

**Consumer Decision Making Contest
2001-2002 Study Guide
Auto Insurance**

(Editor's Note: The terms, *auto insurance* and *car* will be used throughout the guide and apply to all types of motor vehicles: cars, pickups, SUVs and minivans.)

Because there are so many risks and liabilities associated with driving and owning a car, Texas law requires all car owners to have auto insurance. If you borrow money to buy a car, the lender will demand that you have auto insurance. When you get or renew a driver's license, buy license tags, get a safety inspection sticker, or transfer a title of car ownership, you must present *proof of insurance*. You must also present proof of insurance if you are involved in an accident or stopped by law enforcement officials while driving.

When you pay for your insurance policy, the company will issue you a proof of insurance card for you to carry as evidence that you are insured for a particular period of time. When multiple vehicles are covered by the same insurance policy, the company will provide cards for each vehicle covered. The penalty for driving without liability insurance is severe. The fine can be \$175 to \$350 for the first conviction. Subsequent convictions have a fine of \$350 to \$1,000, driver's license suspension and impoundment of your automobile.

Many factors affect the cost of auto insurance, but there are ways to lower your auto insurance costs. Knowing how to shop for auto insurance can mean money in your pocket. Shopping around for auto insurance is especially important for teens because insurance rates for teenagers are higher than for other age groups. The reason for the higher cost is that the accident rate per mile driven is higher for teenagers than for other age groups. These statistics influence the *insurance premium* (cost) you will pay for your auto insurance. Insurance premiums are higher when many *policyholders* submit claims after having accidents. Higher claims mean higher premiums to be paid in the future.

Just the Facts

The following facts are not meant to frighten you, but they do help you to understand why having the right kind of auto insurance is so important. Did you know that you have a 55% chance of being involved in an auto accident within the next three years? That chance rises to 75% over the next five years. Pretty scary statistics for teens, but every day the news rings true in communities across Texas. Research reported in the *Journal of the American Medical Association* in 2000 indicated that the more passengers a teen driver carries in his/her vehicle, the greater the risk that an accident will kill the driver. Motor vehicle crashes are the leading cause of death among teens, accounting for 36% of the deaths of those ages 15 to 19.

Driving and car ownership entail risk. Let's take a look at the most common risk exposures and their consequences:

Common Risk Exposures and Consequences of Owning and Driving a Car		
Exposure	Risk	Consequences/Potential Loss
Accident	Loss of income from inability to work; uninsured medical bills, or death.	unlimited
Property	Your property (car) is damaged, destroyed, lost or stolen.	Amount needed to replace your property
Liability	You are found liable for injuries to other people or damages to their property resulting from an accident.	Unlimited

Consumers need to figure out how to manage the risks associated with driving and car ownership. *Risk management* means that you use various ways to deal with potential personal or financial loss. Financial risk can be managed in one of four ways:

Risk Management Strategy	Example
1. Avoid the risk	Don't own a car.
2. Reduce the risk	Drive safely if you own a car. Use safety devices, such as seat belts, air-bags, and anti-theft devices. Always lock your car.
3. Accept the risk	Be willing to pay for the small problems yourself, like small dents and scratches on your vehicle.
4. Transfer the risk	Buy auto insurance to transfer the risk to an insurance company that will reimburse you for losses when you make timely and regular payments for this protection.

These risk management strategies can be summed up in a very important general principle of insurance: *If you cannot avoid a financial exposure, reduce the risk as much as possible. Accept the smaller losses that you can afford, but insure yourself against potentially large losses, even if the event seems unlikely.*

Auto Insurance Basics

Texas law requires proof of financial responsibility for anyone who drives an automobile within the state. Most Texans choose to purchase liability insurance to meet this requirement. (Texas Department of Insurance, 2000).

Liability Insurance. Liability insurance is the most important type of auto insurance coverage. It pays for bodily injury and property damage for which the driver of the vehicle covered by the insurance policy is legally responsible. It also covers any driver operating your car with your permission. *Bodily injury liability* covers people riding in your car, people in other cars in the accident and pedestrians you injure. *Property damage liability* covers other people's cars and the property you damage, like telephone poles, trees and lawns. In Texas, the minimum liability insurance required by law is commonly called "20/40/15" coverage. These numbers refer to coverage the insurance will provide: \$20,000 bodily injury per person, up to \$40,000 for all persons injured in an accident, and \$15,000 for property damage per accident.

