

Michigan Catastrophic Claims Association Annual Report to the Director of Department of Insurance and Financial Services (DIFS) Fiscal Year Ended June 30, 2015

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.

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MCCA Year in Review

June 2014– June 2015

The premium paid to the Michigan Catastrophic Claims Association ("MCCA") by member insurance companies decreased to $150 per insured vehicle effective July 1, 2015 to June 30, 2016. This represents a decrease of $36.00 (19%) over the 2014-2015 MCCA charge of $186.00. The $150.00 is comprised of pure premium of $145.10, deficit recoupment of $4.50 and administration expenses of $0.40. The MCCA premium charge is determined each year following its annual actuarial evaluation. The MCCA reimburses auto insurance companies for Personal Injury Protection (PIP) benefits paid in excess of a set amount per claim. That amount increased to $545,000 on July 1, 2015. Please refer to Appendix 4 for a breakdown of the premium cost components.

The MCCA deficit increased by $281 million from the June 30, 2014 deficit of $410 million to the June 30, 2015 deficit of $691 million. The primary reasons for the increase were:

- Updated economic assumptions increased MCCA claim reserves
- Investment performance was less than expected

From inception to June 30, 2015, the MCCA has 15,353 open claims and 17,936 closed claims. For all open and closed claims, payment has been made on 14,848 (44.60%) claims. Inception to date, $13.0 billion has been paid on claims. Payments for the twelve months ended June 30, 2015 were $1.1 billion which represents an average of $89.7 million paid per month. Please refer to Appendices 5-8 for additional information on claim payments and injury trends.

Retention Level Increase 2015 - 2017

Public Act 3 of 2001 provides for a bi-annual adjustment of the member insurance company retention level. For a motor vehicle policy issued or renewed during the period July 1, 2015 to June 30, 2017 the member insurance company retention level is $545,000.

Premium Audit Program

The MCCA conducts a Premium Audit Program for all member companies. The objective of this program is to enhance the reliability of the premium data submitted by members and to identify members that may have incorrectly reported data in their Annual Assessment Report. In addition, the MCCA conducts special audits where circumstances warrant a deeper inquiry. Follow-up audits will be based upon results reported by members or other risk factors identified by the MCCA.

The Agreed-Upon Procedures Audit are performed on a triennial basis by members. All member companies selected for 2015 were required to submit their results by November 15, 2015.

Annual Independent Financial Audit

Plante Moran conducted an audit of the MCCA's statutory statements of admitted assets, liabilities, and accumulated deficit, and the related statutory statements of operations and accumulated deficit, and cash flows as of June 30, 2015. Plante Moran has issued an unmodified opinion and indicated the statutory financial statements prepared by the MCCA present fairly, in all material respects, the financial position of the MCCA as June 30, 2015 and the results of its operations, changes in capital and surplus, and its cash flows for the year then ended based on statutory accounting practices. Plante Moran found no exceptions or audit adjustments and no Report to Management was required. The audited statements are in agreement with the MCCA's Annual Statement for the year ended June 30, 2015 that was filed with the Michigan Department of Insurance and Financial Services (DIFS).

Annual Financial Reporting Model Regulation Compliance

Accretive Solutions conducted an Annual Financial Reporting Model Regulation ("AFRMR") compliance audit as of June 30, 2015. No significant deficiencies or weaknesses were noted. The MCCA files a report of internal controls of financial reporting with DIFS.

MCCA Membership System (MMS)

The MCCA updated the software components of its web based claims and assessment system, and successfully released MMS 2.0 to the member carriers on September 28, 2015. The changes have increased the overall system performance and are expected to reduce the total cost of operation of MMS.

Other MMS related activities include:

- Annual Security Assessments
- Annual Disaster Recovery Test

Relevant Case Law That Impacted the MCCA

Coalition Protecting Auto No-Fault and Brain Injury Association of Michigan v MCCA, Michigan Court of Appeals

In late 2011 and early 2012, the MCCA denied Freedom of Information Act ("FOIA") requests from the Coalition Protecting Auto No-Fault and the Brain Injury Association of Michigan ("BIAMI") on the ground that the MCCA is exempt from FOIA by statute. CPAN and BIAMI then brought a FOIA lawsuit against the MCCA in Ingham County Circuit Court. In 2013, the Circuit Court ruled in favor of CPAN and BIAMI, ordering the MCCA to produce documents reflecting certain MCCA claim and actuarial information. The MCCA appealed and, in 2014, the Court of Appeals ruled in favor of the MCCA, holding that the MCCA's statutory exemption from FOIA is constitutional and that various common law theories espoused by CPAN and BIAMI do not require the MCCA to produce the documents sought. CPAN and BIAMI have sought leave to appeal from the Michigan Supreme Court.

