

Auto Insurance

Everyone who owns a car is required to purchase an auto insurance policy. A good policy provides significant financial protection in the event of a car accident.

An auto insurance policy is a contract between you and an insurance company – you agree to pay the cost of the insurance policy, called a premium, and, in return, the insurance company agrees to pay for certain expenses associated with an accident or other covered loss.

There are three main types of auto insurance:

- ▶ **Liability Insurance** - Pays for damages caused by your car.
- ▶ **Collision Insurance** – Covers damage that may occur to your car through an accident in which the other driver does not have insurance or through a single car accident.
- ▶ **Comprehensive Insurance** – Covers losses not involving a collision such as theft, vandalism, a falling tree limb, and most other events that could damage the car.

In most cases, it makes sense for your policy to include all three types of coverage.

Each policy has a *deductible*, which is the amount you must pay before the insurance company will pay. A common deductible is \$500 per accident. Policies also have a *coverage limit*, which is the maximum the insurance company will pay per accident.

How Are Rates Determined?

Insurance rates will vary from company to company, but they are determined by a variety of common factors, including:

- Age and gender
- Driving record
- Your location
- Type of car
- Deductible amount
- Coverage limit

Because rates can vary from company to company, it's important to comparison shop to find the best deal. Be sure to ask for quotes on identical coverage with identical deductibles. Never buy a car without obtaining an insurance quote first.



Buying Decisions

When insuring your car, consider your policy decisions carefully – especially your total liability coverage. While all states have minimum liability requirements, those minimums are rarely sufficient to pay damages that result in a hospital stay or a totaled car. For example, many states follow the 20/40/15 rule - \$20,000 in bodily injury protection per person or \$40,000 per accident, and an additional \$15,000 for property damages – amounts considered too low by many.

Most experts recommend that you carry no less than \$100,000 in liability coverage per person and up to \$300,000 total per accident – more if you have assets such as your own home or high earning potential. You may also want to consider an “umbrella” policy that protects you from a variety of lawsuits at a low cost for \$1,000,000 in coverage.

Minimizing Insurance Costs

While some factors such as your age, gender, and location are beyond your control, maintaining a clean driving record is a great way to minimize your insurance bill. A single ticket or accident can cause a dramatic increase in rates that may last for years.

Selecting a higher deductible amount is one way to boost total coverage without raising your total bill. For example, raising your deductible from \$500 to \$1000 will save money on your premiums – money that can be allocated to higher liability coverage amounts. Just make sure that you could afford the deductible if you needed to.

Damages beyond the limits of your policy will be your responsibility. Boosting optional coverage is typically a smart investment in your future.