

Eight Auto Insurance Myths

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When purchasing car insurance, it's important to understand the factors that affect your car insurance premium rates and coverage. But how do you differentiate between truth and fiction? A good place to start is by dispelling some common myths about auto insurance:

Myth 1 – Color determines the price of auto insurance

It doesn't matter if your car is red, green or purple. What does matter is the type of car you select. Before you buy a new or used car, check into insurance costs. Auto insurance premiums are based on make, model, body type, engine size, the age of the vehicle and the age, driving record and credit history of the driver. Premiums are also based, in part, on the car's sticker price, the cost to repair it, its overall safety record, and the likelihood of theft. Many insurers offer discounts for features that reduce the risk of injuries or theft. These include daytime running lights and anti-theft devices.

For years there has been a notion that color plays a significant part in calculating insurance premium costs, many people believing that red cars cost more to insure because they are linked to aggressive driving or speeding. The fact is, insurers have no interest in the color of a car, but they are interested in knowing if you have had any previous car accidents, the number of miles you drive annually and where you live.

Myth 2 – It costs more to insure your car when you get older

Quite the opposite—many drivers over 55 years of age can, in fact, qualify for a reduction in auto insurance rates, typically for three years, if they have successfully completed an accident prevention course. Insurance companies will usually provide up to a 10 percent discount on car insurance, but check with your provider before you sign on. Mature driving courses are available through local and state agencies as well as through the AAA and AARP. You can also check with your insurance agent to find out which defensive driving courses are approved by your insurer. If you are retired or are not employed full time, you may also be eligible for a discount of up to 5 percent off your car insurance. Age requirements for this type of discount vary by state and insurance carrier.

Myth 3 – Your credit has no effect on your insurance rate

Your credit-based insurance score does matter. An insurance score is a measure of how well you manage your financial affairs, not your financial assets. Many insurance companies take your insurance score into consideration when you want to purchase, change or renew your auto insurance coverage. Because the majority of people have good credit, and insurance scores are derived from a person's credit history, most people pay less for insurance when insurance scores are entered into the pricing equation.

Myth 4 –Your insurance will cover you if your car is stolen, vandalized or damaged by falling tree limbs, hail, flood or fire

Comprehensive and collision coverage are *optional* coverages. Lenders frequently require drivers to buy comprehensive and collision coverage as a condition of a car loan agreement. Those driving older cars sometimes drop these coverages as a way of saving money. If a car is worth less than \$1,000 or less than 10 times the insurance premium, purchasing the optional coverages may not be cost effective. But bear in mind that you need to purchase both collision and comprehensive coverage in order to fully protect your vehicle from all types of damage.

Myth 5 – You only need the minimum amount of auto liability insurance required by law

Almost every state requires you to buy a minimum amount of auto liability coverage. Chances are that you will need more liability insurance than the state requires because accidents often cost more than the minimum limits. In today's litigious society, buying only the minimum amount of liability means you are likely to pay more out-of-pocket for losses incurred after an accident—and those costs may be steep. The insurance industry and consumer groups generally recommend a minimum of \$100,000 of bodily injury protection per person and \$300,000 per accident.

Myth 6 – If other people drive your car, their auto insurance will cover them in the event of an accident

In most states, the auto insurance policy covering the vehicle is considered the primary insurance, which means that the owner's insurance company must pay for damages caused by an accident. Policies and laws differ by state, and you should be familiar with these differences when allowing another person to drive your car.

Myth 7 – Soldiers pay more for insurance than civilians

If you are in the military—regardless of which branch—you actually qualify for a discount on auto insurance. In some situations you might be able to have your commanding officer make a phone call on your behalf, but for most auto insurance companies, you will need to supply documentation that lists your name, rank and the time that you will be enlisted in the service. This allows insurance companies to determine how long you will be eligible to receive a military discount. Many auto insurance companies provide discounts for former members of the military as well as their families.

Myth 8 – Personal auto insurance covers both personal and business use of your car

If you are self-employed and use your vehicle for business purposes, personal auto insurance may not protect you. While auto insurance geared for businesses can be more costly than a personal policy, one of the best ways to keep your auto rates down is by having a good driving record. If there are others, such as employees, using your car make sure they also have good driving records. Check the records of your employee drivers at least twice a year to ensure they maintain a clean driving record.