

# Auto Insurance

by Sophia



## WHAT'S COVERED

In this lesson, you will examine the need for automobile insurance and the key coverage elements to include as part of an automobile insurance policy. You will learn how technology and problem solving skills can help you determine what you need. Specifically, this lesson will cover:

## 1. Overview of Automobile Insurance



### WATCH

Do you own or lease a vehicle? If you do, you know that your state requires automobile insurance. Shopping for auto insurance online and paying premiums electronically is quickly becoming the norm. This is one area where your **technology skill** is sure to come in handy. Check out one person's experience with auto insurance in the following video.

### 1a. Personal Automobile Policy

A key element associated with owning and operating a vehicle is purchasing automobile insurance. For individual drivers, this type of insurance is commonly known as a **personal automobile policy (PAP)**.

- PAP coverage is extremely important when viewed from the context of your lifetime financial journey.
- You want to be able to cover any unexpected damages that might occur in the event of an accident.
- The less you must pay out of pocket for accidents, the more you can save for other goals and obligations.

A PAP provides insurance coverage in case of an accident. Although you might think of insurance as a tool to cover car repair costs as a result of an accident, this is not the primary reason you should buy a PAP. You are really buying insurance to pay any expenses (liabilities) to others in case you *cause* an accident. Rather than being a simple requirement to have insurance coverage for your vehicle, a PAP creates a safety net in case you are at fault in causing significant physical, bodily, or emotional harm to others. A PAP also provides a safety net should you be in an accident caused by an uninsured or underinsured driver.



### BIG IDEA

A PAP pays (1) medical and property damage expenses to others harmed in an accident, and (2) repair costs for your vehicle if your policy extends beyond liability coverage.

All 50 states, plus the District of Columbia, Puerto Rico, and other U.S. territories, require that every driver and vehicle owner have a PAP or some other proof of financial responsibility. There are some exceptions. In

California, you may deposit \$35,000 with the state Department of Motor Vehicles, post a bond, or provide other proof showing that you are self-insured. These situations are rare, so it is best to assume that you need PAP insurance coverage. Keep in mind the following automobile insurance facts:

- PAP insurance follows the car, not the driver. This means that if someone borrows your car and causes an accident, your coverage will be in full force.



Some policies only cover listed drivers, so it is important to check who is listed to drive your car.

- By law, you must carry proof of insurance and present this evidence whenever you are pulled over by a law enforcement officer or involved in an accident. If you do not have insurance or you cannot prove that you are insured, you can lose your driver’s license and your car may be impounded.



**Personal Automobile Insurance Policy (PAP)**

Insurance that helps pay expenses (liabilities) to others in case you cause an accident; some provisions within a PAP can be used to repair your vehicle in case of an accident or other damage.

**1b. Split Limit Requirements**

Most states require that you purchase a **split limit PAP**. The term split limit refers to the functions of the policy: paying for medical and physical damage when you are at fault in an accident. The table below shows recent data for each state’s minimum level of insurance necessary to license a car in the state.

**Table: Minimum PAP Split Limit Coverage by State**

Alaska 50/100/25	Louisiana 15/30/25	Ohio 12.5/25/7.5
Alabama 25/50/25	Maine 50/100/25	Oklahoma 25/50/25
Arkansas 25/50/25	Maryland 30/60/15	Oregon 25/50/20
Arizona 15/30/10	Massachusetts 20/40/5	Pennsylvania 15/30/5
California 15/30/5	Michigan 20/40/10	Rhode Island 25/50/25
Colorado 25/50/15	Minnesota 30/60/10	South Carolina 25/50/25
Connecticut 20/40/10	Mississippi 25/50/25	South Dakota 25/50/25
Delaware 15/30/10	<a href="#">Missouri 25/50/10</a>	Tennessee 25/50/15
Florida 10/20/10	Montana 25/50/10	Texas 30/60/25
Georgia 25/50/25	Nebraska 25/50/25	Utah 25/65/15
Hawaii 20/40/10	New Hampshire 25/50/25	Virginia 25/50/20
Idaho 20/50/15	New Jersey 15/30/5	Vermont 25/50/10
Illinois 20/40/15	New Mexico 25/50/10	Washington 25/50/10
Indiana 25/50/10	Nevada 15/30/10	Wisconsin 50/100/55
Iowa 20/40/15	New York 25/50/10	West Virginia 20/40/10

Kansas 25/50/10	North Carolina 30/60/25	Wyoming 25/100/15
Kentucky 25/50/10	North Dakota 25/50/25	

Let's look at the state of Missouri as an example. Missouri's split limit requirements are 25/50/10, which refer to thousands of dollars (\$25,000/\$50,000/\$10,000). Here is what these amounts mean:

- The first number (\$25,000) is the maximum amount that the insurance company will pay in medical expenses for someone other than you or your family if you cause an accident.
- The next number (\$50,000) is how much, in total, your insurance company will pay for all medical expenses for others involved in the accident.
- The final number (\$10,000) is the maximum amount the company will pay to repair someone else's property that you damage.

For example, if Tommy has a policy with 25/50/10 limits and he is involved in an accident that causes \$9,000 worth of property damage to someone else, his insurance company will pay the claim. In this case, Tommy is fully covered because his policy will pay up to \$10,000 in property damage. If Tommy is involved in an accident that causes \$50,000 in damage to another person's car, he will be personally responsible for paying the extra \$40,000!



#### TERM TO KNOW

#### Split Limit PAP

Common type of personal automobile liability insurance in which the split limits describe the level of coverage in the policy.

