

THE CIRCLE OF SAFETY

Car Insurance: Don't Let It Drive You Away... Or Into the Poor House!

By Amy Vollmer, Personal Insurance Manager, CSC Insurance Options

What you'll discover in this report:

- **Insider secrets about how insurance companies price your insurance**
- **How *not* to get ripped off when you do buy protection**
- **How much to buy...how much not to buy**
- **Little known facts about the *six* different kinds of insurance in a standard auto policy**
- **Who's really covered...who's not!**
- **How do you get the most for your money? 11 ways to SAVE MONEY on your car insurance...**

There are several ways you can purchase insurance for your car(s). You can buy it over the Internet at literally hundreds of different web sites. You can call an 800 number and buy it over the phone directly from an auto insurance company. You can call an insurance agent. In some cases, you can buy it at your bank or credit union.

It's not surprising you can buy it so many ways. After all, there are hundreds of insurance companies that sell auto coverage in your area. How do these companies differentiate themselves? Some brag about their superior service when you have a claim. Some tout how easy it is to buy from them. But, often, auto insurance companies try to compete on price. Just as if you were buying a plane ticket, a radio or soda pop.

*** Tip. Some people believe auto insurance is just a commodity. It's not.**

You're not buying a soda. You're protecting your financial well being...and the choices you make could affect you for the rest of your life. But before explaining how complex auto insurance products are, let's talk about price. It's pretty complex, too.

No Insurance Company Has the Lowest Price for Everyone

*** Note. No auto insurance company – no matter what it says in its ads – offers the lowest price for every driver in every location.** There are companies that are often among the lowest. And there are companies that are usually among the highest. But no company is the lowest for everybody.



* **Tip. Also, be aware that prices fluctuate.** Sometimes companies “buy the market” with low prices to gain new consumers...then their prices gradually – or not so gradually – sneak up.

They also have to change prices based on their profitability, losses and other factors.

Every company has a slightly different appetite for the risks it wants to take on. Some insurers want only very good drivers who have no tickets and no accidents. Some companies, believe it or not, actually want bad drivers. In fact, these companies specialize in insuring people with lousy driving records.

Some companies target drivers who live in certain areas. There are insurers that really like to do business in big cities, and there are others that would prefer to stay away from highly populated areas.

* **Tip. Remember that sometimes “you get what you pay for.”** The cheapest option may not provide you or your family with the best protection. The saying goes, “you don’t need insurance until you have a claim.” When you *do* have a claim – something that goes wrong – that’s a terrible time to discover you don’t have adequate protection!

If you think auto insurance is a commodity, consider this:

A person with a good driving record will pay three, five, even 10 times *less* than a driver with a couple of tickets, an accident or who has been cited for and convicted of driving under the influence.

A person who lives in a major city – say Los Angeles, Chicago, Houston or Denver – will pay three, four, even five times *more* than someone who lives in a rural area or small town, even though the two have the same driving records.

* **Example.** The last two paragraphs are average differences. Auto insurers are all over the map on prices in a given area. Say you live in Everywhere, U.S.A. (don’t we all). Say you have a good driving record. One insurance company might charge you \$500 a year for a policy that provides almost every coverage available. Another insurer might charge you \$1,500.

As you can see, it can pay to shop around. Just be sure:

1. You really understand the different coverages in your policy, or,
2. You have an agent you really trust who can examine coverages and prices for you.

Auto Insurance: How Much Should You Buy?

So far, we’ve been talking about “auto insurance” as if it were, well, a commodity. The fact is you can buy a lot of auto insurance or a little. Most states (more than 40) require you to have auto insurance.

But they don’t require you to have much. In states that have so-called mandatory auto insurance laws, all you are required to buy is a little bit of liability coverage. This is so you can pay for some of the damage your car does to *other* cars and *other* people not in your car.

How much are you required to buy? In most states with mandatory auto insurance laws, the minimum needed is liability that provides 1) \$15,000 for *any* person involved in an accident with you, 2) a maximum of \$30,000 for *all* persons in the accident, and 3) \$5,000 for damage to the other vehicle(s) involved. That’s not much. In fact, it’s next to nothing.

* **Tip.** The minimum amount of insurance required by most states is not much. Seriously consider getting more protection in order to protect your financial health.

* **Note.** Notice that mandatory auto insurance laws do not require you to buy coverage for your own car. Or coverage for your injuries. Or coverage if you are hit by someone who doesn't have insurance.

