



Personal Automobile Insurance Bulletin

Research Bulletin

Actuarial Bulletin

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Topic: Analysis of Florida Personal Auto No-Fault System
Lines Affected: Personal Auto
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Executive Summary

Florida's average no-fault personal injury protection (PIP) rate is 3rd highest in the U.S. due to higher-than-average growth in claim frequency, claim severity (i.e., average cost) and loss cost (average loss per insured vehicle). Its PIP claim severity is high because of expensive medical care, widespread hospital "cost shifting" and consumer fraud (adding an estimated \$317 million more to auto insured losses in 2010). Florida's overall no-fault system is a costly one, generally resulting in PIP underwriting losses for auto insurers.

Analysis of Florida Personal Auto No-Fault System

Estimated Average Annual No-Fault PIP Rate: Florida is 3rd Highest
 Florida has the 3rd highest average PIP rate of all no-fault (NF) states. Its annual average rate (\$209) is 22% greater than the average PIP rate (\$171) of all other no-fault states combined.

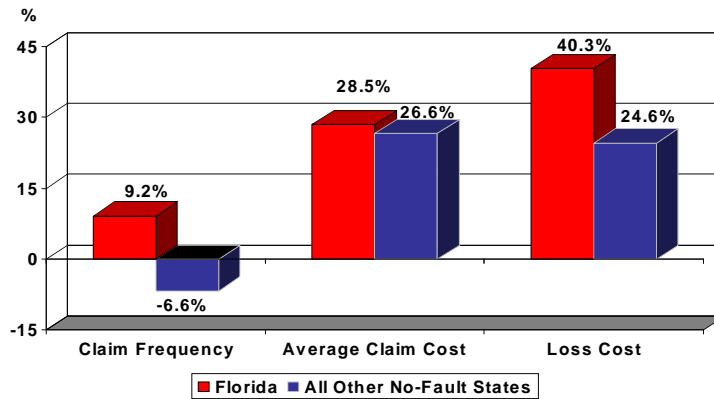
Estimated Avg. Annual PIP Rate (2008)					
Florida	\$208.96	Massachusetts	\$59.94	New York	\$197.46
Hawaii	\$111.57	Michigan	\$376.89	North Dakota	\$56.67
Kansas	\$47.51	Minnesota	\$139.83	Pennsylvania	\$93.28
Kentucky	\$87.21	New Jersey	\$269.36	Utah	\$46.28

Source: PCI, based on NAIC data; Michigan's PIP rate is highest due to its unlimited medical benefits.

Change in Average PIP Loss Experience: Florida's Growth Rate Exceeds Other No-Fault States

From 2006 to 2010, Florida's PIP loss cost (combined claim frequency and severity) rose 16 points faster than all other no-fault states combined (40.3% - FL vs. 24.6% - all other NF). This is primarily due to an overall 9.2% increase in claim frequency in this state compared to a 6.6% decrease found in all other no-fault states. Florida's severity increase (28.5%) is only slightly higher than other no-fault states' norm (26.6%).

**Florida vs. All Other No-Fault States Combined
Overall Change in PIP Losses from 2006 to 2010**



Source: Fast Track Monitoring System, @4th Qtr. 2010

Florida's No-Fault System is a Costly One

Florida's PIP system is relatively expensive, based on its injury cost index (i.e., injury loss cost relative to property damage liability loss cost). This variable measures the level of the auto injury compensation system in which insured dollars are paid to claimants who are injured in an auto accident. For every \$100 of vehicle damage in 2010, Florida insurers paid an average of \$157 of PIP loss; in contrast, insurers in other no-fault states paid an average of \$132 of PIP loss to cover someone's injury – about 16% less than Florida. (Source: *Fast Track Monitoring System*)

Estimated PIP Profitability: No-Fault Coverage Tends to Be a Losing Proposition for Insurers

Florida's estimated no-fault underwriting profitability has generally trended downwards over time. Its 2010 PIP underwriting result was -37.6% of premiums, the lowest seen in the last six years; its average return in 2005-2010 was -12.4% of premiums. Compared to all other no-fault states (-41.6% of premiums, 2005-2010), Florida's PIP underwriting experience is much more favorable. However, if two problematic no-fault states Michigan and New Jersey are removed from the rest of the group, then Florida's six-year average underwriting PIP experience is somewhat worse (-12.4% - FL vs. -9.6% - all other NF, excluding MI and NJ).

