

Week 7 - Financial Football

Car Insurance

What is auto insurance?

Auto insurance protects you financially in case of an accident, damage to your car, damage to someone else's car or property, or injuries resulting from an auto accident. It is a legal agreement between you and your insurance company. You pay a premium, and the company provides coverage.

What coverages does auto insurance provide?

In most states auto insurance provides bodily injury liability, property damage liability, uninsured motorist bodily injury, underinsured motor vehicle bodily injury, medical payments, collision and comprehensive coverages.

What is liability coverage?

Bodily injury liability and **property damage liability** coverages pay for what you are financially responsible for after an accident. Why is liability so important?

Medical bills can be very expensive. And even if you can afford to pay the medical bills and property damage, a lawsuit and the cost of a lawyer can run into the tens of thousands of dollars.

Explain the difference between uninsured motorists and underinsured motorists coverage.

Underinsured motorists coverage covers the gap between the amount of coverage "the other guy" has and the actual amount of damage, medical bills, etc. resulting from an accident. The person at fault has insurance, just not enough insurance. Uninsured motorists insurance covers you and your passengers if the person at fault does not have insurance at all.

What is the difference between collision and comprehensive coverages?

Comprehensive coverages pay for physical damage to your car. For example, if your car is stolen, dented by a rock or a falling tree limb, demolished by an explosion, painted by vandals or flipped over by a tornado, the damage is covered by comprehensive. Collision covers damage to your car when you collide with another object.

Why will a driver under age 25 pay more insurance than a driver over 25?

Statistically, young drivers cause more accidents and more damage than drivers

over 25. Also based on statistics, married people and women are responsible for fewer accidents than singles and men. Insurance companies use these statistics to determine how much of a risk you are. The greater the risk, the higher the insurance costs.

List some of the things that affect the cost of auto insurance.

We've already mentioned age, gender, marital status and number and types of auto accidents and traffic violations on a person's record.

The type of car you drive is important in terms of insurance coverage. Sports cars cost more to insure.

The amount and type of insurance and the deductible amount also make a difference in the cost of coverage.

What does 20/40/15 mean?

Numbers like 20/40/15 are the dollar limits (in thousands) for auto liability insurance. The first number is the amount of bodily injury liability coverage you have for injuring or killing one person in an accident. The second number is also for bodily injury liability, but this number represents the total for all injuries or deaths in an accident. The third number is the limit of your property damage liability.

Why are deductibles important?

The higher the deductible, the lower the premium. This is because you are agreeing to pay for and assume responsibility for a larger part of a loss.

What you should know about auto insurance basics:

Do you obey the rules of the road? Do you always wear a seat belt? Great! You're a good driver. But even great drivers need car insurance. Accidents happen. Sometimes it's your fault. Sometimes it's the other person's fault. Sometimes there's no one to blame. Whatever the situation, car insurance can help you pay for medical bills and car repair. Many states require drivers to have some auto insurance, and they specify the minimum requirements.

What does car insurance cover?

The basic types of coverage include:

Liability. There are two types of liability insurance:

Bodily injury liability. If you kill or injure someone else in a car accident, your insurance company pays for things like:

1. legal fees (if you're sued),
2. medical bills, and
3. lost wages of the other person if you are at-fault.

Property damage liability. Whether you smack into another car or plow down your neighbor's mailbox, the insurance company pays for damage to someone else's property if you are at-fault.

Uninsured motorist bodily injury coverage (UM). This covers you for your bodily injury caused by a hit-and-run driver or an at-fault driver who has no auto liability insurance.

Underinsured motor vehicle bodily injury (UIM). Sometimes drivers try to save money by cutting back on the amount of insurance they have. It may seem like a good idea ... until they have an accident. This coverage pays the difference between your UIM limits and the liability limits of the at-fault driver, if lower than your UIM limits. UIM limits differ between states.

Medical payments. Covers medical bills and funeral expenses for you, your family and passengers whether you caused the accident or not. You're also covered if you're injured in someone else's car, riding a bike or if you're hit by a car or truck while walking down the street.

Collision. A type of coverage that pays for damage to your car if it collides with another object. To figure out how much our insurance company will pay to fix your car, a claims adjuster may look at the damage, or you'll have to get estimates from body shops. If your car is "totaled," you get what your car is worth if you had sold it right before the accident.

Comprehensive. Covers the physical damage to your car from most other causes such as fire, theft, hail, etc. This coverage may be required by your lender if you have a loan on your vehicle.

How am I going to pay for auto insurance?

Good question. Because drivers under 25 are more likely to get into an accident, insurance companies charge them more. If you get a ticket for speeding or running a red light, your insurance costs may go up. Cars that are more dangerous to drive (like convertibles) or cost more to repair if they're damaged (like sport cars) cost more to insure. And if you live in a big city, the chances your car will be hit, stolen or vandalized are higher — and your insurance costs will be, too.

You can keep your costs down

Keep your insurance costs down by avoiding violations and accidents.

Get good grades. Some companies give discounts to students with a B average or better.

Increase your deductible and your premium will go down, but you will pay more out of pocket each time you have a claim.

Choose your vehicle carefully. Some vehicles cost more to insure than others.

Consider the age and condition of your vehicle. Physical damage coverages may not be cost efficient for older vehicles.

Consider purchasing insurance through the same company your parents use. You could get a discount.

Know the limits to your coverages

For example, the limits may be 20/40/15. This means the company will pay up to \$20,000 bodily injury liability if one person is injured or killed in an accident; \$40,000 total for all bodily injury liabilities in an accident (more than one person hurt); and \$15,000 property damage liability.

I'll pay some, you pay the rest

A deductible is an amount you agree to pay for repairs in case of an accident. They usually range from \$0 to \$500 (collision and comprehensive coverages have separate deductibles). If you have a higher deductible, your premium will be lower.

Vocabulary:

Agent — A person who sells insurance — your direct contact with an insurance company.

At-fault — You did something to cause an accident.

Claim — A request for payment under the terms of an insurance policy.

Insurer — Insurance company or anyone who provides insurance.

Moving violations — If you break the law by speeding, running a stop sign or driving under The influence, etc., you'll get a ticket. Parking tickets are not included.

Policy -- A written document that serves as evidence of an insurance contract and contains the pertinent facts about the policy owner, the insurance coverage, the insured, and the insurer.

Premium — The monthly amount you or your employer pays in exchange for insurance coverage

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