



THE USAA  
EDUCATIONAL  
FOUNDATION®

*Good Information for Good Decisions.®*

INSURANCE

# AUTO INSURANCE



## OUR MISSION

The mission of The USAA Educational Foundation is to help consumers make informed decisions by providing information on financial management, safety concerns and significant life events.



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## 2 BE INFORMED

Auto insurance is a method of pooling the risks of many drivers, so no one individual has to bear the entire cost of an auto accident. Accident claims are paid from the combined premiums of all insureds in the pool.

### Selecting An Insurance Company

An insurance company sets rates partly on its own claims loss experience and partly on the experience of the entire auto insurance industry. That means you can save money by comparing companies and coverages.

- Keep notes on the types and amounts of insurance you are quoted. A good rule is: Do not buy insurance for the losses you can afford. Use your limited premium dollars to buy insurance to protect yourself against the losses you cannot afford. Some companies return a dividend at the end of the year if their claims experience has been favorable. Such dividends, in effect, lower the price of their insurance. However, check on the company's history of paying dividends. Dividends cannot be guaranteed.
- Research consumer publications, A.M. Best reports, and your state insurance department for information on the quality of service a company provides, its complaint record and its financial stability. Check with your state insurance department to see if they have done a premium survey.
- Consider whether or not you prefer working with a local agent or transacting business over the phone or online. Also consider what payment plans are available. Policies are generally issued for 6 or 12 months.

**A GOOD RULE IS: DO NOT BUY INSURANCE FOR THE LOSSES YOU CAN AFFORD. USE YOUR LIMITED PREMIUM DOLLARS TO BUY INSURANCE TO PROTECT YOURSELF AGAINST THE LOSSES YOU CANNOT AFFORD.**

When you buy an auto insurance policy, you are buying a package of individual coverages. Each coverage protects you against different types of losses. Once you understand the various coverages, you can decide which ones to include in your personal insurance package. You can also determine the limits of coverage you will need.

It is best to read your policy to understand it. Insurance coverage is very specific. Policies are legal contracts containing exceptions, exclusions and limitations.

## Liability Coverage

Each state has legal requirements for a minimum amount of financial responsibility in case of an automobile accident. A common way to fulfill that responsibility is with auto liability insurance.

Liability coverage (bodily injury and property damage):

- Protects you, your family and operators of your vehicle from claims made against you when you are legally liable for an auto accident that results in injury or death to others or damage to their property.
- Covers you and your family while operating a non-owned vehicle from claims made against you when you are legally liable, if you do not regularly use the vehicle.
- Generally sold with split limits — often expressed as a series of three numbers.

### EXAMPLE OF SPLIT LIMITS 100,000/200,000/50,000

BODILY INJURY	BODILY INJURY	PROPERTY DAMAGE
\$100,000 per person	\$200,000 per occurrence	\$50,000 per occurrence

- Generally available with limits up to \$1 million. If you think you might need higher limits of auto liability coverage, consider purchasing an umbrella liability policy.

**Selecting liability coverage limits.** This is perhaps the most difficult part of buying auto insurance. Most individuals prepare for the worst and hope for the best.

To help you determine how much liability coverage you need, consider your assets, age, income and ability to pay higher premiums.

It is important to purchase adequate limits to protect your assets if you are held legally liable for an accident that results in serious injury or death to others. If you should be held legally liable for amounts greater than the liability coverage limits you choose, you are personally responsible.

There is no way to predict what an accident might cost you, but there are some general rules. Your potential cost would be higher if you:

- Seriously injure or kill an individual in an accident.
- Are guilty of negligent driving.
- Are guilty of driving under the influence.
- Live in an area known for its high jury awards.

**Coverage for claims by family members against family members differs from state to state.** Some states require auto liability insurance to pay up to the full liability limits for the claim of a family member if another family member caused the accident. Other states require a payment, but only up to the state's minimum financial-responsibility limit, while other states allow insurance companies to completely exclude coverage for claims between family members.

## Medical Payments Coverage

Medical payments is an optional coverage available in states without no-fault coverage. It may also be an excess coverage in those states that require no-fault coverage.

