

Understanding Car Insurance

Shopping for car insurance... or need an understanding of what kind of coverage you need? This guide will give you the low down on what you need and what to watch out for!



Most U.S. states require you to provide some financial protection if you or another driver using your car causes an accident that damages someone else's car or property, injures someone or both.

When making the best decision about purchasing other types of auto insurance coverage you might need, you'll want to understand what's covered, what's not covered and what's optional. In addition to understanding types of coverage, you'll also want to consider coverage amounts.

Why? Because state-required minimums may not cover the costs of a serious accident, so it's worth considering purchasing higher levels of coverage.

Here's a review of the types of coverage available—some are required; others are optional; all are priced individually (a la carte) to let you customize coverage amounts to suit your exact needs and budget.

Mandatory coverage

Nearly every state requires car owners to carry the following auto liability coverage:

Bodily Injury Liability (BI) — This covers costs associated with injuries and death that you or another driver causes while driving your car.

Property Damage Liability (PD) — This coverage will reimburse others for damage that you or another driver operating your car causes to another vehicle or other property, such as a fence, building or utility pole.

Example Coverage Amounts:

1. BI/PD of 25/50/25 (typical state minimum)

- The first 25 means you get up to \$25,000 per person for bodily injury.
- The 50 means you get up to a total of \$50,000 in total bodily injury.
- The second 25 means you get up to \$25,000 in property damage.

WARNING: While this is the cheapest choice, it's not necessarily the best. Imagine if you cause an accident with a semi truck full of product and the product spills onto the highway damaging the entire load. You are not only liable for the damage to the truck but also its content. Would \$25,000 in property damage cover it? Probably not!

2. BI/PD of 50/100/50

- The first 50 means you get up to \$50,000 per person for bodily injury.
- The 100 means you get up to a total of \$100,000 in total bodily injury.
- The second 50 means you get up to \$50,000 in property damage.

WARNING: Ask yourself the semi accident question.... Would \$50,000 cover it?

3. BI/PD of 100/300/100

- The first 100 means you get up to \$100,000 per person for bodily injury.
- The 300 means you get up to a total of \$300,000 in total bodily injury.
- The second 100 means you get up to \$100,000 in property damage.

WARNING: Ask yourself the semi accident question.... Would \$100,000 cover it? Now you are talking!

Be sure and have your agent give you a price quote for all three examples so you can price compare and make an informed decision!

Frequently required coverage

Many states require that you carry the following coverage:

Medical Payments or Personal Injury Protection (PIP) — Provides reimbursement for medical expenses for injuries to you or your passengers. It will also cover lost wages and other related expenses.

Example Coverage Amounts:

1. PIP of 5,000

- This means you get up to \$5,000 per person for medical payments.

WARNING: Most people have health insurance, but if injuries are due to an auto accident, your auto insurance policy is considered your primary coverage. If you exhaust your auto insurance medical payment coverage, your health insurance will provide secondary coverage, but keep in mind... any health insurance deductible and co-pay will apply and you'll have to pay that out-of-pocket.

2. PIP of 10,000

- This means you get up to \$10,000 per person for medical payments.

WARNING: Remember... any health insurance deductible and co-pay will apply after your medical payment maximum is reached and you'll have to pay that out-of-pocket.

Uninsured Motorist Coverage (UI) — Reimburses you when an accident is caused by an uninsured motorist—or in the case of a hit-and-run. You can also purchase underinsured motorist coverage, which will cover costs when another driver lacks adequate coverage to pay the costs of a serious accident.

Coverage amounts work just like the BIPD limits explained earlier.

Underinsured Motorist Coverage (W) — Reimburses you when an accident is caused by an underinsured motorist. Let's say you drive a \$90,000 Lexus and you get hit by someone and totals your car. Let's say that driver only has the state minimum of \$25,000 in property damage. The coverage will then cover the remaining \$75,000.

Coverage amounts work just like the BIPD limits explained earlier.

Even if these types of coverage are optional in your state, consider adding them to your policy for greater financial protection.

Optional coverage

While basic, legally mandated auto insurance covers the cost of damages to other vehicles that you cause while driving, it **does not cover damage to your own car**. To cover this, you need to purchase the following optional auto insurance coverages:

Collision — This coverage reimburses you for damage to your car that occurs as a result of a collision with another vehicle or other object—e.g., a tree or guardrail—when you're at fault. While collision coverage will not reimburse you for mechanical failure or normal wear-and-tear on your car, it will cover damage from potholes or from rolling your car.

A deductible will apply, typically \$250, \$500, \$1000 or higher. This is the amount you will pay out-of-pocket to fix your car when the accident is your fault.

Have your agent quote all the deductibles, as sometimes a lower deductible does not cost that much more and will give you peace of mind if your pocketbook can't handle it.

Comprehensive — This provides coverage against theft and damage caused by an incident other than a collision, such as fire, flood, vandalism, hail, falling rocks or trees and other hazards.

A deductible might apply, like Collision coverage. This is the amount you will pay out-of-pocket to fix your car when the making a Comprehensive claim.

Have your agent quote all the deductibles, as sometimes a lower deductible does not cost that much more and will give you peace of mind if your pocketbook can't handle it.

Glass Coverage — Windshield damage is common, and some auto policies include no-deductible glass coverage, which also includes side windows, rear windows and glass sunroofs. Or often glass damage is covered under your Comprehensive coverage. Or you can buy supplemental glass coverage.

Gap Coverage — If you lease or finance your vehicle, auto dealers or lenders will likely require you to purchase collision and comprehensive. But keep in mind that collision and comprehensive only cover the market value of your car, not what you paid for it—and new cars depreciate quickly. If your car is totaled or stolen, there may be a “gap” between what you owe on the vehicle and your insurance coverage. To cover this, you may want to look into purchasing gap insurance to pay the difference. (Note: For leased vehicles, gap coverage is usually rolled into your lease payments.) Often this type of coverage is purchased via your car lender.

Who is covered—and when?

Your auto policy will cover you and other family members on your policy, whether driving your insured car or someone else's car with permission. Your policy also provides coverage if someone not on your policy is driving your car with your consent.

Your personal auto policy only covers personal driving, whether you're commuting to work, running errands or taking a trip. Your personal auto policy, however, will not provide coverage if you use your car for commercial purposes—for instance, if you deliver pizzas or operate a delivery service. Note, too, that personal auto insurance will generally not provide coverage if you use your car to provide transportation to others through a ride-sharing service such as Uber or Lyft. Some auto insurers, however, are now offering supplemental insurance products (at additional cost) that extend coverage for vehicle owners providing ride-sharing services.

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