KOFA HIGH SCHOOL SOCIAL SCIENCES DEPARTMENT

ECONOMICS - PERSONAL FINANCE WORKSHOPS

 # 8 - AUTO INSURANCE

Vocabulary Keys : Words that are in ***bold*** *= are terms that appear in one of the chapters , Words that are* <u>*underlined*</u> *= supplemental vocabulary . Ask questions about these words if you are not familiar with them !*

TOP THINGS TO KNOW

1. *You're a statistic ……………*

   To an insurer, you're not a person, you're a set of ***risks****. An insurer bases its premium (or its decision to insure you at all) on your "risk factors," including some things that may seem unrelated to driving a car, including your occupation, who you are, and how you live.*

2. *Insurers differ ……………*

   As with anything else you buy, what seems to be the same product can have different prices from different companies. You can save money by comparison shopping.

3. *Don't just look at price ………….*

   A low price is no bargain if an insurer takes forever to service your claim. Research the insurer's record for claims service, as well as its financial stability.

4. *Go beyond the basics ………………….*

   Most states require only a minimum of auto-insurance liability coverage, but you should look for more coverage than that.

5. *Demand discounts …………………..*

   Insurers provide discounts to reward behavior that reduces risk. However, Americans waste some $300 billion a year because they forget to ask for them !

6. *Ask for the real thing ………………..*

   Insurers cut costs by paying only for car parts made by companies other than the car's manufacturer. These parts can be inferior. Demand parts by the original equipment manufacturers (OEMs) .

7. At claims time, your insurer isn't necessarily your friend ………………..

Your idea of fair compensation may not match that of your insurer. Your insurer's job is to restore you financially. Your job is to prove your losses so that you get what you need.

8. Prepare before you have to file a claim ………………….

Keep your policy updated, and re-read it before you file a claim, so there are no surprises.

WHY INSURANCE COSTS SO MUCH …………………

Insurers will not only judge you on your record, but on the records of people like you .

Your 16-year-old son has passed his driver's education course, and scraped together enough cash for his own car. You take a deep breath and give your blessing, until your agent tells you the rather large amount that will be added to your car insurance premium ..... just to insure a <u>lousy</u> used sports car.

Why can insurance sometimes cost as much as the car? Why are insurers so tough on kids, or Corvettes?

It boils down to one word : risk.

To an auto insurance company, you are a collection of risks. Your sex, your age, your marital status, driving record, type of car, and place of residence all contribute to an insurer's prediction of whether you'll file a claim. An insurance company can't know, for certain, what kind of driver you are. They can only guess, based on the accumulated statistics for drivers like you. Even if you're a <u>stellar</u> driver, if you happen to be young, single, male, and own a sports car, the insurer is probably going to place you in a category with a high premium -- or it may reject you entirely.

The good news is that not all insurers price risks identically. While insurers are highly regulated in many states, they still operate as competitive businesses, focusing on certain markets and avoiding others. What's more, some operate their businesses more efficiently than others, passing on the savings to consumers.

That means you may be able to save hundreds of dollars a year by shopping regularly, even if your insurer rewards long-time customers. A great quote from a new carrier may trump the loyalty card.

In the following sections, we'll look at some sensible ways to find the best coverage, whether you're age 16 or 86.

Understand your coverages **:**

Some auto coverages are <u>crucial</u>; others are desirable; still others are just unnecessary **.**

Cover your assets and your family first.

Most states require bodily injury <u>liability</u> insurance to cover medical treatment, <u>rehabilitation</u>, and funeral costs incurred by your own passengers, other drivers, their passengers, and even injured pedestrians. Other costs covered include lawyers' fees, and non-monetary losses related to pain and *suffering. State minimum coverage limits are too low to protect the assets of most motorists. Unless your income and assets are minimal, buy at least $100,000 per person, $300,000 per accident.*

Property-damage liability covers repair or replacement of other people's cars and property. State minimum limits average about $15,000. With the average cost of a new car at $25,000, however, buy at least $30,000 in coverage.

When a hit-and-run driver, or someone who's inadequately insured, strikes your car, uninsured-motorist and underinsured-motorist coverage pays for the medical, rehabilitation, funeral, and pain-and-suffering costs of the victims in your car. This crucial coverage also insures your household members as pedestrians. Buy this coverage at the same limits as your bodily injury liability coverage.