Estimated PIP Underwriting Profitability Results (Percent of Premiums)							
	2005-2010 Average	2010	2009	2008	2007	2006	2005
Florida	-12.4%	-37.6%	-19.0%	+2.6%	-7.1%	+0.8%	-1.4%
All Other NF	-41.6%	-49.3%	-63.2%	-32.2%	-19.9%	-13.6%	-30.0%
All Other NF (ex. MI & NJ)	-9.6%	-17.7%	-19.3%	-8.4%	-6.3%	-1.0%	+4.9%

*Note: Above results are derived from the formula: 1-(L+LAE ratio + Und. Expense ratio), using mostly Florida-specific data. ULAE, general & other administrative expenses reflect countrywide and include all liability. Underwriting expenses also include Florida policyholder dividends.
Source: PCI, based on NAIC data*

To provide some insight on profitability before and after no-fault repeal (or sunset), the following table presents personal auto *liability* underwriting results for three states that eliminated their no-fault laws. Profits improved for both Colorado and Connecticut, but got worse for Georgia. It must be understood, however, that these results reflect more than PIP coverage and other variables such as rating laws also affect liability underwriting trends.

Three-Year Average Personal Auto Liability Underwriting Results: Before and After Repeal (or Sunset) of No-Fault Law		
	Before Elimination	After Elimination
Colorado (sunset, effective 7/1/2003)	-21.9%	+5.4%
Connecticut (repeal, effective 1/1/94)	-15.2%	-0.9%
Georgia (repeal, effective 10/1/91)	-12.2%	-15.2%

Source: NAIC; percentages (as a percent of premiums) reflect all personal auto liability, including bodily injury and property damage liability and UM/UIM in addition to PIP (before no-fault)

Florida's Average PIP Claim Cost is High Due to High Health Care Costs

Florida's 2010 PIP claim severity (\$8,137), influenced primarily by the cost of health care, is 4th highest among all no-fault states.¹ Compared to other reimbursable benefits found in this state's no-fault package, the role of insured health-related costs has increased over time. In 2007, the medical component was 97% of total PIP costs; 10 years earlier, its share was six points lower, i.e., 91% total PIP losses² (Sources: *Fast Track Monitoring System* and Insurance Research Council)

One component of Florida's high health care costs and hence a contributor to the state's high PIP severity is the in-patient charge per hospital admission (average of \$36,865 in 2009) – 3rd highest among all no-fault states (New Jersey and Pennsylvania are higher). Florida's hospital charge has risen slightly faster than all other no-fault states combined (36.4% - FL vs. 31.1% - all other NF, from 2005 to 2009). [Source: American Hospital Association (AHA)].

Exacerbating the problem is the "cost shifting" phenomenon under which hospitals charge *all* private insurers in Florida a whopping 409% of their costs. In other words, hospitals here are driving up their prices by 4 times their actual costs and shifting these costs to auto insurers (as well as other liability and workers compensation insurers). According to the AHA, the impact of hospital cost shifting on Florida insurers is the second worst in the nation, after New Jersey.

Furthermore, health provider charges for treating PIP claimants are much greater here. The largest disparities in average charges between this state and other no-fault states are seen for general practitioners and chiropractors; visits to these professionals typically cost at least 3 times more in Florida than elsewhere. In fact, Florida's GPs and chiropractors charge the highest average rates per no-fault claim in the country.

