

Auto Insurance – Student Guide

Do you obey the rules of the road? Do you always wear a seat belt? Great! You're a good driver. But even great drivers need car insurance.

Accidents happen. Sometimes it's your fault. Sometimes the other person is to blame. Sometimes nobody is at fault. Whatever the situation, auto insurance can help pay for medical bills and car repair. In fact, many states require drivers to have some form of car insurance, and they specify minimum requirements.

What is auto insurance?

An auto insurance policy is a legal agreement between you and your insurance company. You pay a premium to the insurance company regularly, and in return the company is obligated to help pay for covered damage to your car, others' property or injury to yourself or others as a result of an auto accident.

What does auto insurance cover?

Basic types of auto insurance coverage include:

- **Liability** – There are two types:
 - **Bodily Injury Liability** – If someone else dies or is injured in a car accident, your insurance company pays for things like legal fees (if you're sued), medical bills and lost wages for the other person(s) if you are at fault.
 - **Property Damage Liability** – Whether you smack into another car or plow down your neighbor's mailbox, your insurance company helps pay for the damage to someone else's property if you are at fault.
- **Uninsured Motorists (UM)** – This covers you for your bodily injury caused by a hit-and-run driver or an at-fault driver who has no auto liability insurance, up to the UM limits in your policy.
- **Underinsured Motorists (UIM)** – Sometimes drivers try to save money by cutting back on the amount of insurance they have. It may seem like a good idea – until they have an accident. This covers what the other driver's insurance doesn't, if the other driver is at fault, up to the UIM limits you select.
- **Medical Payments** – This covers medical bills and funeral expenses for you, your family and passengers whether you caused the accident or not. It also covers you if you're

injured in someone else's car, or if you're hit by a vehicle while riding a bike or walking down the street.

- **Collision** – This type of coverage pays for damage to your car if it collides with another object. The damage could result from an accident, running into a light pole or hitting a deer crossing the road, for instance.

To figure out how much your insurance company will pay to fix your car, a claims adjuster may look at the damage, or you may have to get estimates from body shops. If your car is “totaled,” you get what your car is worth if you had sold it right before the accident.

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

How much does auto insurance cost?

Good question. Because drivers under 25 are more likely to get into an accident, insurance companies charge them more. If you get a traffic ticket for speeding or running a red light, your insurance costs may go up as a result.

The type of vehicle you drive also influences auto insurance rates. Cars which are more dangerous to drive – like convertibles – or cost more to repair if they're damaged – like sports cars – cost more to insure.

Where you live makes a difference, too. If you live in a big city, the chances your car will be hit, stolen or vandalized are higher – and your insurance costs will be as well.

What can I do to keep my auto insurance costs down?

First and foremost, avoid moving violations and accidents. Here are a few more suggestions for how you may be able to reduce the cost of your auto insurance:

- **Get good grades.** Some insurance companies give discounts to students with a B average or better.
- **Increase your deductibles.** When you agree to pay a higher amount you agree to pay out of pocket in case of a claim, you'll pay a lower amount for this portion of your insurance premium.
- **Choose your wheels carefully.** Statistics show sports cars and convertibles are riskier to insure than sport utility vehicles, for example.

- **Consider the age and condition of your vehicle.** Physical Damage coverage may not be worth it if you have an older vehicle that has lost most of its value.
- **Consider letting your parents insure you on their policy.** Being listed as a driver on your parents' insurance policy with a vehicle titled in their names will result in cheaper rates than if you paid for insurance on your own. However, your parents' insurance premiums will likely go up, and a lot!

What do coverage limits on my policy mean?

The amount and type of insurance you choose have a lot to do with cost. But when it comes to liability insurance, the insurance company will only pay so much per person, per accident. Other basic coverages have limits, too.

Your auto policy may show limits like 50/100/25. This means the insurance company will pay up to:

- \$50,000 of Bodily Injury liability coverage if one person is injured or killed in an accident;
- \$100,000 total for all Bodily Injury liabilities in an accident (if more than one person is injured or killed); and
- \$25,000 of Property Damage liability coverage.

Ask yourself:

What if you lost control of your car, slammed into a house and caused \$30,000 worth of damage? If your property damage limit was \$25,000, the other \$5,000 would have to come out of your pocket. The difference in cost for higher limits is surprisingly small, and it is usually worth the money.

How do deductibles work?

A deductible is the amount you agree to pay for repairs in case of an accident. They usually range from \$0 to \$500. Collision and Comprehensive coverage each have a deductible. If you have a higher deductible, your premium will be lower for that portion of your insurance.

Ask yourself:

What if a tree fell on your car and dented your hood, causing \$500 in damage. If you have a \$0 deductible for Comprehensive coverage, you pay nothing and the insurance company pays to fix your car. If you have a \$250 deductible, you pay \$250 and the insurance company pays \$250 toward the damages. If you have a \$500 deductible, you pay for the repair and the insurance company pays nothing. That's how deductibles work!

Terms to know

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

At-fault – Describes the person who did something to cause an accident.

Deductible – The amount of money you agree to pay when there is a loss.

Insured – The person receiving insurance coverage under the insurance policy.

Insurer – Another term for the insurance company or anyone who provides insurance.

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

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

Premium – The amount you pay in exchange for insurance coverage.

Safety tips

Safe drivers are in fewer accidents, which make them lower risks to insure. Check out the following websites to learn how you can become a safer driver:

- **nhtsa.gov** – The National Highway Traffic Safety Administration's site includes information on all vehicles, alcohol, distracted driving and youth statistics.
- **teendriving.com** – This site, specifically designed for teenagers, lists many tips for safe driving.
- **hwysafety.org** – The Insurance Institute for Highway Safety's site has information on highway safety laws, vehicle safety ratings, insurance losses by car make and model, and much more.

Assignment

When you get into a traffic accident, many times police will ask you to fill out an accident report. This information is used by insurance companies as well as the police to determine fault.

Your teacher will describe an accident scenario. Listen carefully. After you hear the scenario, write down what happened on the accident report diagram your teacher will give you to complete. Then, we'll go over the results in class.