Chapter 4 - Auto Insurance

Auto insurance is a requirement in order to drive a vehicle and there are many aspects to the type of insurances that exist and their meanings Auto insurance is also an extremely competitive business evidenced especially via television ads. This is good for the consumer as it brings rates down. Additionally, there are many discounts to utilize to obtain the optimal payment.

First and foremost is to understand what the basics of what insurance is required which depends on where one resides. This can be done by getting a quote from an online website which provides a guide based on inputs through and automated system. The easiest and most informative method is to speak to an agent as he or she can ask and answer questions directly.

4.1 Liability coverage

Liability coverage protects the driver or others who drive the insured car in the event someone is injured or killed or in the event of property damage. The protection is for the people that make claims against the policyholder(s) whereby the insurance company is defending the claim on the policyholder's behalf.

Suppose a driver ran a stop sign and broadsided another car and the passengers were injured; the driver is written a ticket and ultimately assumes responsibility for the accident. This is where the liability coverage kicks in: the insurance company will defend the policyholder by paying claims to the passengers that were injured. This may also entail medical and hospital costs, rehabilitation, nursing care, loss of income for pain and suffering to the victims and perhaps a sum of money.

Liability Coverage Amounts

Not every state requires liability coverage although, the ones that don't may have laws for financial responsibility. An agent can suggest coverage to meet state requirements. Insurance companies cover up to the amount of coverage that is taken out on the policy. In the event that liability coverage is used and the damages exceed the coverage limit, the policy holder could be held responsible for the remainder of the damages. Therefore, in light of a policyholder meeting the minimal state's requirements, it does not mean sufficient amount of coverage has been obtained. The reason is that most states require a small amount of protection and leaving the policy falling short.

Coverage is often displayed in a tri-numbered fashion on a policy declaration: XX/XX/XX. The numbers are for the coverage amount tagged with the coverage type in this order: bodily injury/all individuals in the same accident/property damage.

A sample policy with this configuration 20/40/25, reads like this:

-$20,000 for bodily injury

-$40,000 for all individuals hurt in the same accident

-$25,000 for property damage

How much Liability Coverage is Necessary?

Commonly coverage is in the range at 100/300/100 and for a single limit, $300,000. At minimal, coverage should meet the state requirements, as liability claims can be expensive. The insurance agent can make a recommendation as to say, what does he or she carry on their vehicle and the reasons why.

4.2 No Fault Insurance

When an accident occurs it's not always clear who's is at fault. This is can lead to legal actions and may be very expensive if an accident victim chooses to take recourse. Plus, the victim may not end up with any restitution even though they feel they are deserving of it. Now the liability insurance is the policyholder's main financial defense from others, however the purpose of no-fault insurance is to attempt to remove fault from the liability. The premise ***no-fault insurance*** is for the medical expenses to be paid by a victim's own insurance company no matter who is to blame for an accident. Therefore, the costs can be eliminated and possibly delays of any legal actions.

Variances of coverage between states

Some states require no fault coverage and some allow for "add-on" plans where coverage can be increased. No fault laws are not universal, although they have many things that are similar to each other. In general no fault plans…

-Don't pay for pain and suffering. The policyholder would have to sue someone.

-Will not allow others be sued until the no-fault coverage insurance exceeds a certain level. A policyholder cannot be sued by anyone until his or her costs exceed that limit.

-The insurance company pays the policyholder and all others covered by the policy for medical bills and lost wages. It also may cover the cost of hiring people to do household tasks that are unable to be performed as a result of injuries and funeral expenses up to specified limits.

In some states drivers have to buy what is called "traditional liability insurance" to protect themselves against suits that are no fault claims that are within no-fault regulations. However, if anything monetary is awarded, the payments may be reduced due to compensation from the no-fault insurance.

4.3 Collision Insurance

Collision coverage pays for damage to the car no matter who is at fault even if another person is not involved in the accident. The insurance company can also take over a claim on another driver. If there is an accident and it is a "he said, she said" situation the insurance company typically acts on the behalf of the policyholder to hold the other party responsible for the accident and pay the deductible.

