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Senate

State of Minnesota

S.F. No. 970 - No-Fault Repeal

Author: Senator Geoff Michel

Prepared by: Christopher B. Stang, ^{CS} Senate Counsel (651/296-0539)

Date: February 25, 2005

Section 1 establishes the insurance requirements that replace the no-fault system.

Subdivision 1 requires every owner of a motor vehicle that is required to be registered or principally garaged in the state to maintain liability insurance.

Subdivision 2 provides that the insurance required by subdivision 1 may be provided by an insurance policy issued on behalf of an insurer authorized to transact business in this state or, if the vehicle is registered in another state, by a policy issued by an insurer authorized to transact business in either this state or the state in which the vehicle is registered. The required insurance may also be provided by qualifying as a self-insurer.

Subdivision 3 establishes requirements for qualifying as a self-insurer.

Subdivision 3a grants the Commissioner rulemaking authority to carry out the purposes of subdivision 3.

Subdivision 4 requires the State of Minnesota and political subdivisions to provide insurance either as a self-insurer or through purchase of an insurance policy.

Subdivision 5 requires motorcycle owners to carry liability insurance either through a policy of insurance or by qualifying as a self-insurer in the same manner as provided in subdivision 3.

Section 2 requires an insurer to provide at least a premium reduction of 20 percent on an automobile insurance policy issued or renewed after January 1, 2006.

Section 3 requires the Revisor of Statutes to place a bill before the Legislature no later than January 1, 2006, making changes necessary to conform to the act.

Section 4 repeals the current no-fault law.

Section 5 makes the act effective January 1, 2006.

CBS:cs

Senators Michel, Reiter, LeClair, Larson and Ourada introduced--
S.F. No. 970: Referred to the Committee on Commerce.

1 A bill for an act

2 relating to insurance; repealing the Minnesota
3 No-Fault Automobile Insurance Act; providing an
4 appropriate premium reduction; requiring liability
5 coverage; proposing coding for new law in Minnesota
6 Statutes, chapter 65B; repealing Minnesota Statutes
7 2004, sections 65B.41; 65B.42; 65B.43; 65B.44; 65B.45;
8 65B.46; 65B.47; 65B.48; 65B.482; 65B.49; 65B.50;
9 65B.51; 65B.525; 65B.53; 65B.54; 65B.55; 65B.56;
10 65B.57; 65B.58; 65B.59; 65B.60; 65B.61; 65B.63;
11 65B.64; 65B.65; 65B.66; 65B.685; 65B.71.

12 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

13 Section 1. [65B.30] [COMPULSORY INSURANCE.]

14 Subdivision 1. [GENERAL REQUIREMENT AND COVERAGES.] Every
15 owner of a motor vehicle of a type which is required to be
16 registered or licensed or is principally garaged in this state
17 shall maintain during the period in which operation or use is
18 contemplated insurance under provisions approved by the
19 commissioner, insuring against loss resulting from liability
20 imposed by law for injury and property damage sustained by any
21 person arising out of the ownership, maintenance, operation, or
22 use of the vehicle. The nonresident owner of a motor vehicle
23 which is not required to be registered or licensed, or which is
24 not principally garaged in this state, shall maintain such
25 insurance in effect continuously throughout the period of the
26 operation, maintenance, or use of such motor vehicle within this
27 state with respect to accidents occurring in this state.

28 Subd. 2. [TYPES OF INSURANCE.] The insurance required by

1 subdivision 1 may be provided by a policy of insurance which is
2 issued by or on behalf of an insurer authorized to transact
3 business in this state or, if the vehicle is registered in
4 another state, by a policy of insurance issued by or on behalf
5 of an insurer authorized to transact business in either this
6 state or the state in which the vehicle is registered or by
7 qualifying as a self-insurer.

8 Subd. 3. [SELF-INSURANCE.] Self-insurance, subject to
9 approval of the commissioner, is effected by filing with the
10 commissioner in satisfactory form:

11 (1) a continuing undertaking by the owner or other
12 appropriate person to pay tort liabilities and to perform all
13 other obligations imposed by law;

14 (2) evidence that appropriate provision exists for prompt
15 administration of all claims, benefits, and obligations;

16 (3) evidence that reliable financial arrangements,
17 deposits, or commitments exist providing assurance for payment
18 of tort liabilities and all other obligations imposed by law;
19 and

20 (4) a nonrefundable initial application fee of \$1,500 and
21 an annual renewal fee of \$400 for political subdivisions and
22 \$500 for nonpolitical entities.

23 Subd. 3a. [RULEMAKING.] To carry out the purposes of
24 subdivision 3, the commissioner may adopt rules pursuant to
25 chapter 14. These rules may:

26 (1) establish reporting requirements;

27 (2) establish standards or guidelines to assure the
28 adequacy of the financing and administration of self-insurance
29 plans;

30 (3) establish bonding requirements or other provisions
31 assuring the financial integrity of entities that self-insure
32 other than bonding requirements for self-insuring political
33 subdivisions; and

34 (4) establish other reasonable requirements to further the
35 purposes of this section.

36 Subd. 4. [STATE OR POLITICAL SUBDIVISIONS TO PROVIDE

1 INSURANCE.] The state of Minnesota or any agency thereof and any
2 political subdivision of the state or agency thereof shall
3 provide insurance, either as a self-insurer pursuant to
4 subdivision 3, or through purchase of a policy of insurance.

5 Subd. 5. [MOTORCYCLE COVERAGE.] Every owner of a
6 motorcycle registered or required to be registered in this state
7 or operated in this state by the owner or with the owner's
8 permission shall provide and maintain insurance for the payment
9 of tort liabilities arising out of the maintenance or use of the
10 motorcycle in this state. Insurance may be provided by a policy
11 of insurance or by qualifying as a self-insurer in the manner
12 provided in subdivision 3.

3 Sec. 2. [PREMIUM REDUCTION.]

14 An insurer must provide an appropriate premium reduction of
15 at least 20 percent on each policy, plan, or contract issued or
16 renewed on or after January 1, 2006, insuring against loss
17 resulting from liability imposed by law for injury or property
18 damage sustained by any person arising out of the operation,
19 maintenance, or use of a motor vehicle of a type that is
20 required to be registered or licensed or is principally garaged
21 in this state.

22 Sec. 3. [CONFORMING LEGISLATION.]

23 The revisor of statutes shall place a bill before the
24 legislature no later than January 1, 2006, making all changes in
25 Minnesota Statutes necessary to conform other provisions of
26 Minnesota Statutes to this act.

27 Sec. 4. [REPEALER.]

28 Minnesota Statutes 2004, sections 65B.41; 65B.42; 65B.43;
29 65B.44; 65B.45; 65B.46; 65B.47; 65B.48; 65B.482; 65B.49; 65B.50;
30 65B.51; 65B.525; 65B.53; 65B.54; 65B.55; 65B.56; 65B.57; 65B.58;
31 65B.59; 65B.60; 65B.61; 65B.63; 65B.64; 65B.65; 65B.66; 65B.685;
32 and 65B.71, are repealed effective January 1, 2006.

33 Sec. 5. [EFFECTIVE DATE; APPLICABILITY.]

34 This act is effective January 1, 2006, and applies to
35 accidents occurring on or after that date.

H.O. 1
From Sen. Michel

Study Shows Tort-Based Auto System Provides Savings for Colorado Drivers

February 25, 2005

A Colorado study shows that since the state scrapped its ailing no-fault automobile insurance program in favor of a tort-based system, rates for some consumers have dropped between 19.5 percent and 27.1 percent.

The study conducted by the Property Casualty Insurers Association of America (PCI) and the Rocky Mountain Insurance Information Association (RMIIA) compared automobile insurance rates in January 2005 for a 35-year old married couple in Denver, Pueblo and Sterling, Colorado to rates in July 2003 when the state's no-fault law was allowed to sunset.

Colorado's no-fault system was reportedly plagued by high costs due to broad medical coverage that drivers were forced to purchase. The personal injury protection (PIP) benefit evolved into one of the most expensive systems in the nation. Following the implementation of the tort-based system, consumers were given the option to not purchase medical payments coverage or to select from a variety of levels of coverage.

"The study demonstrates that Colorado consumers benefit from the tort system," said Michael Harrold, assistant vice president and regional manager for PCI. "Colorado insurers reduced premiums because the factors driving up claim costs were addressed. In addition, consumers were given more choices regarding the type and amount of coverage they purchase. As a result, consumers now have hundreds of dollars in their pockets to spend as they see fit."

"Colorado provides a clear 'before and after' picture for other states regarding what can occur when major cost drivers in automobile insurance spiral out of control and then are addressed by public policymakers," said Terry Tyrpin, senior vice president, personal lines and research services for PCI. "States that adopted no-fault systems in the 1970s and 1980s thought the system would curb skyrocketing legal costs, streamline payments of benefits, and lower rates. However, in many no-fault states the cost savings intended by the system have been diluted by the inability to stop lawsuits.

"In addition, expansion of mandated PIP coverage has lead to over utilization and treatment abuses. As other states such as Florida, Minnesota, New Jersey, and New York work through problems with their no-fault systems, Colorado demonstrates the positive impact controlling costs can have for consumers."

Exhibit A

Handout from Sen. Michel

Chiropractor pleads guilty to fraud

He, 3 others were charged in conspiracy to bilk insurers by filing phony claims

By Paul Gustafson
Star Tribune Staff Writer

Brooklyn Center chiropractor Stephen A. Erhart pleaded guilty Monday to 29 federal charges in an insurance fraud scheme that a prosecutor said may have netted more than \$2 million.

Attorneys told U.S. District Judge Donovan Frank that Erhart and prosecutors dispute the total loss to insurers and the sentence he should receive.

Assistant U.S. Attorney John Marty said he believes that Erhart faces more than 10 years in prison under federal

guidelines. Defense attorney Richard Koch said he hopes to argue for a sentence of four years and two months to six years and eight months.

Erhart, 48, is scheduled to go on trial Wednesday in St. Paul before Frank on charges of possessing cocaine and an unregistered short-barrel shotgun.