CPAN and BIAMI sought leave to appeal to the Michigan Supreme Court. Rather than grant or deny the application, the Supreme Court remanded the case to the Court of Appeals to answer the question, in the first instance, whether the MCCA is a public body subject to FOIA.

Appendix 1

MCCA Organizational History

ORGANIZATIONAL HISTORY

The MCCA was established by Public Act 136 of 1978, which amended the no-fault law by adding Section 3104 effective July 1, 1978. The Legislature created MCCA because insurance companies had difficulty obtaining reinsurance for Michigan's automobile no-fault policies, which provided for unlimited lifetime medical benefits for people who are catastrophically injured in auto accidents.

The MCCA is a private, non-profit, unincorporated association of which every insurer that sells automobile or motorcycle coverage in Michigan is required to be a member.

The MCCA is funded by an annual premium assessment to its member insurance companies based on the number of policies covering automobiles and motorcycles written in Michigan. The MCCA is required to assess an amount each year that is sufficient to cover the lifetime claims of all persons catastrophically injured in that year and in addition, may adjust future assessments for excesses or deficiencies in prior assessments.

ORGANIZATIONAL STRUCTURE

MCCA is governed by a Board of Directors which consists of five member companies appointed by the Director of the Department of Insurance and Financial Services (DIFS). The Director, or his/her representative, serves as an ex-officio member of the Board. The Board is responsible for the administration of the Plan of Operation and the management of the affairs and operations of the MCCA consistent with the Plan and the Michigan Insurance Code, including section 3104 of the No-Fault Insurance Act (the "Act").

A staff of 30 MCCA employees handles the day to day operations and includes:

- Executive Director
- Controller
- Assistant Controller
- Accountant
- Information System Manager
- 3 Claim Supervisors
- 19 Claim Examiners
- 3 Claim Technicians

MCCA contracts for the following services:

- Actuarial
- Auditing
- Legal
- Investment consulting and management
- Payroll
- Information system support

The following standing committees provide assistance in the operation of the MCCA:

Actuarial Committee
Provides actuarial analysis and other analytical support for premium calculation and reserving estimates.

Audit Committee
Provides oversight of the financial and regulatory reporting process of the MCCA.

Claim Committee
Reviews claims procedures and practices of both the MCCA and member companies and conducts semi-annual claim audits for claim handling practices and reserve appropriateness.

Communication Committee
Oversees the MCCA's communications with its members and third parties, and makes recommendations to the Board relating to such communications.

Information Technology Committee
Assesses the MCCA's technology strategy and makes recommendations regarding technology investments.

Investment Committee
Recommends to the Board an investment policy for the MCCA and oversees the investments of the MCCA.

Personnel Committee
Makes recommendations to the Board relating to staffing, compensation, and employment policies of the MCCA.

REPORTING REQUIREMENTS

Annual Statements
MCCA's annual financial statement, available on the public website (www.michigancatastrohic.com), is prepared on the basis of statutory accounting practices as prescribed or permitted by the State of Michigan DIFS. MCCA is subject to all the reporting, loss reserve, and investment requirements of the Director of DIFS, to the same extent as would a member company of the MCCA. The MCCA's fiscal year is on a June 30 basis. In conjunction with the annual statement filing, the MCCA's consulting actuary prepares a statement of actuarial opinion that is filed with DIFS. The opining actuary is required to comply with all applicable actuarial standards of practice.

Independent Financial Audit

An annual audit of MCCA's financial statements is conducted by an independent public accounting firm. Most recently Plante Moran LLP performed this audit. The results of these annual audits are available on the MCCA public website (www.michigancatastrophic.com).

Evaluation of Internal Controls

An annual financial reporting model audit regulation compliance audit is conducted by an independent public accounting firm. Most recently Accretive Solutions performed this audit.