Total Amounts Charged per PIP Claim by Medical Professional			
	Florida	Other No-Fault States	FL is higher by...
Chiropractor	\$6,358	\$2,069	+207.3%
Alternative Provider	\$3,546	\$2,226	+59.3%
General Practitioner	\$2,992	\$817	+266.2%
Neurologist	\$2,360	\$1,689	+39.7%

Source: Insurance Research Council, 2007

¹ Michigan's PIP severity is highest (\$36,245), followed next by New Jersey (\$16,397) and New York (\$8,664).

² The remaining no-fault expenditures cover lost wages, essential services, rehabilitation, funeral losses, etc.

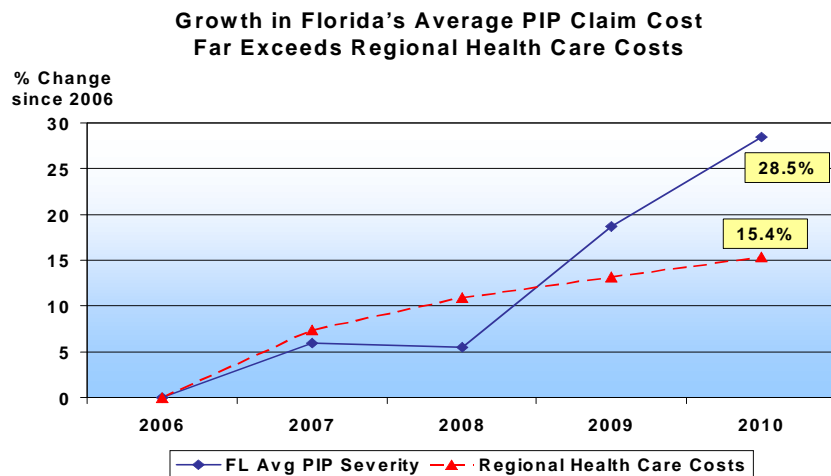
Diagnostic procedures cost more in Florida, too, especially for CT-scans and X-rays; these procedures usually cost almost twice as much here compared to other no-fault states.

Total Amounts Charged for Diagnostic Procedure per PIP Claim			
	Florida	Other No-Fault States	FL is higher by...
X-ray	\$845	\$490	+72.4%
MRI	\$2,395	\$2,104	+13.8%
CT-scan	\$4,652	\$2,344	+98.5%

Source: Insurance Research Council, 2007

Consumer Fraud Contributes to Florida’s High PIP Costs

Over the last few years, Florida’s average PIP claim cost has far outpaced the growth of medical care costs in various regions of the state. In the last half-decade, Florida’s PIP severity rose 28.5% – almost twice as fast as the 15.4% growth rate in the CPI cost of medical goods and services (Fig. 2).³ Beginning in 2008, the dramatic acceleration in the PIP severity relative to health care costs suggests a surge in no-fault fraud. (Sources: *Fast Track Monitoring System* and U.S. Bureau of Labor Statistics)



Sources: Fast Track Monitoring System, @ 4th Qtr. 2010 and U.S. Bureau of Labor Statistics

Based on data from 2008 to 2010, PCI estimates the current annual cost of no-fault fraud in Florida to be about \$316.8 million. The occurrence of fraud is corroborated by the number of questionable claims related to staged/caused accidents (SA QCs) in this state. Florida far outranks all other states in the country with respect to these questionable claims. With almost twice the number of bodily injury (BI) liability and PIP SA QCs as second-place New York (1,446 – FL vs. 765 – NY), Florida doubled its quantity in just three years from 710 SA QCs (2007) to 1,446 SA QCs (2009). In 2007, its share of SA QCs was 21.6% of the national total; by 2009, this proportion had reached 30.1%. (Source: National Insurance Crime Bureau; PIP SA QCs alone are not available)

³ CPI-Medical Care costs reflect Florida regions containing Miami-Ft. Lauderdale and Tampa-St. Pete-Clearwater (the CPI index is not available for the entire state).