Three men indicted with Erhart have pleaded guilty but have not been sentenced.

Erhart admitted that from January 1996 to April 2001 he engaged in a conspiracy to defraud insurance companies by recruiting patients and posing as patients, then using

them to submit false insurance claims through his clinic, Advantage Plus Chiropractic Center in Brooklyn Center.

He said his three co-defendants were paid to find people to help carry out the scheme, sometimes by signing false attendance sheets indicating that they had visited the clinic and received care.

ST. PAUL PIONEER PRESS ■ WWW.TWINCITIES.COM

TWIN CITIES

Chiropractor pleads guilty in insurance fraud case

BY HANNAH ALLAM
Pioneer Press

A Brooklyn Center chiropractor who made up bogus attendance sheets and progress notes to fool insurance companies into paying for care that was never provided pleaded guilty in federal court Monday to 29 counts of health care fraud and money laundering.

Prosecutors say Stephen A. Erhart, 48, cheated insurance companies out of more than \$2 million by submitting dozens of false medical-assistance invoices to the Minnesota Department of Human Ser-

vices to at least three insurance companies for false or inflated services and phony patient travel expenses. The indictment alleges that Erhart laundered the money by using it to pay the clinic's rent and his salary.

Erhart's office manager, Coral K. Peterson, pleaded guilty to charges of health care fraud and money laundering in September for her role in the scheme. Three other defendants — Thanh Nguyen, Chau Van Nguyen and Thanh Cong Van — also were charged and earlier pleaded guilty to conspiring to commit health

Exhibit B

Chiropractic watchdog is under fire

Critics say board is soft on fraud

BY RICK LINSK
Pioneer Press

In the past three years, the board that oversees Minnesota's chiropractors has disciplined practitioners for having sex with patients, abusing drugs or alcohol, delivering inferior care, and practicing without a license.

But until last week, not once during that time did the Minnesota Board of Chiropractic Examiners take action against a chiropractor for the controversial practice of paying "runners" to bring in new patients.

Federal and state investigations have started to uncover evidence of such payments and improper billing schemes in the Twin Cities. One chiropractor was sued and another indicted in the last two weeks, and more

WATCHDOG UNDER FIRE, 8A

Watchdog under fire

(continued)

charges are said to be on the way. The cases have critics asking: Has Minnesota's government watchdog over chiropractors overlooked fraud?

The board, based in Minneapolis, consists of five chiropractors and two public members. It licenses all chiropractors practicing in the state and can discipline licensees for a wide variety of transgressions, including "splitting fees," paying commissions or accepting rebates.

Insurance industry investigators say they have referred specific tips about such conduct to the board and were frustrated to see the cases go nowhere. As a result, they say, Minnesota has gained a reputation as an easy place to get away with fraud.

"They kind of look the other way until something big happens," said Al Parsons, president and CEO of the Insurance Federation of Minnesota, a trade group. "Then there's a public outcry and they say, 'There's a number of folks getting slime on us, so we'd better clean up our business.'"

But board officials have said they heard only rumors and vague allegations.

Larry Spicer, executive director of the Minnesota Board of Chiropractic Examiners, said the

board never had enough information to prove the charges.

The state panel has fielded complaints that chiropractors were splitting fees by paying runners. There was one complaint in fiscal 1999 and 10 in fiscal 2000. None of the complaints could be substantiated, according to Spicer and board records.

The callers said "people were being taken to offices and treated in large numbers without necessarily any proof there was a need for that treatment," Spicer recalled in an interview earlier this year. "The problem was, the complaints were submitted anonymously and without any way to investigate those complaints."

Insurance and government investigators say some chiropractors use runners to recruit patients with questionable injuries to run up a tab with frequent treatment at the insurer's expense. Under Minnesota's "no-fault" system, people injured in accidents are entitled to as much as \$20,000 in medical care from their insurance company.

Last week, on the heels of an investigation by the Minnesota attorney general's office, the board took action to strip a Brooklyn Park chiropractor of his license over payments to runners and other infractions. Patrick W. Corrick paid \$200 for each patient whom runners brought in, with special emphasis on Twin Cities minority and immigrant communities, according to documents filed by the board and

the attorney general's office.

The board said Corrick violated the law governing chiropractors, which outlaws "fee-splitting" or paying a commission to get business.

Corrick denied the allegations, saying he is being persecuted for demanding that insurance companies promptly pay his claims.

Some observers also wonder about the wisdom of giving back the licenses of chiropractors who have previously committed fraud.

Stephen A. Erhart, a Brooklyn Center chiropractor indicted Oct. 16 by a federal grand jury, regained his license after a 1985 conviction for felony theft.

Erhart submitted 40 false medical-assistance invoices to the Minnesota Department of Human Services, according to court files and state records. The invoices sought payment for office visits that never occurred and X-rays that were never taken. The board suspended Erhart's license after the conviction, but he was reinstated the following year.

Richard Tousignant, a personal injury lawyer with Schwabel, Goetz & Sieben in Minneapolis and a member of the chiropractic board for two years under Gov. Arne Carlson, said he was stunned to read recently of Erhart's reinstatement.

"I find that to be just shocking," Tousignant said. "They've got to police themselves. I can't understand why they would do that."

A suit filed Friday claims health clinics owned by three Florida residents billed insurers for unneeded treatments of accident victims or for services that were never performed.

Auto insurers sue 16 clinics for fraud

By Chris Serres
Star Tribune Staff Writer

A group of auto insurers has sued the owners of 16 Minnesota medical clinics, accusing them of submitting \$770,000 in fraudulent insurance bills since 1999.

The lawsuit, filed last week in Hennepin County District Court by Allstate, Progressive Insurance, Country Insurance and Encompass Insurance, accuses the clinics and their owners of charging the insurers for treatments that were never performed. The carriers are seeking \$1.5 million in damages to cover the charges and the cost of investigating them.

"This suit sends the message that we fight fraud aggressively wherever we encounter it," said Ray Albertini, special investigations unit manager for Progressive, based in Mayfield Village, Ohio.

The clinics named in the suit operated in and around Minneapolis and St. Paul under names such as Sport Fit Inc., Proactive Chiropractic, Choice Wellness and Sports Rehab, St. Paul Wellness and A Twin Cities Licensed Massage Therapy Inc. The clinics

are owned and operated by Robert Wohlfeld, Jeanette Couf and Craig Waltzer, who all live in Florida, according to the suit.

Calls to the clinics and their owners had not been returned as of Friday evening.

According to the suit, the clinics employed people — known as "runners" — who would sift through vehicle accident reports and contact people involved in accidents. The runners would pick up potential patients at their homes and drive them to the clinics.

Once at the clinics, the accident victims received chiropractic and physical therapy treatments that were unnecessary and excessive, the suit said. In other cases, the clinics would bill for procedures that were never performed, the suit said.

For instance, the clinics billed patients for multi-level spinal adjustments even though they only complained of symptoms at one level of the spine. Treatments often were prescribed according to a standardized plan that was not based on the needs of the patients but designed to maxi-

THE ACCUSED

Auto insurers have sued these 16 Minnesota medical clinics and accused them of filing fraudulent insurance bills:

- ▶ Sport Fit
- ▶ SPORTREHAB
- ▶ Choice Wellness & Sports Rehab
- ▶ Isles Wellness
- ▶ St. Paul Wellness
- ▶ Proactive Chiropractic
- ▶ Medix Fit
- ▶ Xcel Proactive
- ▶ Licensed Massage Therapists
- ▶ A Licensed Physical Therapy
- ▶ A Twin Cities Licensed Massage Therapy
- ▶ Minneapolis Wellness
- ▶ Ramsey Wellness
- ▶ MN Licensed Physical Therapists
- ▶ Capital Massage
- ▶ A AACHEN Advanced Injury Center

mize the clinics' billings, the suit said.

The insurers also contend the clinics enticed people to return with cash. One of the clinic owners, Jeanette Couf, allegedly gave patients money on the pretext that the clinic had kept them there too long or past a mealtime. If a patient

did not maintain a treatment schedule, Couf would harass them, the suit said.

The lawsuit is the most recent in a series of medical fraud cases in Minnesota. In 2002, a group of national auto insurers sued five Twin Cities chiropractors, accusing them of steering accident victims to their clinics

and submitting more than \$1 million in bogus insurance bills.

The National Insurance Crime Bureau, a nonprofit funded by the insurance industry, estimates that fraudulent insurance claims cost consumers \$200 to \$300 a year each in increased insurance premiums.

Responding to insurance executives' complaints about rising fraud levels, the state Commerce Department has established a special unit that will investigate insurance claims and file criminal fraud charges. By year's end, the unit will have eight full-time investigators.

"Prior to now, we really didn't have a focused effort to fight insurance fraud in this state," said Mark Kulda, director of public affairs for the Insurance Federation of Minnesota, which represents 75 insurance companies that do business in Minnesota. "Unfortunately, that made us a target."

Chris Serres is at
cserres@startribune.com.

CASH FOR CRASHES

Runners' comb police data to find accident victims

BY RICK LINSK
Pioneer Press

It's a Wednesday and dawn has just broken outside the St. Paul Police Department. Three men mill about the lobby, waiting for the records department to open.

At precisely 8 a.m., they board the elevator to the third floor and approach the records counter. One man slips a check under the glass partition and a clerk hands over a batch of accident reports. The other two, working together, pay in cash. One quickly flips through the crash reports, then they leave. As they head out, another customer approaches the counter.

Known as "runners," they visit Twin Cities police stations daily to obtain the names and addresses of people involved in traffic accidents. They contact victims in hopes of steering them to personal injury lawyers and doctors.

On that recent morning in St. Paul, one of the runners is touchy when asked about his work. Getting the names is legal, he says emphatically. He translates for Hispanic patients at a chiropractor's office, he adds.

Minnesota law does contain a custom-tailored provision giving the runners special access to the crash records. But to the insur-

ance industry, the police stations are the fountainhead of fraud schemes. Industry insiders say the records are used to bring some law and medical offices a steady stream of clients who have been in marginal fender-benders and sustained only minor injuries — or none at all.

