

INSURANCE BASICS

(Adapted from information formerly posted by State Farm as part of its Common Cents program)

I. ALL ABOUT AUTO INSURANCE

The legal responsibility involved when you are in a car accident is extraordinary. Basically, if you hurt someone else while driving, there's no limit to the amount he or she can sue you for. This is why automobile insurance costs so much.

But insurance for teenagers is particularly expensive. Auto insurance premiums are generally based on the type of coverage you choose and the track record of other teenage drivers with similar characteristics. Some of the factors that can raise or lower your premium include:

AGE. The younger you are, the higher the premium. Statistically, young drivers have more accidents than older drivers. The good news is that rates fall as you age, gain more experience driving, and maintain a clean driving record.

GENDER. Males under the age of 25 have significantly higher accident rates than females under the age of 25. So male drivers pay higher premiums than female drivers.

MARITAL STATUS. Apparently, married people are more careful drivers because they tend to have fewer accidents.¹ So single people pay higher premiums.

TYPE OF CAR. The value, size, weight, age of your vehicle, and even the cost of replacement parts are essential to determining your premium payment. The model of your car is also a factor. For example, sports cars tend to be involved in more accidents than family cars. But safety features such as airbags, anti-theft equipment, and anti-lock brakes can often reduce your premium.

HOW OFTEN YOU USE YOUR CAR. The more you drive a car, the more likely you are to be involved in an accident. So the less you drive, the lower the premium.

LOCATION. The odds of an accident occurring are statistically greater in a highly populated city than in a small rural town. So urban residents tend to pay higher premiums.

DRIVING RECORD. Getting speeding tickets and other traffic violations makes you a riskier driver to insure than someone who has a clean motor vehicle record.

CLAIM RECORD. Insurance companies believe drivers with histories of accidents are more likely to be involved in future accidents. So drivers without accidents have lower premiums. In fact, if you have too many accidents, a company may refuse to insure you at all.

CREDIT HISTORY. Didn't we say it would follow you everywhere? Insurance companies believe that people who are responsible with their finances tend to be more responsible with managing their risks.

¹ According to State Farm Insurance, "Married drivers tend to have fewer accidents than single drivers."

When you first start driving, your best move is to ask your parents to add you to their insurance policy. Even if they make you pay them for your coverage, it will be cheaper than getting insurance of your very own. Still, it's smart to know exactly what you're covered for – so ask them if you can look at their policy. You'll see that it's made up of several different types of coverage, representing the different risks involved in driving a vehicle. Plus, while all states require drivers to have a minimal level of auto insurance, keep in mind that it's probably a good idea to carry more than your state's minimum requirement. Ask your insurance agent to help you decide on the appropriate level of insurance for your age and needs. While the minimal level of auto insurance varies by state, **the main types of coverage are:**

GENERAL LIABILITY. General liability covers damage you cause to other people's property and bodily injuries you cause to people outside of your car. So if you damage someone else's car in an accident, your liability coverage pays the cost to have it repaired. If you injure someone (outside of your car) in an accident and he or she sues you, general liability covers the legal bills.

MEDICAL PAYMENTS. While general liability covers bodily injuries you cause to people outside your car, medical payments cover immediate compensation for bodily injury expenses to you and your passengers regardless of who is at fault. Medical payments also cover you and members of your household in any accident involving an automobile, whether you are on foot, on a bicycle, or in a friend's car.

COLLISION. Collision covers repairs for damage you cause to your car caused by an accident, whether it involves another vehicle or an object, such as a tree. A deductible applies to collision payments. This means that you pay the deductible amount first; your insurance company pays the amount over your deductible.

COMPREHENSIVE (i.e. other non-collision damage). This covers fire damage to your vehicle, break-ins, vandalism, or theft, as well as natural disasters such as an earthquake, hail, hurricane, or flood. Basically, it covers everything except an actual collision.

UNINSURED MOTORIST. This covers your lost wages and medical expenses if you are in an accident with someone who doesn't have auto insurance .

UNDERINSURED MOTORIST. This coverage is slightly different in that it covers you when the cost of repairs from an accident caused by another driver exceeds his or her coverage limits.

While these are the main types of auto coverage, popular add-ons include coverage for towing expenses and renting a car while yours is being repaired.

In addition to types of coverage, every insurance policy comes with *conditions*, which define your and the insurance company's rights, duties, and responsibilities. One typical condition requires you to perform certain actions in the event of a loss. An example of an action is contacting your insurance company promptly and providing honest information about what happened. Another action is informing your insurer of any change in your circumstances or vehicle. Other conditions describe situations where your loss is not covered. A common example of when the insurer will not provide coverage is when a loss is caused by an act of war.

There usually are cancellation provisions as well. In most states, your insurer can cancel your policy only if you fail to pay your premium; lose your driver's license; lied on your insurance application; or fail to report a substantial change in your circumstances, such as buying a sports car to replace a family sedan. Actually, your insurance company can choose not to renew your policy for any reason.

A number of states have what's called "no-fault" insurance provisions where insurance companies cover an insured person's personal injury claim regardless of who was at fault in the crash. However, accident victims can still sue the other party under certain conditions.

Of course, your insurance company has responsibility to you as well. These include keeping you fully informed about your policy and your claims, treating you fairly, resolving complaints in a timely fashion, and safeguarding your privacy.

You should take the time to identify the conditions in your policy so you know what your responsibilities are, as well as your insurer's. This will prevent a situation where you call to make a claim and your insurer refuses to cover it because you have not fulfilled all your obligations.

