Case Management	3.24	2.0%
Transportation	2.79	1.7%
Loss Adjustment Expenses	2.56	1.6%
Home Purchases/Modifications	1.37	0.8%
Prosthesis	0.90	0.6%
Non-Inflationary Cost	0.81	0.5%
Equipment	0.71	0.4%
Vehicle Purchases/Modifications	0.42	0.3%
Total	$161.00	100.0%

C. Surplus/Deficit Adjustment

As of December 31, 2017, the MCCA is in a $2.3 billion deficit position, which equals approximately $302.00 per insured car. Recognizing the difficulty and uncertainty in predicting the projected claim payments for long-term claims in which medical benefits are unlimited, the MCCA Board of Directors elected to address the deficit by collecting $31.00 per car. The $31.00 deficit recoupment per car is based on a 15-year amortization period. The uncertainty in the estimates of the MCCA's liabilities is primarily due to difficulty in predicting (a) life expectancies, (b) medical cost inflation, (c) investment returns, and (d) claim frequency.

D. Change in Estimates

In comparison to last year's actuarial analysis, the estimates per car for both the pure premium and the deficit have increased.

The estimated annual pure premium of $161.00 for fiscal year ending June 30, 2019 is $18.00 higher than the estimated annual pure premium of $143.00 for fiscal year ending June 30, 2018. The main reason for the increase is unexpected adverse loss development.

The estimated deficit of $302.00 per car as of December 31, 2017 is $34.00 higher than the estimated deficit of $268.00 per car as of December 31, 2016. The primary reasons for the increase were unexpected adverse loss development and a change in economic assumptions that was partially offset by better than expected investment performance.

E. Assessment Rate for Historic Vehicles

Public Act 662 of 2002, effective July 1, 2003, requires the assessment for historic vehicles to be 20% of the premium assessment charged for a car. As defined in Public Act 662, a historic vehicle means a vehicle that is a registered historic vehicle under section 803a or 803p of the Michigan vehicle code, 1949 PA 300, MCL 257.803a and 257.803p.

Under Section 257.20a of the Michigan vehicle code, "Historic Vehicle" is defined as a vehicle which is over 25 years old, and which is owned solely as a collector's item and for participation in club activities, exhibitions, tours, parades, and similar uses, including mechanical testing, but is not used for general transportation.

Section 803a provides that the Secretary of State may issue to the owner of a historic vehicle a historic vehicle registration plate, which shall bear the inscription "historic vehicle - Michigan" and the registration number.

Section 803p provides that the owner of a historic vehicle may use an authentic Michigan registration plate of the same year as the model year in which the vehicle was manufactured instead of a historic vehicle registration plate issued under section 803a by presenting the authentic plate number and year to the Secretary of State at the time of registration.

In summary, in order for a vehicle to be assessed at the historic vehicle assessment rate, the vehicle must meet the definition of a historic vehicle as defined in Section 257.20a and must either have a historic vehicle registration plate or an authentic Michigan registration plate. For each vehicle reported as a historic vehicle, the Member must obtain and maintain proof from the State of Michigan that the vehicle is registered as a historic vehicle.

F. Member Reporting Requirements and Definitions

Members are required to compile, maintain, and report data for the July 1, 2018 to June 30, 2019 assessment period as follows:

(1) Private passenger auto no-fault (except historic vehicles): (a) **written car years**, (b) direct premiums written, and (c) direct premiums earned

(2) Commercial auto no-fault (except historic vehicles): (a) **written car years**, (b) direct premiums written, (c) direct premiums earned, and (d) for commercial fleets written on a gross receipts basis or where commercial auto vehicle years cannot be identified: (i) **direct premiums written** and (ii) direct premiums earned

(3) Mandatory motorcycle liability exposures (except historic vehicles): (a) **written motorcycle years**

