

# ABCs of Auto Insurance:

## Protecting Your Beloved Car (and Yourself)

It's the dreaded "i" word. Insurance. You don't want to think about it, and yet you need it. In the complex process of car buying, thinking ahead to possible accidents and damages that might occur to the shiny blue sports car that will soon be in your driveway is, well, enough to drive you to tears. How can you protect yourself and still have enough in the bank to enjoy your new ride?

### The Facts

Auto insurance premiums have been on the rise in recent years. The Insurance Information Institute reports that since 2000, the average bill for auto insurance in the U.S. has jumped 26.6% to \$870. The institute's good news is that after rising at rates well above inflation for several years, the projected increase for 2005 is just 1.5%. Depending on your vehicle, your driving record, profession and age, paying for car insurance can amount to a big expense--that is, unless you do the research and comparison shop all the available plans out there.

### An Overview

#### Liability

<b>What's Covered</b>	Personal injuries and property damage that result from accidents
<b>Who's Covered</b>	The people and property you injure when you are at fault in an accident
<b>Who's At Fault</b>	You
<b>Recommended Minimum</b>	\$300,000 per accident
<b>Required By State</b>	Yes, except in NH, Tn, Wi

#### Collision

<b>What's Covered</b>	Damages to your car resulting from a collision that's your fault, hit and run accidents, tipping over, cost of repairs if you are hit by another driver with inadequate insurance
<b>Who's Covered</b>	Your car
<b>Who's At Fault</b>	Either
<b>Recommended Minimum</b>	Value of car or amount you would need to pay off loan or lease if that amount is more than the value of the car, less a manageable deductible
<b>Required By</b>	No

<b>State</b>	
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### Comprehensive

<b>What's Covered</b>	Theft, fire, damages incurred in inclement weather, high winds, hail, also covers for vandalism damages
<b>Who's Covered</b>	Your car
<b>Who's At Fault</b>	Neither
<b>Recommended Minimum</b>	Value of car, or amount you would need to pay off loan or lease if that amount is more than the value of the car, less a manageable deductible
<b>Required By State</b>	No

### Personal Injury Protection (PIP)/Medical Payments Insurance

<b>What's Covered</b>	Post-accident medical care, lost wages, funeral expenses
<b>Who's Covered</b>	You and your passengers
<b>Who's At Fault</b>	Either
<b>Recommended Minimum</b>	Coordinate with your current medical, disability and life insurance coverage.
<b>Required By State</b>	Yes in Del., Fla., Hawaii, Ks., Ky., N.D., M.D., Mass, Mi, N.J., N.Y., Ore., Utah

### Uninsured/Underinsured Motorists

<b>What's Covered</b>	Medical care up to stated limits, if hit by a driver who is at fault and has insufficient or no coverage; also covers injuries incurred if you're a pedestrian
<b>Who's Covered</b>	You and your passengers
<b>Who's At Fault</b>	Other driver
<b>Recommended Minimum</b>	Coordinate with your current medical, disability and life insurance coverage
<b>Required By State</b>	Yes in Conn., D.C., Ill., Ks, Me., Md., Mass., Mich., Minn., Mo., Nebr., N.H., N.J., N.Y., N.D., Ore., R.I., S.C., S.D., Utah, Va., Vt., Wis., W.Va.

According to the American Institute for Chartered Property Casualty Underwriters, a nonprofit organization that provides training and research to those in the insurance industry, their most recent data show that 13.2% of all motorists in the U.S. drive without insurance. In some states, this number is estimated to be even higher. The California

Insurance Department reports that the uninsured vehicle rate in San Francisco ranges from 32% to 35% before adjustments: This means that roughly one of every three drivers in that state is uninsured.

## **How Much Is Enough?**

Fortunately, additional protection can be very inexpensive: Doubling your coverage does not double your premium.

Most states require that you buy a minimum level of liability insurance before you can drive. Those requirements, which are as low as \$30,000, will fail to protect you in a serious accident. "The state minimums are woefully inadequate in our litigious society," says Loretta Worters, vice president of communications for the Insurance Information Institute. "If you are involved in a serious accident, you may be sued for a large sum of money. Definitely consider buying more than the state-required minimum to protect assets such as your home and savings," she adds.

Worters recommends a minimum of \$100,000 of bodily injury protection per person and \$300,000 per accident. If you have assets of more than \$300,000, she suggests buying an even larger policy. Even if your assets are minimal, as they might be if you are just out of college, this level of coverage will protect your future earnings.

Sometimes a personal injury settlement could exceed the policy limits, especially if the driver who caused the accident has substantial net worth. "As a matter of practicality, most attorneys don't want to go after an individual's assets," says Wayne Cotter, director of research for the New York State Insurance Department. "They'll usually settle for the maximum policy value. But, you can't count on that."

This reflects the uncertainty that surrounds every jury trial. Plaintiffs can't be sure they'll win a large settlement, and insurance companies can't be sure they won't. So the vast majority of cases are settled.

