

Insurance Education

www.insurance-education.org

Questions and answers about auto insurance



A project of **Consumer Action**

Auto insurance basics

Questions and answers about auto insurance

This training manual is designed to be used in conjunction with the “Auto Insurance: The Basics” fact sheet (brochure) (www.consumer-action.org/english/articles/auto_insurance_the_basics). There is also a lesson plan and PowerPoint presentation for use by consumer education trainers (www.consumer-action.org/modules/module_auto_insurance).

Table of Contents

Introduction to auto insurance	1
Coverage requirements and options	2
Determining coverage needs.....	5
Shopping for auto insurance	7
Managing auto insurance costs	9
Credit scores and insurance	13
Insurance loss history reports	14
Insurance claims.....	16
Problems obtaining auto insurance.....	19
Insurance complaints and information.....	20
About Consumer Action.....	21
Credit for this publication	22

Introduction to auto insurance

What is auto insurance?

Auto insurance is a legal agreement between you and the insurance company that in exchange for the premiums you pay the insurance company will pay for your covered losses (property, liability and medical expenses). The exact terms of the agreement, including types of losses covered and the amount of the coverage for each type of loss, is spelled out in your policy documents. Most states require vehicle owners to have at least some form of auto insurance.

Why should I buy auto insurance?

There are three main reasons why you might need auto insurance:

- If you own a car, you need auto insurance to protect yourself and others involved in an accident that is your fault. The costs of a single accident could bankrupt you if you had to try to pay them out of your own pocket. Even relatively minor losses could be financially challenging, and some losses could leave you without transportation if you could not afford to replace or repair the car.

- Nearly every state (49) requires that vehicle owners carry some amount of insurance. Not maintaining at least the minimum required amount of insurance is against the law and could result in various penalties.
- If you are making lease or loan payments on your vehicle, the lender will require you to carry insurance so that if the car were to become damaged or totaled, the lender wouldn't lose the collateral for the loan. Not maintaining coverage on a leased or financed vehicle could result in repossession.

Coverage requirements and options

Who is required to have auto insurance?

Forty-nine states and the District of Columbia (everyplace except New Hampshire) require drivers to carry at least minimal auto liability insurance (coverage that pays for the other party's injuries and damage in an accident that is your fault). Since the states set their own minimums, the required amounts vary across the country. If you are leasing or financing your vehicle, the dealer and/or lender will most likely have additional insurance requirements to protect their property (your car).

Why doesn't New Hampshire require insurance?

Though New Hampshire doesn't *require* insurance, it does require that drivers who do not carry insurance prove to the state that they could pay for personal injury damages of up to \$50,000 (if two or more people are injured) or \$25,000 for property damage suffered by others in an accident they cause. If you can't, you risk losing your license and registration. If someone else drives your car and causes an accident, you may still be required to prove your ability to pay these amounts or have your registration suspended.

Many New Hampshire drivers have to purchase insurance because they can't prove the ability to pay these amounts. Most others should purchase insurance because they want to protect their assets. For drivers who decide to buy auto insurance, New Hampshire requires 25/50/25 (see *below*), plus \$1,000 in medical payments. Coverage to repair or replace your own car is not included.

If you are a New Hampshire resident and need more information, call the state's Department of Insurance consumer hotline (800-852-3416).

What are the different types of auto insurance coverage?

Auto insurance coverage includes:

- Liability: pays for injuries to others and damage to their property
- Personal injury protection (PIP), also known as "no-fault": ensures payment for your and your passengers' medical bills by your own insurer even if the accident is not your fault, and may also pay for lost wages, funeral expenses and other losses—not required in most states
- Medical payments: pays your and your passengers' medical bills, up to a predetermined limit, regardless of who was at fault in the accident
- Collision: pays for damage to your car resulting from an accident
- Comprehensive: pays for the theft of your car or damage to your car caused by

something other than an accident

- Uninsured and underinsured motorist: pays for damages resulting from an accident caused by an uninsured, underinsured or hit-and-run driver
- Commercial (business) auto insurance: covers losses incurred in the course of conducting your business

There may also be add-ons to your main insurance policy, such as being entitled to a free rental car while your car is being repaired or replaced, or emergency roadside assistance that provides help if, for example, you have a flat tire, dead battery or run out of gas.

What is the difference between collision and comprehensive?

Collision insurance pays for repairs to your car if you get into an accident and the accident is your fault. (If the accident is the other driver's fault, then his/her insurance pays.)

Comprehensive insurance fixes your car if something happens to it that isn't the result of an accident, such as a broken windshield caused by a pebble or a dented roof caused by a fallen tree branch. It also reimburses you the value of the vehicle if it is stolen.

Both collision and comprehensive have a deductible—an amount you have to pay first, before the insurance kicks in. (See “*What is a deductible?*” later in this section for more information.) (There is no deductible on the liability portion of your coverage.)

What is the difference between personal injury protection (PIP) and medical payments coverage?

These coverages both pay for your and your passengers' medical expenses regardless of who was at fault. But PIP typically provides additional coverage that pays for things like lost wages, funeral expenses and other losses. (PIP is not available in all states.)

Some experts advise forgoing medical payments coverage if you have good health insurance that would cover your medical bills.

Who is required to have no-fault (PIP) coverage?

As of 2014, there were 12 “no-fault” states (FL, HI, KS, KY, MA, MI, MN, NJ, NY, ND, PA, UT). In nine of these, PIP is required coverage. Three of them (KY, NJ and PA) have a “choice” no-fault system, which gives policyholders the choice between a pure no fault system and a modified no-fault system (one in which lawsuits are allowed if both parties to the accident have chosen to retain their right to sue). Choosing the modified system typically is more expensive. In the other 38 states, PIP coverage, if available, is optional. (Learn more about PIP at www.carinsurance.com/coverage-definition/personal-injury-protection.aspx.)

What is “accident forgiveness”?

Some insurance companies sell “accident forgiveness,” an add-on to your policy that keeps your rates from going up after your first at-fault accident. There might be a limit on the claim amount that would be forgiven. In other words, if the accident you caused were major, with a large payout from the insurance company, it might not be overlooked when the next premium period rolled around.