(4) Historic vehicles: (a) auto no-fault: (i) **written car years**, (ii) direct premiums written, and (iii) direct premiums earned, and (b) mandatory motorcycle liability exposures: (i) **written motorcycle years**

Pursuant to the Michigan Department of Insurance and Financial Services (DIFS) Annual Statement Instructions, all Members must submit the above assessable exposure data to MCCA by August 15, 2019, using the MCCA ANNUAL ASSESSMENT REPORT FORM. In July 2019, Members will be notified online through the MCCA Membership System (“MMS”) that the form is available to complete and submit. To receive the notice, as well as notices regarding assessment invoices as outlined in Section G below, a Member representative must be a registered user in MMS.

Article IV of the MCCA’s Plan of Operation includes the definitions of a Member of the MCCA and written car years as follows:

> **“Member”** means (i) each insurer engaged in writing insurance coverages under policies of insurance providing the security required by Section 3101(1) of the Michigan Insurance Code for the owners and registrants of motor vehicles required to be registered in the State of Michigan, and (ii) each group self-insurance pool providing motor vehicle security under Section 9 of Act No. 138 of the Public Acts of 1982, being Section 124.9 of the Michigan Compiled Laws.
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> **“3103 Member”** means each insurer engaged in writing insurance coverages under policies of insurance providing the security required by Section 3103(1) of the Michigan Insurance Code for the owners and registrants of motorcycles required to be registered in the State of Michigan.
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> **“Written Car Years”** means the number of net direct written vehicle years (or the total number of net direct written vehicle months divided by twelve, if so reported) of insurance providing to any and all vehicles, except Historic Vehicles, the security

required by Sections 3101 and 3103 of the Michigan Insurance Code, written in the State of Michigan by each Member and 3103 Member, or all such members, as applicable. As used in the term "Written Car Years," "Car" includes motorcycle and truck tractor, but not truck trailer. All net direct written vehicle years or months of insurance written under high deductible, matching deductible, and fronting policies providing the security required by Sections 3101 and 3103 of the Michigan Insurance Code shall be included in a Member's or 3103 Member's Written Car Years. If a Member or 3103 Member can determine its Written Car Years, the Member or 3103 Member must do so. If a Member or 3103 Member uses some other unit of exposure besides Written Car Years, such as for commercial vehicles, the Member or 3103 Member must use a reasonably verifiable manner for determining a Written Car Year equivalent. The Board may establish, by resolution, the manner for determining a Written Car Year equivalent with respect to commercial or other vehicles where some other unit of exposure is used. [For commercial fleets written on a gross receipts basis or where commercial auto vehicle years cannot be identified, the Board of Directors has established the exposure basis to be the percentage of the applicable commercial auto PIP written premium.]

"Written Historic Vehicle Years" means the number of net direct written Historic Vehicle years (or the total number of net direct written Historic Vehicle months divided by twelve, if so reported) of insurance providing to any and all Historic Vehicles the security required by Sections 3101 and 3103 of the Michigan Insurance Code, written in the State of Michigan by each Member and 3103 Member, or all such Members, as applicable. As used in the term "Written Historic Vehicle Years," "Historic Vehicle" includes historic motorcycle. For each Historic Vehicle covered by a policy of insurance providing the security required by Sections 3101 and 3103 of the Michigan Insurance Code, a Member must obtain and maintain proof from the State of Michigan that the vehicle is registered as a Historic Vehicle.

G. *Assessment Invoices for the Fiscal Year Ending June 30, 2019 Assessment*

In June 2018, Members will be notified online through MMS that the preliminary assessment invoice is available to complete and submit. To receive the notice, a Member representative must be a registered user in MMS. The preliminary assessment invoice is based on each Member's total written vehicle years for the period July 1, 2017 to June 30, 2018.

In October 2019, MCCA will issue a final assessment invoice to each Member through MMS. The final assessment invoice will adjust the preliminary assessment to each Member's actual total written vehicle years for the period July 1, 2018 to June 30, 2019. The final assessment invoice will be based on assessable exposure data submitted as outlined in Section F above.