Most insurance experts agree that the minimum 20/40/15 limits are too low. Accident victims often have medical bills in excess of \$50,000. When medical and property damages are greater than your insurance coverage, you will be held liable for the excess costs. A judge could order your employer to pay part of your wages to the injured party or require you to sell some of your possessions to satisfy the claim. Under some circumstances, the injured party could sue your parents. Most insurance experts recommend minimum coverage of 100/300/50 or more.

You need to carry enough liability coverage to protect your income and assets. Your insurance agents can help you decide how much liability coverage to carry. Additional liability insurance beyond the minimum is relatively inexpensive. You can usually double your liability limits without paying double the premium.

Uninsured/Underinsured (UM/IM) Motorist Coverage. This coverage pays for your injuries and/or property damage caused by a hit-and-run driver or a motorist without liability insurance; it will also pay when your medical and car repair bills are higher than the other driver's liability coverage.

Medical Payments and Personal Injury Protection (PIP). Both pay limited medical and funeral expenses if you, a family member or a passenger in your car are injured or killed in a motor vehicle accident. PIP also pays lost-income benefits.

Collision Coverage. This coverage pays for damage to your car without regard to who caused an accident. The company must pay up to the actual cash value of your vehicle, minus your deductible. A deductible is the amount you must pay before the insurance company pays.

Comprehensive Coverage (Physical Damage Other than Collision). Comprehensive pays for damage to or loss of your automobile from causes other than accidents. These include hail, vandalism, flood, fire and theft.

If you are making car payments, your lender will require collision and comprehensive insurance. Your lender wants to be sure that your car is in good working order. If you stop making car payments, the lender will repossess your car and try to sell it to pay off your loan.

Insurance experts recommend that you do not carry collision and comprehensive on an older car worth less than \$3,000. No insurance will pay more to repair your car than what the car is worth.

Suppose your car was only worth \$2,400 before it was hit by an uninsured driver. Your insurance company estimates that it would cost \$4,000 to repair the car. They also estimate that a junk yard will give you \$200 for your car “as is”. If your deductible is \$500, you will get a check from the insurance company for \$1700. [\$2400 less \$700 (\$200 + \$500)]. Since you are probably paying more than \$100 a year for collision coverage, the low payoff is not worth the premium.

Towing and Labor Coverage. This coverage reimburses you for towing charges when your car breaks down or is damaged and must be towed to a repair shop or other destination.

Rental Reimbursement Coverage. This coverage pays a set daily amount for a rental car if your car is being repaired because of damage covered by your auto policy.

Type of Coverage	Pays For	Covers	Required?
Liability	Other people’s medical expenses and auto repairs, attorney fees, and \$250 bail.	You, your family and others driving with your permission	By state law, you must carry 20/40/15
Uninsured/Under-insured Motorist	Medical and funeral expenses, car repairs, car rental and replacement of damaged contents	You, your family and your passengers.	No, but company must offer
Medical payments	Medical and funeral expenses	You, your family and your passengers	No
Personal Injury Protection (PIP)	Medical and funeral expenses, lost wages, homemaker/caregiver services	You, your family and your passengers	No, but company must offer
Collision	Car repair or replacement after an accident	Your car - regardless of driver	By lenders
Comprehensive (Physical Damage other than Collision)	Car repair or replacement after fire, hailstorm, theft or other non-collision event; rental car after theft	Your car	By lenders
Towing & Labor	Towing and labor charges when your car is disabled	Your car	No

Rental Reimbursement	A rental car if your auto is undergoing repair for covered damage	You and your family members	No
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Factors Affecting the Cost of Your Premium

Your age and, for younger drivers, **your marital status**. Male drivers under 25 and unmarried women under 21 have the highest rates. Drivers over 50 may get discounts.

The county where you keep your car. Urban counties have more accidents and auto thefts, so their insurance rates are higher than in rural areas.

Your car. Collision and comprehensive rates are highest for luxury, high-performance, and sports cars. Rates may also be higher for cars that damage easily or cost more to repair than others.

How you use your car. Rates are higher for cars driven to work or used for business.

Your deductibles. Deductibles are your share of the cost of a collision or comprehensive claim. You can reduce your premium by raising your deductibles.

Surcharges. Dollar penalties are added for accidents resulting in property damage of \$1,000 or more. They may also increase your rates for speeding tickets and other moving violations.

Discounts. Some discounts are required by the state, but others are optional with companies, so you should ask your insurance agent. Some companies (county mutuals) are not required to give any discounts.