Medical payments coverage pays for the following regardless of who is legally liable in the auto accident:

- Reasonable and necessary physician and hospital bills related to the accident for you, your family and your passengers.
- Reasonable funeral expenses for you, your family and your passengers, if necessary.
- Coverage for you and your family members while in another individual's vehicle or as pedestrians.

It does not cover pain and suffering.

## No-Fault Coverage

There are two main objectives of no-fault coverage. First, it speeds payment to accident victims. Second, it intends to lower the cost of auto insurance by reducing the number of lawsuits for minor claims. However, in cases of death or serious injury, no-fault laws generally allow policyholders or their families to sue.

To accomplish these goals, each insured's own insurance company pays the following regardless of who caused the accident:

- Reasonable and necessary physician and hospital bills related to the accident.
- Reasonable funeral expenses for you, your family and your passengers.
- Generally covers lost wages as well as the cost to replace household services normally performed by the individual injured in the accident.

It does not cover pain and suffering.

**Personal injury protection is a type of no-fault coverage.** States that have no-fault laws require drivers to buy personal injury protection coverage. This coverage varies from state to state, and similar coverages may be offered as an option in states without no-fault laws.

**Avoid duplicate coverage.** Before you buy medical payments or no-fault coverage, clarify what it covers in your state. Then look closely at your current coverage. If you already have good medical and disability insurance, you may not need additional protection.

## Uninsured Motorist Coverage (UM)

If an uninsured driver is legally liable in an auto accident, uninsured motorist coverage pays what the individual's insurance company would have paid if that individual had liability insurance. It covers you, your family and your passengers for the following:

- Medical expenses.
- Lost wages.
- Injury-related losses including pain and suffering, up to the uninsured motorist limits you purchase.

Some states include uninsured motorist property damage (UMPD).

You may not need uninsured motorist coverage if you:

- Have good life, medical and disability income insurance.
- Carry high no-fault coverage limits (no-fault covers you for medical expenses and lost wages regardless of who is legally liable).

You may not need uninsured motorist property damage coverage if you:

- Already have collision insurance.

### **Underinsured Motorist Coverage (UIM)**

The definition of an underinsured motorist varies significantly from state to state. In most states, when you buy uninsured motorist coverage, you also can buy underinsured (UIM) motorist coverage for the following:

- Bodily injury to you, your family or your passengers resulting from the negligence of someone whose liability insurance limits are insufficient.

Generally, property damage is not included in underinsured motorist coverage.

### **Collision/Comprehensive Coverage**

There are two types of insurance which cover damage for your vehicle:

- Collision coverage pays for damage to your vehicle caused by a collision or rollover.
- Comprehensive coverage pays for damage to your vehicle from some cause other than collision such as theft, fire, vandalism, flooding, hail or collision with a bird or animal.

Generally, collision and comprehensive do not pay for the entire loss because you almost always purchase these coverages with a deductible.

### **Coverage For Non-Owned Vehicles**

Most personal auto insurance policies provide all of the preceding coverages, not only when you or someone else is operating your vehicle, but also when you or your family are operating a vehicle you do not own or regularly use, including a rental vehicle. Coverage is usually provided if the vehicle owner's insurance is not enough to pay the damage.



Collision and comprehensive coverage will generally extend to a rental vehicle, but the coverage is limited to the amount necessary to repair or replace the vehicle subject to your deductible. In the event of an accident, some rental companies charge for incidental damages, such as loss-of-use, diminution (loss)-in-value or administrative charges. These incidental charges are usually not covered by collision/comprehensive.

To avoid having to pay these damages, consider buying a damage waiver from the rental company. It waives your responsibility for damage to the rental car in most circumstances. Unfortunately, this insurance from a rental company is expensive — sometimes more than \$20 per day. You should also check with your credit card company. Some provide rental car coverage as a special benefit.

If a vehicle is available for your regular use, such as a long-term rental, a company vehicle or government-owned vehicle, your insurance will probably not cover you. If the vehicle is available for you to use only occasionally, your insurance will probably cover you. You can buy liability coverage on a regularly-used vehicle by buying a named non-owned policy or an extended non-owned auto (ENOA) endorsement to your personal auto policy. Check with your insurance company to be sure.