## **For Added Protection, Carry An Umbrella**

For customers with substantial assets, an umbrella policy extends liability protection when a lawsuit brought against you demands more than what is allowed by your policy. This plan kicks in when you have reached your policy limit and coordinates with a person's auto and home owner's coverage. In the event of a large claim, the auto or home owner's policy would pay the maximum amount, and then the umbrella policy would take over and pay up to its limit, if necessary.

However, not all customers will be able to purchase this added protection. If you're the parent of a teenage driver or have a checkered driving record, among other factors, you might not qualify for an umbrella policy. But when available, these policies often cost just \$200 to \$300 a year.

### **Insuring In A No-Fault State**

Twelve states, plus the District of Columbia, use no-fault coverage. In theory, no-fault insurance eliminates the need to establish liability after a crash in order to collect insurance benefits--your policy compensates you for your injuries, while the policy of the other driver pays for his. The issue of who is at fault never enters the picture, though in practice, it does not always work that way. "The fact is, you still could be sued [in a no-fault state], which would put your assets at risk," warns Cotter.

You will also end up paying more for insurance if you live in a no-fault state. According to Douglas Heller, executive director of the Foundation for Taxpayer and Consumer Rights, "No-fault states have also had a 92% faster increase [in premiums] than the other states." The data his organization compiled in March 2005 from the National Association of Insurance Commissioners show that premiums in no-fault states are 19% higher than in states with liability-based coverage.

So depending on your place of residence, your rates will vary from state to state.

## **Remember To Check Deductibles**

Both collision and comprehensive coverage come with deductibles--the amount that you must pay before your insurance coverage starts. "The larger your deductible, the lower your insurance premiums are likely to be," notes Aymee Ruiz, manager of national public relations for the Automobile Association of America. For that reason, the size of the deductible deserves careful consideration.

Generally, you do not want to make the deductible so large that paying it creates a severe financial hardship. You also do not want to make it so small that your premiums become unmanageable. If you choose a \$500 deductible and end up with \$2,000 in hail-storm damage to your car, the check from your insurance company will be for \$1,500.

### **What Determines Your Premium?**

Not all customers are equal in the eyes of insurance companies. Some represent a far bigger risk than others. As a result, premiums for similar coverage can vary widely depending on several factors:

#### **Being Older, Wiser and Safer**

There is no way around it. Drivers under 25 have a much higher loss record than drivers over that age. Thus, people under 25 pay more for insurance, as do parents when children under the age of 25 are listed on their policy. Teens and younger adults will fare better under their parents' policy than they will on their own.

## **The Gender Bias**

Men have higher claims than women, and so they may end up paying more for insurance. This is especially true of males under the age of 25. Claims data from some insurance companies indicate that gender-behavior patterns show that males drive more, thus increasing the likelihood of accidents, and are more prone to risky driving. As a result, males are charged higher premiums than females.

### **The Good Driver Rewards**

A record that is free of accidents, tickets and insurance claims should garner you a lower premium. In some cases, the savings can be substantial. While a single ticket or a solitary, low-cost fender-bender should not push your premium sky-high, a string of these incidents is sure to prove expensive.

### **Getting The C.L.U.E.**

Are you aware there are agencies that keep a database of all your minor (and not so minor) fender-benders? ChoicePoint, an ID and credential verification agency based in Georgia, actually has your driving record of the last five years, chronicling all the little speeding tickets and minor crashes you've accumulated but thought had gone unnoticed.

Through the ChoiceTrust program with ChoicePoint, insurance companies can, and will, run a Comprehensive Loss Underwriting Exchange (CLUE) auto report on you to verify your driving record. To protect yourself from being charged unfairly for premiums, get a copy, and be sure to correct any mistakes before approaching any insurance agents.

## **Good Credit Has Its Rewards Too**

In searching for new ways to predict risk, some insurance companies are looking at an applicant's credit rating. It has stirred up controversy, but you can expect this practice to continue.

"While the use of insurance scoring varies from state to state and company to company, it is a fact that drivers with long, stable credit records have fewer accidents than drivers who don't," Worters says.

## **Your Job Says So Much**

Insurance companies' scoring systems, which assess the customer's risk level for accidents, have become more complex. There are a number of variables that insurance companies use when deciding to accept a new customer. Some companies, for example, seem to favor people who have college degrees and are employed in white-collar jobs over people with blue-collar jobs and a high school diploma.

Some occupations worry insurers: Musicians, for example, would be deemed a high-risk candidate for insurance and would likely be charged a higher premium.

Other companies completely ignore your career choice. Shannon Radigan, a public relations officer at Progressive Insurance, says, "It's important to note that different auto insurance companies rate differently, so it pays to shop around. Progressive does not ask for, or take into consideration, one's occupation, whereas Geico does."