Collision insurance is not typically required by state insurance laws; however, finance companies generally require drivers to have it. Most finance companies will ask to be named as

"lienholder" (is someone who has either leased a vehicle to a consumer with an insurable interest, or given you money on loan to buy it) on the auto insurance policy for a financed car. In the instance that a driver owns the vehicle collision insurance isn't required, but it is advisable to have it unless the car holds little value. Suppose a driver owns a vehicle outright that is worth $12,000 and the car receives $5,000 in damage and is not drivable. The only way to fix the car is to pay that $5,000 tab whereas a typical $500 deductible would cover it.

Broad Form Collision

Another form of collision is broad form that is only offered in Michigan. Broad form benefits are paid in the event of a collision regardless of which driver is at fault in the accident. The difference with this coverage is the deductible is only paid by policyholder if he or she is at fault.

4.4 Comprehensive Insurance

By another name this would be hazard insurance. It helps protect a car against damages that are not related to a collision. It covers many unfortunate incidents such as:

Auto theft and contents	Hail	Falling objects
Chipped/cracked windshield	Glass breakage	Fire
Accident with an animal	Water	Vandalism
Windstorm/Tornado	Explosion	Flood

Just about every driver has had a rock fly off from a truck or a semi and take a chip out of the windshield or heard the story about someone who hit a deer while driving. In some ways it is no different than collision insurance because damage was inflicted on the vehicle, however collision is colliding with another vehicle and puts it into another category.

Comprehensive insurance can be optional or required depending on whether a vehicle is financed or leased. A deductible may be required when needing vehicle repairs and the amount coverage can go up to a vehicle’s cash value depending on the nature of the claim. Comprehensive coverage may also provide compensation for car rental in the event that vehicle is stolen. Typically, when renting a vehicle if the rental company’s insurance is declined then the coverage that is used on the vehicle in repair will apply to the rental car.

Comprehensive Collision Payment Reduction

Comprehensive cost may be reduced if a vehicle has an anti-theft device or if a car is stored in a garage or in a covered area

Medical Payments

Policies have options on them to for medical coverage. This not only applies to the policyholder but also for family members and guests if they are injured in the car. Individually, medical coverage can apply when insured is driving the car or when in another's or if an injury occurs while bicycling or walking, even if the policyholder is not at fault. Coverage can range to a variety of things but they can vary between insurers.

Coverage can last for a few years or more after an accident but it depends on the amount of coverage purchased in accordance to an insurance company's policies. One caveat is that payments may be reduced in the event that a policyholder receives compensation from other areas of the policy or from other sources. Some companies may only reimburse expenses when other forms of compensation on the policy exceed their limits. When reviewing a policy check to see if any additional medical coverage is needed in case other areas of the policy are insufficient.

4.5 Umbrella Policies

An umbrella policy covers above and beyond what auto or homeowner's insurance liability insurance covers. Umbrella coverage kicks in the liability limits have been exhausted in other policies. So if a policyholder has an umbrella policy for $1 million and is sued for $500,000, but had $400,000 in total coverage, the umbrella policy would kick in to help. It may also cover items outside of the auto or homeowner's policies such as bodily injury and personal injury.

Personal injury may range from items such as defamation of character to false imprisonment. Items that the umbrella may not cover are for punitive damages, which are beyond monetary losses and other claims such as arising from business endeavors or from getting diseases such as cancer.

Note - Know that many insurance companies will not offer an umbrella policy unless a policyholder has home and auto insurance policy and the insurer may require certain deductibles within those policies to be upheld.

They key with these policies is be sure what the policy covers before making a decision. A $1 million policy is probably in the neighborhood of $150 - $300 a year. Relatively speaking that is a small price and the reason is simple: If an insurance company already has a homeowner's and an auto policy, this means that these two policies will help pay for damages first before the umbrella policy takes effect.

Reducing the Umbrella Policy Cost

A way to combat the cost of an umbrella policy is to consider raising the liability coverage in the homeowner's and auto insurance policies, which may eliminate the need for an umbrella policy outright.