## Optional Coverages

Here are additional coverages that you can consider.

<b>Rental Reimbursement</b>	Pays, up to a specified amount, for rental vehicle charges while your vehicle is being repaired for damage covered under your policy. If you prefer not to incur the cost of renting a vehicle yourself and cannot be without a vehicle while yours is being repaired, you might consider this coverage.
<b>Towing And Labor</b>	Covers some costs incurred for services rendered at the place of breakdown or for towing to a repair shop. For example, it covers the delivery of gas but not the cost of the gas. If you lock the keys in the vehicle or need a tire changed, this would also be covered. These services are often included in auto club memberships, which can result in unnecessary duplicate coverage.
<b>Umbrella Liability (separate policy)</b>	Provides an additional \$1 million or more liability coverage beyond your other liability insurance. Because this is often excess coverage — paying after you exhaust other coverage — umbrella insurance costs less than you might expect. This excess liability coverage applies to your auto, homeowners, renters or boat liability coverage. The umbrella policy also provides liability coverage against claims such as libel and slander.

## Vehicle Storage

Some companies offer coverage for your vehicle if it is in storage.

### REPORT ALL AUTO ACCIDENTS TO YOUR INSURANCE COMPANY

If an accident involves another individual (including a passenger in your vehicle) or another individual's property, you must report it, even if you do not file a claim. If you do not report the accident, and the other individual involved later sues you for injuries or damages, your insurance company would be at a disadvantage in defending you against the claim. The company might deny you coverage or nonrenew your policy because you did not report the accident. Lawsuits can result from any accident — no matter how insignificant. To protect yourself, report all accidents to your insurance company.

A deductible is a specific amount of money you are responsible for before your insurance company begins to pay on a claim. Higher deductibles result in lower comprehensive and collision premiums.

## Depreciation

Most insurance companies reduce your payment because of depreciation, which is the decrease in the value of your vehicle, or its parts, due to wear, tear and age. You would not, for example, be reimbursed the full price you paid for tires that have 20,000 miles on them. Your insurer would reimburse you for the value of the tires at the time of loss.

By using a deductible to eliminate the cost of processing small claims and by applying depreciation to some items during repair, insurers can provide collision and comprehensive coverage at lower premiums.

## What If Your Vehicle Is Stolen Or Totaled?

If your vehicle is stolen and not recovered, or is a total loss (“totaled”) following an accident or other covered event, collision and comprehensive coverage will pay you the vehicle’s actual cash value (ACV) prior to being stolen or damaged; therefore, you do not need to select limits for these coverages.

As your vehicle ages and its value declines, so does the amount you will collect for a total loss to your vehicle. You may want to consider not buying collision and comprehensive coverage on an older vehicle. If there are any unique features (customization) that make your vehicle significantly more valuable than the average vehicle, you should discuss this with your insurer in advance. You may be required to pay an additional premium.

If your vehicle is financed or leased, the lender or lessor generally will require you to carry these coverages with specified deductibles.

## THEFT OF PERSONAL ITEMS

Generally, auto insurance does not cover theft of personal items. Those items would be covered under a homeowners or renters policy.

## 10 HOW PREMIUMS ARE DETERMINED

Following are some of the factors that will influence your auto insurance premiums. However, some states do not allow insurance companies to consider these factors in determining auto insurance premiums.

**Gender.** Males generally pay more than females. This is because male drivers, as a group, are involved in more accidents than female drivers.

**Age.** Your age can also place you in a more expensive grouping. Drivers younger than 25 years old tend to have more accidents than drivers over 25 years old. As a result, a 17-year-old single male may pay three times as much for insurance as a 30-year-old single male. Some companies offer lower rates to those between 50 to 65 years old, since this group has lower accident rates. After age 65 rates may begin rising again.

**Marital status.** Statistics show that, as a group, married drivers have fewer accidents than single drivers. Therefore, married drivers usually pay lower premiums.

There may be other factors that qualify you for reduced insurance premiums:

**Driving record.** You can expect a poor driving record to greatly increase the price of insurance. Individuals with at-fault accidents or traffic convictions on their records pay more for their insurance — usually for three years following an incident.