"We know for a fact this is happening," said Mark Kulda, a spokesman for the Insurance Federation of Minnesota, a trade organization. "The reports are put out into a bin and the trial lawyers will have people literally fighting with each other to get the reports, and they'll have cell phones and fax machines and they'll be stuffing these things into fax machines."

Police records show about 20 companies or individuals routinely mine the reports in St. Paul and Minneapolis, but that is probably a low estimate. The two police departments only began keeping closer track of the runners after the Pioneer Press asked for information earlier this year.

Minnesota law severely limits public access to accident reports, but it contains a lucrative exemption for so-called "commercial users." They are allowed to obtain certain information on accidents — essentially drivers' names and addresses — for no more than 50

cents a report. St. Paul police claim the right to charge \$2 by counting the time that records staff spend searching, copying and collating the reports. Minneapolis charges 50 cents a report plus a nickel for each page.

Commercial users can easily spend hundreds of dollars each week for the reports, but the return is reportedly worth it. Some doctors and lawyers will pay \$150 to \$350 for a new patient, according to law enforcement officials and others. That may not sound like much, but with an average of 170 accidents every day in the Twin Cities, opportunities abound. Police officer Roy Engebretson, who investigates hit-and-runs in Minneapolis, says one runner boasted to him of collecting \$125,000 annually. A lawsuit last week by the Minnesota attorney general's office spoke of another solicitor topping \$100,000.

The runners are known for their stamina and persistence. Engebretson said he once had to order two out of a hospital emergency admissions area so he could interview an accident victim. Carol Halley, nurse manager in the emergency room/department at Hennepin County Medical Center, said her staff has occasionally had to oust people who venture too close to the

triage area, trying to talk to victims or their family members.

Insurance industry and legal sources say new immigrants are a favorite source of business for the runners, most of whom are employed by white chiropractors and attorneys. St. Paul's commercial user list includes five Asian-American names. One Asian-American chiropractor in St. Paul, who asked that his name not be used, voiced frustration that his competitors had far more business thanks to the use of runners.

Some drivers have complained to St. Paul police officials about the contacts, surprised that their accidents were disclosed. Theresa Delrosario of St. Paul was "absolutely amazed" when a chiropractor's representative showed up at her door the day after her acci-

dent in August about a dozen

yers and chiropractors and turns the company that and turns the for lawyers, others, warn information. fraud Uhlig, Accident Data said the pub relative open

"It strikes insurance industry curtailed," there are people want these people then going to gouge it this type of

Health fraud lawsuit is filed

Chiropractor is said to be the first target

BY RICK LINSK
and PATRICK SWEENEY
Pioneer Press

Jumping into the battle on insurance fraud, the Minnesota attorney general's office Thursday sued a Twin Cities chiropractor to stop what it called "sleazy" payments to people who bring in patients, and to curb billing practices it says cheat insurance companies.

The lawsuit against Patrick W. Corrick and his clinics in Brooklyn Park and St. Paul was the first salvo in what Attorney General Mike Hatch's office promised would be a campaign to rein in health fraud. Officials hinted they are targeting others involved with Corrick, and other fraud rings as well.



Patrick W. Corrick

"We have an ongoing investigation in the area," said Deputy Attorney General Lori Swanson. "It's fair to say you can expect to see other actions coming out of this office and other offices."

Corrick becomes the third chiropractor recently accused of wrongdoing by government investigators. Last week, a federal grand jury returned indictments charging one practitioner with health care fraud and another with bank fraud.

FRAUD LAWSUIT, 14A

Fraud lawsuit

(continued)

At the same time the state's complaint was being filed in Hennepin County District Court, the Minnesota Board of Chiropractic Examiners started administrative proceedings to strip Corrick of his license to provide chiropractic services.

Officials did not say how much money they think Corrick may have collected improperly. But they noted that one of his patient-recruiting "runners" was on pace to make \$100,000 last year, and pointed to the new \$1 million office he built in 2000.

One of the billing allegations mentioned in the lawsuit is already the subject of criminal theft charges in Hennepin County and is scheduled for trial next month. Hennepin County Attorney Amy Klobuchar said more charges might be added based on the state's investigation.

In an interview, Corrick denied the state's allegations and said he was being persecuted by insurance companies for being so successful and for treating Liberian immigrants. He said he is eager to air his grievances in court.

The lawsuit by Hatch's office

BROOKLYN CENTER AND ST. PAUL

Chiropractor, 3 others indicted in fraud case

BY RICK LINSK
Pioneer Press

A Brooklyn Center chiropractor and three St. Paul men said to have steered automobile accident victims to him were indicted Tuesday on charges of trying to bilk health insurance companies.

A federal grand jury charged chiropractor Stephen Erhart, 47, of Pine City, Minn., and Thanh Nguyen, 33, Chau Van Nguyen (age unavailable) and Thanh Cong Van, 45, with conspiring to commit health care fraud. Erhart was also charged with

making false health care statements, money laundering, possessing a sawed-off shotgun, and possessing cocaine with intent to distribute.

Erhart's office manager, Coral Peterson, pleaded guilty last month to health care fraud for her role in the scheme. In her plea agreement, prosecutors said the clinic had cheated five insurers out of more than \$1 million.

The scheme allegedly took advantage of Minnesota's so-called "no-fault" system, which

INDICTMENTS, 6B

**Senate Counsel, Research,
and Fiscal Analysis**

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S.F. No. 1094 - No-Fault Reform

Author: Senator Linda Scheid
Prepared by: Christopher B. Stang, Senate Counsel (651/296-0539)
Date: February 25, 2005

Section 1 is a conforming change to other provisions of the bill.

Section 2 provides that no-fault medical expense benefits are covered only if provided in compliance with the codes, treatment standards, and fee schedules in workers' compensation rules with specified adjustment for physical medicine and rehabilitation and chiropractic procedures.

Section 3 increases the maximum disability and income loss benefits under no-fault from \$250 to \$400 per week.

Section 4 increases the maximum funeral and burial expense benefits under no-fault from \$2,000 to \$5,000.

Section 5 requires that an injury result in serious permanent impairment of an important bodily function or death in order to be able to recover tort damages for noneconomic detriment.

Section 6 makes no-fault arbitration elective on the part of either party and provides that jurisdiction for arbitration is based on the dollar amount of claims at the time of hearing, rather than the time of commencement of the arbitration process. Eliminates arbitration for comprehensive or collision damage coverage.

Section 7 requires arbitration awards to be itemized. States that a partial award of medical benefits rendered by an arbitrator is considered full and final payment and the health care provider may not bill the injured party for the balance of charges.

Section 8 requires the itemization of medical services claims to include the names and addresses of all health care providers whose charges are the subject of the claims. Requires the administrator of arbitration to send a copy of the petition and itemization to each health care provider whose charges are the subject of claims together with a notice of the provider's right to participate as a party to the proceeding.

Section 9 provides for effective dates.

CBS:cs

Senators Scheid, Reiter, Kiscaden, Murphy and Michel introduced--
S.F. No. 1094: Referred to the Committee on Commerce.

1 A bill for an act

2 relating to commerce; reforming the Minnesota No-Fault
3 Automobile Insurance Act; tying medical expense
4 benefits to the workers' compensation fee schedule
5 with adjustments; increasing income loss and funeral
6 benefits; modifying the tort threshold; modifying the
7 arbitration process; amending Minnesota Statutes 2004,
8 sections 65B.44, subdivisions 1, 2, 3, 4; 65B.51,
9 subdivision 3; 65B.525, subdivision 1, by adding
10 subdivisions.

11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

12 Section 1. Minnesota Statutes 2004, section 65B.44,
13 subdivision 1, is amended to read:

14 Subdivision 1. [INCLUSIONS.] (a) Basic economic loss
15 benefits shall provide reimbursement for all loss suffered
16 through injury arising out of the maintenance or use of a motor
17 vehicle, subject to any applicable deductibles, exclusions,
18 disqualifications, and other conditions, and shall provide a
19 minimum of \$40,000 for loss arising out of the injury of any one
20 person, consisting of:

21 (1) \$20,000 for medical expense loss arising out of injury
22 to any one person; and

23 (2) a total of \$20,000 for income loss, replacement
24 services loss, funeral expense loss, survivor's economic loss,
25 and survivor's replacement services loss arising out of the
26 injury to any one person.

27 (b) ~~Notwithstanding any other law to the contrary, a person~~
28 ~~entitled to basic economic loss benefits under this chapter is~~

1 ~~entitled-to-the-full-medical-expense-benefits-set-forth-in~~
 2 ~~subdivision-27-and-may-not-receive-medical-expense-benefits-that~~
 3 ~~are-in-any-way-less-than-those-provided-for-in-subdivision-27-or~~
 4 ~~that-involve-any-preestablished-limitations-on-the-benefits.~~
 5 ~~Medical-expenses-must-be-reasonable-and-must-be-for-necessary~~
 6 ~~medical-care-as-provided-in-subdivision-2.---This-paragraph-shall~~
 7 ~~not-be-deemed-to-alter-the-obligations-of-an-insured-or-the~~
 8 ~~rights-of-a-reparation-obligor-as-set-forth-in-section-65B:56.~~

9 (c) No reparation obligor or health plan company as defined
 10 in section 62Q.01, subdivision 4, may enter into or renew any
 11 contract that provides, or has the effect of providing, managed
 12 care services to no-fault claimants. For the purposes of this
 13 section, "managed care services" is defined as any program of
 14 medical services that uses health care providers managed, owned,
 15 employed by, or under contract with a health plan company.

16 Sec. 2. Minnesota Statutes 2004, section 65B.44,
 17 subdivision 2, is amended to read:

18 Subd. 2. [MEDICAL EXPENSE BENEFITS.] (a) Medical expense
 19 benefits shall reimburse ~~all-reasonable~~ expenses pursuant to
 20 paragraph (f) for necessary:

21 (1) medical, surgical, x-ray, optical, dental,
 22 chiropractic, and rehabilitative services, including prosthetic
 23 devices;

24 (2) prescription drugs;

25 (3) ambulance and all other transportation expenses
 26 incurred in traveling to receive other covered medical expense
 27 benefits;

28 (4) sign interpreting and language translation services,
 29 other than such services provided by a family member of the
 30 patient, related to the receipt of medical, surgical, x-ray,
 31 optical, dental, chiropractic, hospital, extended care, nursing,
 32 and rehabilitative services; and

33 (5) hospital, extended care, and nursing services.