Department of Insurance and Financial Services (DIFS) Oversight

Pursuant to Section 3104(23) of the Michigan Insurance Code, the Director of DIFS or an authorized representative of the Director may visit the MCCA at any time and examine any and all the MCCA's affairs. In addition, DIFS periodically reviews the financial condition of the MCCA. The most recent financial examination by DIFS was for the period of July 1, 2006 to June 30, 2010. The examination included an independent actuarial analysis, which was consistent with the results of the MCCA's opining actuary. The report of the examination and accompanying statement of actuarial opinion is available on the MCCA public website (www.michigancatastrophic.com).

Please refer to appendix 3 for a list of MCCA Oversight controls.

Reference material available on the MCCA public website (www.michigancatastrophic.com)

The following documents are available on MCCA's website:

- Background Information
- Financial Information
    - Annual Statement (3 years)
    - Report of independent auditors (3 years)
    - Department of Insurance and Financial Services (DIFS) financial examination report of MCCA
    - Assessment History
- Consumer Information
    - Claim Statistics
        - Injury Type Summary
        - Summary of Payments by Cost Category
        - Motorcycle Statistics
    - Frequently Asked Questions

Appendix 2

MCCA Board of Directors and Standing Committees

Board of Directors

Auto Club Insurance Association
Auto-Owners Insurance Company
Citizens Insurance Company of America
Farmers Insurance Group
State Farm Mutual Automobile Insurance Company
Director of the Department of Insurance and Financial Services (Ex-Officio Member)

Insurance Companies Serving on Standing Committees

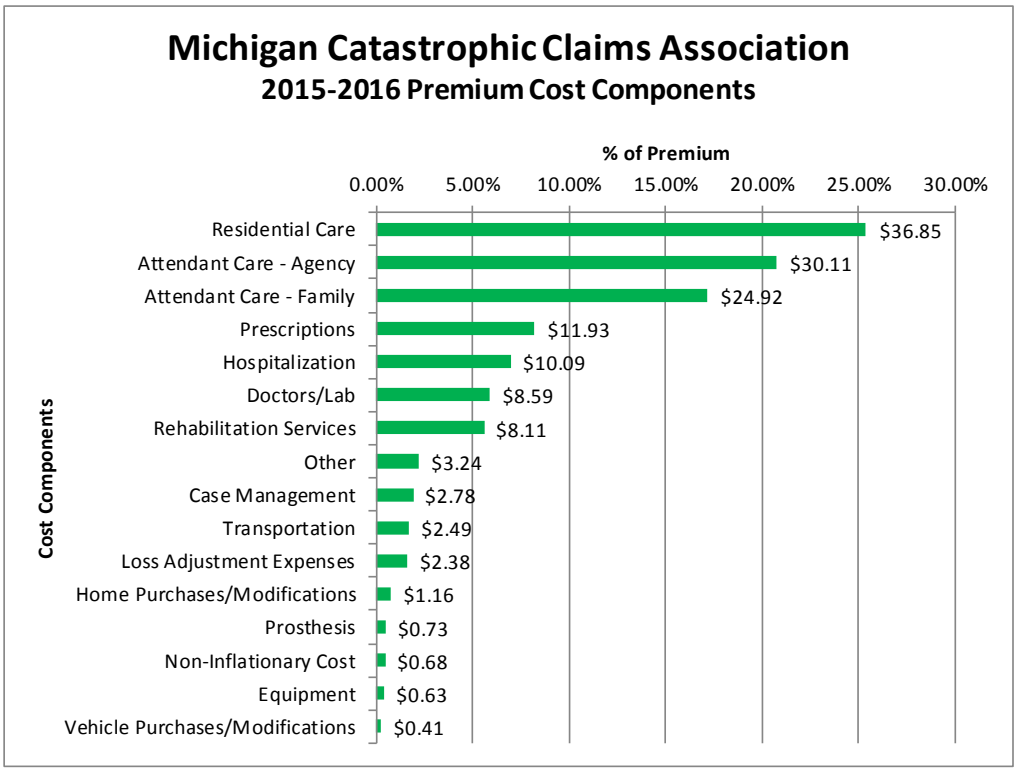
Allstate Insurance Company
Amerisure Companies
Auto Club Insurance Association
Auto-Owners Insurance Company
Citizens Insurance Company of America
Farm Bureau Insurance Group
Frankenmuth Mutual Insurance Company
Grange Mutual Casualty Company
Hastings Mutual Insurance Company
Liberty Mutual Insurance Company
Pioneer State Mutual Insurance Company
Progressive Insurance Company
State Farm Mutual Automobile Insurance Company
West Bend Mutual Insurance Company
Wolverine Mutual Insurance Company

