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Your First Car ... and Your First Insurance Bill!

By, Lorraine Emerick

Congratulations! You are the proud owner of your first car ...and your first insurance policy! So, what type of coverage do you need? How much will it cost? First, let's talk about what an insurance policy is – it's a *legal contract between you and the insurance company*. The contract states that in exchange for a premium (your cost for the policy), the company promises to pay for a covered claim. So, when signing a contract, it's really important to know you're obligations and what

you're getting for your money.

Let's take an 18 year old boy living in Upstate New York driving a 2004 Honda Acord, no traffic violations and two years driving experience. Six different companies quoted six different premiums ranging from \$2,281 to \$7,406 per year- for the exact same coverage! Because we're smart and shopped our insurance, we are going to buy the \$2,281 policy. So, let's see exactly what we bought.

If you want to drive in almost any state, including New York, you must buy bodily injury and property damage liability to pay for damage *you cause to others*.

Suppose you were changing the tunes and you accidentally rear end the Mercedes in front of you. The driver of the Mercedes is hurt and has a back injury from the impact of the crash YOU caused and is unable to work. Remember the promise to pay? That's right, your insurance company pays...but only up to the limit we purchased or \$50,000 per person and not more than \$100,000 per accident.

Bodily Injury /+\$487: Pays for Medical Costs, Lost Wages, Death, Pain & Suffering

Who pays to repair the damage to the Mercedes? Your insurance policy does (again). But only up to the property damage limit– in this case \$50,000 (you better hope that \$75,000 car wasn't totaled!).

Property Damage /+\$575: Pays for other people's property you damage with your car such as, other vehicles, buildings, telephone poles, fences...

Auto Quote: \$2,281		
18 YEAR OLD MALE; CLEAN RECORD; 2004 HONDA; UPSTATE NY		
Coverage	Limit/Deductible	Premium
Bodily Injury Liability <i>Mandatory in majority of states</i>	\$50,000 per person \$100,000 per accident	\$487
Property Damage Liability <i>Mandatory in majority of states</i>	\$50,000 property damage	\$575
Supplemental Uninsured/ Underinsured Motorists (referred to as SUM) <i>Mandatory in many states</i>	\$50,000 per person \$100,000 per accident	\$39
Medical Payments <i>Optional in most states</i>	\$10,000 per person	\$5
Personal Injury Protection <i>Mandatory in majority of states</i>	\$50,000 per person	\$301
Comprehensive <i>Optional-unless you have a loan on the vehicle</i>	\$200 Deductible with Full Glass	\$92
Collision <i>Optional-unless you have a loan on the vehicle</i>	\$500 Deductible	\$758
Rental Car <i>Optional</i>	\$30 per day/\$900 maximum	\$18
Roadside Assistance <i>Optional</i>	\$50 per incident	\$6
<i>Annual Premium : \$2,281</i>		

Supplemental Uninsured/Underinsured Motorists (referred to as SUM)/ +\$39- Let's say a Jeep ran a stop sign and hit you – damaging your car and breaking your legs. What if the Jeep had no or minimal insurance? This coverage provides you an additional \$50,000 per person &/or \$100,000 per accident above the Jeeps liability limits. This will NOT pay for any damages to your car.

Medical Payments/ +\$5: A very inexpensive coverage for bodily injury or funeral expenses regardless to who was at fault...up to \$10,000 per person.

Basic Personal Injury Protection/ +\$301 – sometimes referred to as *No-Fault Insurance*. This applies to *bodily injury only* of passengers or pedestrians – regardless who was at fault. No-fault insurance does NOT cover damage to your car. The limit of \$50,000 per person applies to medical expenses, loss of work and death benefit. Drive under the influence? If so, coverage is voided but the Medical Payments coverage we bought will provide a \$10,000 limit.

Physical Damage: *Comprehensive and Collision Coverage*

If you don't have a loan on your car, these coverages are optional – remember, the higher the deductible, the lower the cost. The insurance company promises to pay the “Actual Cash Value” (ACV) in the event of an accident. In other words, if you crash and total your 2004 Honda, you will not get enough money to buy a new Honda. You will only get the depreciated value. A 2004 Honda Accord, in great condition, with 75,000 miles is worth around \$5,700. You would receive the cost to repair/replace your car up to \$5,700 - *minus* your deductible.

- **Comprehensive deductible \$200 with Full Glass/+\$92**

This is sometimes called “other than collision coverage” and pays for damages (minus the \$200 deductible) to your car caused by:

- Theft
- Fire
- Vandalism
- Collision with animal
- Windstorm
- Flying objects
- Hail

We also bought “Full Glass Coverage”. In other words, the deductible of \$200 does not apply if the glass is damaged (i.e. stone hit windshield).

- **Collision Deductible \$500 / +\$758**

Suppose you hit a tree or your car was struck in the parking lot, or you were in an accident that was your fault and your vehicle was damaged, or if the accident wasn't your fault but the other driver didn't have insurance, or if there was contributory negligence (both drivers were partially responsible)? Whew! In all these instances, collision coverage would pay to repair or replace your vehicle up to \$5,700- *minus* the deductible of \$500, or \$5,200.

By the way, people often think that their personal belongings stolen out of a vehicle is covered under their auto policy. This is a myth! Just went shopping and all your purchases left in the car were stolen? This will *not* be covered by your auto policy.

Rental Car/ +\$18 –Will pay you \$30 per day/\$900 maximum to rent a car until your car is fixed or replaced.

Roadside Assistance/\$6- Need a tow? Battery Charged? Flat tire fixed? Run out of gas and need fuel? Lock your keys in the car? This coverage would pay for all of these incidents – up to the policy limit of \$50.

So, that's auto insurance in a nutshell. [State minimum requirements](#) vary by state and may not be enough. For example, New York requires only \$10,000 for property damage liability. Think of the cost of cars and their repairs. How confident are you that the damage you cause to someone else's car or property will be less than \$10,000? How much coverage is enough? Tough question. Really comes down to what you can afford to protect everything you own and have worked for. This is why it is so important to understand what you are buying and getting the most coverage for the money. Remember our quotes? For the *exact same coverage*, the prices ranged from \$2,281 to \$7,406 per year!!! Protect yourself by getting the best possible coverage you can afford or you can be financially impacted for years to come.

Safe travels!

Lorraine Emerick started in the insurance industry at the age of 16. She is currently the Manager of Operations and Insurance Services at Marshall & Sterling Insurance in Leeds/Saratoga Springs, NY. She is also a PhD student (Instructional Technology/Virtual Worlds) at the University of New York at Albany. Lorraine is a committee member for the Professional Insurance Agents Association's Business Issues, Programs and Services, board member for the Greene County Chamber of Commerce, member of the Association of Virtual Worlds Advisory Board, member of the Association of Virtual Worlds Legal Committee, as well as an active fundraiser for The Brain Tumor Society and the Columbia-Greene Humane Society. Lorraine also conducts faculty and student seminars at local community colleges and is a past presenter at the Gaming in Education symposium with respect to virtual learning environments.