

Information Brief

Stan Jacobson, Legislative Analyst
296-1885

AUTOMOBILE INSURANCE:
THE MINNESOTA NO-FAULT AUTOMOBILE INSURANCE LAW

Minnesota's no-fault automobile insurance law became effective on January 1, 1975. About half of the states have enacted a no-fault law since 1970 and each is somewhat different from the others. The remaining states use the "tort" or fault-based system.

This Information Brief describes the basic purposes and provisions of Minnesota's no-fault auto insurance law. More detailed discussion of particular aspects of the law appears in other information briefs in the series on automobile insurance.

FAULT AND NO-FAULT.....Page 2

 A System Based on Fault.....Page 2

 A No-Fault Insurance System.....Page 2

 A Modified No-Fault System.....Page 3

 Purposes of the No-Fault Law.....Page 3

BASIC PROVISIONS OF THE NO-FAULT LAW.....Page 4

 1. Mandatory Insurance.....Page 4

 2. Tort Threshold.....Page 5

 3. Assigned Claims Plan.....Page 5

APPENDIX: The Interrelationship of
Mandatory Insurance Coverages.....Page 6

This Information Brief is one of a series on automobile insurance.

FAULT AND NO-FAULT

A System Based on Fault

Long before the invention of the automobile, the English common law developed a method for compensating people injured in accidents. The person who was at fault in causing the accident paid money damages to the person who was injured. This system is based on fault. Lawyers call it the "tort" system. With a few exceptions and modifications, this is the system that operates throughout the United States today.

Under this fault-based system, insurance may be purchased to pay for the damages that an insured person causes. This insurance is known as "liability insurance" because it pays only when the insured person is legally liable to pay another person.

A claim must be made against an insured person based on that person's fault in order to recover from liability insurance. Sometimes a lawsuit must be started as well. The lawsuit may include a trial, but most lawsuits are concluded by a "settlement." In a settlement the liability insurance company makes a payment to the claimant in exchange for the claimant's agreement not to pursue the claim.

Claims under the fault-based system are affected by Minnesota's comparative fault law. The comparative fault law reduces the amount of money damages recovered by the injured claimant in proportion to the claimant's fault in causing the injury. The comparative fault law also prohibits any recovery if the claimant's fault is greater than the other person's.

Neither tort law nor liability insurance is designed to pay for harm that a person accidentally inflicts upon himself. In horse and buggy days, this may not have been a problem. The development of automobiles, however, increased the risk of causing significant, unintentional harm to oneself.

A No-Fault Insurance System

The key characteristic of a no-fault automobile insurance system is that certain expenses resulting from the personal injuries of a car owner, the owner's family, and the driver and occupants of the owner's car are paid by the car owner's insurance company regardless of who is at fault in causing an auto accident. In other words, people buy no-fault insurance to pay for their own injuries. This insurance pays for out-of-pocket expenses such as medical and funeral expenses and for loss of income. Significantly, the comparative fault law does not reduce these insurance payments based on the claimant's fault.

A Modified No-Fault System

No state has a "pure" no-fault auto insurance law, that is, one which entirely excludes liability based on fault. Thus, Minnesota has a "modified" no-fault law that combines no-fault insurance and liability based on fault. Damages from an auto accident that are not paid by no-fault insurance are based on fault. This includes, among other things, compensation for pain and suffering and property damage for car repair.

Purposes of the No-Fault Law

No-fault laws were enacted to remedy perceived problems under the fault-based system. These included:

- lack of compensation for some auto accident victims, such as an injured driver who is at fault or a person injured by the fault of an uninsured driver
- delay in payments needed for medical care and rehabilitation services
- uncertainty of the amount of recovery
- overburdening the courts with minor auto accident claims
- excessive reliance on litigation.

The primary purpose of a no-fault auto insurance law is to assure compensation for the basic expenses of auto accident victims regardless of fault.

Other purposes include:

- assuring prompt payment for medical and rehabilitation treatment
- assuring prompt payment for other known expenses
- reducing litigation, particularly for claims involving small, known expenses
- removing disputes between insurance companies from the court system.

Some people believed that the no-fault law would reduce the cost of auto insurance. However, auto insurance premiums have risen steadily since the law took effect in 1975. In part this has been because no-fault insurance benefits are paid to people who would not have been compensated under the fault-based system. Other factors contributing to the rise in rates include medical expenses and auto repair costs that have increased faster than inflation.

BASIC PROVISIONS OF THE NO-FAULT LAW

The basic provisions of Minnesota's no-fault law are:

1. Mandatory insurance
2. Tort threshold
3. Assigned claims plan

Other provisions of the law deal with procedural matters, the most notable of which requires that disputes between insurance companies must be settled by arbitration. Each of the basic provisions is described below.

1. Mandatory insurance.

The no-fault law requires three "coverages" or types of insurance. Proof of insurance is required when the car is registered. The owner is responsible for buying the insurance, although a driver may also be penalized if he knows a car is uninsured when he drives it.

The three required coverages are:

● **no-fault**

This coverage pays for certain expenses resulting from the personal injuries of a car owner, the owner's family and the driver and occupants of the owner's vehicle without regard to who is at fault in causing the accident.

● **liability**

This coverage pays for damages to other people and their property caused by the fault of an insured driver.

● **uninsured and underinsured motorist**

This coverage pays for personal injuries suffered by the insured family and occupants of the insured vehicle that are caused by the fault of an uninsured or underinsured driver.

The fairly complex interrelationship among these three coverages is described in the appendix.

For a more detailed discussion of these coverages, see Stan Jacobson, "Automobile Insurance: Types of Coverage," Research Department Information Brief (1985).

