

Understanding Personal Automobile Insurance

Automobile insurance policies are legal contracts. They are confusing and most people never read them. In fact, many lawyers and judges have difficulty understanding what they mean. In the event of a serious automobile accident, however, your insurance policy may be all that stands between you and financial ruin. We hope that this simple explanation the basics of automobile insurance will be helpful to most people.

Your Policy

Your auto policy consists of three parts, and it is important to understand each. The first part is the **basic policy**. It is typically bound in some fashion, and it is changed only every few years. Between printings, the insurance company will invariably make changes to the policy, and these will be sent to you **amendments** to your policy. They may have slightly different names, but they make changes to your policy. You should always read these amendments to understand how your coverage has changed. The last part is called the **“declaration of coverages.”** It is typically one page, and it is sent to you each time you renew your policy. This document summarizes the coverages provided by your policy, the dollar amount of the coverage, and the premium you are paying for the coverage. You should review this document every time you receive a new one to make sure that you have all of the coverages you want and need.

Like all insurance, auto policies offer protection. So, you must decide what you wish to protect, and to what extent. But to do that, you must first understand the protection that auto policies offer.

Types of Coverage

Liability Coverage

Let's start with liability protection for bodily injury (BI). This protects you if you cause an accident and someone else is hurt. You are protected up to the dollar amount of coverage, sometimes called the “limit of liability.” For example, if you have liability coverage of \$100,000, your insurance company will pay up to \$100,000 to an injured party but no more. If the injured party has “damages” in excess of \$100,000, they can sue you and collect the excess amount of their damages from you personally. Thus, to protect yourself and your family, you should be sure to have enough coverage. With the rising cost of medical care, it is not unusual for a seriously injured person to incur \$100,000, \$200,000 or more in medical expenses. If they are out of work, add in their lost wages. This can add up quickly, and could wipe out your savings if you are not adequately protected.

Split-limit coverage: Sometimes liability and uninsured motor vehicle coverage is written with “split limits” of liability. This will be stated on your declaration of coverages page. Examples are: \$100,000 per person/ \$300,000 per occurrence, or \$50,000 per person/ \$100,000 per occurrence. In the first example, this means that your policy will pay a maximum of \$100,000 to each person injured in an accident up to a maximum of \$300,000 for each accident, regardless of the number of persons injured.

We recommend liability insurance of \$250,000 with a personal umbrella policy on top of that. More about umbrella policies later.

Uninsured Motorists Coverage

Another very important coverage is uninsured motorists coverage. Few people understand the importance of this coverage until they need it. This coverage protects you when you are in an accident caused by another motorist who does not have insurance, or does not have enough insurance (uninsured and **underinsured** motorists coverages are usually offered together). By some estimates, nearly 1 in 6 motorists are uninsured nationally. When the economy is bad and unemployment increases, so does the number of uninsured motorists.

Uninsured motorists coverage enables you to control your own destiny and not place your family’s welfare at the mercy of another driver’s insurance decisions.

If an uninsured driver causes an accident that injures you or your family, your own insurance company steps into the shoes of the other driver and pays you the damages that you are entitled receive under law—up to the dollar limits of your policy. We suggest that you purchase uninsured motorist coverage in the same dollar amount as your liability coverage--\$250,000 plus a personal umbrella policy.

Warning #1. In Ohio, uninsured motorists coverage is not a “standard” part of every policy. You have to request it. Some agents might suggest that eliminating uninsured motorist coverage will save you money. However, this coverage is relatively inexpensive, and we recommend that you obtain and keep it at all costs. It is essential protection for your family.

Warning #2. In recent years, some companies have removed uninsured motorists coverage from their personal umbrella policies. Therefore, be sure to ask your agent if it is included in any umbrella policy before you buy one, and read the policy yourself to be sure. If your insurance company will not provide uninsured motorist coverage in their umbrella coverage for you, we suggest you look at a different company. If switching companies is not an option, then we

recommend that you purchase the maximum amount of uninsured motorists coverage possible in your basic auto policy.

Personal Umbrella Policy

We recommend that everyone purchase a personal umbrella policy. This increases the dollar amount of insurance coverage you have under more than one basic or “underlying” policies--for example, your auto policy, your homeowners policy, and a policy you may have on a boat . Umbrella policies are ordinarily written in increments of \$1 million. So, let’s say you have a auto policy with \$250,000 in liability coverage. If you purchase a \$1 million umbrella policy, it will add \$1 million to your “underlying” \$250,000 coverage so that you have a total of \$1.25 million in liability coverage.

Umbrella coverage is less expensive than most people think, considering what you get for the premium. The reason that it is cheap is that it is infrequently used. The majority of claims do not exceed the underlying coverage. However, many claims do, and that is why you should definitely purchase this coverage.

Medical Payments

Medical payments coverage pays medical expenses resulting from a motor vehicle crash. It is most typically written for \$5000. However, it can be written in larger amounts of \$10,000, \$25,000 or even \$100,000. This coverage will pay accident related medical expense up to the limit of coverage, regardless of who is at fault. It can be used instead of health insurance, or it can be used to supplement health insurance—that is to cover deductibles, co-pays, or things that health insurance will not pay.

Property Damage

If you cause an accident, this pays to repair or replace the other vehicle. You should give careful consideration to the amount of property damage insurance you pay. If you are in an accident that “totals” a Honda, that’s one thing. But what if the other care is an expensive Mercedes or BMW? Replacing that kind of car could wipe out your savings if you do not have enough insurance!

Comprehensive Coverage

This coverage pays you if your car is stolen or damaged by means other than a collision. It is generally subject to the “deductible” that you have chosen.

Collision Coverage

This coverage pays you if your car is damaged in a collision. It is generally subject to the “deductible” that you have chosen.

Disclaimer: This is a simple explanation of the basic provisions of most automobile insurance policies. Its purpose is to help you understand your policy and to enable you to make informed decisions when purchasing coverage. But remember that insurance policies vary, and many policy provisions are subject to complex court rulings. If you have a coverage question, you should consult a lawyer.