

Auto Insurance Basics

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Auto insurance is a contract between the policyholder and the insurance company. The policyholder agrees to pay the premium and the insurance company agrees to pay losses as defined in the policy.

Auto insurance provides property, liability and medical coverage:

- Property coverage pays for damage to, or theft of, the car.
- Liability coverage pays for the policyholder's legal responsibility to others for bodily injury or property damage.
- Medical coverage pays for the cost of treating injuries, rehabilitation and sometimes lost wages and funeral expenses.

Most states require drivers to have auto liability insurance before they can legally drive a car. (Liability insurance pays the other driver's medical, car repair and other costs when the policyholder is at fault in an auto accident.) All states have laws that set the minimum amounts of insurance or other financial security drivers have to pay for the harm caused by their negligence behind the wheel if an accident occurs. Most auto policies are for six months to a year. A basic auto insurance policy is comprised of six different kinds of coverage, each of which is priced separately (see below).

1. Bodily Injury Liability

This coverage applies to injuries that the policyholder and family members listed on the policy cause to someone else. These individuals are also covered when driving other peoples' cars with permission. As motorists in serious accidents may be sued for large amounts, drivers can opt to buy more than the state-required minimum to protect personal assets such as homes and savings.

2. Medical Payments or Personal Injury Protection (PIP)

This coverage pays for the treatment of injuries to the driver and passengers of the policyholder's car. At its broadest, PIP can cover medical payments, lost wages and the cost of replacing services normally performed by someone injured in an auto accident. It may also cover funeral costs.

3. Property Damage Liability

This coverage pays for damage policyholders (or someone driving the car with their permission) may cause to someone else's property. Usually, this means damage to someone else's car, but it also includes damage to lamp posts, telephone poles, fences, buildings or other structures hit in an accident.

4. Collision

This coverage pays for damage to the policyholder's car resulting from a collision with another car, object or as a result of flipping over. It also covers damage caused by potholes. Collision coverage is generally sold with a deductible of \$250 to \$1,000—the higher the deductible, the lower the premium. Even if policyholders are at fault for an accident, collision coverage will reimburse them for the costs of repairing the car, minus the deductible. If the policyholder is not at fault, the insurance company may try to recover the amount it paid from the other driver's insurance company. If the company is successful, policyholders will also be reimbursed for the deductible.

5. Comprehensive

This coverage reimburses for loss due to theft or damage caused by something other than a collision with another car or object, such as fire, falling objects, missiles, explosions, earthquakes, windstorms, hail, flood, vandalism and riots, or contact with animals such as birds or deer. Comprehensive insurance is usually sold with a \$100 to \$300 deductible, though policyholders may opt for a higher deductible as a way of lowering their premium. Comprehensive insurance may also reimburse the policyholder if a windshield is cracked or shattered. Some companies offer separate glass coverage with or without a deductible. States do not require the purchase of collision or comprehensive coverage, but lenders may insist borrowers carry it until a car loan is paid off.

6. Uninsured and Underinsured Motorist Coverage

Uninsured motorist coverage will reimburse the policyholder, a member of the family or a designated driver if one of them is hit by an uninsured or a hit-and-run driver. Underinsured motorist coverage comes into play when an at-fault driver has insufficient insurance to pay for the other driver's total loss. This coverage will also protect a policyholder who is hit while a pedestrian.

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