

## **Premiums and Discounts: Factors That Affect Your Rates**

You and your neighbor could own identical cars yet pay a vastly different sum for insurance. That's because you each may have a different set of circumstances that affect the level of risk you represent to an insurance company. Your premium, which is the amount that you pay for the policy, will be determined based on several factors.

A few of these factors you cannot control, such as your age and health. But most are under your control, such as your driving record, claims history, other cars you own, other drivers on your policy, the amount of your deductible, the policy limits, the age and type of vehicle you drive, even your credit rating. By maintaining a favorable status in as many of these areas as possible, you can whittle down the size of your premium.

### **Your Car and How You Drive it**

It's no secret that a good driving record is critical to your ability to obtain, afford, and retain auto insurance. If your past is free of tickets, accidents, and drunk driving arrests, chances are excellent that you will pay much less than the person who has a history of these infractions.

Fortunately, your driving record only goes back so far. Driving offenses typically disappear from your record after three or more years, depending on the seriousness of the offense.

The type of vehicle also figures prominently. Sports cars, for example, can cost significantly more to insure because they may be a favorite among thieves, because statistically people tend to drive them faster, and because they may have a higher replacement cost than something like a sedan or a van.

You can lower your premium by buying less expensive cars and maintaining a clean driving record. Your insurer may offer discounts if your car has added safety measures such as anti-lock brakes and air bags, and anti-theft devices such as an alarm or a tracking device. If you drive an older car, you may want to consider carrying only liability coverage if the cost of collision and comprehensive coverage outweighs the potential benefits.

### **Your Address and Your Family**

Where you live also enters into the premium equation. You'll pay more for living in an urban area where your car stands a greater chance of vandalism, theft, or accident. Drivers who live in rural areas may pay lower rates because they are less at risk for these types of misfortune. Some companies will discount your premium if you keep your vehicle in a garage.

You may qualify for a discount if you have multiple drivers or vehicles on the same policy, or for carrying your other policies, such as homeowners or life insurance, with the same company.

If your teenage driver earns good grades in school, you may get a discount. But in some cases, adding teenagers to your policy might cause your rates to go through the roof, because teens are among the riskiest drivers on the road. Take time to compare the cost of including a teen on your policy versus buying him or her a separate policy.

Look for premiums to fluctuate with your age as well. Just as a teenager will have to pay more for being young and inexperienced, drivers can expect to pay less as they reach the age range where they are statistically the safest on the road, roughly from ages 40 to 55. In some cases, rates may go up as a driver becomes elderly.

### **Policy Limits, Deductibles and Extended Coverages**

Most states require drivers to provide proof of financial responsibility or carry a minimum amount of liability coverage. You can elect to purchase liability coverage beyond the level required by the laws of your state, but your premium will go up as a result. Why would you want to buy more insurance than is required? If you are found to be liable for an amount greater than the coverage limits of your policy, you must pay the difference. If you don't have enough cash, the injured party can go after your assets and future earnings. It's wise to consider increasing your liability limits when you own a house or other valuable assets.

Deductibles for auto insurance operate the same way as in other kinds of policies. For certain losses, usually a collision that was your fault, or damage from some external force such as a fallen tree or a vandal, you will be required to assume typically the first \$250, \$500, or \$1,000 of the loss, depending on which deductible you chose when you bought the policy.

Except in rare instances, you get to choose the amount of your deductible. Generally, the higher the deductible, the lower your premium will be. That's because the more risk you assume, the less risk you assign to the insurance company, which charges according to how much risk it is insuring against.

But the amount of your premium may be only one factor in your deductible decision. If you carry a \$1,000 deductible, you may want to consider whether it's likely you would have that much cash at the ready if you suffered a loss. You may also want to consider whether you are prone to accidents, whether your car is exotic and would cost more to repair, and whether you would be more likely to live with minor damage than paying to fix it.

Some companies will sell you additional coverage for towing and replacement transportation while your car is being repaired. Your circumstances will dictate whether the additional coverage

is warranted. If you live alone and your life would grind to a halt without a car, you may elect these upgrades. Conversely, you may decide to forego these coverages if you have a second car to drive in emergencies, or if you already pay for a separate towing policy.

### **No Two Carriers Alike**

Finally, your premium will vary with the insurance company you choose. Here are some examples.

- Some companies are structured to best serve safe drivers, and may be too expensive for risky drivers. On the other hand, some carriers are structured to serve risky drivers, which may prevent them from offering competitive rates to good drivers.
- Some companies may consider your credit rating at the time you purchase the policy. If you have had enough recent credit activity to raise your score, you could pay more, even if you are a good driver or have good credit. Of course, a change in your credit won't affect your premium after the policy is in force. When you are shopping for a policy, it would be wise to inquire about the role of your credit rating in your premium.
- Some companies will raise the premium after your first accident, but others may forgive the first claim with no increase. Some increase rates after a claim only if the settlement exceeds a stated maximum.
- Some companies will know right away if you are cited for moving violations, and raise your rates as a result. Others may not update that kind of information for months or years, and some may not penalize you even when they do find out.
- Some carriers may give a discount for paying the premium in a lump sum. Others may add a fee if you make monthly payments.

When you are shopping for a policy, it's important to know the cost to you can vary greatly depending on the your lifestyle and the policy options you choose. Be certain to know and understand the limits and provisions of a policy before you buy it.