When to Consider an Umbrella Policy

The main reason to consider an umbrella policy when a policyholder has many assets or if there is more than a normal risk of being sued. For example, someone may have items in their home that can cause danger to others. Another reason is to have the insurance to cover the rare occurrences; perhaps a guest didn't see the ice the walkway when entering the home or the dog is prone to jumping on people. The likelihood of using an umbrella policy is probably much less than the liability and homeowner's policies. Therefore, it may not be something that is necessary unless a policyholder has a history of making claims on the homeowner's or auto insurance policies. Paying perhaps $25 more a year is a small price to pay if the coverage is needed or elected

Uninsured Motorists

Although most states require auto insurance not everyone on the road has it. There's an area within automobile policies for uninsured/underinsured motorists that provides protection and family members who live in the same household who are hurt by one of these types of drivers. In most states insurance companies have to offer uninsured or underinsured coverage and this is highly recommended to be included in the policy.

This type of coverage can apply when the policyholder is in the car, while walking, (possibly bicycling) and if there is a hit-and-run accident. As far as guests being involved, they may qualify if they are hurt while riding in the policyholder's car. This kind of coverage usually applies when bodily injury is involved. To be able to use such coverage the other driver in the accident has to be at fault. If who's at fault is in the balance, it may involve arbitration with the insurer to make a determination.

4.6 Gap insurance

Gap Insurance is protection when a car is stolen or totaled. Gap insurance will pay the difference between what is owed on the car and what it is actually worth. For example, a policyholder owes $24,000 on a car and it is worth $20,000. Then in an unfortunate event, it was stolen. When reading the policy, it may say that only $20,000 is covered, however the remaining $4,000 is the "gap" and the gap coverage would pay for the remaining $4,000 and possibly the deductible.

It is common with low down payment deals on automobiles that owners may owe more than what the car is worth for a large period of the loan. This may also happen with someone who pays a large amount of money for a vehicle: Suppose a new Corvette was purchased for $50,000, and $45,000 is borrowed and it is worth 40,000. Then two months later, it is stolen leaving the policyholder short on the insurance coverage. The insurance company will kick in the remaining $5,000.

Many leasing contracts have gap coverage built in, but it is not necessarily the case when purchasing a vehicle. Therefore, purchasing gap insurance needs to be assessed on case by case basis. The price for coverage is relatively cheap however some insurers don't offer gap insurance and others offer it but do not advertise it.

4.7 Knowing the Rules of the Policy

Insurance companies vary on what they consider when quoting a price, therefore be sure to ask questions; being an informed consumer fosters informed decisions for protection of needs and the bottom line in the budget. For example, suppose a driver accepts a policy with a new company and has no tickets on the driving record and then three months later is issued a ticket. This may change the vehicle rating or it may change the class range as a different class of driver. Does the rate increase?

Other questions to consider ask are:

-How does the claims process work?
-Are policies affected by a credit scoring system and how does it work?
-Do you have recommended bump shops in your local area and is the work guaranteed?
-Is the bump shop paid directly by you or is a check sent to me?
-For car rental insurance what is my limit and which companies can I use?
-Is car rental applicable when my car is in for service?
-How many days of car rental is covered on my policy?
-What is the coverage for roadside assistance

-How does the process work if I am being sued under my liability coverage?
-If I have a claim that is not my fault, is it considered as a negative mark on my rating?
-What are the payment options on my policy? Monthly, every six months, yearly etc.

How Policies Are Priced

Pricing can be due to several factors and some play a larger part than others. Some are more obvious than others. The best way is to know what items that affects the premium is by reading the current policy or asking question when obtaining a price quote. Knowing this allows opportunities to find errors within the criteria and to be able to modify the policy in the future when life situations fluctuate. Below are many of the commonly seen items that may dictate a policy's pricing structure.

