

One of the most common forms of insurance you will have, if you don't already, is automobile insurance. Not everyone has the same policy with the same types of coverage. There are several parts to your automobile insurance policy you can have; not all are required. Some coverage types you can have are: liability coverage, collision coverage, other-than-collision coverage (used to be called comprehensive coverage), uninsured/underinsured coverage, medical expense coverage, income loss coverage, towing coverage, or rental car coverage.

Automobile Liability Coverage

Automobile liability coverage is required by all states. It covers damages to *other people and their property* caused by you driving your vehicle (i.e. accident is your fault). If you are determined to be at fault in an accident, your liability coverage will pay for the damage you do to whoever or whatever you hit.

Your liability insurance has three parts to its coverage. It will have coverage limits (a maximum amount) it will pay out for:

- **Bodily injury per other injured party.** They will only pay out up to the coverage limit set in the policy for medical expenses, pain and suffering, lost wages, and other actual bodily injury damages you do to each individual in the accident that is your fault.
- **Bodily injury per accident,** regardless of the number of other injured parties. In addition to individual damage limits, your insurance will only pay out up to the agreed-upon coverage limit in your policy for the entire accident.
- **Property damage per accident.** This is the amount of actual physical damage or destruction you do to the other people's property (vehicles, fence, dog, etc.).

For example, let's say you have coverage of \$100,000 per person/\$300,000 per accident/\$50,000 property damage. Your coverage would be:

- \$100,000 will be the maximum payout by your insurance company for bodily injury to each injured person. If you cause bodily injury to someone that totals \$200,000, your insurance only pays \$100,000.
- \$300,000 will be the maximum payout by the insurance company for bodily injury per accident, regardless of the number of injured people. If you cause bodily injury to 5 people that totals \$450,000 in medical bills, pain and suffering, lost wages, etc., your insurance will only pay \$300,000.
- \$50,000 will be the maximum payout by the insurance company for property damage per accident. This is what pays for the damage you cause to someone else's car or other property. If you crash into and total a vehicle worth \$80,000, your insurance would only pay \$50,000.

You are personally liable for any damages above the maximum amounts of your coverage. That means you pay the rest. You must ensure you have adequate coverage. You will be required to get minimum coverage limits required by your state. However, that may prove to be inadequate for the area in which you live and the possible damage you might do. You may live in an area that has a high percentage of expensive vehicles on the road, and you may want to set your coverage limits higher than the state minimums.

You should set your coverage limits to be enough to cover any damage you might cause in your local area. Your insurance company may recommend coverage limits above your state minimums based on where you live.

How Low Liability Coverage Limits Can End Up Costing You a Lot of Money

The state of Virginia only requires Liability Coverage of \$25,000 per person bodily injury, \$50,000 per accident bodily injury, and \$20,000 property damage. If an accident you cause results in damages lower than those maximums, you are OK. However, if you cause an accident that exceeds those coverage limits, you could owe the injured parties a lot of money.

Scenario #1

You cause an accident. 1 person suffers bodily injury of \$15,000. Additionally, you cause \$12,000 worth of damage to her \$23,000 Honda Accord.

Here is what your policy will pay out:

- **Bodily Injury (per person): \$15,000.** You are liable for nothing additional out-of-pocket.
- **Bodily Injury (per accident): \$15,000.** You are liable for nothing additional out-of-pocket.
- **Property Damage: \$12,000.** You are liable for nothing additional out-of-pocket.

In this case, you were fortunate enough to have not caused such extensive damage that it exceeded your policy limits.

Scenario #2

You cause an accident. 2 people suffer bodily injury, each amounting to \$30,000 (\$60,000 total). Additionally, you cause \$24,000 worth of damage to their \$43,000 Cadillac Escalade.

Here is what your policy will pay out:

- **Bodily Injury (per person): \$25,000.** You are liable for the additional \$5,000 per person.
- **Bodily Injury (per accident): \$50,000.** You are liable for the additional \$10,000 beyond your coverage limit of \$50,000.
- **Property Damage: \$20,000.** You are liable for the additional \$4,000 beyond your coverage limit of \$20,000.

You are liable for a total of \$14,000 in damages that you caused that exceed your coverage limits.

You can avoid owing additional amounts in damages by setting coverage limits higher than the state-mandated minimums.

No-Fault Insurance

Some states have **no-fault insurance** instead of requiring liability coverage for bodily injury. With no-fault insurance, should you get in an accident, your insurance pays for any bodily injury to you, regardless of who is at fault in the accident. States have done this because it is believed to result in lower insurance premiums, since the insurance company only has to worry about you for bodily injury, and you set the coverage amounts for yourself. With no-fault insurance, though, the at-fault individual is still responsible for paying for property damage (vehicle, etc.). Should you cause an accident, you still must have liability insurance for property damage you do to other people's property.

Collision Coverage

Collision coverage pays for direct or accidental damage to *your car* due to 1) colliding with another object, like a car, tree, etc., or 2) upset, such as overturn. Your insurance company will only pay out if the accident is your fault. If the accident is someone else's fault, that individual's insurance will be responsible for taking care of all of your expenses, to include fixing your vehicle.