## **Why You're Driving Is As Important As How You're Driving**

Drivers who use their car to commute to work, drive for business and pile up the miles will pay more for their insurance. People who use their car only for pleasure and cover less than 10,000 miles a year will pay less. This recognizes the risks involved with people who drive to work, with inclement weather and traffic conditions likely to cause accidents. Vehicles used for pleasure tend to stay off the road when driving conditions are less desirable.

## **Where You Live Dictates How Much You Pay**

"Insurance companies look at local trends, such as the number of accidents, car thefts and lawsuits, as well as the cost of medical care and car repair," Worters notes. That means where you live will affect your auto insurance premium.

Regularly driving into areas with higher claims may not affect your premium, however. Many city residents who live where claims and premiums are relatively high consider it unfair that suburbanites who drive into their city don't have to pay residents' rates. Before finalizing a move, call your insurance agent and ask for a quote on what the coverage at your new address will cost.

## **Jaguars Vs. Saturns: Luxury Has Its Downfall**

More expensive and high-performance cars cost more to insure than less costly vehicles, and the differences can be significant. Usually, the choice of vehicle will affect premiums for collision and comprehensive coverage more than liability protection. "New car buyers should know that the make and model they choose does affect insurance premium," says Radigan.

According to Progressive, some of the costliest cars to insure are the Dodge Viper, Jaguar XKR and BMW M5, while the Saturn SL and Chrysler PT Cruiser were among the least expensive to insure.

Progressive samples a 35-year-old couple living in Laguna Beach, Calif. If they chose to insure a BMW 525i, their premium for six months of insurance will be \$846.90. If they choose a Volkswagen Passat GL instead, that premium drops to \$690.

Among other factors insurers consider are your vehicle's history for theft, the cost of repairs and the car's overall safety record. As Ruiz put it, "If your car hits the list of vehicles most likely to be stolen every year, you'll pay more."

### **Other Considerations**

Fraud is a major problem for drivers of more expensive cars. "High-priced vehicles are often targeted," Cotter said. "Nobody wants to stage an accident with someone who only has a small policy. When they see a decent vehicle, they assume the driver has more coverage."

In other words, you stand a better chance of becoming the target of a staged accident while you are driving your Mercedes-Benz than when you are behind the wheel of a Chevrolet Cavalier.

## **Additional Money-Saving Suggestions**

- Shop no fewer than three different companies. "Nobody likes to shop for insurance...it's not a fun thing to do," Cotter says. "Different companies have different expenses, and their loss levels can be different." All of this translates into the price you will be charged.
- "Customers should bundle their coverage," Ruiz adds. In other words, take the home, auto and umbrella to one insurance carrier for a multi-line discount. Most insurers will give you a discount in exchange for writing your home owner's or renter's policy as well as your auto insurance. Often, the discount will apply to both premiums.
- Exclude your teens from certain, more luxurious cars. Understand however, that if Junior takes an unauthorized joy ride in the Ferrari, neither he nor the family will be covered.
- Consider dropping collision and comprehensive coverage once the premiums approach 10% of the vehicle's value. Never drop this coverage if you are leasing or have an outstanding loan on the vehicle, and if the contract requires that you maintain this insurance. When comparison shopping, be sure to ask about provisions that might be specific to your driving needs. For example, if you rent cars, some policies will cover the

rental vehicle while others may not. Ask about special terms for any exotic or collectible cars you own. If your new car did not come with roadside service as part of the warranty and you are not a member of an auto club, ask about towing coverage for breakdowns not related to an accident.

- If you have a car loan or lease, determine whether you will be covered for the car's retail value or the amount you might owe on a loan or lease. This final point is becoming more important as an increasing number of drivers, especially those who put little or nothing down, find that they owe more than their car is worth for extended periods of time. In some cases, lenders report that drivers who took advantage of some manufacturer's "no payments for a year" plan can end up owing up to \$10,000 more than the car is actually worth.

## Doing The Background Check

Be sure to check on the financial stability of any insurance company you are considering, Ruiz advises. While a low rate may be nice, difficulty in getting a claim paid can be disastrous. "[Insurance company failures] may not be a problem around the country, but here in Florida, we've learned a lesson," Ruiz said. Four hurricanes in 2004 prompted concerns over the ability of some insurance companies to pay claims.

To confirm the financial stability of your insurance company, check the rating companies such as A.M. Best and Standard & Poor's or the state insurance department for additional information. You can also check with other services that rate customer satisfaction, such as JD Power and Associates.

"This business is all about the assurance that if there is an accident, insurance will help people put their lives back together," Heller says, "But people often have to fight too hard to get the payments they deserve."

Since Travelers Insurance wrote the first auto policy in 1897, much has changed. However, good customer service remains just as important as ever. If you find a company or agency unresponsive when you are shopping for a new policy, buy your insurance elsewhere. Just imagine what they will be like if you ever have an accident. You wouldn't risk buying life insurance from an unreliable company, so why should you settle for less from your car insurance company?

Article written by James MacPherson for FORBES AUTO.COM 08/2005

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