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Understanding Michigan's No Fault Automobile Insurance System

Michigan State University

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No. 1

UNDERSTANDING MICHIGAN'S NO FAULT AUTOMOBILE INSURANCE SYSTEM

A CONSUMER'S GUIDE TO BUYING INSURANCE

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By Patricia Tengel, Specialist, Family Resource Management, Department of Family Ecology

If you operate an automobile, bus or motorized trailer in Michigan for more than 30 days per year, you must buy a No Fault Automobile Insurance Policy. Understanding what insurance coverage Michigan Law requires and what additional coverage you may or may not need, may help you save money on your Michigan Auto Insurance Package. This bulletin will furnish the facts you need to both determine your insurance needs and to understand the policy your insurance company has or will issue you.

WHAT IS "NO FAULT"?

"No Fault" means that it is no longer necessary to determine who caused the accident before insurance benefits can be paid. In most cases under the Michigan Law it also means that unless you are very severely injured, your right to sue is restricted. This is what has been traded to make sure that whenever you are injured in an accident, the cost of the injuries will be paid.

MICHIGAN NO FAULT REQUIREMENTS

No Fault Insurance requires THREE types of coverage:

1. Personal Protection Insurance
2. Residual Liability Insurance
3. Property Protection Insurance

The package issued by your insurance company normally contains required and optional coverage. Think of automobile insurance in two categories:

INSURANCE PROTECTING YOU

First Party Coverage means direct payments to you and members of your family from your insurance company to cover the cost of your injuries and damage to your car. You are only required to protect yourself. You are not required to insure your car.

INSURANCE PROTECTING PERSONS AND PROPERTY YOU DAMAGE

Second Party Coverage means payments made on your behalf to someone else for injury or damage you caused. You are no longer required to carry insurance to pay for damage to someone else's car unless the car you damage is properly parked.

FIRST PARTY COVERAGE

Personal Protection Insurance.....

is required and provides FOUR types of benefits.



1. Medical Expense Coverage for you and members of your household when you are injured in an automobile accident, regardless of whether you are in a car or a pedestrian. If hospitalized, you are entitled to a semi-private room. There is no limit--payments can go on for years if necessary.
2. Unlimited Rehabilitation Expenses are made for physical rehabilitation and if necessary for training you for new work. There is no time limit on these payments.
3. Wage Replacement. While unable to work, you will receive 85% of your pay or a maximum of \$1,000 per month up to 3 years. Replacement of your services to your family, housekeeping and child care will be reimbursed up to \$20 per day for up to 3 years.
4. Survivor's Benefits. Funeral and Burial Expenses are covered up to \$1,000. If you die as a result of an accident, survivor's benefits are the same limit as wage benefits. Government payments such as Social Security payments are deducted, however.

What will all of these benefits cost?

To answer this question, your insurance agent needs to know your family situation.

If your income is very low, or if you are a student or retired, your premium may be reduced since there would not be much, if any, income to replace in case of an accident.

If you pay up to the first \$300 for benefits you would normally receive from Personal Protection Insurance, your premium may be reduced. These reductions are offered in various forms. For example, all companies will allow you to reduce overlapping medical payment coverage if you have some hospitalization or other medical insurance. You may also be able to reduce your rate by electing a waiting period before wage loss benefits begin. You may have to shop for some of these reductions.

If 85% of your monthly income amounts to more than \$1,000 and you would like to have that additional income replaced, additional coverage is available.

ASK YOUR AGENT what options his company offers if you fit any of these situations.

Uninsured Motorist

Coverage..... continues to be available as an option. It will pay you for pain and suffering, damages and excess income loss caused by a negligent uninsured motorist.

Collision Insurance..... pays for damage to your car. Accident repairs will come out of your own pocket unless you carry collision insurance. However, if your car is properly parked, the person causing the damage or his insurance company is responsible. Insurance companies offer several collision insurance options:



Broad Coverage pays for damage to your car including the deductible if another driver is at fault.

In Regular Coverage you pay the deductible regardless of who is at fault.

Limited Coverage repairs damage to your car only if you were not at fault and you can identify the car causing the accident. Damage to your car may have to exceed a minimum amount, for example, \$100, before you may make a claim.

What do these options cost?

ASK YOUR AGENT since coverages vary with insurance companies. If your car is old, limited coverage may be all you want. It is substantially cheaper than Broad or Regular Coverage. Or, you might decide not to carry any collision insurance. Not all companies continue to offer regular coverage.

If you travel on your job and cannot afford to be without your car while it is being repaired as the result of an accident, you may be able to buy special coverage to pay for a rental car.

Comprehensive Physical

Damage..... protects against damage to your car from fire, theft, malicious damage, lightning, floods, windstorms or falling objects. The Law doesn't require you to carry comprehensive but if your car is not paid for, your lending agency may require it.



Can you reduce your premium on comprehensive?

ASK YOUR AGENT if a deductible option is available.

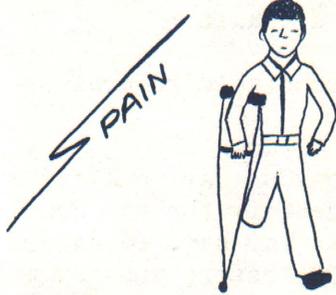
SECOND PARTY COVERAGE

Residual Liability

Insurance..... protects you if you are sued. In Michigan this could only happen if injuries sustained by the other person exceed their Personal Protection Insurance benefits or in the case of death or serious permanent disfigurement or serious impairment of body function. The courts decide how serious these physical injuries are.



If the accident occurs outside Michigan, then Residual Liability coverage protects against the cost of all injuries sustained by the other party if you cause the accident, up to the limits of your policy.



Residual Liability Insurance also pays for damaged property outside Michigan, including damage you do to someone else's car. Residual Liability Insurance also provides the necessary coverage to meet requirements of the financial responsibility laws for accidents occurring outside Michigan in the United States and Canada. This required coverage is purchased in maximum dollar amounts. 20/40/10 refers to maximum amounts payable for various types of damage you choose. The 20 refers to \$20,000, the maximum each injured person can receive from your insurer. A maximum of \$40,000 will be paid for personal injuries in any one accident. The third figure refers to the maximum coverage for property damage when the accident occurs outside Michigan. 20/40/10 are minimums in Michigan, but the limits can be raised to various steps of additional coverage.

What are the premium differences between various coverages?

ASK YOUR AGENT. The higher amounts cost less proportionately than the basic limits.

Property Protection

Insurance..... is required in Michigan. It pays up to \$1,000,000 for damage you do to someone else's stationary property in Michigan. For example, you might knock over a fire hydrant or someone else's mailbox, run into a building or crash into a properly parked car.



ANALYZE YOUR INSURANCE PACKAGE

When it is time to renew your policy, consult your agency or company for the coverages which best suit your needs.

NOTE: Court decisions on the constitutionality of various parts of the No Fault Law are currently in process. It may be many months before these decisions are finalized. How damage to cars will be paid is one of the main issues.

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