Personal-injury protection (PIP), often known as "no-fault," covers medical, rehabilitation, and funeral costs for household members, as well as some lost wages and in-home care. Unless your health and disability coverages are slight, buy the minimum required.

If your budget permits, consider the following options.

Collision pays to repair or replace your car after an accident. If you have a new car with a loan, you'll be required to buy this coverage.

Comprehensive pays if your car or its contents are stolen, or if your car is damaged by fire, water, or other perils. Lenders will also require this coverage.

For both, you'll have to choose a <u>deductible</u>: a dollar amount you fork over to the repair shop before the insurer antes up. The higher the deductible you carry, the more you'll save. Try to carry a deductible of at least $500 on each coverage.

For cars worth less than $5,000, comprehensive and collision probably aren't worthwhile. Over time, the premiums you'll fork over will probably exceed the payout, even if your car is totaled. Plus, in an accident that isn't your fault, you can figure that the other driver's insurance will cover your car. (To estimate your car's market value, consult the Kelley Blue Book.)

You can probably do without these:

- *Medical-payments pays the deductibles and co-payments not covered by your health insurer, or the insurer of any of your passengers. It also covers some funeral and rehabilitation costs. It's not useful unless you face very high health-insurance deductibles. If your state requires it, buy the minimum.*
- *Towing and labor only pays if you can't drive your car away from an accident. Members of auto clubs with such privileges don't need this coverage.*
- *Rental insurance costs only a few dollars per year, certainly a worthwhile expense if you travel and rent cars frequently. But spare the expense if you don't rent cars often and can depend on another car in a pinch.*
- *Glass breakage coverage can add up to 20 percent to your comprehensive premium. When it's not built into the premium, avoid it.*

PICKING AN INSURER

This is about how to find broad coverage without burning a hole in your pocket .

Cast a wide net :

First, check what's out there. Get quotes from at least four carriers. Try a free database such as InsWeb.com.

Try these options :

Companies like State Farm and USAA that deal directly with consumers without using independent agents are called "direct writers". In theory, they can pass on their savings by eliminating the middleman.

Read your junk mail. Direct marketers like Geico and Progressive Insurance save on overhead -- and pass on the savings -- by marketing by phone, mail, or the Internet.

Let your state be your guide ……………….

Insurance departments in 33 states and the District of Columbia offer on-line shopping guides for auto insurance. Your state's guide may identify little-known companies with competitive rates.

Look at service …………….

No discount in the world will make up for slow claims processing or shoddy repairs, so find out as much as you can about a company's service before you sign on. Consumer Reports periodically publishes service ratings for large insurers. You can also ask a representative about a company's claims turn-around time; a shorter turn-around is an indication of better service.

Focus on financials ………………….

It's wise to look at the financial ratings of your auto insurer. Ask the company for that information, or check out one of the financial ratings services on the Web. An " A " rating or higher from Standard & Poor's or an " AA " ranking or better from Moody's Investor Service is a good indicator of financial strength. Weiss Ratings, the most independent of the ratings services, and arguably the most stringent, posts a list of the currently weakest companies.

As a last resort, there's your state ………………….

If your driving record is bad, you may initially have only one option other than taking public transportation. That's your state-sponsored high-risk pool and it's expensive.

If you must join the high-risk pool for now, try shopping again a year from now. Private insurers are always looking for new ways to serve more customers, and one company's black mark is another's business opportunity. Progressive Insurance, for instance, has thrived by insuring people and property that other carriers won't touch.

MAXIMIZING YOUR SAVINGS

Lots of discounts are available, but you have to ask for them .

You can't change many of your risk factors. But you can save money by taking advantage of discounts that insurers offer for behavior that lowers your risk - from driving less than the average number of miles per year to taking a defensive driving class. Certain types of people -- senior citizens, for instance -- also are eligible for lower rates. You'll also save by if you have certain safety or protective equipment installed in your car, like anti-lock brakes or a security system. Make sure you ask about these discounts. Your agent may not tell you about them.

Here are some other money saving tactics:

Combine coverages …………………….

As with any product, it's cheaper for insurance companies to sell more to one customer, so insurers often cut premiums up to 15 percent if you link auto and homeowners policies.