34 (b) Hospital room and board benefits may be limited, except
 35 for intensive care facilities, to the regular daily semiprivate
 36 room rates customarily charged by the institution in which the

1 recipient of benefits is confined.

2 (c) Such benefits shall also include necessary remedial
3 treatment and services recognized and permitted under the laws
4 of this state for an injured person who relies upon spiritual
5 means through prayer alone for healing in accordance with that
6 person's religious beliefs.

7 (d) Medical expense loss includes medical expenses accrued
8 prior to the death of a person notwithstanding the fact that
9 benefits are paid or payable to the decedent's survivors.

10 (e) Medical expense benefits for rehabilitative services
11 shall be subject to the provisions of section 65B.45.

12 (f) Medical expense loss for diagnosis and treatment of
13 injury is covered only if provided in compliance with the codes,
14 treatment standards, and fee schedules provided in Minnesota
15 Rules, chapter 5221, except that payment rates for physical
16 medicine and rehabilitation procedure codes as defined in
17 Minnesota Rules, part 5221.4050, and chiropractic procedure
18 codes as defined in Minnesota Rules, part 5221.4060, must be
19 adjusted to eliminate application of scaling factors.

20 Sec. 3. Minnesota Statutes 2004, section 65B.44,
21 subdivision 3, is amended to read:

22 Subd. 3. [DISABILITY AND INCOME LOSS BENEFITS.] Disability
23 and income loss benefits shall provide compensation for 85
24 percent of the injured person's loss of present and future gross
25 income from inability to work proximately caused by the nonfatal
26 injury subject to a maximum of \$250 \$400 per week. Loss of
27 income includes the costs incurred by a self-employed person to
28 hire substitute employees to perform tasks which are necessary
29 to maintain the income of the injured person, which are normally
30 performed by the injured person, and which cannot be performed
31 because of the injury.

32 If the injured person is unemployed at the time of injury
33 and is receiving or is eligible to receive unemployment benefits
34 under chapter 268, but the injured person loses eligibility for
35 those benefits because of inability to work caused by the
36 injury, disability and income loss benefits shall provide

1 compensation for the lost benefits in an amount equal to the
2 unemployment benefits which otherwise would have been payable,
3 subject to a maximum of ~~\$250~~ \$400 per week.

4 Compensation under this subdivision shall be reduced by any
5 income from substitute work actually performed by the injured
6 person or by income the injured person would have earned in
7 available appropriate substitute work which the injured person
8 was capable of performing but unreasonably failed to undertake.

9 For the purposes of this section "inability to work" means
10 disability which prevents the injured person from engaging in
11 any substantial gainful occupation or employment on a regular
12 basis, for wage or profit, for which the injured person is or
13 may by training become reasonably qualified. If the injured
14 person returns to employment and is unable by reason of the
15 injury to work continuously, compensation for lost income shall
16 be reduced by the income received while the injured person is
17 actually able to work. The weekly maximums may not be prorated
18 to arrive at a daily maximum, even if the injured person does
19 not incur loss of income for a full week.

20 For the purposes of this section, an injured person who is
21 "unable by reason of the injury to work continuously" includes,
22 but is not limited to, a person who misses time from work,
23 including reasonable travel time, and loses income, vacation, or
24 sick leave benefits, to obtain medical treatment for an injury
25 arising out of the maintenance or use of a motor vehicle.

26 Sec. 4. Minnesota Statutes 2004, section 65B.44,
27 subdivision 4, is amended to read:

28 Subd. 4. [FUNERAL AND BURIAL EXPENSES.] Funeral and burial
29 benefits shall be reasonable expenses not in excess of
30 ~~\$27,000~~ \$5,000, including expenses for cremation or delivery
31 under the Uniform Anatomical Gift Act (1987), sections 525.921
32 to 525.9224.

33 Sec. 5. Minnesota Statutes 2004, section 65B.51,
34 subdivision 3, is amended to read:

35 Subd. 3. [LIMITATION OF DAMAGES FOR NONECONOMIC
36 DETRIMENT.] In an action described in subdivision 1, no person

1 shall recover damages for noneconomic detriment unless:

2 ~~(a) The sum of the following exceeds \$4,000:~~

3 ~~(1) reasonable medical expense benefits paid, payable or~~
4 ~~payable but for any applicable deductible, plus~~

5 ~~(2) the value of free medical or surgical care or ordinary~~
6 ~~and necessary nursing services performed by a relative of the~~
7 ~~injured person or a member of the injured person's household,~~
8 ~~plus~~

9 ~~(3) the amount by which the value of reimbursable medical~~
10 ~~services or products exceeds the amount of benefit paid,~~
11 ~~payable or payable but for an applicable deductible for those~~
12 ~~services or products if the injured person was charged less than~~
13 ~~the average reasonable amount charged in this state for similar~~
14 ~~services or products, minus~~

15 ~~(4) the amount of medical expense benefits paid, payable,~~
16 ~~or payable but for an applicable deductible for diagnostic~~
17 ~~X-rays and for a procedure or treatment for rehabilitation and~~
18 ~~not for remedial purposes or a course of rehabilitative~~
19 ~~occupational training; or~~

20 (b) the injury results in:

21 (1) permanent disfigurement serious permanent impairment of
22 an important bodily function; or

23 (2) permanent injury;

24 (3) death; or

25 (4) disability for 60 days or more.

26 (c) For the purposes of clause (a) evidence of the
27 reasonable value of medical services and products shall be
28 admissible in any action brought in this state.

29 For the purposes of this subdivision disability means the
30 inability to engage in substantially all of the injured person's
31 usual and customary daily activities.

32 Sec. 6. Minnesota Statutes 2004, section 65B.525,
33 subdivision 1, is amended to read:

34 Subdivision 1. [MANDATORY SUBMISSION TO BINDING
35 ARBITRATION.] Except as otherwise provided in section 72A.327,
36 the Supreme Court and the several courts of general trial

1 jurisdiction of this state shall by rules of court or other
2 constitutionally allowable device, provide for the mandatory
3 submission to binding arbitration at the request of either party
4 of all cases at issue where the claim at the commencement-of
5 arbitration time of hearing is in an the total amount of \$10,000
6 or less against any insured's reparation obligor for no-fault
7 benefits or-comprehensive-or-collision-damage-coverage.

8 Sec. 7. Minnesota Statutes 2004, section 65B.525, is
9 amended by adding a subdivision to read:

10 Subd. 3. [ITEMIZATION; FULL PAYMENT.] All arbitration
11 awards must be itemized. A partial award of medical benefits
12 rendered by an arbitrator under this section and paid by an
13 obligor will be considered full and final payment, and the
14 injured party is not liable for, nor may the provider bill the
15 injured party for, charges that are not part of the award. This
16 subdivision does not apply to charges for health care that are
17 not related to the accident.

18 Sec. 8. Minnesota Statutes 2004, section 65B.525, is
19 amended by adding a subdivision to read:

20 Subd. 4. [NOTICE TO PROVIDERS.] The itemization of medical
21 services claims required under the rules promulgated by the
22 Supreme Court must include the names and addresses of all health
23 care providers whose charges are the subject of the claims.
24 Within ten business days after receipt of the itemization, the
25 administrator of arbitration under this section must send a copy
26 of the petition and itemization to each health care provider
27 whose charges are the subject of claims, together with a notice
28 of the content of subdivision 3 and of the provider's right to
29 participate as a party to the proceeding. The notice must
30 explain to the provider what steps the provider must take in
31 order to participate.

32 Sec. 9. [EFFECTIVE DATES.]

33 (a) Sections 1 and 2 are effective January 1, 2006, and
34 apply to medical expenses incurred on or after that date.

35 (b) Sections 3 to 8 are effective January 1, 2006, and
36 apply to coverage issued or renewed on or after that date.

Minnesota Statutes 2004, Table of Chapters

Table of contents for Chapter 65B

65B.42 Purpose.

The detrimental impact of automobile accidents on uncompensated injured persons, upon the orderly and efficient administration of justice in this state, and in various other ways requires that sections 65B.41 to 65B.71 be adopted to effect the following purposes:

(1) to relieve the severe economic distress of uncompensated victims of automobile accidents within this state by requiring automobile insurers to offer and automobile owners to maintain automobile insurance policies or other pledges of indemnity which will provide prompt payment of specified basic economic loss benefits to victims of automobile accidents without regard to whose fault caused the accident;

(2) to prevent the overcompensation of those automobile accident victims suffering minor injuries by restricting the right to recover general damages to cases of serious injury;

(3) to encourage appropriate medical and rehabilitation treatment of the automobile accident victim by assuring prompt payment for such treatment;

(4) to speed the administration of justice, to ease the burden of litigation on the courts of this state, and to create a system of small claims arbitration to decrease the expense of and to simplify litigation, and to create a system of mandatory intercompany arbitration to assure a prompt and proper allocation of the costs of insurance benefits between motor vehicle insurers;

(5) to correct imbalances and abuses in the operation of the automobile accident tort liability system, to provide offsets to avoid duplicate recovery, to require medical examination and disclosure, and to govern the effect of advance payments prior to final settlement of liability.

HIST: 1974 c 408 s 2; 1978 c 674 s 57

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Exhibit C

1 Senator Scheid moves to amend S.F. No. 1094 as follows:

2 Page 3, line 15, delete everything after "that"

3 Page 3, delete lines 16 to 19, and insert "fee adjustments

4 for physical medicine and rehabilitation services under

5 Minnesota Rules, part 5221.4051, and chiropractic services under

6 Minnesota Rules, part 5221.4061, shall be eliminated."

7 Page 6, after line 31, insert:

8 "Sec. 9. [REFILING OF RATES.]