Age or Years of Driving Experience

Younger drivers pay more than the older ones, based on nothing more than statistics. Common driver infractions and accidents are higher among the youth do to nothing more than experience. Most companies have barriers of age that once exceeded will put drivers into lower rate classes. (This usually fades out by the mid-twenties)

The Make of the Car

Cheaper vehicles are cheaper to produce and expensive cars are more expensive to produce. This also holds true for repairing them for collision and comprehensive claims and replacing them all together. Also some vehicles tend to be stolen more than others. According to the *Highway Loss Data Institute*, the highest theft claims rates per 1,000 vehicles from 2008 through 2009 are shown below:

Vehicle	Claim Frequency
Cadillac Escalade	10.8
Ford F-250 4WD	9.7
Chevrolet Silverado 1500 crew	9.2
Ford F-450 crew 4WD	7.9
GMC Sierra 1500 crew	7.3
Chrysler 300	7.1
Ford F-350 crew 4WD	7.0
Chevrolet Avalanche 1500	6.4
GMC Yukon	6.4
Chrysler 300 Hemi	6.3

Income

If insurance pays for lost wages due to an automobile accident, the premium may be higher or lower depending on the income.

Driving Record and Previous Insurance History

This can play the largest part in pricing a policy. Some states require insurance companies to accept applicants at regular rates if they meet specific criteria. Exceptions to this are those who fall out of specific boundaries with backgrounds that include traffic and drunken driving convictions and at-fault accidents. The more tickets and accidents one has, the higher the rates may be just as they should be lower when a driving record is cleaner. Also, failing to make premium payments or cancellation from non-payment should cause rates to be higher.

Vehicle Usage

Some people use their car to drive to work and others just for pleasure. Often, the amount of miles put on a vehicle plays a factor in the premium payments. One who drives 10 miles a day as opposed one who drives 60 will probably will receive a lower rate respectively.

Lifestyle Conditions

Rates may be affected on whether someone is single, married or have children, own a home and the number of vehicles owned.

Extras

Adding optional items separate from the general policy such as roadside assistance and car rental coverage can affect the premium.

Credit scoring

Credit scoring views an individual’s credit history and is tied to a scoring system the insurance company uses. The insurance companies feel that there is some correlation between one’s credit score and the likelihood that the policyholder will file a claim. Marks on a credit report could command a higher premium and typically the insurance company does not reveal how the premium is affected; rather they have a rating scale based on a model that the agent probably does not know.

Place of Residence

If a policyholder lives in a crime-ridden area as opposed to one with less crime, the difference can be huge. A driver whose neighborhood has a large history of claims means that the insurance company takes on the risk associated with it. Some areas simply have a history of more accidents occurring and therefore it will raise the premium.

Knowing a company's history

Gain as much information before calling companies to insure with. There is a plethora of them seeking business noted by the several television ads alone, however there several smaller companies that are less-known to the common person. A good safeguard to find information a company’s reputation is Best's Insurance Reports, which is available at the local library (free) and the Internet. Here is some information to look for:

-Operational and financial information
-Confirm the five-year rating history
-Determine which states insurance companies are licensed in
-Research competitors/insurers

A little research can go a long way. There can be the temptation to insure with a company that offers an attractive price but if they have red flags it can cost more down the road. The major companies shouldn't be much of a concern as with the smaller and unfamiliar ones.

4.8 The Premium
The premium is the total amount of what is due to insurance company for a specific period of time. It can be in the form of yearly or biyearly and it is usually paid on a monthly basis. Some companies require quarterly payments (upfront) and some require five consecutive monthly payments and the six month is skipped. Within the insurance documents it will list what is covered including the deductibles. There are two main types:

-$250 for comprehensive
-$500 for collision

The deductible is part of an insurance policy that the insured pays for each occurrence. For example, if an accident occurs and the deductible is $300 and damage is $700, the insurance company pays the remaining $400.

There are policies that can help the policy holder pay less money in certain cases if there is a car insurance deductible waiver. In states where it's available, drivers are required to buy a collision deductible waiver in conjunction with the collision coverage. The purpose of this coverage is for the insurance company to pay the collision deductible if the insured car is involved in an accident in and the other driver is an uninsured motorist and is held legally responsible.

Depending on where one resides a deductible waiver may not be required, however it is recommended one for the protection and two, because it is small cost to the premium.