If you buy just the minimum coverage required by law, you are leaving your assets at considerable risk. Your car, obviously, and your home, if you are at fault in an accident that causes serious injuries to the other parties.

How far do you think \$5,000 will go if you total somebody's Lexus? Not far enough!

Little Known Fact: There Are Six Distinct Coverages in an Auto Policy

The auto insurance "commodity" is actually a product with six distinct coverages:

1. **Bodily Injury Liability** – It pays the medical and other expenses of those people injured or even killed in accidents you cause. This is required by most states, usually with a minimum coverage of \$15,000 for any person involved in an accident with you and no more than \$30,000 for all the persons in the accident.
2. **Property Damage Liability** – It covers the damage your car causes to property. Usually, that's the other car or cars involved in the accident, but it also covers damage you do to any object you hit. Garages, buildings, lampposts, fences, whatever. This is also required in most states, usually with a minimum coverage of \$5,000.
3. **Collision** – This is for damage done to your car when it collides with other vehicles (your fault) or other objects (again, your fault).
4. **Comprehensive** – This covers damage to your car that results from something other than a collision with another vehicle. As examples, damage caused by vandals or a wind-blown tree hitting your car. It also includes coverage for theft.
5. **Medical Payments** – It pays medical, and even funeral, expenses for you as well as members of your family and passengers in your car if it is involved in a collision, regardless of who caused the accident. It also covers you as a pedestrian if a vehicle hits you.
6. **Uninsured/Underinsured Motorist** – This pays for injuries to you and, in some policies, damage to your car if you are hit by a driver who doesn't have insurance – or by someone who doesn't have enough insurance to cover your losses. In most states, more than 10% of motorists don't have any insurance. In some states, as many as three out of 10 drivers don't have coverage.

Many of those who do have insurance don't have enough to cover the damages and injuries that would result in a major collision. If you don't have this coverage, which is often referred to as UM/UIM, you are taking a risk. UM/UIM also provides coverage for any injuries you suffer if you are hit while walking or riding a bicycle by a driver with inadequate or no insurance.

There are Even More Coverages Available...

There are additional coverages you can buy. You can purchase towing coverage, which will pay the costs if your car needs to be transported after an accident. If you're a member of an auto club, you don't need this coverage.

You can buy rental reimbursement, which will pay for a rental car you use while your vehicle is being repaired. (If the accident was not your fault, the cost of the rental car is automatically picked up by the other person's insurance company.)

What are the Various Options for These Different Coverages?

There are six main coverages in an auto insurance policy, but numerous options to consider for each coverage. How much insurance do you need?

Bodily Injury Liability – You can buy the minimum required by law, say \$15,000 per person, \$30,000 per accident. Or you can buy limits as high as \$500,000, even \$1 million. Remember that someone you hit can sue you for everything you have.

*** Tip. If you have a home, own stock and have a decent income, you should probably buy, at *minimum*, limits of \$100,000 per person, \$300,000 per accident.** If you have more than \$300,000 in assets, you should buy higher limits or an umbrella policy. *Consult with your professional agent about this!*

Many auto insurance companies now sell what are called combined single limit (CSL) coverages, which have no per-person limit. If you buy \$300,000 CSL, your policy will pay a maximum of \$300,000. All of that could go to one person, if needed.

Some companies include property damage liability in the CSL, which means that if you total someone's antique car, your policy could pay up to \$300,000 for property damage. CSL coverage costs more than traditional limits, but it can be worth it if you have any significant assets.

*** Tip. Many insurance agents believe CSL is so important to have, they strongly urge their clients to buy it if it is available.**

Property Damage Liability – Several years ago, \$25,000 was considered the maximum most people needed for this coverage. Not anymore. There's a lot of \$50,000, \$60,000, even \$70,000 cars and sport utility vehicles on the road these days.

*** Tip. Because of all the super-expensive cars on the road today, you should seriously consider at least \$50,000 of coverage,** assuming you don't have CSL coverage; \$75,000 might be preferred.

Collision – Consider how much you can afford to pay to have your car fixed if you have an accident. Auto policies have several deductible options.

*** Note.** Deductible? That's the part *you* pay before the insurance kicks in. You can buy deductibles of \$100, \$250, \$500, even \$1,000. Obviously, the lower the deductible, the more this coverage will cost.

Unless you're planning to have a lot of accidents, it's probably a good idea to have a deductible of at least a couple of hundred dollars. (By the way, the deductible does not apply if someone else hits you and that person's insurance is used to pay for your car's damages.)