9 Prior to December 1, 2005, every issuer of private

10 passenger vehicle insurance in this state must refile its rates

11 with the commissioner of commerce and demonstrate that its rates

12 are actuarially justified in light of the statutory changes made

13 by this act."

14 Page 6, line 32, delete "9" and insert "10"



Minnesota Chiropractic Association

Testimony on S.F. 1094
Loss of Current No-fault Auto
Benefits
Keith Johnson, DC

Exhibit D

Chiropractic CPI Index

- Chiropractic CPI Index is same or below CPI-U index
- Chiropractic is the most Cost Effective Service
- Chiropractic Services have never contributed to the rising health care costs

Chiropractic in WC

- Chiropractic Services = 6.8%
- Chiropractic Costs = 3.8%
- Lowest Charges Per Claim in WC System
- Practice Parameters Limits on Chiropractic Services have resulted in increases in surgical services, hospital costs, radiology services, and pharmacy.

700,000 Member Health Plan in Illinois-4-year

- Credentialed Chiropractors Same as Primary Care Physicians
- Gave Patients Direct Access To Chiropractic Services
- Removed all Limitations on # of Visits
- 4 Year Study

700,000 Health Plan 4-Year Study Results

- Cut the number of Surgery Cases by 50-80%
- Experienced No Misdiagnosis
- Big Cost Savings to Plan

MCA Health Plan

3-year Review

- MCA Health Plan is a Group Insurance Plan
- Health Plan design is same as other small employer plans/ HMO's.
- Limitations on Visits out side of provider network
- Plan is subject to Same Rate Increases as other plans.
- Members and Families Get Chiropractic Services outside of plan

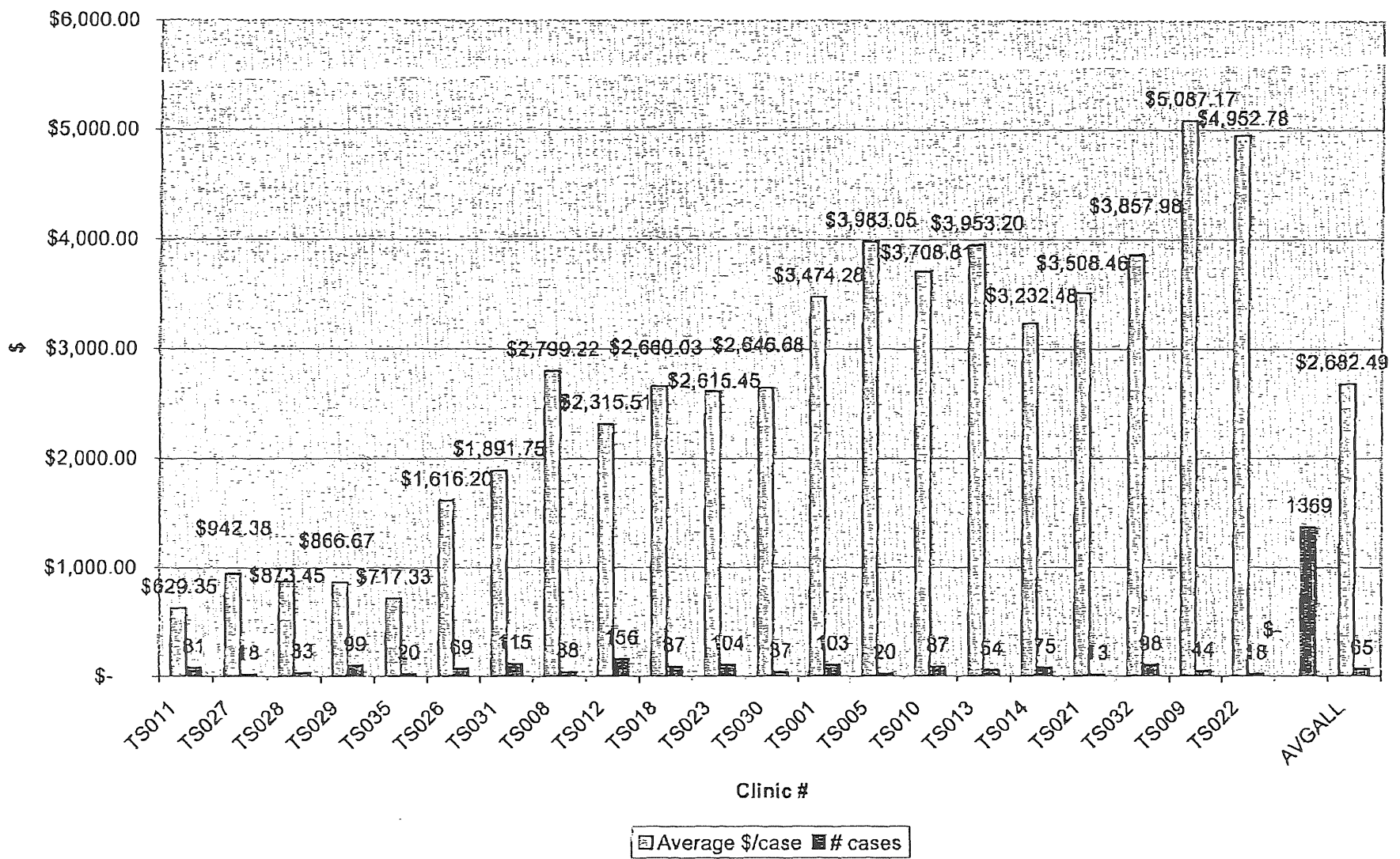
MCA Health Plan Cost Data

- Hospital Stay is at 50% Rate other Plans
- Drug Costs is at 50% rate other Plans
- Outpatient Costs is at 50% rate other Plans
- 17% reduction in Plan Costs over 3 years
- Still Experience Price Increases Same Rate as other Plans – Cost Trends
- Chiropractic Care Saves Money

Issues Not Addressed in S.F. 1094

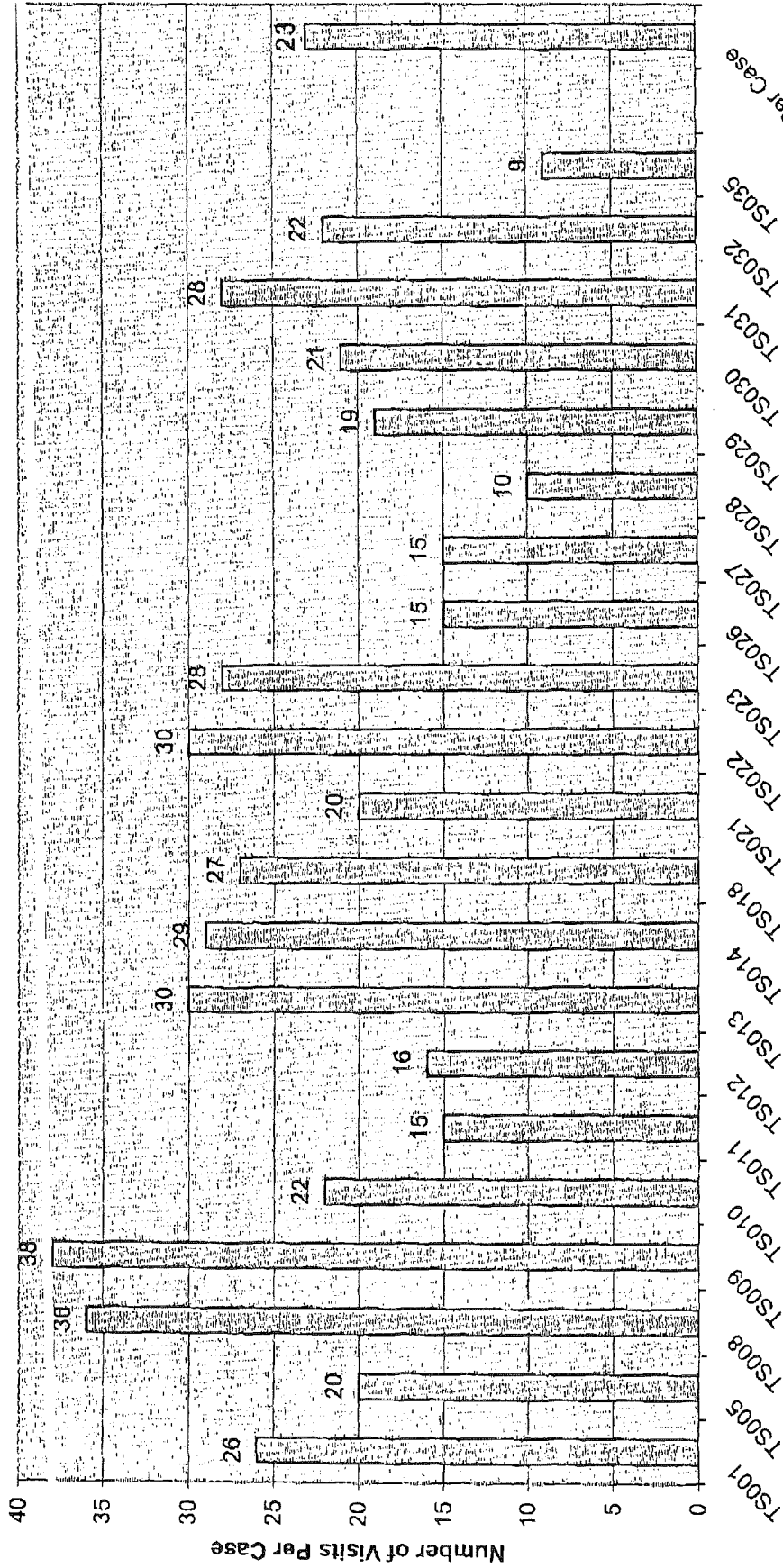
- Auto Industry Refusal To Meet
- Lack of Coordination Between Licensing Boards and New Fraud Unit
- Excessive Administrative Costs in Auto Insurance
- Operating Budget Caps on Licensing Boards
- Rejection of Evidence Based Practices
- Refusal to Address Outliers Issue – Peer Review
- Cost Shifting to Consumer, Employers, Govt. Programs