Appendix 3

MCCA Oversight

- The MCCA files annual financial statements with the Department of Insurance and Financial Services (DIFS)
- An independent auditor audits the MCCA's financial statements on an annual basis
- DIFS conducts financial audits of the MCCA every five years, most recently for the period July 1, 2006 to June 30, 2010
    - DIFS engages an independent actuary to review the work of MCCA's actuary and issues a report
- DIFS has the right to examine any and all of the MCCA's operations and the Director and/or his designated representative attends all Board meetings
- The MCCA completes an Annual Financial Reporting Model Audit Regulation compliance audit on an annual basis which reviews internal financial controls and files a report of internal controls with DIFS
- MCCA engages an independent actuary to estimate the sufficiency of reserves
- The MCCA Actuarial Committee, comprised of eight credentialed actuaries, reviews the report and recommendation by the independent actuary
- The MCCA has implemented a Premium Audit Program to audit and verify assessable exposure information submitted by member companies
- The MCCA has retained an investment consultant to review the economic assumptions used by the MCCA independent actuary on an annual basis

Appendix 4



Cost Components	Estimated Cost	%
Residential Care	36.85	25.40%
Attendant Care - Agency	30.11	20.75%
Attendant Care - Family	24.92	17.17%
Prescriptions	11.93	8.22%
Hospitalization	10.09	6.95%
Doctors/Lab	8.59	5.92%
Rehabilitation Services	8.11	5.59%
Other	3.24	2.23%
Case Management	2.78	1.92%
Transportation	2.49	1.72%
Loss Adjustment Expenses	2.38	1.64%
Home Purchases/Modifications	1.16	0.80%
Prosthesis	0.73	0.50%
Non-Inflationary Cost	0.68	0.47%
Equipment	0.63	0.43%
Vehicle Purchases/Modifications	0.41	0.28%
Total Premium Cost:	**$145.10**	**100.0%**

Total Premium Cost:	$145.10
Deficit Reduction:	$4.50
Expenses:	$0.40
Total 2015-2016 MCCA Assessment	**$150.00**