“Accident forgiveness” might not be available to you unless you have a clean driving record and no claims and/or have been a policyholder with the insurance company for a certain number of years. (Some companies offer “accident forgiveness” at no charge to long-term

policyholders with a clean record.) (See the section *Managing auto insurance costs* for information that can help you decide whether “accident forgiveness” is worth purchasing.)

What is “disappearing deductible”?

This is a relatively new program, offered by a few insurance companies, under which the insured is eligible to have his or her deductible reduced as a “reward” for accident-free driving. These programs will cost you, though. And according to Consumer Reports, you’ll probably end up spending more than you would save because of the higher premiums. Learn more at CarInsurance.com (www.carinsurance.com/Articles/vanishing-deductible.aspx).

What is gap insurance?

Gap protection is not really insurance, it’s a debt cancellation agreement that covers the difference (gap) between your outstanding auto loan and the amount the insurer pays you (the current market value of the car regardless of how much you owe on it) if your car is totaled. The gap refers to the negative equity that occurs when you finance all or most of a vehicle (i.e., put little or no money down) and it depreciates faster than you pay down the loan. You don’t need to consider gap protection if you haven’t financed your car or if, during your loan term or lease, you will not at any point owe more than the car is worth.

If you do want gap protection, you typically can buy it through the lender that finances your auto purchase, from an online vendor or from your insurance company. Shop around, not just for price but for coverage, too. Some protection plans reimburse your insurance deductible, and some offer vehicle replacement even if the cost of the vehicle has gone up.

My policy “declarations” page says 50/100/25 next to my liability coverage—what does this mean?

The amount of your liability coverage—the part of your insurance that kicks in if you injure someone or damage their property in an accident you cause—is expressed as three numbers. The first indicates the maximum amount, in thousands of dollars, that the insurance company will pay for injuries to one person in an accident. The second number indicates the maximum amount it will pay for all injuries to more than one person in an accident (whether there are two injured people or five). The last number indicates the maximum payout for fixing or replacing someone’s car.

What are the minimum coverage requirements?

The minimum coverage amounts vary from state to state. For example, in California it’s 15/30/5 while in Alaska it’s 50/100/25. Find out your state’s minimums (<http://personalinsure.about.com/cs/vehicleratings/a/blautominimum.htm>).

What is a deductible?

A deductible applies to your collision and comprehensive coverages (the two types of insurance that pay for damage to your own vehicle), but not to liability coverage. The deductible is the amount of the repair or replacement cost you have to pay out of your own pocket before the insurance kicks in to pay the rest. For example, if you have a \$1,000 deductible and you have \$10,000 damage to your car, the insurance company will pay \$9,000 (\$10,000 minus \$1,000).

When you purchase your policy, you must choose the amount of your deductible (it can be different for each of the two coverage types). The higher the deductible, the lower your

premiums will be. Make sure the deductible you choose is low enough that you could easily come up with that out-of-pocket amount if you needed to.

Do I have to buy all the different types of coverage available?

The only coverage you *must* purchase, by law, is liability. However, if you are financing your vehicle (either through a loan or lease agreement), your lender will require you to have collision and comprehensive coverage as well so that it doesn't lose its collateral for the debt if the car is damaged or stolen. If you own your car outright (are not making payments), you do not have to buy collision or comprehensive, though you probably should to protect your investment if you have a late-model car in good condition. Many owners of older cars drop one or both of these coverages to save money if they don't feel their cars are worth repairing or replacing. Your state may have requirements related to other types of coverage, such as personal injury protection, medical payments or uninsured motorist.

Determining coverage needs

Do I need more than the minimum amount of insurance my state requires? Why?

Many states have very low requirements—as low as 10/20/10 (Florida)—but this is rarely enough to protect yourself and your assets. Even a moderately serious accident can result in more than \$100,000 in claims, and a multi-vehicle crash with serious injuries can cost many times that. Without adequate insurance, you could exhaust its limits very quickly. If your insurance is not enough to cover the damages, the injured can come after your personal assets. If your assets aren't enough to satisfy the debt, your future wages could be garnished. On the positive side, the cost for additional coverage on an existing policy typically is not very expensive.

How do I determine how much insurance coverage I need?

Experts recommend basing your liability insurance coverage on your assets. If you have significant assets—a home, savings, etc.—you will want to buy coverage over the state's minimum requirement. How much over depends on a variety of factors, including how risk averse you are, how likely you are to get into an accident (Do you routinely drive treacherous roads at night or have a history of accidents?), the amount of your assets, etc. Only drivers who have a low net worth or income and who can't afford the cost of more protection should consider trying to get by with the minimum amount of liability insurance. In such a case, you would still be liable for the damages and injuries from an accident that is your fault, but there might be nothing for the other party to take from you. Consult your insurance broker or agent for guidance.

Do I need personal injury protection (PIP) or “medical payments” if I have health insurance?

Drivers who have sufficient health insurance to cover any medical bills resulting from an accident would need to determine if PIP or medical payments coverage is worth purchasing (assuming PIP is optional in your state). One thing to be aware of: Health insurance might cover your medical bills, but it would not provide the additional coverage that PIP offers for things such as lost wages and funeral expenses. Nor would it cover the medical expenses of passengers in your car.

How do I decide if I need collision or comprehensive coverage?

Collision and comprehensive coverages pay to repair or replace your car. The insurer will not pay you more than your car is worth regardless of the amount of damage. (Settlement amount typically falls within the high and low “Blue Book” (www.kbb.com) value of the vehicle.) So if your car isn’t worth much, it might not make sense to keep paying premiums for collision and comprehensive when you could instead be saving that money toward a new car. Having said that, the cost to insure for damage to or theft of your car is not expensive compared to liability insurance.

There’s no hard and fast formula for figuring out when to abandon collision and/or comprehensive coverage, but some experts recommend dropping it at the point when you’d be more likely to purchase a new car than repair the old one. Remember, you’ll have to pay some of the repair or replacement cost out of your own pocket (your deductible). And the money you get from insurance is rarely enough to purchase a comparable vehicle—so be prepared.

You can ask your insurance agent for guidance, but you might get more objective advice by doing an online search for “when to drop collision and comprehensive.”