Collisions caused by you are the most common type of damage caused to your vehicle for which your insurance company normally has to pay out. Therefore, collision coverage is normally the most expensive portion of your policy. Collision coverage is *optional if you own your vehicle; it is required if you have a loan on, or lease, your vehicle.* With collision coverage, you will set your deductible for this coverage (\$100, \$250, \$500, etc.) which you will have to pay out of pocket. Your insurance company will pay the rest of the amount needed to either repair the vehicle, or to replace it based on its current fair market value, whichever is the lesser amount. The insurance company will base this portion of your premium off of the fair market value of vehicle, so as your vehicle continues to lose value (depreciates), this portion of your premium will go down.



If this teenager caused this accident, his **automobile liability coverage** will pay to repair the other vehicle, and will also pay for any bodily injury suffered by the other driver and his/her passengers (but only to the coverage limits specified in the policy). His **collision coverage**, if he has it, will pay to repair his car; he will have to pay the deductible, though.

Image courtesy Ariel Skelly/Image Bank/Getty Images

Other-than-Collision (formerly called Comprehensive) Coverage

Other-than-collision coverage protects against all damage to your car by anything else other than collision. Some examples include storm damage, theft of your vehicle, or vandalism to your vehicle. As with collision coverage, you will set your deductible for this coverage. As with collision coverage, your insurance company will pay the rest of the amount needed to either repair the vehicle, or to replace it based on its current fair market value, whichever is the lesser amount. The insurance company will base this portion of your premium off of the fair market value of your vehicle, and this portion of your premium will go down as your vehicle depreciates.

How Collision and Other-than-Collision Coverage Will Pay for Damages to Your Vehicle

You have a 2003 Honda Accord with a \$6,500 fair market value. You have collision and other-than-collision coverage, each of which you have set the deductible for \$500.

If your car is damaged, either through accident or other means, and it will cost \$4,800 to repair the vehicle, your insurance will pay **\$4,300**; you will have to pay the **\$500 deductible**.

If your car is damaged, either through accident or other means, and it will cost \$7,500 to repair the vehicle, you will **not** receive \$7,000 (repair cost minus deductible) because the vehicle is worth less than the fair market value. You will receive **\$6,000** (*fair market value minus your \$500 deductible*) for your vehicle.

"Totaling" Your Vehicle

When you "total" your vehicle, it does not mean vehicle is beyond repair. "Totaling your vehicle" simply means it will *cost more to repair your vehicle than the insurance company is willing to pay to return your car to its condition prior to the accident.* The amount for which the insurance company will consider the vehicle "totaled" is based on the vehicle's current fair market value.

The amount to "total" the vehicle is normally not 100% of its current fair market value. The insurance company sets a maximum percentage of its current fair market value that it believes is the maximum for which it is worth it to repair the vehicle (60%, 75%, etc.). Any repair amounts beyond this percentage, once the loss in value of the vehicle due to having such extensive damage is accounted for, are greater than the post-repair value of the vehicle.

A vehicle for which the cost of repair is almost the same as the pre-accident value of the vehicle will not be worth the pre-accident fair market value once repaired; the vehicle loses even more value because it has been in such an expensive accident.

The insurance company will still pay out 100% of the fair market value to you. The vehicle will get a “salvage title”, and the insurance company will have the vehicle shipped off to a junkyard. If you want to still keep vehicle and repair it, the insurance company will pay you the fair market value minus its salvage value (usually 10 – 25% of fair market value, depending on the insurance company, so you will receive 75 - 90% of the fair market value for the vehicle). You can still get vehicle fixed with the money the insurance company gives you, but you may have trouble selling the vehicle in the future if it has a “salvage title”.

Uninsured/Underinsured Motorist Coverage

Uninsured/underinsured motorist coverage covers you in case you are hit by someone who either 1) has no insurance, or 2) does not have enough coverage on their automobile liability coverage to pay your bodily injury damages and property damage. It is required in most states. You should get enough coverage to pay for you and your vehicle. You will have to set a deductible for this coverage which you will have to pay should you get into an accident where the at-fault driver’s insurance does not fully cover your damages.

Other Coverage

Medical expenses coverage pays certain medical or funeral expenses for anyone in your car, regardless of fault. Medical expenses coverage is optional.

Income loss coverage is in case you cannot work due to injuries from an automobile accident that is your fault. It pays for your lost income at a rate specified in your policy. For example, you may designate that it pays you \$60 per day to be paid to you if you cannot work due to accident-related injuries. Income loss coverage is also optional.

Towing coverage covers towing expenses for your car should it break down. You may be able to get this coverage from your insurance company; more often, though, you get through a separate provider like the American Automobile Association (AAA). Towing coverage is also optional.

Rental car coverage pays for a rental car for you should your car become disabled due to an event covered by your collision or other-than-collision coverage. You will be provided a rental car equivalent to your damaged vehicle, paid for by your insurance company, until repairs on your vehicle are complete. The insurance company normally sets a maximum number of days for which they will pay for a rental car. This is *not* insurance for a car you might rent; that is something your insurance company might offer you as part of your collision coverage. Rental car coverage is also optional.

Risk Management for Auto Insurance		
Risk Reduction	Risk Transfer	Risk Retention
<p>Be a good driver and maintain good driving record.</p> <p>Drive a vehicle with better risk category (lower cost of repairs for a specific type of accident).</p>	<p>Obtain insurance for risks you wish to transfer:</p> <ul style="list-style-type: none"> • Liability & uninsured/underinsured motorist (required) • Collision • Other-than-Collision • Medical, towing, rental, etc. 	<p>Deductibles</p> <p>Coverage limits</p> <p>Risks you choose not to transfer (not getting collision, other-than-collision, or any of the other optional coverages)</p>