Appendix 5

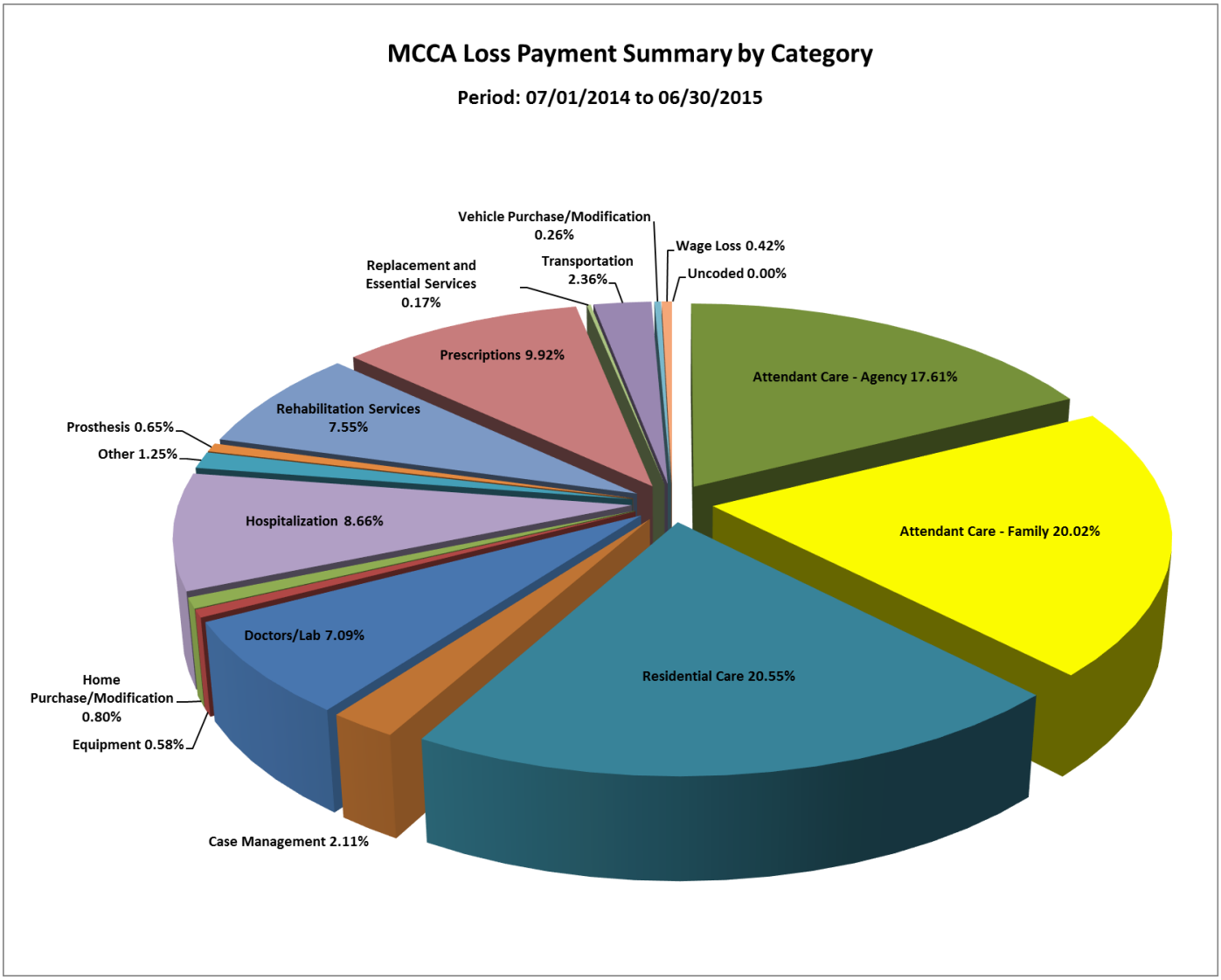
MCCA Financial and Statistical Highlights

	Inception to June 30,		
	2015	**2014**	**Change**
Total Assets	$18,056,729,000	$17,634,099,000	$422,630,000
Total Liabilities	18,747,661,000	18,044,631,000	703,030,000
Total Deficit	(690,932,000)	(410,532,000)	(280,400,000)
Amount of Reimbursement	13,010,256,000	11,934,249,000	1,076,007,000
Undiscounted (gross) Loss Reserves	68,003,801,000	67,695,992,000	307,809,000
Discounted Loss Reserves	17,755,489,000	16,855,230,000	900,259,000
Claims Reported	33,289	31,846	1,443
Claims Closed	17,936	16,908	1,028
Claims Open	15,353	14,938	415
Claims Breaching Retention	14,848	14,174	674