Comprehensive – Like collision, there's a deductible with comprehensive, although it is often lower. For example, if you have a \$250 deductible for collision, your comprehensive deductible will be, say, \$100.

* **Note.** While collision and comprehensive will pay for the damage or loss to your car, neither coverage will pay for everything *on* or *in* your vehicle. Most policies exclude things like CB radios, two-way radios, car phones, cassettes and CDs.

Further, if you add special features to pickups, vans or SUVs, these things probably will be excluded as well. In fact, it's a good idea for you to talk to your insurance agent about any high-tech equipment or special features you have added to your vehicle.

Many, perhaps even most, of these features aren't covered in the standard policy. It is possible, however, to obtain special coverage for the high-tech equipment or special features in your vehicle. Your agent can advise you of the options.

Medical Payments (also called Personal Injury Protection) – Some people elect not to buy this coverage because they believe their health insurance is enough in this regard. That's true – to an extent.

* **Note.** **Unlike your health insurance, medical payments coverage can reimburse you for income lost as a result of injuries suffered in an auto accident.** However, medical payments coverage is not nearly as comprehensive as most health insurance plans. Still, medical payments coverage, which usually costs less than \$100 a year, is probably a good buy for most people.

In addition, medical payments coverage provides protection for passengers in your vehicle for medical expenses incurred and income lost. In some states, medical payments coverage is not relevant. These are states that have so-called no-fault auto insurance systems. Basically, regardless of who's at fault, your insurance company pays for damage to your car and/or injuries you incur. Personal injury protection is included as part of your coverage.

Uninsured/Underinsured Motorist – For most people, it's a good idea to have the same limits for UM/UIM as they have for bodily injury liability. But remember, UM/UIM coverage is for *you*. It pays for your injuries and, in some policies, damage to your car if the person at fault in an accident with you cannot. Since you based your liability limit on what you have to lose, you should do the same with UM/UIM.

Who Is Covered When You Buy Auto Insurance?

All the coverages in your auto policy apply when you are driving, but *they also apply when other people are driving your vehicle*. The coverages are actually for the car, not the person.

* **Note.** However, if someone is going to be a regular user of your car, that person's name needs to be added to the policy.

Your insurance company wants to know who's going to be using the car. That stands to reason. After all, you could be a great driver, with no tickets or accidents. But your spouse, your teenage child, your reckless cousin could be a lousy driver.

If you let these people drive your car without telling your insurer and these people keep getting in accidents, your insurance company isn't going to be very happy. In fact, *the company will probably cancel your policy*.

*** Tip. It's not wise to risk losing your policy by failing to disclose who's driving the insured vehicle.** Keep in mind, however, that if you add drivers with lousy records or who haven't had much driving experience, your premiums will definitely go up.

Any parent of a driving teenager can tell you this. Teenagers are notorious for getting tickets and having accidents. They are also very inexperienced drivers. As such, when your child gets his or her license, your insurance premiums will go up when you add your child to the policy.

If you buy all six of the major auto insurance coverages, your policy will cover you in most every instance in which you cause damage or injury to your car, yourself, your passengers, or drivers and passengers in other vehicles. But not all.

*** Note.** The standard auto insurance policy has some "exclusions," which is insurance-ese for, "We won't cover that." Here are some examples where your auto policy won't provide coverage:

- If you intentionally try to cause damage to your car or another vehicle. This includes liability coverage.
- If you are using the vehicle to transport other people for a fee. (This does not apply to car pools where the expenses are shared.)
- If you are using the vehicle for certain business activities. This does not include traveling to see clients or taking a standard business trip.
- For damage caused by normal wear and tear, freezing, mechanical or electrical breakdown, or road damage to tires.
- If your car is damaged because of radioactive contamination, intentional or accidental discharge of nuclear weapons, war, insurrection, rebellion or revolution.

Important Question: What Are You Using Your Vehicle For?

You can get sideways with your insurance company because you haven't been upfront about how you are using your vehicle. For example, do you drive your car to work? If so, you will pay more for auto insurance than if you take mass transit. In fact, the further you have to drive to work, the more you will pay.

*** Tip. If you drive to work and tell your insurance company you don't, you have basically committed fraud.** Resist this common temptation, even if it will save you a few dollars.

*** Example.** Say you have an accident on the way to work. Say, also, that you have told your insurance company you don't drive to work. Your insurer could technically argue that it is not obligated to provide coverage. It is unlikely, however, that this will happen.