How do I determine the deductible I should have?

If you choose to carry comprehensive and collision coverage, you will have to choose a deductible. This can be any amount your insurer offers, but typical deductibles are \$250, \$500 and \$1,000. (They can be higher or lower, too.) The higher your deductible, the lower your premium. Everyone wants a lower premium, but you’ll have to be able to come up with the amount of your deductible should you ever need to repair or replace your car (if nobody else was at fault). So, the first thing to consider when choosing a deductible is how much you could afford to pay out of your own pocket.

The second consideration is how much you would save in premiums in exchange for the increased personal financial responsibility for damages or theft. For example, if increasing your deductible from \$500 to \$1,000 shaves \$100 off your annual premium, then you would be ahead of the game if you didn’t have to come up with your deductible for at least five years. How much your premium drops with a higher deductible can vary widely. In some cases, the meager savings are not worth the higher risk. In other cases, you could save a bundle. Learn more about which states and deductible amounts offer the greatest savings from a study conducted by InsuranceQuotes.com (www.insurancequotes.com/auto/car-insurance-deductible).

Some drivers choose to pay a slightly higher premium in exchange for a lower deductible because they know they can afford the relatively small additional monthly, semi-annual or annual premium payment but believe it is unlikely they would be able to save up the much larger deductible. (It’s important to be aware that the deductible applies to every single claim you make, not just once per premium period or once a year. That’s another reason some drivers choose to have a low deductible.)

Some insurers require those who they consider high-risk drivers to have a higher deductible to reduce the likelihood that they will have to pay out for damages.

Do I need a business (commercial) auto insurance policy if I use my vehicle for work?

Whether or not you need a commercial auto insurance policy depends on many things, including exactly what kind of business you’re conducting and who will be driving the vehicle. When it comes to this type of coverage, it’s best to consult an insurance agent. Be honest and clear about how the car may be used and who might drive it, and ask what kind of coverage

you need. To avoid any misunderstandings, it's a good idea to put your disclosures about how the car will be used in writing and keep a copy, and also keep the written response telling you what your policy will cover.

If you only drive your car to and from work, you should be covered under your personal auto policy. But if you take carpoolers regularly, you should ask your agent if you're covered or need additional insurance.

Do I need special insurance coverage if I get paid to give rides in my vehicle (for example, through a service such as Lyft, Uber or Sidecar)?

You might. Generally speaking, standard auto insurance doesn't cover ride-sharing or "livery" services—essentially, taxis. Because regularly giving paying passengers rides in your car is outside the scope of a typical personal policy and increases the level of risk significantly, you could find your claim denied or your policy canceled if your insurer finds out how you're using your car.

Because this has become an issue, some services that connect drivers and passengers now provide drivers some coverage under a company-owned policy, but there are limitations. You should find out exactly when you are covered under the service's policy (Whenever you are available to take a passenger, only if you have been assigned a passenger or only if you have a passenger in the car?) and for how much. You should also tell your insurer how you plan to use the car and find out if that would cause your policy to be canceled or if you need to purchase additional coverage.

Shopping for auto insurance

How do I go about shopping for insurance?

When shopping for insurance, plan to get quotes from at least three different insurers because rates can vary widely—even for the same coverage on the same car and driver.

Your options for getting quotes include:

- Agents employed by an insurance company to sell only that company's policies (State Farm, Allstate or many others)
- Brokers, who sell policies for more than one insurance company (there may be a fee, but it could be offset by the savings a broker can get you by shopping your policy around to multiple insurers)
- Insurance companies that sell directly to consumers (typically by phone or online—Geico and Progressive are two examples)
- Websites that sell policies online for more than one insurer (Netquote.com, Insurance.com, AutoInsurance.com and InsWeb are examples, but you can enter "auto insurance quotes" into a search engine and you'll find many others.)

There are also services, such as NerdWallet, that don't sell insurance but let you compare prices (www.nerdwallet.com/insurance/compare-car-insurance-rates). These are not firm quotes, but they give you an idea of the range of prices and which insurance companies might be on the high and low ends of the spectrum.

A few things to keep in mind:

- Make sure to keep the coverage limits the same in each quote request so that you can make an "apples-to-apples" comparison.
- When you use quote sites, you may not get instant insurance quotes—your information might instead be given to insurance companies that will contact you later.
- The lowest price is not always the best option—be sure to check the company's financial strength, claims service record and customer satisfaction rankings.
- Online quote requests require you to submit personal information about yourself, your car and your insurance needs—each form typically takes 10-15 minutes.

Learn more in Consumer Reports' online "Car insurance buying guide" (www.consumerreports.org/cro/car-insurance/buying-guide.htm).

Is it better to buy from a broker, agent, direct provider (insurance company that sells without an agent) or insurance website?

That depends on your shopping style. If you're not comfortable on the Internet or would simply prefer to see the person you're buying from in person, then you should focus your efforts on brokers and agents who have offices near you. Conversely, if you prefer to shop online and avoid the extra time it takes to go to an office, then direct sellers and insurance websites will be most convenient. Before choosing, make sure you understand how to get help if you have a problem, question or claim—it's important to know that someone will be there when you need them.

What information do I need to request a price quote?

This can vary, but at a minimum you'll need your name, contact information, Social Security number, date of birth and driver's license number; the vehicle identification number (VIN) and make and model, as well as the number of miles on the odometer, number of miles driven annually and any safety features the car has; information (including Social Security numbers and dates of birth) for others who will be driving the vehicle; and your history of traffic violations and accidents for recent years.

How do I find a good insurance agent or broker?

There are three key steps to finding a good agent or broker:

- Get personal recommendations from friends, coworkers, neighbors and family. Ask them what they like about their agent or broker.
- Call or visit the agent or broker and make your own judgment about whether s/he is responsive, qualified, helpful and trustworthy.
- Check the agent or broker out with your state's department of insurance. You can find out if s/he has a valid license, has a record of complaints or disciplinary actions, etc. This will help you avoid certain types of insurance scams. Find your state's insurance department online (www.naic.org/state_web_map.htm).

How do I know that the person I'm talking to about insurance is not a scam artist?