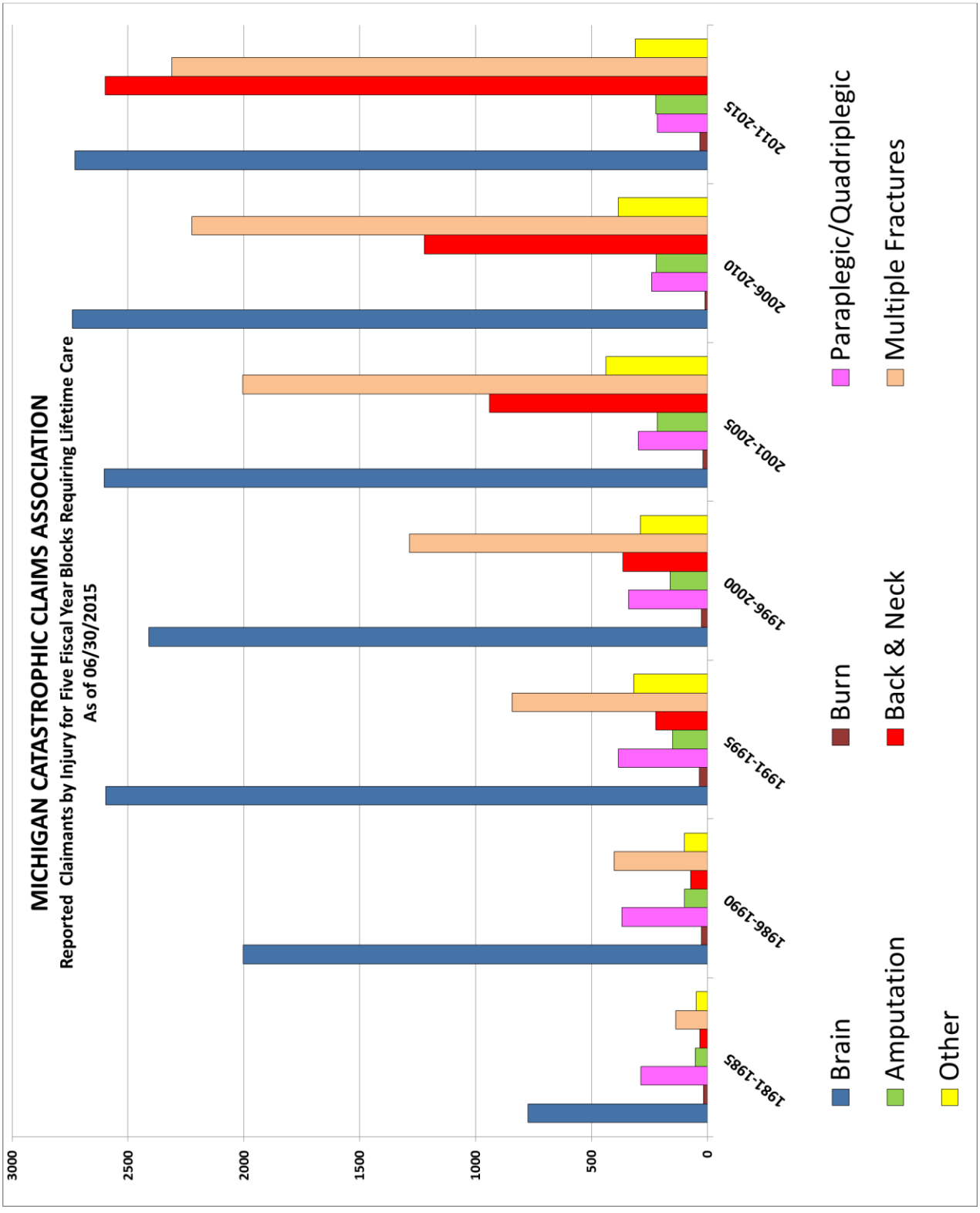
	12 Months Ended June 30,		
	2015	**2014**	**Change**
Assessment Income	$1,320,004,000	$1,280,988,000	$39,016,000
Investment Income	1,398,419,000	778,821,000	619,598,000
Amount of Reimbursement	1,076,007,000	1,027,030,000	48,977,000
Average Monthly Reimbursement	89,667,000	85,586,000	4,081,000
Claims Reported	1,443	1,669	(226)
Claimants Reported:			
Brain	529	538	(9)
Quad	14	18	(4)
Para	12	13	(1)
Burn	11	7	4
Miscellaneous	1,003	1,203	(200)
In-Process/Not Coded	0	1	(1)
NPLC*/Denied	369	385	(16)
Total	1,938	2,165	(227)
Claims Closed	1,028	976	52
Claims Breaching Retention	674	678	(4)