Why? Because the insurer would have a difficult time proving that you drove every day. Perhaps this was a one-time thing, or a fairly rare event. In any case, by lying about driving to work, you've given your insurance company a good reason to cancel your policy.

Honesty is the best policy when it comes to insurance. Insurance fraud is a huge problem in this country. Claims are frequently padded with nonexistent damages. Accidents are staged. Injuries are faked.

*** Fact. It is estimated that fraud accounts for as much as 25 cents to 30 cents of every auto insurance premium dollar.** Think about that. If even half the auto insurance

fraud in this country were wiped out in the next year, you would pay 12% to 15% less for your next policy.

Personal Car for Business, Company Car for Personal Use

Do you use your personal car for business? Do you have access to a company car? If the answer to either question is yes, you could have potential coverage gaps.

* **Example.** Let's say you use your personal car for business. It's possible your employer is providing some coverage for you through your employer's commercial auto policy. *Some* coverage. For the most part, the coverage is for liability only, and often this commercial auto policy doesn't even apply until the limits on your personal auto policy are exhausted. (This is what insurance people call "excess" coverage.)

* **Tip.** You should talk to your employer about what, if any, coverage is available to you through the company's commercial auto policy. That way, if you have an accident while on company business, you know who (or which insurance company) to call.

If you use your personal car for regular business purposes – trips, visiting clients, etc. – your personal auto policy probably provides enough coverage for these activities. (Assuming you have "enough" coverage to begin with.)

But what if your car is actually a source of revenue? You make deliveries, for example. In that case, you likely need a commercial auto policy as well.

* **Note.** In fact, if you have an accident while delivering a product or using your car as a taxi, your personal auto insurer may well deny your claim. Talk to your agent to make sure you have coverage for all the business activities for which you use your car.

What about company cars? Well, they can be an insurance problem, if you use the company car for business and pleasure, and particularly if you don't have a car of your own. If you don't have a car, you probably don't have a personal auto policy. If you don't have a car (or personal auto coverage), but use a company vehicle for pleasure, you are inviting disaster if you have an accident during a pleasure trip.

* **Tip.** If you are in this situation, you should have what is called a **non-owned personal auto policy**. Such a policy can also come in handy if you don't have a car and you rent a vehicle on a trip. Your non-owned auto policy will cover you and your rental car if you have an accident. Otherwise, you would probably need to buy coverage from the rental car company, coverage that is very, very expensive.

* **Tip.** You can have coverage gaps even if you have a personal auto policy and use a company car for pleasure. Or if your spouse and/or children use the company car for pleasure. Find out from your employer the extent of coverage that is available for your corporate car. Once you know the extent, talk to your insurance agent about what additional coverage you might need.

How Do You Get the Most for Your Money? 11 Ways to Save Money on Your Car Insurance...

So you're shopping around for auto insurance. What do you need to know? Well, there are lots of ways – *at least 11* – that you can save money. Many of these money-saving ideas may apply to you.

1. **One Insurer, Multiple Policies** – Do you have a homeowners or renters insurance policy? If so, is it with the same insurance company that provides your auto insurance? If the answer is no, *you're paying too much – for both policies*. Almost every insurance company that sells auto insurance wants its policyholders to also buy homeowners or renters insurance from that company.

These insurers offer so-called multi-policy discounts. Usually, these discounts are at least 10% and some insurers apply the discounts to both the auto and the homeowners/renters policy.

*** Tip. Talk to your agent about multi-policy discounts.**

2. **Good Driver, Good Price?** – It's no secret that the better your driving record, the less you will pay for auto insurance. But did you know that most people qualify as "good drivers" and are eligible for discounted premiums? Some good drivers pay a lot more than others, however.

Many auto insurers are actually a collection of several insurance companies in which each caters to a certain type of driver. The worst drivers go in one company, the best in another, and a lot of people wind up in one of the middle companies.

These middle people pay less than the worst drivers, but more than the best. The thing is, many of these middle people have driving records that are just as good as those who are insured by the companies that offer the lowest rates. Yet these middle people are paying more. Why?

The usual reason is that they don't know any better. No one told them which insurance company in the group had the best prices. And, probably, no one told them there was even a group of insurance companies. If you have a spotless driving record, there's no reason you shouldn't be paying the lowest price a group of insurance companies has to offer.

*** Tip. Make sure you're getting the best discount for your driving record.** Talk to your agent. And remember, be a safe driver. It will save you money.

