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HEG79-104 Auto Insurance Insights

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Auto Insurance Insights

This publication examines the basics of auto insurance.

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Transportation costs are the third largest expense category for the average family, claiming up to 20 percent and more of family take-home pay. One of the liveliest topics of conversation is the high cost of auto insurance coverage and ways to cut premium costs.

Automobile insurance rates are based on the total amount of claims paid by the insurance companies. More accidents involving people insured in a company mean more claims that must be paid; and therefore, a higher cost for auto insurance.

Rates vary throughout the country based on whether the area is a city, suburb, or rural area. Other determinations for the premium rate include whether the car is driven for pleasure or business, the distance involved if the car is driven to work, the type of car involved, the age and marital status of the drivers, the safety record of the involved drivers, drivers education, honor students status, and whether there is more than one insured car.

Nebraska requires that its drivers be financially responsible. In the event of an accident, they must be able to cover any bodily injury or property damage caused by the car. This coverage will be explained in more detail in the next section. All states have financial responsibility laws designed to keep off the highway those drivers who cannot pay for the damages or injuries they cause. In Nebraska this is possible through the use of accident reports that must be filed with the police at the time of the accident, plus a special report filed with the Accidents and Records Bureau of the Department of Roads in Lincoln.

Nebraska law requires that all accidents involving bodily injury or a hit-and-run situation be reported immediately. Accidents involving a fixed object or \$250 or more in property damage must be reported within 10 days of the accident. In event of an accident with a fixed object such as a mailbox, the driver should try to locate the owner. Otherwise, a note with the name, address, and license number of the driver should be left on the damaged property. It is always wise to notify your insurance company as soon as possible.

Basic Coverages of Automobile Insurance

Liability Insurance

This coverage is available in all states, but the required minimum amount varies. The coverage provides protection in the form of legal defense if you are legally liable for the damage.

Bodily injury liability--pays for injury, sickness, or the death of others if you are held liable.

Property damage liability--pays for the property damage loss caused by your car to property of others.

Both the bodily injury and property damage liability coverage protect the members of your immediate family if you or they drive someone else's car with their permission. Bodily injury and property damage liability are usually written together on the policy.

Insurance companies in Nebraska are writing minimum liability coverage as 25/50/25. This means:

- 25 -- \$25,000 for bodily injury, liability (or death) for one person.
- 50 -- \$50,000 for total liability for all injured (or killed) in a single accident.
- 25 -- \$25,000 for the property damage in a single accident.

With high medical costs and increased cost of new automobiles, this minimum coverage may not be adequate.

Umbrella Coverage--provides excess liability protection over primary or underlying insurance such as automobile, home, etc., where applicable. Usually, most insurance companies require the client's combined liability coverage to be at least \$250,000 to \$300,000 for the umbrella policy to come into effect. Beyond this basic policy, most companies will write an umbrella policy for up to one million dollars at reasonable cost.

It costs very little to increase this coverage and helps prevent the risk of financial disaster from a liability case.

Medical Payment Insurance

Under this coverage, the insurance company pays, to the limits of the policy, the medical expenses resulting from accidental injury for you and your immediate family whether you are in your own car, someone else's car, or walking. Coverage also applies to passengers in your car. Payment is made regardless of who is at fault. Companies sell coverage in amounts from \$500 to \$10,000. This limit applies to each person injured.

Protection Against The Uninsured Motorist

This coverage applies only to bodily injury, not car damage expenses. It provides immediate payment for you and passengers in your own car, while riding in someone else's car, or while walking. This is a good coverage for the accident caused by the hit-and-run driver or by the uninsured motorist who causes the accident. The premium is small for this protection because risk is small.

Uninsured motorists coverage for medical expenses is now required. This insurance coverage pays "excess" expenses, which means that health insurance covers the expenses first.

Comprehensive Physical Damage

This pays for loss if the car is stolen or damaged by hail, fire, hurricane, and mechanical breakdown or wear and tear on the car. Comprehensive physical damage coverage is usually considered a must on a new car. A deductible can be written into the contract.

Collision Insurance

This covers damages to your car that are the result of a collision, regardless of who is at fault. It does not cover injuries to people or damage to the property of others. Insurance companies restrict their financial responsibility to the "actual cash value" of the car, which is determined by the car's age and condition. Collision insurance is important on a new car, but may be difficult to justify when the car gets old and has a low actual cash value. Full collision insurance is rarely offered, and generally a deductible of \$100 or more is written into the contract. Deductibles are always paid by the policyholder. The larger the deductible, the smaller the premium.

Towing service may be added to your automobile insurance. This service covers the cost of towing your car to a garage if it breaks down. Considered a frill by many people, it may be of value to you if you travel much.

Pointers for Policyholders

- Do comparison shopping before you purchase automobile insurance. Get quotes from several different companies.
- Don't assume you have a grace period for paying your auto insurance premium. Don't assume you can save money by failing to report the purchase of a new car or a second car on your current policy. Automatic transfer coverage may be available for a limited time if you trade cars or buy a second one, but only the existing limits in your policy would apply.
- When comparing prices, make sure you compare identical policies. You may not get accurate and complete information over the phone because pertinent facts are not readily disclosed during a phone conversation. It's unlikely that your driving record will be discussed when asking for an oral quote. This information could drastically alter your premium.
- Don't mistake price comparing with bargain hunting. A cheap policy may be no better than no insurance at all. Having a company that will honor claims is, after all, why you have insurance. Check with friends about your successes on claims service when making decisions about the company.
- Special rates are a good way to trim costs. If you and your family have had drivers training, have two cars, do not smoke or drink, have had no accidents, or your car has a safety bumper, you may be entitled to special discounts.
- Have the company rather than the agent bill you for the premium. Pay your premium yearly rather than semiannually to save.
- Deductibles on collision and comprehensive physical damage coverage will allow you to do the most cost cutting. The larger the deductible provision, the lower your premium.
- The most important coverage is liability. If you can afford it, put some of the money you saved by cutting costs toward additional bodily injury insurance. There's always the chance--no matter how remote--that you may seriously injure or disable another person. Additional limits on liability insurance are relatively inexpensive. A 100/300/25 policy will cost about 40 percent more than 15/30/10 policy, even though the coverage is increased by some 1,000 percent.
- Be sure to check your present policy and needs to determine what must be done to keep your auto insurance up-to-date.

- Consider dropping collision coverage when the car's value is so low you can stand the loss yourself. The company will not pay any more than the car is worth, and that may be what is costs you annually to pay for collision coverage.
- Don't try to cut costs by reducing your liability coverage. Consider an "umbrella" liability policy for all your property.
- Drive safely and defensively. Almost any accident will raise your premiums.
- Cut down on the number of miles you drive each year. Use mass transportation or carpool whenever possible.
- Check to see if your company has a policy that combines coverage for car and home with a lower premium.
- Pay premiums annually rather than monthly or quarterly.

For information and answers to specific questions about your car insurance policy, contact your agent.

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