While the whole auto insurance pricing process seems complicated, one bit of good news is that time is on your side. As you get older, have more years of driving under your belt, and keep maintaining a clean driving record, your premiums tend to fall. In the meantime, there are other strategies you can use to **reduce your premiums**:

CHOOSE A HIGHER DEDUCTIBLE. Typical deductibles are \$250, \$500, or \$1,000. Choosing a higher one can significantly reduce your premiums. Just make sure you don't go so high that you won't be able to afford repairing your car if something happens.

SHOP AROUND. You shop around for everything else, and your auto insurance policy should be no exception. Call your parents' insurance agent; check out insurance comparison Web sites. A little extra time shopping can really pay off in hundreds of dollars. Even after you get your policy, check around from time to time to see if other companies offer better rates.

ASK ABOUT DISCOUNTS. You can often get discounts on your premium for good grades, covering more than one car, or buying more than one type of policy through the same company. Some companies also offer discounts for safety features like airbags or anti-theft systems. And many will give you discounts for taking a defensive driving course.

DRIVE LESS. Find a job with a shorter commute or start using public transportation to get to and from work, and you may be able to reduce your premiums.

MOVE TO A SAFER ZIP CODE. In some areas it's illegal and in others it's common practice to charge higher premiums for people who live in a zip code that has historically had more claims. But generally, you can reduce your rates by moving to an area that has fewer claims – typically away from the city and toward the suburbs.

GET MARRIED. While you shouldn't tie the knot just to get cheaper insurance, you will pay less for insurance after you wed.

KEEP YOUR DRIVING RECORD CLEAN. This may be the single biggest thing you can do to reduce your premium. Many companies offer a discount if you are accident-free for a certain length of time. Also, speeding and other moving violations can raise your rate. So again, it pays to be a careful driver.

II. Making Sure That You're Covered

When it comes to buying your own auto insurance, you should know there are basically two different ways to do it. The first is to work with an insurance agent, whom you will call when you have questions or need to file a claim. Some people like working with an agent who knows them and will work with them when there's a problem.

The other way is to buy your insurance directly from an insurance company. You simply call an 800 number or sign up on a Web site. People who go this route don't care as much about talking to the same person every time they need assistance but like the fact that they can reach someone at the company 24 hours a day. There's no right way to go, and neither way is always cheaper than the other. It's really what you prefer.

Shopping for auto insurance has gotten a lot easier in recent years as more insurance companies started offering quotes via the Internet. There are also a number of insurance quote sites that let you fill out one form and get quotes from a variety of insurance companies. Before you provide any information over the Internet, be sure you're using a secure Web site. Of course, your shopping shouldn't stop at the Internet. Call the company your parents use. Call other companies you've heard of that aren't online. And remember, it'll be easier to compare if you make sure all the quotes reflect the same coverage limits and deductibles.

To give you an accurate quote, insurance companies need some information about you, your car, and your driving record. Of course, they'll need your name, address, and birthday. But you should also have the following information on hand when you start shopping:

- Your Social Security number (SSN)
- How long you've had a valid driver's license
- Your E-mail address
- How you pay for your car (lease, own, or own and make payments)
- Your car's vehicle identification number (VIN)
- Your car's year, make, model, body style, and safety equipment (anti-theft system and airbags)
- How many, if any, moving violations (speeding tickets, breaking traffic laws) you've had
- How many, if any, claims (accidents, theft) you've had and whether they were your fault
- Current insurance company name (if applicable)
- Policy expiration date (if applicable)

Yes, it may take a little work to give each company all the information it needs to give you an accurate quote. But the potential payoff can be huge. Think of it as investing a little time so you can save money for something much more fun and exciting.

III. Through the Years: Other Types of Insurance

Auto insurance is probably the biggest insurance concern you have at the moment. But you have many life changes ahead of you. You'll probably start a career and change jobs a couple of times. You may get married and start a family. Maybe you'll start your own business or get divorced. And at some point, you'll hopefully be able to retire. Whether you end up living the lifestyle of the rich and famous or living a simpler life, you're going to need some additional kinds of insurance protection for yourself and your loved ones.

HEALTH INSURANCE pays medical bills when you or your family becomes sick or injured. Given the high costs of medical care – even routine check-ups and illnesses – virtually everyone needs health coverage. If your parents have health insurance, it will cover you until you turn 19 years old, or until age 23 if you're a full-time student. So at some point, you're going to need your own coverage – the best way is usually through an employer. You can purchase an individual health policy for yourself or your family, but it's usually much more expensive than the coverage an employer offers.

PROPERTY INSURANCE protects your possessions such as clothes, furniture, electronics, appliances, sports equipment, and computer. You probably don't think about it, but a lot of things can happen to your stuff, including fire, flood, or theft. Renters' insurance does the job for those who don't own their own home. For those who do, homeowners' insurance protects your stuff as well as the house itself. If you own a digital camera, it's a good idea to take digital pictures of your stuff and store them on a CD that you keep in a safe place outside of your home. The pictures will come in handy if you ever need to make a claim.

LIFE INSURANCE provides financial support for the people who depend on you in the event of your untimely death. If you are single and no one is dependent on you, you probably don't need life insurance. But once you marry or have children, it's something to consider seriously. Some types of life insurance are designed like an investment to increase in value.

DISABILITY INSURANCE protects your earning power. When most people think about insuring their valuable, they think about their car or their home. But your most valuable asset is actually your ability to earn a living. Disability insurance pays you an income when an illness or injury prevents you from working for several weeks or even years. And it's far more necessary than people think. According to the National Association of Insurance Commissioners, people in their 30s are three times more likely to suffer a disability than they are to die.

LIABILITY INSURANCE protects you in case you are legally responsible for unintentionally injuring someone or damaging another's property. It covers everything from legal fees to settlements in court cases. Homeowners' and renters' insurance includes liability coverage to some degree. You can also get additional protection through something called an umbrella policy, which will protect you in almost all areas of your life.