There are many types of insurance fraud, some of which result in consumers paying for insurance only to find that the policy doesn't exist (the agent or broker kept the premium payment that was supposed to be forwarded to the insurer). Learn how to protect yourself

against insurance fraud (www.consumer-action.org/english/articles/how_to_avoid_becoming_a_victim_of_insurance_fraud/).

How do I check an insurer's financial strength, claims service record and customer satisfaction rankings?

You can check the insurer's financial stability—its ability to cover the very large number of claims that would likely result from a major disaster—at one of the independent rating agencies. A.M. Best (www.ambest.com) and Standard & Poor's (www.standardandpoors.com) are two such agencies.

You can check complaint statistics (often related to claims servicing) through your state's insurance department (www.naic.org/state_web_map.htm).

There are a few places you can find customer satisfaction rankings. J.D. Power and Associates (<http://ratings.jdpower.com/insurance/index.htm>) and Consumer Reports (www.consumerreports.org/cro/car-insurance.htm) are two sources. You might have to pay a fee to access these.

What else should I look for in a policy or insurer?

In an article on automotive website Edmunds.com (www.edmunds.com/auto-insurance/how-to-shop-for-car-insurance.html), insurance shoppers are advised to:

- Read through the policy before signing to make sure it contains the coverage you want.
- Avoid a mandatory arbitration clause, which forces you to give up your right to sue in the case of a disagreement between you and the insurer. If such a clause is in the contract, try to cross it out. If the insurer demands it remain, consider taking your business elsewhere.
- Know if your insurer requires the use of “aftermarket” parts (those that cost less because they don't come directly from the auto manufacturer). Some aftermarket parts can be of inferior quality, while others are certified to be of equivalent quality and safety as manufacturer parts. If you feel strongly about using only manufacturer parts, you can check the policy for this information. Learn more about replacement parts at the Certified Automotive Parts Association (CAPA) website (www.capacertified.org).

How much should I pay for insurance?

The exact dollar figure is impossible to say, but your goal should be to spend the least while still getting sufficient coverage and excellent service from a reliable company. Comparing quotes from at least two companies helps you achieve this.

Managing auto insurance costs

How can I lower my premiums?

Since there are so many factors that contribute to your insurance cost, there are many ways to reduce your premiums. Here are some key ways to save money. Not all are right for everyone, but you can choose those that would work for you.

- Bundle your policies. Having all your insurance policies (autos, home, etc.) with one insurance company is one of the easiest ways to save money. Ask about multi-car and multi-policy discounts.
- Ask about ways to reduce the rates on your at-home teen driver. This could include assigning your teen as an occasional operator of your least expensive car, earning good grades, taking a safe driving course, etc.
- Drive less. The fewer miles you travel in a year, the lower your premium.
- Increase your deductibles. Sometimes the savings for increasing your deductibles (collision and comprehensive) are significant and worth the added risk, and sometimes they're not. Do some calculations to see how many years you'd have to go without damage or a theft to accumulate enough savings to cover the greater out-of-pocket costs. Set aside the amount of your deductible so that it's there when you need it.
- Drop your collision and/or comprehensive coverage. This won't be possible if you're making payments on your car. But if it's paid off, and it's old enough or in bad enough shape that you would probably not repair it if it were damaged or you could afford to pay for a replacement if it were stolen, dropping these coverages might make sense. (It may help to know that collision is typically significantly more expensive than comprehensive.) Make sure the savings make up for the added risk and that you're prepared to replace your car if necessary.
- Reduce your liability coverage. This should only be done if your coverage would still be adequate to protect your assets.
- Ask about discounts for things you could do such as taking a driver education course, installing a car alarm, or ensuring the car you buy has safety equipment that will earn you discounts. In addition, some car models are cheaper to insure than others—and it's not always the lowest-priced model that qualifies for the lowest premium.
- Find out from the insurer at what ages rates go down (for example, when young drivers turn 25, or for experienced drivers turning 40 or "mature" drivers turning 50). Then be sure to notify your insurer when you have a birthday that takes you to that magic age.
- It goes without saying that avoiding accidents and tickets will keep your rates down.
- Allow your driving to be tracked. (See next question.)

An insurance professional can give you the exact dollar amount of your potential savings and may even be able to come up with other cost-cutters. For more guidance in this area, check out "How to Save Money on Auto Insurance" (www.edmunds.com/auto-insurance/how-to-save-money-on-car-insurance.html).

Should I participate in a "pay as you drive" insurance program and have my driving tracked to reduce my premiums?

"Usage-based" insurance programs require that you allow your driving to be tracked via a small device plugged into your car's computer system. The insurance company uses the data gathered—when, how and how far you drive—to decide if your driving merits a reduced premium. If you are deemed a safe driver who drives infrequently and at times that are not particularly risky, you may be charged a lower premium.

Whether or not participation in such a program is a good idea or not depends on how confident you are that your driving will qualify you for lower rates and how you feel about being tracked.

(Not all programs track where you drive, but those that are also used as part of a roadside assistance program, like OnStar, do.)

Usage-based insurance programs aren't offered by every insurer or in every state. If you have the option, ask the company for details—what is tracked, how is the information used or shared, how long must the device remain on the car, whether your premium could go up if the company doesn't like the data it gathers, etc.—before signing up.

California law prohibits insurers from requiring the use of tracking devices and allows consumers to instead opt to have their premium tied to the self-reported number of miles they drive each year. (The fewer miles you drive per year, the lower your premium.)

I'm moving from my parents' small-town home to a big city. Should I continue to get my insurance statements there so that I don't have to pay higher urban rates?

As a general rule, drivers who live in cities pay more for insurance than rural drivers because of the higher rates of vandalism, theft and accidents. But misrepresenting where you live so you can pay lower rates than your actual risk level warrants could have serious consequences, including finding yourself without insurance coverage when you need it. Never give an insurance company a reason—lying about where you live, how many miles you drive annually, who drives the vehicle or for what reason (business vs. pleasure)—to deny your claim.

I got a ticket—will this make my insurance premiums go up?

