



## **Report #18 - Twelve Secrets Your Car Insurer Won't Tell You**

Getting a good deal on auto insurance is hard enough. Keeping your premiums from rising? That can feel like playing a game where the rule maker refuses to tell you the rules.

Here are a dozen ways the industry works, with tips to help you save:

1. If you have good credit, you'll pay less. Almost all insurers -- including the top five -- pull your credit report. Why? Studies have shown a direct correlation between your credit score and the likelihood that you will file a claim. Insurers also know that if you pay your bills in a timely fashion and have had the same credit accounts for a long time, you're more stable than someone who pays late and frequently opens and closes accounts. They use this information to create your "insurance risk score," which is one factor that determines your auto-insurance rate.

Tip: Your insurance-risk score is not available to you, but it may be similar to your credit score. If you have unusual credit activity, wait a month for it to return to normal before buying auto insurance. If your credit history is shaky, clean it up as soon as you can.

2. Your car model affects your premium. You won't get these numbers from your insurer; in fact, you may not be able to get them at all. But the auto insurers do have a rating system for every car make and model. Most use a system devised by the Insurance Services Office, which starts with the cost of the vehicle and then factors in safety and theft data. Cars are given a rating from 1 to 27, and the higher the number, the higher your premium.

If you're buying a new car, ask your insurance company about the difference in premiums for cars you're considering. Search online for the latest top 10 lists on the most expensive cars to insure, and the least.



3. Pay in full to avoid installment fees. "Fractional premium" fees are usually charged when you pay your annual premium in installments rather all at once. Payments usually are offered on a six-month, quarterly or monthly basis, but almost every insurance company charges an administrative fee for breaking up the payments. The more you break it down, the more those fees add up.

Tip: Ask about fees for paying in installments. If the fees are small enough, it may be worth it. Remember that insurance companies can cancel your policy for late payment, many times with minimal notification, so make sure you won't miss an installment. If you can pay the premium up front, it may simplify the process and save you a few dollars.

4. That Beethoven CD in your car isn't covered. Stolen or damaged personal items like compact discs aren't covered by your auto insurance

Tip: You can file a claim on your home insurance. Most home-insurance policies will cover smaller, less expensive items such as compact discs. However, if you carry expensive items such as computer equipment, ask about a rider to your home-insurance policy. It's wise to take photos or video of any expensive personal items before they go missing.

5. Bad drivers will pay. You'll pay for your bad driving. The industry standard is to increase your premium by 40% of the insurer's base rate after your first at-fault accident. For example, if the company's base rate is \$400, your premium will go up by \$160. Not all auto insurers play by this rule, though, and some may increase your individual rate by 40%. Regardless of what formula they use, in the majority of cases, your rates will go up.

Tip: Some insurance companies have a "forgive the first accident" policy. The qualifying variables are wide-ranging, so ask your company if it has a forgiveness policy and how to qualify.



6. You'll pay for your friend's bad driving, too. If your friend borrows your car and crashes it, you'll have to file a claim with your insurance company. You'll have to pay any deductible that applies, and your rates will probably go up as a result of your claim.

Tip: If your friend didn't have permission to take your car, in most cases you won't be held liable for the damage. But if your friend is uninsured and causes damage that exceeds your policy limits, the injured party can come after you for medical and property-damage expenses. Best bet? Don't lend out your car.

7. Your car's real worth. The value of your "totaled" car may surprise you. Auto-insurance companies don't use the standard Kelley Blue Book or National Association of Automobile Dealers value. Instead, each company has its own proprietary list of car values, and most have specialized software for valuing cars in each region. They take into consideration the car's mileage and pre-accident condition. The insurance company may also ask local dealers what they'd charge for a similar replacement car. However, the insurer will consider quotes from suburban towns as reasonable estimates, even if you live in the city. You might have to drive several hours to reach the cheapest dealer, just to save the insurance company money. And they might be quoted a better deal than you could get if you walked onto the lot.

Tip: If you disagree with your insurance company's value determination, there are several things you can do:

Next time, get "gap" insurance. It will pay the difference between what an insurer will cover and what you owe, which can be several thousand dollars.

If you have maintenance records that show you've had the oil changed every 3,000 miles and you've had the car checked routinely by a mechanic, present copies to the insurance company to show the car was in good condition. If



you've been paying premiums on any special parts or upgrades, make sure those are included in the insurance company's evaluation.

Get price quotes on replacement cars from three dealers within a reasonable driving distance and submit these to your insurance company. Ask the insurance company for a list of dealers within a specific distance who can sell you an equivalent car for the value the company is claiming.

If you still aren't satisfied, you can step up the process and go to mediation or arbitration. Mediation involves presenting your case to a neutral party for help in reaching a compromise; arbitration is a binding decision. You can also, of course, take the issue to court.

8. Check into "diminished value." Say your car has been in an accident, but repaired. Is it worth less than the exact same car that hasn't been in an accident? It's a hot topic, but some say yes. In 14 states, you're allowed to file a claim with your insurance company for that lost value.

Tip: Thirty-six states and Washington, D.C., allow insurance companies to exclude payments for diminished value, so if you live in one of those states, you won't get to claim the loss. But in Florida, Georgia, Hawaii, Kansas, Louisiana, Maine, Maryland, Massachusetts, North Carolina, South Dakota, Texas, Virginia, Washington and West Virginia, you have a chance of getting a diminished-value payment. If you weren't at fault in the accident, you often can make a successful case against the insurance company of the driver who was at fault.

9. You may not owe sales tax on your replacement car. Twenty-eight states require auto insurers to pay for the sales tax when you replace your totaled vehicle with a new or used car: Alaska, Arizona, Arkansas, California, Connecticut, Florida, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Maryland, Minnesota, Missouri, Nebraska, Nevada, New Jersey, New York, North Dakota, Ohio, Oklahoma, Oregon, South Dakota, Vermont, Washington, West Virginia and Wisconsin.



Tip: Make the request; don't expect the insurer to offer to pay upfront. Even in states that do not require sales-tax reimbursement, you should request it. Many auto insurers will not deny the request because the policy requires that they make you "whole," returning you to where you were before the accident at no cost to you.

10. The tax will be calculated based on the pre-accident value of your car. If the insurance company values your car at \$10,000, and you purchase a new car for \$20,000, the tax will be calculated on \$10,000.
11. You can wait to add your teenager to your policy until he or she is licensed. You are not required to add your teenager to your policy just because he or she has reached driving age. In most cases, you can wait until he or she has a license -- or, if you're in a high-risk insurance pool, a permit.

Tip: Don't forget to tell your insurance company that you have a licensed teen. If you have to file a claim on his or her behalf, your insurance company is entitled to charge you back premiums from the date your teen received a license.

12. Insuring your car. Improving your credit score and shopping around can help you benefit from new pricing rules. You must officially cancel your insurance policy when you switch insurers. Your policy most likely states that you can cancel your coverage at any time by notifying the company in writing of the date of termination. However, most people assume that if they decide to terminate the policy at the end of the coverage period, all they have to do is ignore the bill. The insurance companies don't see it that way. They will send you another bill for the next premium payment, and when you don't pay it, the company will cancel you for nonpayment. That goes on your credit record.

Tip: Call your insurance agent or the company and let him know you are



canceling your policy. Give a specific date, or you may end up uninsured for a period of time. The company will send you a cancellation request. Most often, the form is already filled out and all it requires is your signature. Make sure you read it to check for errors. You may have to prove to your former insurance company that you have new coverage. And if you've financed your car through a dealership, update the dealer on your new insurance information, because purchase contracts often require proof of coverage.