Clinic Case Average (All)



Visit Avg Per Case

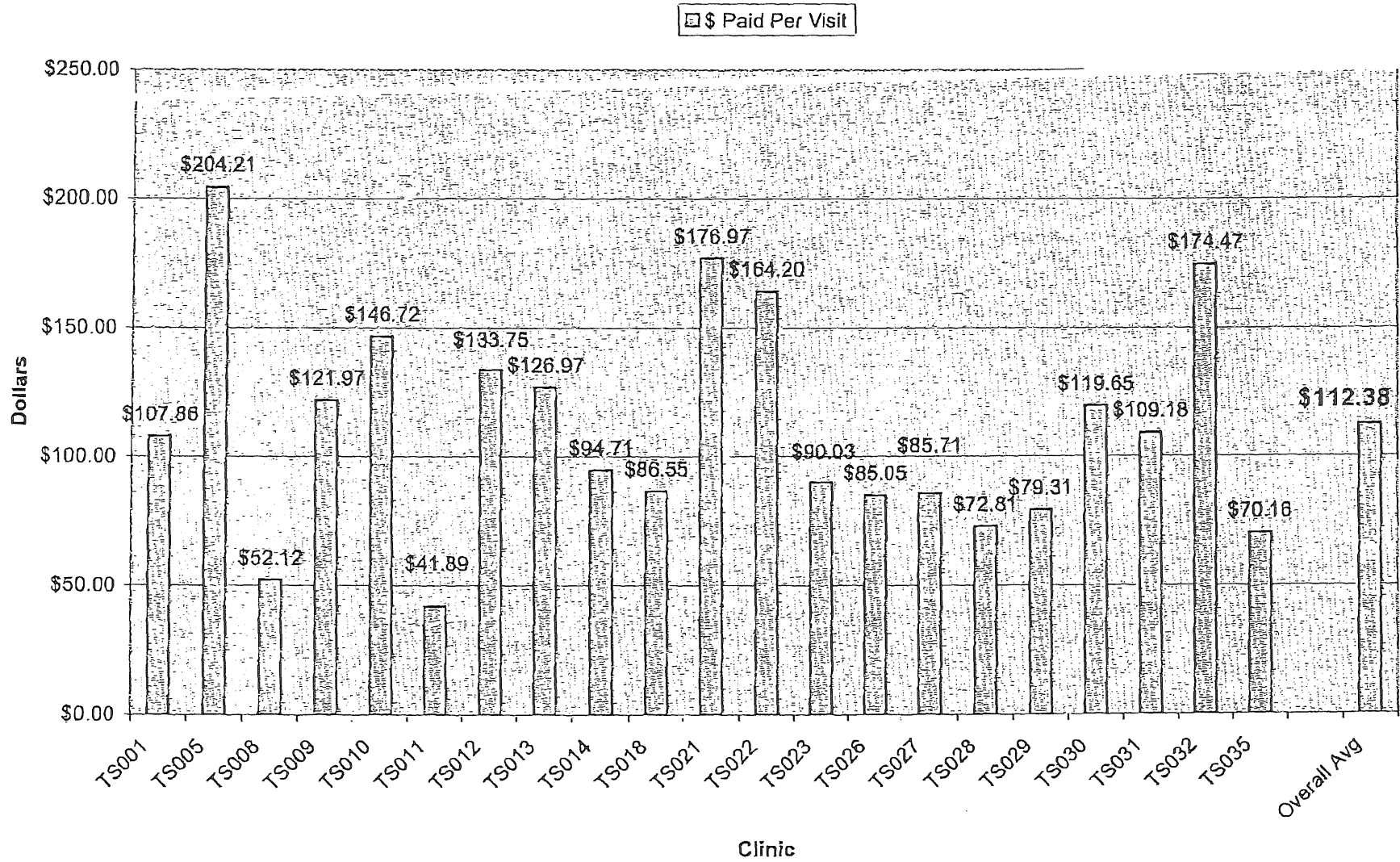
Visit Avg Per Case

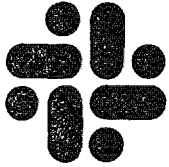


Clinic

Average Per Case

\$ Paid Per Visit





INSURANCE FEDERATION OF MINNESOTA

400 Robert Street North ♦ Suite 208 ♦ Saint Paul, Minnesota 55101-2015

Phone: (651) 292-1099 ♦ Fax (651) 228-7369

S.F. 1094: No-Fault Auto Insurance Cost Controls

- One out of every six drivers in Minnesota is driving illegally because they don't carry the state's mandatory auto insurance. This number is an all-time high and is increasing.
- Minnesotans today are overpaying for auto insurance, by paying for both a traditional tort system and for mandatory No-Fault coverage. As a result, insurance is becoming increasingly unaffordable.
- Fraud in the system is out of control.

For the first time since Minnesota enacted our No-Fault Auto system in 1974, Senate File 1094 contains reforms to incorporate modern medical cost containment tools to eliminate unreasonable, unnecessary and excessive medical care. This is accomplished through adopting the highly successful medical fee schedule and treatment standards adopted in 1992 for Minnesota's workers' compensation system. Our work comp system uses the federal Resource Based Relative Value System (RBRVS) to determine 'allowed charge amounts'. The treatment standards represent comprehensive guidelines for appropriate and effective medical care for a wide range of injuries and conditions.

S.F. 1094 also increases the maximum weekly wage loss benefits from \$250 to \$400, and increases the maximum funeral benefit from \$2000 to \$5000.

The original intent of our No-Fault law was to prevent civil lawsuits for pain and suffering awards for minor injuries. S.F. 1094 removes the current ineffective tort thresholds and adopts a new strong verbal threshold, which requires an individual to have a "serious impairment of an important bodily function." This threshold has been very effective in Florida and Michigan at reducing unnecessary lawsuits.

Consumers are protected by the provision that prohibits 'balance billing' once an arbitration award has been made. In other words, the arbitration award should be the final decision and the provider should not be allowed to make the consumer pay any amounts denied by the arbitrator. Other clarifying changes are included to the arbitration process to fulfill the original intent of the law.

The reforms contained in S.F. 1094 will enable us to keep a more affordable No-Fault Auto system that works to lower uninsurance rates and control fraud.

Without reforms like this, the No-Fault System will have to be repealed and Minnesota would join the overwhelming majority of other states that don't have No-Fault Auto.

Source: Insurance Research Council, Auto Injuries Insurance Claims, December 2003 publication

Minnesota

Figure 5-1 Average Charges for Medical Professionals Per PIP Claimant

	<u>Avg Charge Per Claimant</u>
Amt charged for gen'l practitioner	\$767.73
Amt charged for anesthesiologist	\$1,382.87
Amt charged for chiropractor	\$3,794.18
Amt charged for dentist	\$1,854.81
Amt charged for diagnostic radiologist	\$408.65
Amt charged for emergency room	\$1,214.09
Amt charged for neurologist	\$1,087.67
Amt charged for occupational therapist	\$1,061.20
Amt charged for orthopedist	\$1,901.40
Amt charged for osteopath	\$830.67
Amt charged for physical therapist	\$1,661.25
Amt charged for psychotherapist	\$672.40
Amt charged for alternative professional	\$868.03

Note: Excludes permanent total disability and fatality claimants.

Countrywide

Figure 5-1 Average Charges for Medical Professionals Per PIP Claimant

	<u>Avg Charge Per Claimant</u>
Amt charged for gen'l practitioner	\$816.81
Amt charged for anesthesiologist	\$1,631.10
Amt charged for chiropractor	\$3,238.75
Amt charged for dentist	\$2,462.76
Amt charged for diagnostic radiologist	\$605.76
Amt charged for emergency room	\$1,218.56
Amt charged for neurologist	\$1,645.97
Amt charged for occupational therapist	\$1,757.69
Amt charged for orthopedist	\$1,746.88
Amt charged for osteopath	\$1,486.92
Amt charged for physical therapist	\$2,752.22
Amt charged for psychotherapist	\$1,888.56
Amt charged for alternative professional	\$2,286.20


Note: Excludes permanent total disability and fatality claimants.

PROGRESSIVE DIRECT
P.O. BOX 31260
TAMPA, FL 33631

PROGRESSIVE
DIRECT

Policy number: 43675161-1

Underwritten by:
Progressive Northwestern Insurance Co.
February 2, 2005
Policy Period: Feb 28, 2005 - Aug 28, 2005
Page 1 of 2


2900 THOMAS AVE S # 2010
MINNEAPOLIS, MN 55416

progressive.com

Make payments, check billing activity, update
policy information or check status of a claim.

800-PROGRESSIVE (800-776-4737)

For customer service and claims service,
24 hours a day, 7 days a week.

Auto Insurance Coverage Summary

This is your Renewal Declarations Page


The coverages, limits and policy period shown apply only if you pay for this policy to renew.

Your coverage begins on February 28, 2005 at 12:01 a.m. This policy expires on August 28, 2005 at 12:01 a.m.

Your insurance policy and any policy endorsements contain a full explanation of your coverage. The policy contract is form 9608 MN (03/04). The contract is modified by form 7951 MN (09/02).