Tickets don't have as great a negative impact on your insurance rates as accident claims do, but they still can cause your rates to go up significantly. Exactly how much they will go up depends in part on what the ticket was for. For example, a ticket for going 10 miles over the speed limit will increase your premiums less than a ticket for going 30 miles over the speed limit or running a stop sign. (Some insurers won't hike your premiums for your first violation.) You'll pay the higher rate as long as the ticket remains on your driving record, typically three years. Numerous tickets could mean that you can't find auto insurance on the open market and will be forced to buy insurance from your state assigned risk pool. (See *What if I still can't get insurance? What is "assigned risk"?* in the *Problems obtaining auto insurance* section below.)

The size of the increase will also depend on who your insurer is. In an analysis by Insurance.com of a 25-year-old male in ZIP code 94608 driving a 2013 Honda Civic with full coverage who got a ticket for going 11 to 15 mph over the speed limit, the premium increase ranged from 20 percent to 66 percent across four insurance companies. (In another Insurance.com article, however, the likely increase for a single speeding ticket was 11 percent to 13 percent.)

In many states, you can keep the occasional ticket off your record and avoid an insurance rate increase by completing "traffic school," an online or in-person driving course. There is a fee for the class (typically less than \$100), and you'll still have to pay the ticket, but this could still cost less than what an insurance increase would cost you over time. Check with your state's motor vehicles department to find out if you're eligible for traffic school if you are not notified by the law enforcement agency that issued the ticket.

Is "accident forgiveness" coverage worth the extra money?

While some insurance companies automatically forgive the first at-fault accident for long-term policyholders with a clean driving record and no claims, these and other insurance companies may offer "accident forgiveness" as a paid add-on that keeps your rates from going up after your first at-fault accident. Whether or not the additional cost of accident forgiveness coverage

is worth it or not depends on a variety of factors, including personal risk tolerance, cost and insurer policies.

Things to be aware of when considering purchasing accident forgiveness:

- There might be a limit on the claim amount that will be forgiven. If the accident you cause is major, with a large payout from the insurance company, it might not be overlooked when the next premium period rolls around. Ask the insurer about any limits on the accident that will be forgiven.
- While accident forgiveness will make the accident disappear for the purposes of calculating your premium, it may not protect your “good driver” status (if you had that before the incident) or guarantee that the insurer will renew your policy.
- Any at-fault accident counts as your first accident. So you might pay for accident forgiveness just to have your one “free” accident be a minor fender bender in a parking lot. Even without accident forgiveness, such a minor accident might not have raised your premiums significantly.

How long will my rate increase due to a ticket or accident last?

Policies vary from company to company, but three years is typical.

I can't afford auto insurance—can I drive without it?

It's very risky to drive without the required insurance coverage. Penalties vary from state to state, but can include:

- Being cited for driving without insurance or without proof of insurance. (You may be able to have the ticket dismissed if you can present proof within a certain period that you had insurance at the time you were cited.)
- Having your vehicle registration suspended.
- Having your driver's license suspended.

An even greater risk is the possibility that you could cause an accident while uninsured. The claims could cost you many thousands of dollars (even tens or hundreds of thousands, or more). If you don't have enough money to cover the claims, you could be sued and forced to sell your assets to come up with it or have your wages garnished until the debt is paid off.

Rather than drive without insurance, purchase at least the minimum amount your state requires. Shop around to get the lowest premium. Forgo collision and comprehensive if that is the only way to afford liability coverage. If you are driving a newer car, a sports car or some other type of vehicle that is expensive to insure, consider changing it—some cars cost much more to insure than others. Find out from your state's department of insurance if there is a low-cost auto insurance program for low-income drivers.

What is a low-cost auto insurance program, and who offers them?

Low-cost auto insurance programs make it more affordable for low-income drivers to purchase the minimum amount of liability insurance required by their state. In California, minimal coverage (10/20/3) is available to good drivers who are at least 19 years old, drive a car worth less than \$20,000, and do not earn more than the maximum allowed annual household income (from \$29,175 for one person to \$100,225 for eight people in 2014). Learn more about California's Low Cost Automobile Insurance Program at www.mylowcostauto.com, or

download the latest brochure from Consumer Action's website (www.consumer-action.org/english/articles/californias_low_cost_automobile_insurance_program).

California law requires that insurance agents inform customers about the Low Cost Program if they request a "minimum" or "basic" auto insurance policy.

Not all states offer a similar program, but some do. Contact your state's insurance department for guidance if you are having trouble finding affordable coverage.

Credit scores and insurance

What does my credit score have to do with my auto insurance rates?

Some studies have shown that consumers with good credit tend to file fewer insurance claims. While having good credit doesn't necessarily mean that a policyholder is a good driver, the research indicates that they generally file fewer or less expensive insurance claims. Because they are considered less "risky," insurance companies offer high-score consumers lower rates. This practice is criticized by many consumer advocates as an unfair and discriminatory way to set rates.

What's the difference between a credit score and an insurance score?

A credit score predicts the likelihood that you will repay money you borrow on time based on your payment history and other information in your credit report. A "credit-based insurance score" predicts the likelihood of you filing an insurance claim based on certain information in your credit report.

The score is only one factor in the insurance underwriting process. Other factors include your claims history, driving record, ZIP code, age, car type and miles driven annually. (Some scores, created by insurance companies for their own use, include claims (loss) data in the insurance score.)

In states where it's allowed, nearly all insurance companies use insurance scores along with other information to help them assess your risk level and determine the rates you'll pay. But no state allows credit-based insurance scores to be the sole basis for underwriting or pricing decisions. A few states (California, Hawaii and Massachusetts) have effectively banned insurers from using credit as a factor in auto insurance decisions.

Can I see my insurance score?

After receiving an insurance quote, you can ask the agent if a credit-based insurance score was used in the underwriting process and, if so, what risk category you were placed in. The insurer doesn't have to disclose your score but it might, or it will give you an idea of where you landed.

You can also purchase your LexisNexis auto insurance score for \$12.95 (https://personalreports.lexisnexis.com/lexisnexis_attract_score.jsp). Keep in mind that the insurer you apply for coverage with might not use this particular score.

How can I improve my credit-based insurance score?