3. **The Beauty of the Bus (or Other Mass Transit)** – Do you drive to and from work? If you do, you are literally paying a premium to do so. Insurance companies charge you significantly higher premiums if you drive to work. And, the longer your commute (in miles, not minutes), the higher the premium.

*** Tip. Some drivers should consider mass transit.** Yes, there's a price there, too. But you will reap the savings of gas and lower insurance costs.

4. **Low Mileage, Low Price** – On average, people drive 1,000 to 1,250 miles a month. That is what insurance companies consider average use.

*** Tip. If you drive less than the average, you could be eligible for low-mileage discounts, which some insurers offer.**

5. **High-Profile, High-Cost** – The type of car you drive is a major factor in what you pay for insurance. Is your vehicle a magnet for thieves? Is it more expensive to repair than most cars? If the answer to either of the last two questions is yes, you're paying more than the average car owner for insurance.

* **Note.** To get detailed information on your vehicle(s) – or a vehicle you’re thinking of buying – write to the Insurance Institute for Highway Safety at 1005 North Glebe Rd., Arlington, VA 22201 and ask for the “Highway Loss Data Chart.”

6. **Raise Your Deductible** – The deductible is the amount you pay before insurance kicks in if you have a claim. For example, if you have a \$250 deductible and you have an accident in which your car sustains \$1,000 in damage, you pay the first \$250 and your insurer pays the balance, \$750. The lower the deductible you choose, the more you pay. If you have assets, you can probably afford to absorb at least \$250 and probably \$500 if you have a claim.
 - * **Tip.** If it’s been years since you’ve had an accident, you may be better off raising your deductible and paying less each year for insurance.

7. **Drop Unnecessary Coverages** – Let’s say you have an older car, one not worth very much. There’s really little point in having collision and comprehensive coverages. You don’t have much to protect. Remember, too, that you have to subtract your deductible from any potential payout you might get.
 - * **Tip.** As a general rule, any car worth less than \$1,000 shouldn’t have collision and comprehensive coverage. Between the deductible and the extra expense of these coverages, the cost is probably greater than the benefit. How much is your car worth? An auto dealer can tell you, or there are plenty of books that have values of vehicles going back many, many years.

8. **Discounts, Discounts, Discounts** – Auto insurance companies offer several discounts for a variety of reasons. The car has automatic seat belts, air bags, anti-lock brakes, anti-theft devices, etc. The driver is a good student, which is especially valuable if you have teenage children who will be on your policy.
 - * **Tip.** Make sure you are taking advantage of all the discounts available to you!

9. **Taking the Defensive** – Many insurance companies also offer discounts to those who have taken defensive driving courses recently.

10. **Low-Cost and High-Cost Areas** – Are you planning to move? If you are, you should take into account the cost of insurance. Generally, the more urban the area, the higher the premium. The costs can vary even within a community.
 - * **Fact.** Rates can really vary from state to state. If you’re living in New Jersey, Massachusetts or Hawaii, you’re paying several times more, on average, than you would in North Dakota, South Dakota or Idaho.

11. **Credit Where Is (Or Is Not) Due** – Is your credit record better than your driving record? If you have a good credit record, you could be eligible for discounted premiums from several auto insurance companies.

* **Fact.** Many insurers now use your credit history as a major factor in determining what to charge you for auto insurance. In some cases, with some companies, you could save money by shifting your business to an insurer that uses credit as a rating factor – even if you have a so-so or poor driving record. There is another side to this coin. If you have a poor credit history, you could save money by moving your auto insurance to a company that does not use credit as a rating factor. Many insurers do not use credit as a factor.

* **Tip.** **Regardless of your credit status, you should talk to your agent to make sure you have the best situation given your credit record, good or bad.**

Whatever your driving record or coverage needs, you should shop around, or let an experienced insurance professional shop around, for the best deal for you. There are thousands and thousands of coverage options from hundreds and hundreds of insurance companies.

In addition, not only should you try to get the best deal you can, you also need to make sure you have all the coverage you want/need. Using an Independent Insurance Agent is usually your best bet to get the most value for your auto insurance dollar.

Be a smart consumer...but don't try to be your "own agent." Protection for you and your family requires constantly vigilance....and a partnership between you and your professional agent. For the latest information on how to save money AND get the best protection for yourself and the people you care most about **call CSC Insurance Options at 724-929-2300 or 1-800-734-2727.**