Drivers and household residents

Additional information


Named insured

Outline of coverage

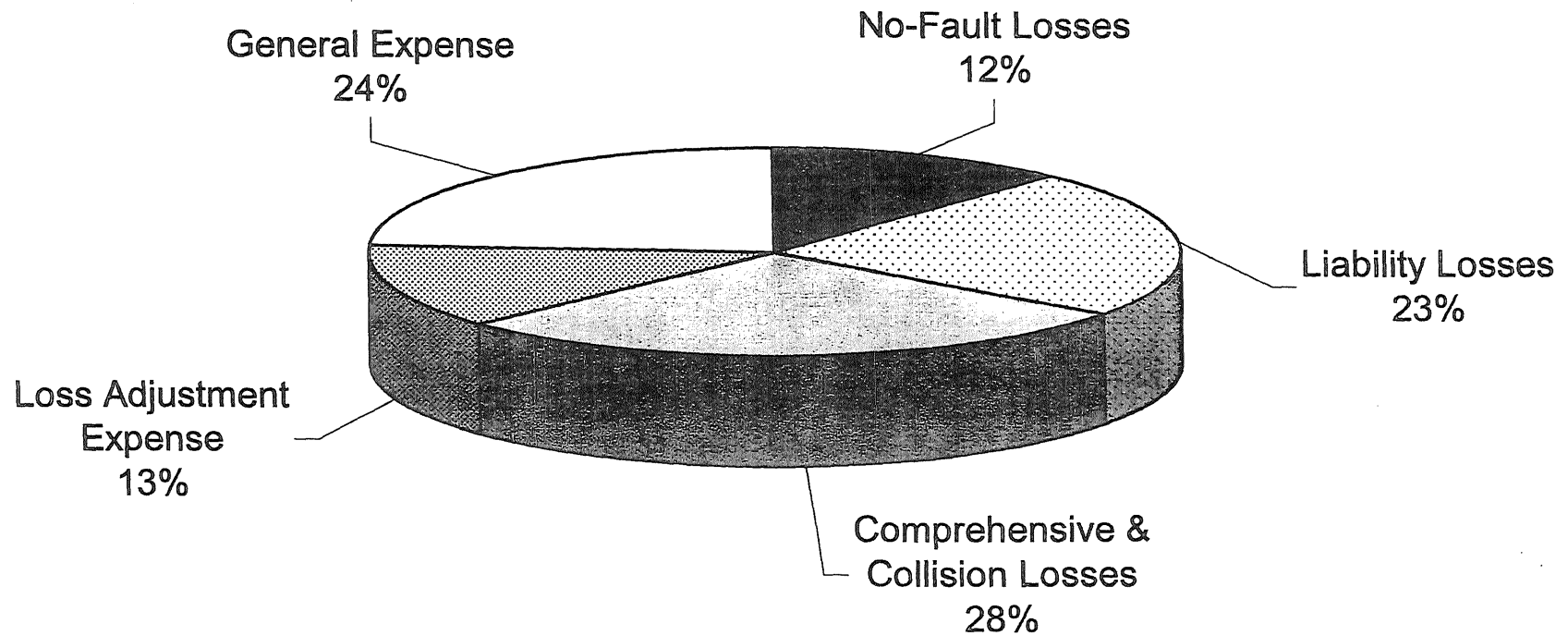
2001 Chrysler Sebring Lxi CV

VIN 1C3EL55U41N582439

	Limits	Deductible	Premium
Liability To Others			\$271
Bodily Injury Liability	\$100,000 each person/\$300,000 each accident		
Property Damage Liability	\$100,000 each accident		
Personal Injury Protection - Nonstacked	\$20,000 Medical Expense \$20,000 Economic Loss	\$0	45
Uninsured/Underinsured Motorist	\$100,000 each person/\$300,000 each accident		14
Comprehensive		\$500	88
Collision		\$500	244
Rental Reimbursement	\$30 each day/maximum 30 days		8
Roadside Assistance			4
Subtotal policy premium			\$674.00
Theft prevention surcharge			0.50
Total 6 month policy premium			\$674.50
Discount if paid in full			-75.00
Total 6 month policy premium if paid in full			\$599.50

Where the Money Goes

Personal Automobile Insurance in Minnesota



**Comments before the Minnesota Senate Commerce
Subcommittee on No-Fault Auto Insurance**

October 13, 2004

**Matt Grosser
Legislative Analyst
Senate Counsel and Research**

Comments before the Minnesota Senate Commerce Subcommittee on No-Fault Auto Insurance

A Brief History of No-fault

In the 1960s, the traditional auto liability insurance system became the target of public criticism. Dissatisfaction was expressed not only by consumers of auto insurance but by companies and agencies marketing it and by state officials regulating it. The debate focused on the often expensive, time-consuming, and not entirely equitable process of determining who is at fault, or legally liable, when accidents occur.

To reduce the delays, inefficiencies, and inequities of the system, legislation was introduced in the early to mid 1970s in many states, which allows accident victims to recover such financial losses as medical and hospital expenses and lost income from their own insurance companies. In the states that have adopted such laws, the major variations involve: dollar limits on medical and hospital expenses, funeral and burial expenses, lost income and replacement services, or the amount to be paid a person hired to perform essential services that an injured person is unable to perform.

Current State of No-fault Laws

State auto liability insurance laws fall into four general categories: states that have a traditional tort liability system without restrictions on an individual's right to sue; states that are known as add-on no-fault states that allow for first-party benefits regardless of who was at fault in the accident, but retain the right to sue as in traditional tort liability states; states that are commonly referred to as no-fault states, such as MN, which provide no-fault first-party benefits and restrict the right to sue except under certain conditions; and states that provide a choice between the traditional liability system and a no-fault system. All of these systems have evolved over time as consumers, regulators and insurers have sought ways to lower the cost and improve the delivery of compensation for auto accidents.

There are presently 28 states, listed in Table 1, which rely on the traditional tort liability system. There are ten so-called Add-on states, listed in Table 2, where first-party benefits are offered without tort limitations. In three of those states, DE, MD & Oregon, first-party benefits are compulsory. There are currently 12 no-fault states which require first-party benefits coverage. However three of those states, KY, NJ & PA, have adopted provisions that permit motorists to choose a traditional tort liability policy thereby opting out of the no-fault provisions.

The term "no-fault" auto insurance is used loosely to denote any auto insurance provision that allows policyholders to recover financial losses from their own insurance coverage, regardless of fault. But, in its strictest form, no-fault applies only to state laws that both provide for the payment of no-fault first-party benefits and restrict the right to sue or at least provide the option to choose coverage that is subject to tort thresholds.

Under current no-fault laws, motorists may sue for severe injuries and for pain and suffering only if their case meets certain conditions, or tort thresholds, related to the severity of injury. These thresholds may be expressed in verbal terms or monetary terms in the dollar amounts of medical bills incurred as the result of injuries sustained in an accident. The types of injuries sustained for which one may seek to recover damages are listed in Table 3, while the tort thresholds in No-fault states are summarized in Table 4.

Of the 12 states that currently qualify as no-fault states, three --Florida, Michigan, and New York-- have verbal thresholds. A verbal threshold being statutory language that describes the types and severity of injuries for which individual are permitted to seek compensation through a tort action. Seven states — Hawaii, Kansas, Kentucky, Massachusetts, Minnesota, North Dakota and Utah — use a monetary threshold to determine who has a right to sue for damages. However, Kentucky is also a choice states where motorists have the right to opt out of the No-Fault provisions. The monetary thresholds are expressed in terms of dollar amount of medical expenses incurred in the treatment of injuries sustained in an auto accident. The monetary thresholds currently on the books range from \$1,000 to \$5,000. Minnesota's threshold is the second highest at \$4,000.

Three states, New Jersey, Pennsylvania and Kentucky, are what is known as "Choice" No-fault states, which provide motorists the option to reject the tort thresholds and retain the right to sue for any auto-related injury. New Jersey and Pennsylvania's No-fault option provides a verbal tort threshold, while Kentucky has a monetary tort threshold.

Table 5 details the First-party medical, wage loss, replacement and survivor and death benefits provisions in the 12 No-fault states, and Table 6 provides the same information for the three Add-on No-fault states with compulsory First-party benefits. The level of variation in these benefits across states makes any sort of summary comparison difficult, for example, medical or what's commonly referred to as PIP coverage ranges in specified amounts from two or three thousand dollars up to a quarter million dollars, or in some cases is not limited at all or limited only by the limits of the specific policy option an individual chooses. So rather than go through Tables 5 and 6 in detail, I'll leave you instead with one general observation on No-Fault coverage and thresholds and then turn to a summary of recent developments in No-fault states.

That general observation is this: in states with weak no-fault laws costs tend to increase more rapidly than in states with tight thresholds, because weak laws provide the broad benefits of a no-fault system without sufficient offsetting cost savings. The combination of low mandatory PIP coverage and a low monetary threshold pushes many cases where injuries were minor into the courts, driving up costs — resulting in almost as many cases going to court as in a traditional tort-based system.

Various modifications of the basic proposals have been introduced over the past 30 years, along with measures known as "no-frills" policies that would provide no-fault basic coverage for economic losses to all good drivers in a state for a standard statewide premium. New Jersey's choice No-fault law, passed in 1998, comes closest to this concept.

The New Jersey offers consumers a choice in the level of protection they buy. The basic policy provides \$15,000 in PIP with coverage of \$250,000 for catastrophic injuries, \$5,000 in property damage liability, an optional \$10,000 in bodily injury liability and no uninsured/underinsured motorist coverage. Additional PIP coverage options, all with coverage for catastrophic injuries, are available. Those who do not specifically choose an option receive the standard \$250,000 full coverage. New Jersey also created "dollar-a-day" car insurance that provides low income drivers with up to \$15,000 for emergency care and up to \$250,000 for the treatment of catastrophic injuries such as injuries to the spinal cord or brain.

A critical decision in developing a choice no-fault system is how the choice law is framed. In New Jersey, applicants for insurance are presumed to have opted for the verbal threshold on lawsuits unless they specifically reject it; in Pennsylvania, the opposite is true. Pennsylvania policyholders are assumed to want unrestricted access to the courts unless they specifically request the verbal threshold. As a result, more than 85 percent of policyholders in New Jersey have policies restricting lawsuits. By contrast, less than 50 percent have this kind of policy in Pennsylvania, with the largest percentage being drivers in Philadelphia, where rates are highest.

States that Have Repealed No-Fault

Since 1980, four states, Colorado, Connecticut, Georgia and Nevada have repealed their no-fault laws. One state, Pennsylvania, repealed and then 6 years later reenacted its No-fault laws. Most of those states have very low tort thresholds. Connecticut's had a monetary tort threshold of \$400, thereby diverting hardly any cases from civil action. In addition, Florida passed a provision in 2003 that would sunset its No-Fault provisions in 2006 if not specifically reauthorized.