You can improve your insurance score by improving your credit. Make sure bills are paid on time, keep your credit utilization as low as possible (amount of total credit used out of total

credit available), open new accounts only if you need them, and don't close unused accounts with high credit limits (this can hurt your utilization ratio).

It also may help to correct any errors in your credit report. You can order one free copy of your credit reports from each of the three major credit reporting agencies every 12 months at www.AnnualCreditReport.com.

Insurance loss history reports

What are insurance reports?

You probably know that your credit history is gathered and compiled into credit reports to be used by lenders and others to decide whether to do business with you—lend you money, rent you a home, hire you or sell you insurance. There are other reports that compile very specialized types of information about you. These “specialty” reports include insurance reports, which tell insurance companies about claims you have made against your homeowners or automobile policies and help them make underwriting and pricing decisions.

Insurance reports compile information about you that is provided by insurance companies who subscribe to, or are members of, the reporting service. Other insurance companies who are also members can access your report.

There are two main insurance reports:

- Comprehensive Loss Underwriting Exchange, or CLUE
- Automated Property Loss Underwriting System, or A-PLUS

What information does my insurance report contain?

These reports generally contain:

- Claims information, including dates and types of losses and amounts paid by the insurance company during the past five years (A-PLUS) or seven years (CLUE);
- Claims that are filed but denied payment;
- Vehicle information; and
- Inquiries during the last two years.

What is the difference between an inquiry and a claim? Is there a way to keep inquiries out of my report?

A claim is your official report to the insurance company that you have suffered a loss and are requesting payment to cover it. An inquiry is your request for information about your coverage. While inquiries are not supposed to be included in the report, they can end up there if the inquiry is about an actual loss that could, potentially, become a claim—even if a claim was never submitted or paid.

To avoid the “ding” of an inquiry, speak to your insurer only in general terms unless you plan on filing a claim. You might even tell the agent or representative directly that you are only making an inquiry, or otherwise make clear that the loss you are asking about is purely hypothetical. Once you disclose that a loss has occurred, there is a good chance it will land on your report.

To find out if this practice is prohibited in your state, contact your state's insurance department (www.naic.org/state_web_map.htm).

What is a motor vehicle record?

Your motor vehicle record, or driving record, is a history of your traffic violations, accidents and driver's license information. Insurance companies use the record in their underwriting process, to determine whether to insure you and, if so, to set your premiums.

You can obtain your record from the Department of Motor Vehicles for a nominal fee. Your insurance agent might also be willing to provide you with a copy. Getting your report before you apply for insurance allows you to see what the insurance company will see (according to Insurance.com, not every traffic ticket appears on your MVR) and gives you an opportunity to correct any mistakes.

Can I prevent an insurer from accessing my reports?

When you apply for insurance, you give permission to the insurance company to obtain any reports it needs. Refusing to grant this permission certainly will get your application denied.

Can I obtain my report? Why should I request a copy?

Under the federal Fair Credit Reporting Act (FCRA), you have the right to obtain any of your specialty reports once every 12 months, upon your request, at no charge. You also have the right to a copy whenever an "adverse action" has been taken against you based on information contained in a report. (Denying you insurance is considered an adverse action.)

To order your CLUE report, visit

https://personalreports.lexisnexis.com/fact_act_claims_bundle/landing.jsp or call 866-312-8076.

To order your A-PLUS report, visit www.verisk.com/underwriting/a-plus-underwriting-verisk-insurance-solutions.html or call 800-627-3487.

You might want to order your reports before you apply for insurance to be aware of what the insurance company will see and to make sure there are no mistakes. Errors could include someone else's claims included on your report, either through error (due to a similar name, birth date or Social Security number) or identity theft; claims amounts that don't match the actual payout or that were not paid; and claims that are more than five years old.

There's a mistake in my report—how can I fix it?

Under the FCRA, you have the right to dispute inaccurate information or request that outdated information be removed. If you file a dispute (following the directions that come with your report), the reporting agency must investigate within 30 days, remove any information found to be incorrect or outdated, and send you a free copy of the new report if changes have been made. Cleaning up your report could help you qualify for better insurance rates.

You also have the right to have a 100-word personal statement added to your report to explain any derogatory (negative) information. Anyone who requests your report would see it.

Insurance claims

What is an insurance “claim”?

An insurance claim is your documented request for payment for a loss you believe to be covered by your insurance policy.

When and how should I file a claim?

You should file a claim after an accident or if you have suffered a non-accident-related loss, such as the theft of your car, a broken windshield or damage from a fallen tree. Look for the customer service or claims department phone number on your insurance card, in your policy documents or online. Be prepared to provide your own identification, policy number and details of the loss as well as contact, license and insurance information for anyone else involved.

Your case will be assigned to a claims specialist who will gather information, make inspections in some cases, decide on payment based on your coverage (and your deductible) and settle the case. If the accident or loss wasn't your fault and you don't live in a no-fault state, the insurance company will try to obtain payment for your losses from the at-fault party and/or his or her insurance company. If it was your fault, you live in a no-fault state or the loss was caused by an uninsured or underinsured motorist and you have that type of coverage, your own insurance company will cover your losses.

What should I do if I've been in an accident?

If you've gotten into an accident:

- Never admit fault at the scene of the accident.
- Take photos of vehicles and any apparent injuries if the other driver is clearly at fault.
- Get the other driver's name, address and phone number, driver's license number and insurance information (company name and policy number).
- File a police report for any accident, particularly anything bigger than the most minor fender bender. Make sure you receive a copy. (This could protect you if injuries or damages only become apparent later, or if the other party attempts to make false claims or change his or her admission of fault.)
- If you have any injuries at all, visit a doctor as soon as possible (if you are not taken by ambulance). Delaying medical attention could make it difficult for you to prove the injuries were a result of the accident.
- Take and keep notes from the moment of the accident through settlement, including communications with insurance companies and others involved in the incident, health-related repercussions (missed work days, for example), etc.

Should I file a claim even if the accident wasn't my fault?

Yes. This could protect you if the other party doesn't have insurance, has inadequate insurance, believes that the accident was not his or her fault, or is insured by a company that is not forthcoming with a settlement. You should notify your own insurance company; it may advise you to file a claim with the other driver's insurance company or it might take care of that on your behalf.