### 1c. Other Factors Affecting PAP Premiums

In addition to specific PAP coverage, one of the primary determinants of a PAP premium is your driving record. Better drivers pay less. Worse drivers pay more. Doing any of the following usually, at a minimum, will trigger an increase in insurance premiums and possibly result in a cancelled policy:

- Being involved in accidents
- Getting moving violation tickets
- Committing manslaughter
- Driving while under the influence of alcohol or drugs
- Criminally negligent driving
- Driving without a license
- Driving without insurance

Premiums are also based on other factors. Low credit scores are sometimes used to determine who will be classified as a high-risk driver. This means that if you manage your money well and pay your debts on time, you may get a break on your PAP premium (see Hint below). The table below highlights other factors that can affect the amount you will pay for a personal automobile policy. Although clearly some of these factors are out of your control, there are several that you can influence in your favor.



Anything that affects your driving record will also affect your PAP premiums and, consequently, your financial situation.

Factor	Impact on Premium
Having a good driving record	Decreases premium
Having a high credit score	Decreases premium
Taking a defensive driving course	Decreases premium
Purchasing a PAP with the same company that insures your home and other assets	Decreases premium
Being a good student	Decreases premium
Being male	Increases premium
Being younger than age 25	Increases premium
Living in a city	Increases premium
Owning a luxury car	Increases premium
Using your car for commuting to school/work	Increases premium

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## 2. Liability Coverage

It may be hard to believe, but there are a few drivers on the road who either do not have insurance or carry too little insurance; they are **underinsured**, which means their PAP is not enough to pay a claim if they damage someone else's property.

- Remember, the primary reason you need a PAP is to protect yourself and your financial future in case you cause damage to others.
- **Liability coverage** is intended to pay for medical costs, funeral expenses, lost wages, punitive damages, car rentals, repairs, and compensation for pain and suffering for people in the other car involved in an accident.
- You usually do not need to pay the policy deductible for a liability claim.

In this section, we discuss other types of coverage you need to avoid being underinsured.

### 2a. Collision Coverage

If you happen to damage your own car, **collision insurance** will pay for your car's repairs (your personal health insurance will cover any medical expenses). Collision coverage:

- Insures you, your family, passengers, and others who drive your car with permission.
- Requires that you pay the policy deductible when you make a claim.
- If claimed, pays you for the actual cash value of the repair or value of the car, minus the deductible.

You want to be careful making any claims against your policy. Those with more frequent claims tend to pay higher premiums.



If you own a car older than 7 years, you may want to drop collision coverage because the payment of ongoing premiums may be more than the value of the car.



### **Underinsured**

Drivers on the road who either do not have insurance or carry too little insurance.

### **Liability Coverage**

Intended to pay for medical costs, funeral expenses, lost wages, punitive damages, car rentals, repairs, and compensation for pain and suffering for people in the other car involved in an accident.

### **Collision Insurance**

Coverage that pays for the damage to your vehicle caused by contact with another vehicle or object.

## **2b. Comprehensive Coverage**

**Comprehensive insurance** is an optional coverage that helps pay for damage to your vehicle caused by a non-accident event. Typical events that trigger comprehensive claims are:

- Hail storms
- Broken windshields
- Vandalism

Comprehensive coverage has a deductible, usually around \$1,000, that is different from the PAP itself. As with other elements within a PAP, you should be cautious when filing claims. The more claims, the higher your premium. In some cases, you may be dropped by your insurance company if you file too many claims.



### **Comprehensive Insurance**

An optional coverage that helps pay for damage to your vehicle caused by a non-accident event.

## **2d. Uninsured Motorist Coverage**

As a consumer, you are always balancing premiums paid with having appropriate coverage. It is best to purchase the maximum liability coverage your budget will allow. You should also consider adding **uninsured/underinsured motorist coverage**.

- This additional coverage will pay your medical and property damage expenses above what someone else's policy pays.
- If someone drives without automobile insurance and causes you to be in an accident, you will then be responsible for paying your own expenses.

- Although it is true that you can take someone to court, and likely win a judgement, uninsured/underinsured motorists typically don't have the means to pay a verdict. It can also be very expensive and difficult to take someone to court.

As such, this coverage is needed, but it will increase your premium.



### Problem Solving: Skill in Action

Eileen knew she needed insurance coverage for her new car, but she had just moved to Ohio and did not know what was required. She did her research and she used her problem solving skills to think critically and make decisions about data involving her personal finances and what she needed to comply with Ohio laws.



### TERM TO KNOW

#### Uninsured/Underinsured Motorist Coverage

Additional coverage that pays your medical and property damage expenses above what someone else's policy pays.



### SUMMARY

In this lesson, you covered an **overview of automobile insurance**. Every U.S. state requires drivers to carry a **personal automobile policy (PAP)** to protect them from substantial financial losses in the event of a crash. Most states have a **split limit requirement for liability coverage** such as 25/50/10. This means the state sets the minimum amount of insurance you must carry to cover others' medical expenses and damages should you cause a crash. Aside from split limit minimums, **other factors will affect your PAP premiums** such as your age and driving record. Your technology and problem solving skills can help you determine the coverage you need.

**Collision coverage** and **comprehensive coverage** are two types of insurance that cover you and your car. You can also get **uninsured motorist coverage** to use for expenses if another driver crashes into you and has no insurance or means to pay for damages.

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**Split Limit PAP**

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**Underinsured**

Drivers on the road who either do not have insurance or carry too little insurance.

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Additional coverage that pays your medical and property damage expenses above what someone else's policy pays.