2. Tort threshold

The tort threshold is the provision in the no-fault law that says how serious a victim's personal injuries must be before a lawsuit can be started against the at-fault driver. If the victim's injuries do not meet this standard, the only compensation for personal injury will be from no-fault insurance. There will be no compensation for pain and suffering.

The purpose of the tort threshold is to eliminate lawsuits over less serious personal injuries.

The tort threshold requires:

- that the injured victim incur at least \$4,000 in medical expenses, or
- that the injury result in
 - permanent disfigurement
 - permanent injury
 - death, or
 - disability for 60 days or more.

The tort threshold only applies to a lawsuit to recover for personal injuries. A lawsuit to recover for damage to property, such as a damaged car, may be brought without meeting the tort threshold.

3. Assigned claims plan

The assigned claims plan assures payment of the basic no-fault insurance benefits to auto accident victims who are not otherwise covered by insurance. For example, a hit-and-run victim who does not own a car would receive benefits from the assigned claims plan.

For an explanation of the assigned claims plan, see Stan Jacobson, "Automobile Insurance: The Assigned Claims Plan," Research Department Information Brief (1985).

APPENDIX: The Interrelationship of Mandatory Insurance Coverages

1. How No-Fault and Liability Coverages Relate to Each Other

Because Minnesota has a modified no-fault law, some liability is based on fault, while insurance pays for other expenses without regard to fault. To understand this division, consider the types of claims that may result from a serious auto accident as shown on the chart below.

Personal injuries	Economic loss	<ul style="list-style-type: none">• medical expenses to treat injured victim• victim's loss of income• other out-of-pocket expenses for victim and victim's family
	Non-economic loss	<ul style="list-style-type: none">• pain and suffering• inconvenience
Property damage		<ul style="list-style-type: none">• car repair expenses

The first distinction is between personal injuries and property damage. Personal injury claims may be subdivided into claims involving economic loss and non-economic loss.

The distinction between "economic" and "non-economic" losses is based on how easily the amount of the loss can be determined.

- It is easy to determine the amount of economic losses. For example, "medical expenses" include doctors' and hospital bills. "Loss of income" is the victim's daily wage times the number of days he missed work due to his injury.
- Non-economic losses are more difficult to determine. For example, how much money is the proper amount to compensate a person for the pain and inconvenience of having a broken arm? Under our legal system, this is usually a question for a jury to decide within rather vague legal standards.

Minnesota's no-fault law uses the classifications shown in the chart to carry out two social policies.

- First, it is more important to assure payment for personal injuries than for property damage.
- Secondly, payment for economic losses can be made quickly because the amount is easy to determine. This assures that medical and rehabilitative care are not delayed by uncertainty regarding payment. Non-economic losses are determined under the slower and more cumbersome processes of litigation and negotiation.

These principles result in the following division between no-fault insurance and fault-based liability.

No-fault insurance pays for the economic losses resulting from personal injuries up to

- \$20,000 for medical expenses, and
- an additional \$20,000 for loss of income and other out-of-pocket expenses.

Personal injuries	Economic loss	<ul style="list-style-type: none">• medical expenses to treat injured victim• victim's loss of income• other out-of-pocket expenses for victim and victim's family
	Non-economic loss	<ul style="list-style-type: none">• pain and suffering• inconvenience
Property damage		<ul style="list-style-type: none">• car repair expenses

Fault-based liability applies to

- economic losses resulting from personal injuries only for losses exceeding the amounts paid by the no-fault coverage
- non-economic losses resulting from personal injuries, if the injury is serious enough to meet the "tort threshold", and
- all property damage.

Personal injuries	<ul style="list-style-type: none">● <i>medical expenses to treat injured victim</i>● <i>victim's loss of income</i>● <i>other out-of-pocket expenses for victim and victim's family</i>
	<ul style="list-style-type: none">● pain and suffering● inconvenience
Property damage	<ul style="list-style-type: none">● car repair expenses

An example may help to explain the division between no-fault insurance and fault-based liability.

AN EXAMPLE

Suppose Bob Smith is seriously injured in an auto accident in which the other driver is primarily at fault. Bob's claims include:

- doctor, hospital and rehabilitation expenses:	\$30,000
- loss of income for two months:	4,000
- claim for pain and suffering:	10,000
- car repair:	5,000

Bob's no-fault insurance will pay \$20,000 for the doctor, hospital and rehabilitation expenses and \$2,000 for Bob's loss of income.

In order to be paid for his remaining claims, Bob must show that the other driver was at fault. Then he can recover from the other driver:

- the unpaid \$10,000 for doctor, hospital and rehabilitation expenses
- the remaining \$2,000 for loss of income
- his claim for pain and suffering, and
- car repair expenses of \$5,000.*

The other driver's liability insurance will pay Bob for these claims. However, the comparative fault law requires that Bob's recovery will be reduced proportionately if he was partially at fault.

*If Tom's insurance policy included collision coverage, the car repair expenses would be paid by Tom's policy. Tom's insurance company would seek repayment from the other driver or the other driver's insurance company. Collision coverage is not required by the no-fault auto insurance law.

2. How Uninsured and Underinsured Motorist Coverage Relates to No-Fault and Liability Coverages

The third mandatory insurance coverage is uninsured and underinsured motorist coverage. This coverage simply substitutes for the liability insurance which is supposed to be carried by the other driver, although it pays only for uncompensated personal injuries, not for property damage. This coverage comes into operation if the other driver does not have any liability insurance or that liability insurance is inadequate to meet the claims of persons insured under the uninsured and underinsured motorist coverage. The claims are based on the fault of the other driver. Thus payments are reduced under the comparative fault law in proportion to the claimant's fault in causing the injury.