Reward Programs
The competition between the major auto insurance carriers is fierce and this promotes them to offer more the consumer's pocketbook. With these programs it is important to understand how they work and it they are truly beneficial. Not all programs are offered by all companies and the logistics behind them will vary.

Vanishing Deductibles
The premise behind vanishing deductibles is to reward drivers for accident-free history. If a policyholder is accident-free for a year it will decrease the deductible by $50-$100. Being a part of this program provides:

-Earn a $100 deductible credit immediately which applies to applies to both comprehensive and collision

-Every year where the driver is accident and major violation-free, with constant auto coverage, an additional $100 credit will be applied to a maximum of $500.

-Claims are automatically settled using the deductible credit which will be reset to $100. There is not cash value to the product the entire credit will be used in the event of a claim.

-The diminishing deductible credit will never go below $100. If the feature is removed from the policy earned credit resets to $0.

The benefits of this program is that it reduces out of pocket expense and there is always at minimal a $100 deductible credit. Partnered with loyalty and safe driving this reduces deductibles opening the door to raise deductibles because the credit offsets the amounts. For example, take a driver who has earned $500 in vanishing deductible and $100 in other deductible discounts:

Deductible	Vanishing	Other Discounts	Balance
$500	$500	$100	-$100

In the above chart the driver technically has a $100 surplus and could raise the deductible to $600 thereby lowering the premium to save money and is not burdened with a deductible in the event of an accident.

The caveat to this program is that the coverage needs to be requested and the full details need to be assessed first before getting excited about the advertising pitch. The other piece to the pie is that it is an added cost to the premium. This cost ranges depending how many full coverage vehicles are on the entire policy. The cost is small however it may be practical depending on the driver's needs. Take the example below:

Program Cost	Total Year	Credit in the First Year
$7 monthly	$84	$100

In this scenario it costs $84 for a $100 credit that may never be used considering the odds of getting into a car accident is low. More than likely saving money in long haul is the better choice if the means are there to pay for a deductible out of pocket.

Accident Forgiveness
If a policyholder is not in an at-fault accident, the rates will not go up. One accident is allowed every three years per driver.

Minor Violation Forgiveness
A minor violation ticket won't increase rates. One incident is allowed every three years per driver.

Safe Driving Bonus
For every six months of accident-free driving, the policyholder can earn a safe driving bonus check based on a percentage of the premium.

Loyalty Rewards
This is automatic coverage where rewards increase over time. The first level is for unlimited small accident forgiveness and the second level is for a young driver discount, continuous insurance discount and large accident forgiveness.

4.9 Reducing the Premium

The most obvious things to lower a premium are to maintain a clean driving record and credit report. This is especially important, as auto insurance can be one of the largest items in the budget each month. Therefore, a little research can go a long way.

<u>Check your vehicle's rating:</u>
Insurers charge more for cars with high claim rates, no matter how good the driving record of the owner is. This varies but some charge less for collision and comprehensive coverage on models that score well for safety and durability, but add surcharges for others. The rate variations may reflect repair costs, accident frequency, theft losses and other factors. Think of it this way: if a car is more likely to be stolen than other vehicle the insuring company's risk increases and do will the premium.

Consider checking the details about a vehicle before purchasing it. This can be accomplished by checking with the state government to find out where ratings on vehicles are kept or an insurance agent may be able to do this. Another avenue is to check with the Insurance Institute for Highway Safety and the Highway Loss Data Institute for crash/loss data. Regardless, obtaining quotes on vehicles is free of charge.

<u>Insure all cars and other policies with the same company:</u>
This is referred to as a ***"multi-car discount."*** (Insurers will give a price break when two or more cars covered by the same policy as well as having homeowner's insurance possibly renter's insurance) with the same company.

4.10 Asking for the Discounts

Often discounts are available and the major companies are good about asking the pertinent questions to obtain the best rate; this is due to fierce competition in the marketplace. Even when dealing with a forthright agent, be sure to ask questions:

-Good/Safe driver discounts for those with a clean history
-Seat belt discount for those who wear their seatbelt
-Affiliation with certain colleges or universities
-Having an anti-theft system installed on your vehicle

Raising deductibles

Check to see how much coverage you have on the policy. The higher the deductibles you carry the less the premium should be. There can be a noticeable difference between a $250 and $1,000 deductible. If raising the deductible would save you $200-$500 every couple of years, would you do it? If you have little or no claims history, you may want to consider doing it. The caveat is that you need to be able to afford the higher deductible if it is ever called upon. Either way your insurance agent can give you the differences in your premium so that you can make the right decision.

