Summary: Rand Study on No-fault Insurance[1]

Conclusion, Summary of "Policy Implications, and Future Developments and Observations" chapter only (chapter 6)

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[NOTE: MAD did not attempt to assess the study's methodology, data used, sources, etc. The RAND Corporation is a recognized, objective, non-ideological, non-profit research organization. From the publication: "All RAND monographs undergo rigorous peer review to ensure high standards for research quality and objectivity."]

Background:

- Written in 2010; reviewed data covering past 20 years
- Caveats:
    - No assessment of other types of no-fault insurance such as other countries use
    - Only focuses on costs within the auto-insurance program, and doesn't attempt to separate incidence of medical and auto insurance cost-shifting and other interactions.

"…while we find that no-fault automobile-insurance costs rose as a result of medical costs incurred from automobile crashes, further research is necessary to analyze the relationship between automobile insurance and medical insurance and the means by which the systems affect one another. In particular, in this monograph, we do not evaluate the extent to which no-fault shifts costs between auto insurers, medical insurers, medical providers, and the government. Instead, we limit our focus to costs borne within the auto-insurance system—the costs that have been most salient in political debates surrounding auto-insurance reform."

"Our goal is not necessarily to provide a definitive assessment of the merits of the systems, but rather to understand the costs of no-fault and why no-fault has apparently lost support among politicians, insurers, and the public in the past 30 years."

[1] Anderson, James M., Paul Heaton and Stephen J. Carroll, "The U.S. Experience with No-Fault Automobile Insurance: A Retrospective," RAND Institute for Social Justice (2010).

Study's Research Questions:

- What are the key differences between the tort system and the no-fault approach to compensation, and what are the different forms of no-fault insurance in the United States?
- How did the no-fault system evolve, and why has it fallen from favor?
- How do the costs of no-fault approaches compare with the costs of the tort system in compensating injuries from automobile accidents?
- What are the causes of the rising costs associated with no-fault systems?
- What is the likely future of no-fault?

Conclusions/Findings

- "Central finding" is that the decline in support for no-fault is due to higher premium costs that are largely from increasing medical costs [in no fault states compared to elsewhere]
- BUT, it is premature to conclude that no-fault has failed as a policy
- Over time, debate has shifted away from problems with the tort system and towards the cost of premiums and the right to sue dangerous drivers.
- The perception that no-fault generally had higher compensation costs is largely accurate. In no-fault states,
    - Per-policy costs are higher, and
    - There has been more dramatic cost-growth.
    - Several reasons for this:
        - Individuals in no-fault states utilize more specialized types of treatment
        - There is evidence of greater medical cost inflation in no-fault states
        - Physician visits have remained stable in no-fault states, but have fallen in states with other insurance systems
- There is some evidence that no-fault's impact on reducing litigation has decreased over time
- Also evidence that fraudulent claims have risen in no fault states compared to levels in early 1990s
- No-fault states shift costs of medical care for auto accidents to auto insurance from medical insurance. In most no-fault states, medical providers bill no-fault insurers before billing first-party medical insurers. This practice may have the effect of appearing to reduce health-insurance costs in no-fault states.
- "Choice" systems may avoid problems of conventional no-fault system, but there are too few choice states to compare to, so more research is necessary.

Recommendations and Policy Lessons

- Addressing medical cost growth in no-fault states is the key; changing the default prioritization rules is a possible improvement
    - In most no-fault states, medical providers will automatically bill the no-fault insurer first, including before billing any medical insurer => auto-insurers effectively acting as medical insurers
    - A related change would be to adopt reimbursement schedules or other treatment restrictions (NY, FL, NJ and PA have done so)

- Another option is to decouple first-party insurance, and implement a limit on lawsuits or noneconomic damages
    - In PA (a "choice" state), consumers can elect a lower cost first-party insurer premium plan in exchange for agreeing to limits on noneconomic auto-accident damage claims
- States should also develop a more systematic way of identifying and tracking auto-insurance fraud (but there isn't sufficient data to definitively conclude that fraud has an impact on insurance premium cost increases in no-fault states)
- More information/data is needed on relationship between no-fault and medical care
    - Impact of utilization of alternative medical providers
    - How a different reimbursement system for auto-accident-related medical care might affect a physician's choice of treatment

Suggestions/Future Developments and their Implications

Study discusses three insurance innovations
[Keep in mind, study is a few years old]:

1. Pay-as-you drive
    - Like it sounds, based on actual miles driven.
    - Electronic measuring device attached to vehicle
    - Rates could be based on specific driving factors
        - Time of day driven
        - Driving habits
        - Post-accident the technology could help determine fault; possible reduces the cost associated with arbitrary determinations of fault
2. Autonomous vehicle technology
    - Driver-assist technology: lane control, braking assistance, warnings for driving too close, etc.
    - Reduces the amount of human error
    - Study speculates that
        - Depending on efficacy of continuous improvements in auto-assist technology that reduces accidents, today's version of auto-insurance may disappear entirely as auto accident-risk-based insurance is fully shifted to health or homeowner policies
        - Could shift liability and related litigation from driver to auto manufacturer
        - May also eliminate nearly all minor accidents, and consequently cause significant changes to actuarial calculations
3. Universal health Insurance
    - Authors theorize that this actually makes no-fault more appealing:
        - Universal coverage would eliminate much of the need for the medical portion of no-fault
        - Thus, would eliminate the largest source of cost inflation (i.e. medical cost inflation)