2. *Scheduled Changes in Member Insurance Companies' Retention Level*

Public Act 3 of 2001 provided for a gradual increase in the Member company retention level from the original amount of $250,000 to $500,000 on July 1, 2011; and thereafter increasing every two years by 6% or the increase in the consumer price index, whichever is less. A summary of the most recent applicable retention levels is as follows:

- For a policy issued or renewed July 1, 2011 through June 30, 2013: $500,000

- For a policy issued or renewed July 1, 2013 through June 30, 2015: $530,000
- For a policy issued or renewed July 1, 2015 through June 30, 2017: $545,000
- For a policy issued or renewed July 1, 2017 through June 30, 2019: $555,000

Member Insurance Company Retention Bulletins, setting forth the computation of the retention levels after June 30, 2013, are posted in MMS.

For a policy issued or renewed July 1, 2019 through June 30, 2021, notification of the change in the Member insurance company retention level will be provided through MMS, via a Member Insurance Company Retention Bulletin, in November 2018. In the computation of the retention change, the CPI (all items consumer price index for all urban consumers (CPI-U): U.S. city average) change from September 30, 2016 to September 30, 2018 must be used.

In determining the applicable Member company retention, a policy of insurance is considered to be issued or renewed on the date the policy (or renewal, as the case may be) becomes effective.

3. ***DIFS BULLETIN ON REPORTING GUIDELINES FOR MEMBERS***

The Michigan Department of Insurance and Financial Services (formerly OFIR) Bulletin 2007-04-INS titled Catastrophic Claims Association – Reporting, provides reporting procedures and guidance on how Members are to record and report transactions relating to the MCCA. A copy can be obtained directly from the DIFS website, www.michigan.gov/difs, under bulletins.

4. ***PREMIUM AUDIT PROGRAM***

The MCCA premium audit program uses two types of audits: (i) agreed-upon-procedures audits and (ii) special audits. Section 9.06 of the MCCA's Plan of Operation gives the MCCA the "right to audit and verify" any Member's reported written car years of insurance.

Agreed-upon procedures audits will be conducted on at least a triennial basis for each Member, and will encompass the previous three years. (Example: for those Members selected for the fiscal year ending June 30, 2018 audit, the audit will encompass the fiscal years beginning July 1, 2015, 2016, and 2017).

Members may perform the agreed-upon-procedures audits on either a group or a company basis. There are two types of agreed-upon-procedures: standard procedures and low-volume procedures. To determine which procedures apply to a Member, the MCCA has divided Members into two categories: those Members that have 5,000 or more assessable exposures (written car years) and those that do not.

1. **Standard Procedures:** For Members that have 5,000 or more aggregate assessable exposures, the Member must complete the standard procedures and engage an independent audit firm to reconcile premium data, validate assessable exposures reported to the MCCA, and provide an attestation report. A Member shall bear the costs of an independent auditors' fees in connection with an agreed-upon procedure audit.

2. **Low-Volume Procedures:** For Members that have less than 5,000 aggregate assessable exposures, the Member must complete the low-volume procedures, reconcile premium data, and provide a Report of Management. The Member does not have to engage an independent audit firm.

The procedures were developed to audit and validate assessable exposure information submitted by Members to the MCCA on the MCCA Annual Assessment Report Form. In developing the premium audit procedures, the MCCA has sought to minimize the impacts of the procedures on its Members, while at the same time assuring an adequate level of confidence in the reported assessable exposures.

Special audits will be conducted where the MCCA learns of reporting errors or where an agreed-upon-procedures audit indicates that further work is necessary to validate the assessable exposures reported to the MCCA. Such audits will be conducted by an independent auditor engaged by the MCCA. A Member shall bear the costs of an independent auditors' fees in connection with a special audit.