* NPLC - Non Probable Lifetime Care

Appendix 6

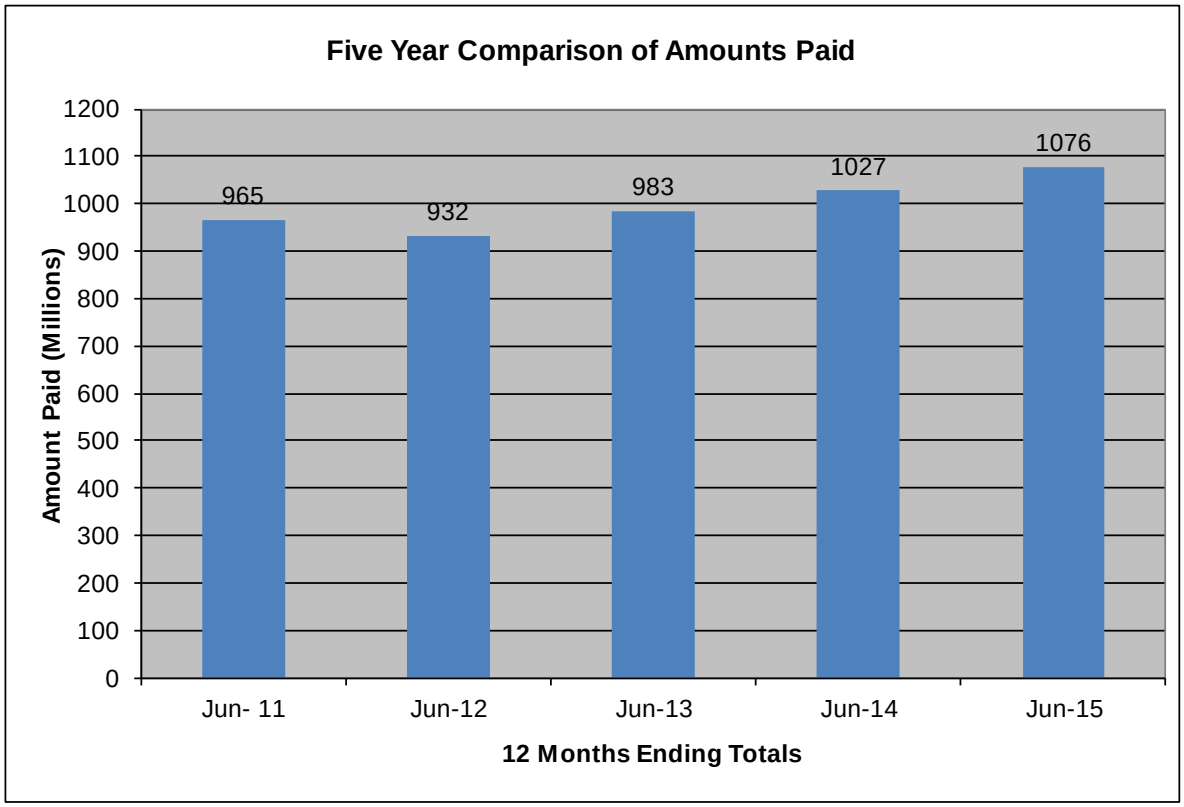

MCCA Loss Payment Summary by Category
Period: 07/01/2014 to 06/30/2015
Vehicle Purchase/Modification 0.26%
Wage Loss 0.42%
Uncoded 0.00%
Transportation 2.36%
Replacement and Essential Services 0.17%
Prescriptions 9.92%
Attendant Care - Agency 17.61%
Rehabilitation Services 7.55%
Prosthesis 0.65%
Other 1.25%
Hospitalization 8.66%
Attendant Care - Family 20.02%
Doctors/Lab 7.09%
Residential Care 20.55%
Home Purchase/Modification 0.80%
Equipment 0.58%
Case Management 2.11%

Appendix 7


MICHIGAN CATASTROPHIC CLAIMS ASSOCIATION
Reported Claimants by Injury for Five Fiscal Year Blocks Requiring Lifetime Care
As of 06/30/2015
3000
2500
2000
1500
1000
500
0
1981-1985
1986-1990
1991-1995
1996-2000
2001-2005
2006-2010
2011-2015
Brain
Amputation
Other
Burn
Back & Neck
Paraplegic/Quadriplegic
Multiple Fractures

Appendix 8

MICHIGAN CATASTROPHIC CLAIMS ASSOCIATION
PAID CLAIMS SUMMARY
AS OF JUNE 30, 2015



12 Months Ending	Bill Review	Loss Payments	Total	% Difference	Average Monthly Payments
06/30/2011	5,724,891	959,085,675	964,810,566	18.10%	80,400,881
06/30/2012	5,270,596	926,419,116	931,689,712	-3.43%	77,640,809
06/30/2013	5,370,402	977,762,426	983,132,828	5.52%	81,927,736
06/30/2014	5,585,278	1,021,445,094	1,027,030,372	4.47%	85,585,864
06/30/2015	5,766,960	1,070,239,577	1,076,006,538	4.77%	89,667,211

Inception to Date:

Total Paid: $13,010,255,686