How much more these individuals pay depends on the frequency of their accidents or convictions and the type of conviction. An accident in which you were at-fault will weigh more heavily against you than a minor traffic violation.

Individuals with poor driving records sometimes cannot select the company that writes their insurance. For them, there are state-regulated insurance plans — sometimes called “assigned risk plans.” Instead, the state insurance plan assigns the “risk” to an insurer.

These plans guarantee that all drivers can buy the minimum amounts of insurance required by their states. The resulting coverages may sometimes be less than what is needed for full coverage. Once their driving records improve, individuals in this category should be able to get standard coverage.

**If you have not owned a vehicle for three years or have not had prior insurance.** Some companies will rate you as inexperienced and may either refuse to insure you or charge a higher premium. Be prepared to pay higher premiums initially and ask companies how long you have to be a policyholder or have prior insurance before they will consider you experienced and lower your premiums.

**Vehicle type.** Vehicles, like drivers, are grouped by risk. Statistics show which vehicles tend to be involved in more accidents, to suffer more serious damage, to cost more to repair and to be stolen more frequently. Choosing a vehicle with a poor record in these areas can more than double collision and comprehensive coverage premiums.

Most companies charge more to insure high-performance vehicles and sports models due to the higher risk involved.

**Miles driven.** This affects your likelihood of having an auto accident and, therefore may influence your premiums.

**State regulated rates.** The way an insurance company sets rates in Florida will be different from the way it sets rates in California.

**Where you live.** Those who live in a small town or suburb are generally less likely to have accidents than those living in a large city. The cost of vehicle repair, medical care and legal services differs from place to place. Insurance companies may take these things into consideration when setting rates.

**Drivers in your household.** If your spouse has a poor driving record, it is likely to mean higher insurance premiums for the family vehicle, even if your driving record is perfect.

## 12 TYPES OF DISCOUNTS

Many companies offer discounts to lower your auto insurance premiums.

<b>Good Student</b>	For drivers under 25 years of age who attend a high school, college or university, with a B average or better for the preceding semester.
<b>Student Away At School</b>	For students who are away at school attending a college or university who do not have a vehicle in their possession.
<b>Driver Training And Defensive Driving Courses</b>	For drivers who have taken an approved driver education course.
<b>Good Driver (California only)</b>	For drivers who meet the statutory definition of a good driver.
<b>Mature Driver</b>	For drivers between 50 to 65 years of age.
<b>Multi-Vehicle</b>	For drivers insuring more than one vehicle on the same policy and garaged within the same location.
<b>Restricted Mileage</b>	For drivers who drive a limited number of miles in a single year.
<b>Automatic Seat Belts And Air Bags</b>	For vehicles equipped with automatic seat belts or factory-installed air bags.
<b>Antitheft Systems</b>	For devices that make it more difficult to steal your vehicle. These devices include ignition and fuel cutoff systems, hood- and wheel-locking devices and window-identification systems. Discounts are higher for automatic antitheft systems than manually-operated systems.
<b>Accident Forgiveness</b>	For insured drivers who have been accident free for a specific period of time and make a claim on their first at-fault accident. Check with your insurer.
<b>Online Discount</b>	For drivers who buy their insurance online.
<b>Multi-Policy Discount</b>	Policy holders receive a discount for insuring their home with the same company.

Not all insurers offer these discounts and not all states permit them. When comparing insurers, ask which discounts they offer in your state.

## RESOURCES



The USAA Educational Foundation offers the following publications.

**BUYING A VEHICLE THAT MEETS YOUR NEEDS (#505)**

**BUYING YOUR FIRST VEHICLE (#556)**

**CHILD SAFETY IN AND AROUND VEHICLES (#555)**

**THE EFFECTS OF AGING ON DRIVING SKILLS (#535)**

**SAFE ON THE ROAD (#570)**

**INSTALLING CHILD SAFETY SEATS (#544)**

**KEEPING EVERY YOUTH SAFE (K.E.Y.S.)**

- **BEHIND THE WHEEL (#565)**
- **ON THE ROAD (DVD) (#567)**
- **COST OF DRIVING (#568)**

**BUILDING AND MAINTAINING GOOD CREDIT (#536)**

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