An Audit Bulletin that provides an updated premium audit rotation schedule for the next three years for each Member and that also includes, for informational purposes, the 2018 Premium Audit Agreed-Upon-Procedures Manuals for standard procedures and low-volume procedures will be provided through MMS by June 30, 2018. For those Members selected for the fiscal year ending June 30, 2018 audit, an additional email notification will also be provided that will include as an attachment the applicable audit procedure manual.

5. ***FINANCIAL AND STATISTICAL HIGHLIGHTS***

Exhibit 1 of this Bulletin provides a recap of financial and claim statistics. Additional financial and informational data including, (i) MCCA Annual Statement Filing, (ii) Independent Audit Report, (iii) DIFS Examination Report, and (iv) Annual Report to the Director of DIFS, are available on the MCCA's public website: www.michigancatastrophic.com

Created by the state legislature in 1978, 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.

EXHIBIT 1

MCCA FINANCIAL AND STATISTICAL HIGHLIGHTS

	Inception to December 31,		
Description	**2017**	**2016**	**Change**
Cash and Invested Assets	$20,729,576,000	$18,768,071,000	$1,961,505,000
Total Assets	20,731,671,000	18,787,425,000	1,944,246,000
Total Loss & Loss Adjustment			
Expense Reserves (discounted basis)	22,221,878,000	20,018,769,000	2,203,109,000
Total Liabilities	23,002,245,000	20,676,810,000	2,325,435,000
Total Deficit	(2,270,574,000)	(1,889,385,000)	(381,189,000)
Amount of Reimbursement to Members:			
Indemnification - Loss	15,877,691,000	14,670,983,000	1,206,708,000
Bill Review Fees	56,264,000	48,272,000	7,992,000
Total	15,933,955,000	14,719,255,000	1,214,700,000
Undiscounted (gross) Loss Reserves	69,018,858,000	62,525,079,000	6,493,779,000
Discounted (present value) Loss Reserves	$22,015,798,000	$19,832,128,000	$2,183,670,000
Claims Reported (Claim Basis)	38,407	36,211	2,196
Claims Closed	21,409	20,184	1,225
Claims Open	16,998	16,027	971
Number of Initial Claims Reimbursed	16,458	15,812	646
	12 Months Ended December 31,		
Description	**2017**	**2016**	**Change**
Premium Assessments Earned	$1,200,201,000	$1,128,379,000	$71,822,000
Loss & Loss Adjustment			
Expenses Incurred (discounted basis)	3,425,384,000	2,760,660,000	664,724,000
Other Underwriting Expenses Incurred	2,910,000	2,402,000	508,000
Net Underwriting Loss	(2,228,093,000)	(1,634,683,000)	(593,410,000)
Net Investment Gain	1,091,749,000	934,489,000	157,260,000
Other Income (Expenses)	(1,285,000)	(1,018,000)	(267,000)
Net (Loss) Income	(1,137,629,000)	(701,212,000)	(436,417,000)
Net Unrealized Capital Gains (Losses)	755,287,000	127,582,000	627,705,000
Change in Nonadmitted Assets/Other	1,153,000	(1,473,000)	2,626,000
(Increase) Decrease in Deficit	(381,189,000)	(575,103,000)	193,914,000
Amount of Reimbursement to Members:			
Indemnification - Loss	1,206,708,000	1,136,818,000	69,890,000
Bill Review Fees	7,992,000	6,033,000	1,959,000
Total	$1,214,700,000	$1,142,851,000	$71,849,000
Claims Reported:			
Claim Basis	2,196	1,810	386
Claimant Basis by Injury Type:			
Brain	785	671	114
Quad	18	13	5
Para	24	17	7
Burn	6	3	3
Miscellaneous	1,624	1,303	321
Non-Probable Lifetime Care/Not Coded	497	432	65
Total	2,954	2,439	515
Claims Closed	1,225	1,625	(400)
Number of Initial Claims Reimbursed	646	617	29