Auto Insurance Discounts	Mandatory
Defensive driving and driver education courses for young drivers	10 percent off Liability, Collision, Medical Payments, and PIP
Airbags and other passive restraints	15 percent off Medical Payments and PIP (driver's side) 30 percent off Medical Payments and PIP (both sides)
Drug/alcohol education	5 percent off Liability, Collision, Medical Payments, and PIP
Anti-theft devices	Reduces Comprehensive premium; amount varies by device and county

Two or more cars on a policy	20 percent off Liability, Medical Payments, and PIP 15 percent off Collision
	Optional
	<p>Companies may give discounts for</p> <ul style="list-style-type: none"> • your age and annual mileage driven • policy renewal, with a good claims and driving record • anti-lock brakes • a parent or family whose young driver is away at school without a car • full-time college and high school students with a “B” or 3.0 average • cars with automatic daytime running lights • membership or adult leadership in certain youth organizations

Shopping for Auto Insurance

Shopping for auto insurance in Texas has become relatively easy, thanks to the availability of good comparison information and plain English policies. Do not be misled into thinking that all insurance policies cost the same. They do not. Comparison shopping is an important strategy to maximize your insurance dollars. Always get quotes from several companies before signing an application and paying a premium.

Buy from licensed agents and companies. Policyholders of unlicensed companies are not protected if the company goes broke. You can check the status of any insurance company by calling the Texas Department of Insurance’s toll-free Consumer Help Line at 1-800-252-3439 or 463-6515 in Austin. The Consumer Help Line will help you learn a company’s or an agent’s license status, the company’s financial letter grade from at least one nationwide rating firm, and the company’s complaint history and its comparison with other companies. As an insurance consumer, you have the right to know if you are buying from a legitimate company or agent, if the company will be around to pay your claims, and if the company treats policyholders fairly.

The Texas Department of Insurance (TDI) estimates that Texans can save an average of \$100 a year by spending an hour shopping for auto insurance by phone. Their website offers helpful information about auto insurance (www.tdi.state.tx.us), including an Automobile Insurance Rate Guide to compare rates among companies in your county.

The TDI Automobile Insurance Rate Guide helps consumers compare rates among companies that sell 80 percent or more of the auto liability insurance in your area. The guide, found at the TDI website, will give rates for minimum liability coverage for typical drivers, including males and females under age 21 with no at-fault accidents or major traffic convictions. Besides obtaining rate information, you will see how each company's consumer complaints compare to the average. And you will also see how the companies are rated by the A.M. Best Company. A.M. Best rates insurance companies financial strength and stability with ratings of A++ and A+ earned by those companies considered "superior".

Reducing insurance costs

Single drivers under the age of 25 pay the highest rates. Here are things you can do to lower your rates.

- Comparison shop. Most people are surprised to find out that rates can vary a great deal from one company to the next. You can probably save a large amount of money by comparison shopping. Check rates with at least five different companies. If the car you drive is added to a policy already covering other cars in the family, you are likely to get a discount. Use the Texas Department of Insurance website, Automobile Insurance Rate Guide, to make comparisons among companies in your county.
- Increase deductibles. Rates vary based on the amount of deductibles you select for collision and comprehensive coverages. When comparing insurance premiums, see if raising the deductible amount will reduce insurance costs. Select the highest deductible you can afford. Remember that if you are still paying for your vehicle, your lender may have certain requirements.
- Keep a safe driving record. Tickets and accidents push rates out of sight. Slow down, save a life and save yourself a lot of money.
- Take driver's education. You will make up the cost of the course in what you save in premiums the first year. More importantly, you will probably be a better driver.
- Don't own a car. Rates are usually lower for teenagers who are the second driver on a car owned by an older adult. If you own a car, expect to pay the highest rates.
- Be safety minded. A car equipped with air bags, automatic seat belts or anti-lock brakes can reduce collision premiums and may save your life.
- Abstain from drinking and smoking. Some companies give discounts to nonsmokers and nondrinkers.
- Drive a different type of car. Some cars are much more expensive to repair than others. Some are more likely to be stolen or are not as safe. It pays to compare insurance rates BEFORE you buy your dream car.
- Make sure you or your parents are taking advantage of all discounts that are available. See if your membership in 4-H will give you or your family an additional break. And don't forget that you might qualify for a "good student" discount, too.

Summary

Becoming a wise auto insurance consumer requires that you learn the basics about insurance first. When you understand what you are comparing, you will be able to make an insurance decision based on affordability and suitability to your situation. Always remember that part of the responsibility of car ownership includes adequate insurance protection. Auto insurance is the easiest way for consumers to manage the uncertainty of potential risk and liability.

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