Colorado's law was allowed to expire, in 2003 after the Governor refused to sign another extension unless it significantly reduced the costs of the existing system. But lawmakers could not resolve a dispute about the extent of coverage for medical procedures.

Conclusion

As I stated, there is tremendous variation in no-fault laws, with significant differences in tort thresholds and benefits provided. One problem in states with higher than average PIP benefits is that dishonest providers of professional and medical services have found ways to abuse the system, pushing up the cost of auto insurance. New Jersey pioneered reforms designed to curb overuse of medical care in its overhaul of the auto insurance system in 1998. Other states are modeling their reforms on the New Jersey protocols.

Average Auto Insurance Expenditures Upper Midwest

<u>State</u>	<u>Average Premium</u>	<u>National Rank*</u>
Minnesota	\$800.44	16 th
Wisconsin	\$609.46	42 nd
Iowa	\$546.54	49 th
South Dakota	\$540.45	50 th
North Dakota	\$532.81	51 ^{st-*}

Note: Minnesota and North Dakota are No-Fault states.

***-National rank Total includes District of Columbia**

Source: National Association of Insurance Commissioners (NAIC)
"State Average Expenditures and Premiums for Personal Automobile Insurance," NAIC, July 2003

Minnesota Provider Coalition

1300 Godward Street NE Suite 2000-2200 * Minneapolis, MN 55413

Jack Davis
Chief Executive Officer
Hennepin Medical Society
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ger Johnson
Chief Executive Officer
Ramsey Medical Society
612-362-3799
rjohnson@metrodoctors.com

MEMBERS

Advocates for Marketplace
Options for Mainstreet (AMOM)

Association of Community
Mental Health Programs, Inc.

Citizen's Council on Health
Care

Hennepin Medical Society

Metropolitan Anesthesia Network
LLP

Minnesota Chapter American
Physical Therapy Association

Minnesota Chiropractic
Association

Minnesota Dental Association

Minnesota Medical Group
Management Association

Minnesota Nurses Association

Minnesota Occupational
Therapy Association

Minnesota Pharmacists
Association

Minnesota Physician Patient
Alliance

Minnesota Podiatric Medical
Association

Minnesota Psychiatric Society

Minnesota Rural Health
Cooperative

Northstar Physicians

Northwestern Health Sciences
University

Ramsey Medical Society

March 2, 2005

Dear Member, Senate Commerce Committee:

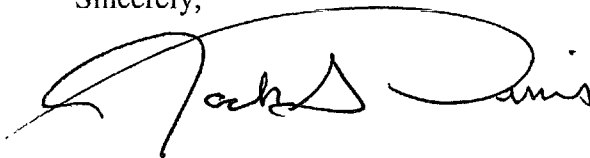
On behalf of the member organizations of the Minnesota Provider Coalition, which are listed to the left and their individual members, we urge you to reject S.F. 1094, (Scheid) and S.F. 970, (Michel).

Both bills would (1)dramatically alter citizen's access to care in the event of an automobile accident, (2)would increase the probability of litigation, (3)would cost-shift injury care to already challenged health insurance and taxpayer funded programs and (4)would financially hurt small hospitals, emergency medical services and other providers. Auto insurance carriers are promoting this legislation and neither bill requires insurance companies to pass on any of the supposed savings to consumers. Insurance companies stand to make windfall profits if either of the bills are enacted.

There is no auto insurance crisis in Minnesota. The Insurance Federation of Minnesota's information indicates that auto insurance premiums in Minnesota are competitive considering Minnesota's higher mandatory requirements. According to the National Association of Insurance Commissioners (NAIC), medical costs constitute less than 10% of premium dollars while 37% go for general administration and systems designed to challenge a consumer's right to care. If fraudulent claims are the issue, then existing remedies and cooperation from the provider community should be employed to resolve this issue.

We urge you to not support S.F. 1094, (Scheid) and S.F. 970, (Michel).

Sincerely,



Jack G. Davis, Chair
Minnesota Provider Coalition



MEMORANDUM

TO: Senate Commerce Committee
FROM: Keith Weigel, AARP MN Advocacy Director
RE: SF 970 and SF 1094
DATE: March 2, 2005

AARP believes that auto insurance should be affordable, flexible, fair, and offered on non-discriminatory terms. While SF 970 and SF1094 may offer reduced premiums, we believe the diminished benefits and loss of consumer protections are not worth the trade-off.

AARP supports Minnesota's current no fault system because:

- Minnesota's no-fault system is fair and affordable because it promotes the development of true group auto insurance coverage.
- Minnesota's no-fault system currently allows consumers an unrestricted choice of doctors when they seek care for auto accident injuries.
- Minnesota's no-fault system reduces litigation costs and frustration for consumers because policyholders are compensated for claims without having to go to court (except in unusual cases involving damages for pain and suffering, or where the driver's conduct was extremely culpable).
- Minnesota's no-fault system is non-discriminatory because it prohibits insurance companies from canceling or failing to renew auto insurance policies, or raising rates, on the basis of age alone.

We urge you to keep auto insurance fair, affordable, and non-discriminatory. Please vote no on SF 970 and SF 1094.

If you would like to discuss our position on this issue further, please call me at 651-726-5643. Thank you.

PURPOSES OF THE **NO-FAULT ACT**

1. To relieve the severe economic stress of uncompensated victims of automobile accidents.
2. Eliminate minor claims.
3. To encourage appropriate medical treatment.
4. Unclog the courts.

S.F.970

What it does:

- 1) Eliminates coverage for medical expenses.
- 2) Eliminates coverage for loss of wages.
- 3) Eliminates coverage for damages caused by uninsured motorists.
- 4) Eliminates coverage for damages caused by underinsured motorists.

What S.F. 970 will mean:

- 1) Automobile accident victims are stuck with medical bills.
- 2) Health insurance premiums will increase.
- 3) Employer's disability costs will increase.
- 4) Substantial increase in court cases requiring additional court funding.
- 5) Auto accident victims will not get needed medical treatment.

S.F. 1094

What it does:

- 1) Imposes significant limitations on the type and extent of medical care automobile accident victims can receive.
- 2) Creates a regulatory HMO.
- 3) Increases disability and income loss benefits to \$400.00 a week from \$250.00 per week.
- 4) Increases funeral expense allowance from \$2,000.00 to \$5,000.00.
- 5) Permits compensation only of accident victims suffering “serious permanent impairment of an important bodily function or death” – all other claims are banned.
- 6) Limits arbitration claims to those at which the claim at the time of hearing is \$10,000.00 or less.
- 7) Binds all medical providers to the results of a hearing to which they are not a party.

What it will mean:

- 1) Auto accident victims will be denied the ability to see their own doctor.
- 2) Doctors' treatment options will be limited.
- 3) Denies payment for treatment doctors feel is necessary.
- 4) Forces consumers to wait 9 months or more to resolve disputes regarding medical treatment.
- 5) Increased health insurance costs.
- 6) Increased employer or private disability premiums.
- 7) Denies compensation to persons with:
 - (a) Permanently disfiguring scars.
 - (b) Burns from which they recover without impairing an important bodily function.
 - (c) Surgery which restores bodily function.
 - (d) Lengthy disability – even one year or more of lost wages.

March 1, 2005

Dear Commerce Committee:

Please know that Minnesotans in general and your constituents in particular do not support the Bush Administration's attempts at destroying the United States' hard-won system of consumer protection laws.

In this case, we want S.F. 970 and S.F. 1094 to die in committee.

Save Minnesota's No Fault law and the current tort thresholds. By doing these things, you will not only keep this entire process virtually non-adversarial, you will also keep the average citizen's access to the courts open, thereby protecting people's rights.

We strongly believe in protecting citizen and consumer rights; and expect you, our legislators, to do so as that is the nature of your job(s).

Sincerely,

Cynthia Lee

The Lee & Lau Family
1769 Pleasant Street
Lauderdale, MN 55113-5209
NASAFellow@comcast.net

Organizer: MN Tea Party (DFA-MeetUp), <http://dfa.meetup.com/714>
Volunteer: Hmong American Institute for Learning (H.A.I.L.),
www.Hmonghail.org

ROLL CALL VOTE

Date: March, 2, 2005

Senator Reiter requested a **Roll Call Vote** on:

1. adoption of _____ amendment
2. passage of S. F. No. 970
3. adoption of _____ motion _____

SENATOR	YES	NO	PASS	ABSENT
Scheid	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Anderson	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Belanger	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gaither	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Kiscaden	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Larson	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
LeClair	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lourey	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Metzen	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Michel	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Pappas	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Pogemiller	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reiter	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rest	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sams	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sparks	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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TOTALS	6	10		

There being 6 Yes votes and 10 No votes the Motion:

- Prevailed
- Did Not Prevail

ROLL CALL VOTE

Date: March, 2, 2005

Senator Larson requested a **Roll Call Vote** on:

1. adoption of _____ amendment
2. passage of S. F. No. 1094
3. adoption of _____ motion _____

SENATOR	YES	NO	PASS	ABSENT
Scheid	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Anderson	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Belanger	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gaither	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Kiscaden	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Larson	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
LeClair	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lourey	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Metzen	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Michel	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Pappas	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Pogemiller	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reiter	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rest	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sams	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sparks	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
TOTALS	8	8		

There being 8 *Yes* votes and 8 *No* votes the Motion:

Prevailed

Did Not Prevail

1 Senator Scheid moves to amend S.F. No. 970 as follows:

2 Delete everything after the enacting clause and insert:

3 "Section 1. [SUNSET; NO-FAULT ACT.]

4 Minnesota Statutes 2004, sections 65B.41; 65B.42; 65B.43;
5 65B.44; 65B.45; 65B.46; 65B.47; 65B.48; 65B.482; 65B.49; 65B.50;
6 65B.51; 65B.525; 65B.53; 65B.54; 65B.55; 65B.56; 65B.57; 65B.58;
7 65B.59; 65B.60; 65B.61; 65B.63; 65B.64; 65B.65; 65B.66; 65B.685;
8 and 65B.71, are repealed effective January 15, 2007."

9 Amend the title accordingly