Policy Changes

Deductibles and coverage amounts can be changed anytime as insurance is prepaid. Your policy will adjust accordingly.

Reducing the coverage on an old car
Think of dropping comprehensive and collision coverage if you drive an older vehicle. Think of it this way: the insurance company won't pay more to fix a car than it's worth so why have coverage for it? This can really knock down the cost of your premium and you pocket the savings.

When the car eclipses four years in age it is time to monitor this path. The difference will be determined based on the value of the vehicle. If you have a five-year-old Mercedes and seven-year-old Kia there is a big difference. A good way to determine value is to consult used-car price guides and research the general market. (Search for “car pricing guides” on the Internet)

Manage Teenager’s Driving
The younger drivers pay much more in insurance cost than other groups because statistically they have more accidents. In time, the rates will drop as the teen becomes an adult and reaches and certain age barriers. Common ways to combat the cost are:

-Have the parent be the principal driver of the vehicle
-Obtain a discount if the child's grade point average is a B or higher (if applicable)
-Young drivers may also get discounts for completing an approved driver-training course
-Parents of students who spend part of the year at a school and a number of miles from home may get a break as the child does not have access to the vehicle

4.11 Factoring the Premium Payment in the Budget
The premium payments can vary between auto insurance companies with the most common method being the monthly cycle which usually requires an upfront portion. This money initiates coverage for the policyholder as auto insurance has to be billed upfront as opposed to paying for a service after the fact.

Other payment plans have drivers pay the complete premium upfront often for a six-month period and by doing that a discount may be offered. Another payment plan is the skip-month. For example, the insurance company XYZ quotes a premium of $630 for 6 months and they take payments for the first five months and the sixth is a bye-month.

-January through June → $630 / 6 = $105 per month

-Per Premium → 630 / 5 = $126 per month ($21 per month shortage)

-July through December → $630 / 6 = $105 per month

Being that June is a skip payment the budgeted $105 will go into the Supplemental account will feed the future months’ shortage.

Month	To Supp	From Supp	Supp Balance	Added Cash	New Supp Balance
Jan	--	$21	($21)	**$21**	$0
Feb	--	$21	($21)	**$21**	$0
Mar	--	$21	($21)	**$21**	$0
Apr	--	$21	($21)	**$21**	$0
May	--	$21	($21)	**$21**	$0
Jun	$105	--	$105	--	$105
Jul	--	$21	$84	--	$84
Aug	--	$21	$63	--	$63
Sep	--	$21	$42	--	$42
Oct	--	$21	$21	--	$21
Nov	--	$21	$0	--	$0
Dec	**$105**	--		--	**$105**

In above Table the ending Supplemental Balance at the end of the year is $28 as a result of adding $22. This extra money will be carried over into the next year without having the need for more Added Cash in the future. All things being equal the $28 could be reduced to $22 but with varying gas prices having extra cushion in case its needed is a good strategy.

Month	Budget	Payment	To Supp	From Supp	Added Cash	Supp Bal
Jan	$105	$126	--	$21	$105	$84
Feb	$105	$126	--	$21		$63
Mar (3)	$105	$126	--	$21		$42
Apr	$105	$126	--	$21		$21
May	$105	$126	--	$21		$0
Jun	$105		$105	--	--	$105
Jul	$105	$126	--	$21	--	$84
Aug (3)	$105	$126	--	$21	--	$63
Sep	$105	$126	--	$21	--	$42
Oct	$105	$126	--	$21	--	$21
Nov	$105	$126	--	$21	--	$0
Dec	$105	$0	$105	--	--	$105
Totals	**$1,260**	**$1,260**	**$210**	**$210**	**$105**	**$105**