

Auto Insurance: Determining Your Policy Needs

Whether you drive a sports car or an old pickup truck, it's likely that the law requires you to purchase auto insurance. But there are many options over and above your state's mandated minimum insurance. Buying additional coverage could save you money on repair bills or cover a judgment against you in the event of a lawsuit.

Understanding the types of coverage and their benefits may help you decide what sort of package you need for your own auto policy. And it could also help you compare the offerings of competing insurance carriers. The cost of your insurance will depend on the types and levels of coverage that you elect, your age and driving history, and a host of other factors.

The following coverage types apply to different kinds of losses.

Bodily Injury Liability — Pays for medical expenses, legal expenses, and judgments against you when you or your car are involved in an accident that causes the injury or death of another person.

Property Damage Liability — Pays for damages to the property of others, caused by you or your vehicle.

Uninsured/Underinsured Motorist (UM/UIM) — Covers the costs associated with damage or injury to you caused by an uninsured, underinsured, or hit-and-run driver.

Medical Payments — Covers the medical bills of you and your passengers after an auto accident, regardless of who's at fault.

Collision — Covers the damage to your vehicle resulting from a collision, regardless of who is responsible. Collision coverage requires the payment of a deductible by the insured.

Comprehensive Physical Damage — Pays for damage to your car that is not the result of an auto accident, such as theft, vandalism, fire, hail, natural disasters, hitting an animal, etc. Comprehensive coverage also requires a deductible, and will only pay as much as the car was worth before sustaining the damage.

Levels and Limits

Most states require specific levels of liability insurance, and some mandate UM/UIM coverage. For example, the state of California requires minimum liability coverage of 15/30/5, which means \$15,000 bodily injury liability per person, \$30,000 per accident, and \$5,000 for property damage.

Some states have instituted no-fault laws, which require each driver's own auto insurance to pay for liability damages, regardless of who caused the accident. Personal Injury Protection (PIP) is expanded medical payments coverage also required in some states. It usually includes work-loss coverage and a small death benefit. In other cases, both no-fault and PIP coverage may be optional.

Typically, lenders require adequate amounts of collision and comprehensive coverage on a financed vehicle. If you drive an older, inexpensive car, then collision insurance may not be worth the cost.

After you learn what is required by law in your state, you will have to decide whether or not you need more coverage to protect your assets. Higher liability limits will raise your premiums, but a serious accident could quickly exceed the minimum requirement for your state. Remember that your personal assets and even your future earnings could be at stake in the event that a court judges against you.