Sweat the small stuff ………………………

Frequent claims are red flags for insurers; some won't renew policyholders with more than two claims in three years. So try to carry more of the risk yourself by paying for repairs costing under $1,000 out of your own pocket. Or, if the damage is purely <u>cosmetic</u>, you could just ignore it.

Raise your deductible …………………

The average driver files a collision claim once every 3 years, and a comprehensive claim once every 10 years. Increasing a collision deductible on your auto policy from $200 to $500 can save up to 30 percent annually. Given the likelihood of filing a claim, you might come out ahead with the higher deductible.

Drive safely ……………………….

A clean driving record -- for at least 36 months -- keeps your premiums low. Completing a defensive driving course can also qualify you for a discount.

Pick the car carefully ……………………….

Cars that cost a lot to repair, or that are popular with thieves, can cost more to insure. The National Insurance Crime Bureau has a list of the most frequently stolen cars.

Park your teens in one car ………………………………..

Name teenagers as the occasional drivers of your least expensive car, and make sure they only drive that car. (Good luck explaining to them why the sports car is off-limits.)

Get your records straight …………………..

Insurers have access to all sorts of personal information, including your motor vehicle record, ***credit record****, and your history of claims with other insurers. It makes no sense to lie about your* *background. Mistakes can happen, however, and a glitch on your report could make you look like a worse risk than you are. If you haven't done so in a few years, consider obtaining your credit reports from all three credit reporting services, Equifax, Experian, and TransUnion. For a combined report, check out Qspace.*

A FEW WORDS ABOUT CLAIMS ……………………………

Insurance is a product you buy, but hope never to need .

Sad but true : When you really need them, the company you've paid to protect you can become your adversary.

While it's the insurer's job to restore you financially, that doesn't mean they have to go along with your assessment of what that means. Be prepared to prove your losses.

Car claims : Don't compromise on quality

Take a collision claim, for instance. A shop in your insurer's network of preferred providers -- an automotive version of an HMO -- may fix your car faster than others because you won't have to wait for an adjuster, or argue over repair costs. However, because of their mandate from the insurer to keep repair costs low, such shops may stint on quality. It's probably better to find a repair shop whose reputation you trust; if it happens to be on your insurer's list, so much the better.

Watch out for "generic" replacement parts, particularly hoods and fenders. They may not fit or resist rust as well as parts by the company that made the car, the original equipment manufacturer (OEM). Before you authorize the repair, scan the repair order for generic parts labeled LKQ (like kind and quality). Most likely, you'll prevail if you insist on OEM parts.

If you can't convince your insurer to supply OEM parts and your car is fairly expensive, consider paying an appraiser to determine if your car's market value is significantly lower after the repair. Your policy should enable you to collect the difference between the old and new values.

The insurer may decide your car is totaled -- even if it still looks drivable. In insurance lingo, "totaled" means the car's market value, after the deductible, is less than the restoration costs. In other words, it would theoretically have cost less buy the exact same car of the same age than to repair your car. The insurance will just pay you the value of the car rather than paying for repairs.

If your car was in exceptional condition prior to the accident, provide whatever documentation you can to support that fact. Otherwise, the totaled car will be valued as if it were only in average condition. After making a claim for a totaled car, you probably don't want to keep buying comprehensive protection on the same vehicle. (If you have another accident in the same vehicle, it will be much more difficult to prove to the insurance company that a twice-totaled car has any value for which it's worth compensating.)

Information is the best protection :

Whatever your claim, your best protection are good records. After a car accident, take down the names and license numbers of all drivers involved, and identify any witnesses. Record your version of the event; take photos, if possible. Get the police report. Call your insurer as soon as you're able, *and keep notes of all related conversations. Track resulting medical, home-care, baby-sitting, or housekeeping bills, since some policies cover a portion of those costs.*

Add this to your reading list ....

Eyeball your policy now, because you'll be most satisfied with your settlement if you know in advance what's covered. Pay particular attention to the exclusions section, which, as the name implies outlines what's not covered.

Why subject yourself to the torture of reading all that insurance mumbo-jumbo? An insurer's definitions can make the difference between comfort and calamity.

Although it will cost you more, report it to the company when your teenager's ready to drive. To be sure, the insurer would probably pay if a teenager, not mentioned on your policy, were in an accident. But they would drop you immediately afterward for dishonesty. Finding coverage once you've been dropped can be a nightmare, so upfront honesty is the best policy.