Do I need to file a police report for vandalism to or theft of or from my vehicle?

Yes, most policies require that you report this type of loss to authorities.

Who pays my deductible if the damage to my vehicle is not my fault?

You may have to cover your deductible upfront. Typically, your insurance company will attempt to recover your deductible from the at-fault party or his or her insurer, and would reimburse you if it succeeds.

When shouldn't I file a claim?

Some insurance companies require that any accident be reported, no matter how small. This could protect you if injuries or additional damages are discovered later.

The fact is, some drivers choose not to report a very small incident if the damage or lost property is valued at less than their deductible.

Learn about the pros and cons of reporting a minor accident in Nolo's article "Do I Need to Report a Minor Car Accident?" (www.all-about-car-accidents.com/resources/auto-accident/car-accident-injuries/do-i-need-to-report-a-minor-car-accident).

What is "accident forgiveness"?

"Accident forgiveness" is a policy add-on that allows you to have your first at-fault accident be overlooked so that it doesn't cause your insurance rates to go up. While some insurance companies automatically forgive the first at-fault accident for long-term policyholders with a clean driving record and no claims, these and other insurance companies may also offer "accident forgiveness" as an add-on option that you pay for.

Will my premiums go up if I file a claim?

If and how much your rates will go up after an "unforgiven" accident depends on the type and cost of the accident, whose fault it was and the insurer's "surcharge" schedule. Surcharge amounts—the size of the rate increase after an accident—vary widely from insurer to insurer. Learn more about accident surcharges in Consumer Action's article "How much can your car insurance rates go up after one accident?" (www.consumer-action.org/articles/article/how_much_can_your_car_insurance_rates_go_up_after_one_accident).

The rate impact of any claim depends in part on whether the insurer decides you were at fault. While in some states a driver is determined to be either fully at fault or not at fault, other states employ a more complex formula that divides up the fault, making it possible for each party involved to be assigned some blame and, potentially, have their premium affected. Generally speaking, an insurer can't raise your rates or cancel your policy for making a claim that's not your fault.

Be aware that a simple inquiry about if and how much your rates would go up as the result of a specific accident—even so minor that you will not file a claim because the damage doesn't exceed your deductible—could end up on your insurance loss history reports and increase your auto insurance premiums now or in the future.

Multiple claims within a short period or claims resulting from reckless behavior (including driving while under the influence or multiple speeding tickets or other moving violations) could cause your policy to be canceled.

What is “claims fraud”?

Claims fraud refers to the attempt to receive payment from an insurance company either in excess of the actual loss, for a loss that is not covered or for a loss that is manufactured. False or inflated claims include claims for damages that occurred before the insurance coverage was in place, claims for a loss you haven't actually suffered or claims for an amount higher than the actual loss.

Insurance fraud is a crime. Even if you are not charged and convicted, your insurer could deny your claim, raise your rates or cancel your policy entirely. If you receive payment and then are found to have been lying, you could be ordered to repay the settlement money.

What if my claim is denied or I'm not satisfied with the way the insurance company handled my claim?

It's not uncommon for policyholders to disagree with their insurer about the value of their damaged or stolen property, whether a claim should be covered or what constitutes a fair settlement amount. One thing to remember during the claims process: Paying you the highest amount possible to settle your claim is not the insurance company's priority. If your claim is denied and you believe it should be covered, or if you feel the payment you are offered is insufficient, it's up to you to fight for what you think is fair. You have some options:

- You can negotiate on your own behalf if you have the time to do the required research, stay on top of communications and file complaints with the appropriate entities.
- You can pursue arbitration, mediation or appraisal, all of which entail a neutral third party making a judgment about the facts of the dispute and/or the value of the property.
- You can hire an attorney or a “public claims adjuster,” professionals who will interpret the “fine print” of your policy, defend your rights and fight to get you the highest settlement possible.
- You can contact your state's department of insurance (www.naic.org/state_web_map.htm) to file a complaint and/or find out more about your options.

Learn more about resolving claim disputes on the United Policyholders website (<http://uphelp.org/resources/claim-help/disputes>).

Should I hire an attorney?

If your claim is strictly for damage to or loss of property (not injuries), you might consider hiring an attorney only if the initial reimbursement amount is too low to cover your losses (i.e., pay for repairs or replacement) and you are unsuccessful negotiating a satisfactory settlement on your own.

The losses in a case where there are injuries can be very high, which means that the difference between what the insurance company offers to pay and what you feel is necessary to fully cover your losses can be significant—significant enough to warrant the expense of an attorney. If you have trouble getting your medical bills paid by the insurance company (yours or the other driver's) or you feel that the settlement offered is too low and you can't reach a satisfactory resolution, you might want to consult with an attorney that specializes in insurance claims. These attorneys are experienced in trying to get the greatest settlement amounts for their clients, including payment for pain and suffering and other intangible losses.

Even if you don't have the money to pay an attorney upfront, you can still hire one that agrees to a contingency fee agreement—payment of a portion of the settlement (typically 33% to 40%) when the case is closed.

Learn more about hiring a lawyer to help resolve your claim at the United Policyholders website (<http://uphelp.org/library/resource/hiring-attorney-insurance-claim>).

Problems obtaining auto insurance

I have been turned down for auto insurance because of my bad driving record—what can I do?

The insurance industry ranks drivers as preferred risk, standard risk and high risk. There's no national or industry standard for what constitutes high risk, but drivers typically fall into that category if they have been convicted of driving under the influence, have multiple tickets for speeding and/or reckless driving or have had multiple accident claims. Limited driving experience and a poor credit history can also contribute to your risk level. Insurance will be more expensive for you, but you should still be able to get coverage.

There are insurance companies that specialize in high-risk drivers, mainstream insurance companies that offer policies for high-risk drivers, and others that won't insure high-risk drivers at all. To find an insurance company that will cover you, do an online search for "high risk auto insurance" or use an insurance referral website. (See the *Shopping for insurance* section above for some examples.) As with any type of insurance, get more than one quote, understand the coverage you're getting and check out the insurer's ratings.

You may be able to improve your risk level by taking a defensive driving course and getting a less "sporty" car. Avoiding tickets and claims for at least three years definitely will improve your status.

What if I still can't get insurance? What is "assigned risk"?

All or most states have "assigned risk" systems, under which high-risk drivers must be allowed to purchase liability insurance even if they normally would not be eligible for coverage under insurers' standard underwriting guidelines. Criteria vary, but generally speaking, if you've been turned down for coverage three times, you'll probably be accepted into the assigned risk pool in your state.

"Risk pool" programs are intended to be a last resort for those who companies aren't willing to insure voluntarily. The programs typically are administered by the state's Department of Insurance or the DMV. Applicants are assigned to insurance companies in proportion to the amount of auto insurance each company sells in the state. Although the companies are required to insure the assignees, they may charge higher premiums or impose certain conditions.

What is SR-22 insurance?

SR-22 (FR-44 in some states) doesn't refer to insurance. An SR-22 is a certificate of insurance required by most state DMVs for certain drivers who must present proof they have liability insurance. Regulations vary from state to state, but this could be because you were cited for DUI or because you were caught driving without insurance or caused an accident and had inadequate coverage.

Your insurance company will fill out the SR-22 form for you, which you will submit to the DMV. There may be a filing fee.

I want to purchase auto insurance but I can't afford it—what can I do?

Since driving without insurance isn't an option (for one thing, it's against the law), you need to either give up driving until you can afford insurance or find a way to make it fit into your budget. You have some options:

- While it might not be sufficient for your needs, you could purchase only your state's minimum required amount of liability insurance until you can afford to increase the coverage.
- Cut costs elsewhere in your budget, if possible, to free up money for insurance premiums.
- Purchase insurance through a low-cost auto insurance program if your state offers one and you meet the income and other qualifications. (See the last question in the *Managing auto insurance costs* section above.)

Insurance complaints and information

I am unhappy with my insurer's claims decision/customer service/rates—what can I do?

If you believe an auto insurance company has treated you unfairly (acted in “bad faith”), you can contact your state's department of insurance (www.naic.org/state_web_map.htm) to file a complaint and/or find out more about your options. You might also consider consulting an attorney specializing in insurance to find out if you have a case—many states have laws that require insurers to treat consumers fairly.

You might have success resolving the issue yourself by communicating with the insurance company directly. Read United Policyholders' “Speak UP: How to communicate with your insurance company” (www.uphelp.org/library/resource/speak-how-communicate-your-insurance-company) and Consumer Action's “How to Complain” (www.consumer-action.org/english/articles/how_to_complain) for guidance and tips to help you get results.

I can't find affordable auto insurance—whom do I complain to?

Not all states have programs to help low-income drivers afford insurance. If you can't find affordable coverage, you should notify your state's insurance commissioner (www.naic.org/state_web_map.htm) and your state legislators (www.usa.gov/Agencies.shtml) so that they are aware of the problem and can pass laws that help.

I am aware of someone committing insurance fraud—who do I notify?

You can report insurance fraud to your own insurer, your state's department of insurance and the National Insurance Crime Bureau (NICB): www.nicb.org/about-nicb/report-fraud and 800-TEL-NICB (800-835-6422).

Where can I learn more about auto insurance?

There are many sources of information about insurance in general, and auto insurance in particular. Here are some helpful resources:

- The non-profit United Policyholders advocates for insurance consumers and offers resources and information on its website (www.uphelp.org).
- Visit your state's DMV website for information specific to your state, such as the minimum liability coverage required, where to find safe driver courses and more. Do an online search for your state's name plus "DMV." You can also check the state government section of your telephone directory.
- Your state's insurance regulator often has helpful information in print and online. Visit the National Association of Insurance Commissioners (NAIC) website to find your state's regulator (www.naic.org).
- The industry-supported Insurance Information Institute offers free information to improve the public's understanding of insurance—including a large section on auto insurance (www.iii.org/insurance-topics/auto-insurance).
- Major insurance companies and online insurance vendors typically have a large library of consumer education articles. One benefit of reading an insurance company's consumer or policyholder information is that you may get an idea of that company's policies regarding coverage and claims. Do an online search for your own or other insurance company names, or visit the websites mentioned in the "Shopping for auto insurance" section above.
- Read your policy. This document is full of specifics about what is covered and what is not. Call your insurer or broker to ask general questions if you don't understand the coverage details.

About Consumer Action

Consumer Action is a non-profit organization that has championed the rights of underrepresented consumers nationwide since 1971. Throughout its history, the organization has dedicated its resources to promoting financial and consumer literacy and advocating for consumer rights both in the media and before lawmakers to promote economic justice for all. With the resources and infrastructure to reach millions of consumers, Consumer Action is one of the most recognized, effective and trusted consumer organizations in the nation. Find us on the Web at www.consumer-action.org.

Consumer education. To empower consumers to assert their rights in the marketplace, Consumer Action provides a range of educational resources. The organization's extensive library of free publications offers in-depth information on many topics related to personal money management, housing, insurance and privacy, while its hotline provides non-legal advice and referrals. At Consumer-Action.org, visitors have instant access to important consumer news, downloadable materials, an online "help desk," the Take Action advocacy database and nine topic-specific subsites. Consumer Action also publishes unbiased surveys of financial and consumer services that expose excessive prices and anti-consumer practices to help consumers make informed buying choices and elicit change from big business.

Community outreach. With a special focus on serving low- and moderate-income and limited-English-speaking consumers, Consumer Action maintains strong ties to a national network of nearly 7,500 community-based organizations. Outreach services include training and free mailings of financial and consumer education materials in many languages, including English, Spanish, Chinese, Korean and Vietnamese. Consumer Action's network is the largest and most diverse of its kind.

Advocacy. Consumer Action is deeply committed to ensuring that underrepresented consumers are represented in the national media and in front of lawmakers. The organization promotes pro-consumer policy, regulation and legislation by taking positions on dozens of bills at the state and national levels and submitting comments and testimony on a host of consumer protection issues. Additionally, its diverse staff provides the media with expert commentary on key consumer issues supported by solid data and victim testimony.

Credit for this publication

Consumer Action's Insurance Information Project created this guide.

© Consumer Action 2014