

TO: Michigan Teachers
SUBJECT: Lesson Plan Utilization
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Insurance Institute of Michigan

This lesson plan is designed to help you cover the basics of a complex subject: automobile insurance. It deals with Michigan's No-Fault law and aspects of the Essential Insurance Act which apply to auto insurance. It is designed to "stand alone" in a course in which no other unit or lesson on insurance is taught. If you teach a course which covers other aspects of insurance, you can modify this lesson plan to fit your teaching situation. It is written to appeal to ninth and tenth grade students.

Other assumptions underlying development of this lesson plan include the following:

1. Students will be familiar with basic terminology, such as "policy," "coverages," "rates", "liability," and "lawsuit" from the everyday usage of those terms.
2. The teacher of this lesson will have some familiarity with No-fault insurance and will know about some of the provisions of Michigan's Essential Insurance Act—but will not be an "expert" on insurance.

Upon completion of this one-lesson unit, students will be able to:

1. explain "risks" and basic provisions of No-fault insurance, especially as it pertains to teenagers;
2. describe three coverages that are required in all no-fault policies;
3. describe coverages that are optional in no-fault policies;
4. tell how different policy coverages apply in certain types of accidents;
5. discuss at least two factors used in determining insurance policy costs;
6. explain how driving records affect insurance costs;
7. give examples of ways in which the cost of insurance can be controlled;
8. explain how high-risk drivers can get insurance coverage;
9. describe steps to be followed in buying insurance coverage;

10. explain how to file a claim; and
11. locate additional information on No-fault and the Essential Insurance Act.

THIS IS AN AMBITIOUS LESSON PLAN, BUT IT COVERS ONLY BASIC AND IMPORTANT INFORMATION FOR YOUR STUDENTS. The content outline provides an overview of the lesson and can be used as a basic lesson plan. In addition, however, there is a content narrative section. Suggestions for teaching are included, these are printed in bold. This lesson can be accomplished in a 50-minute period but may require modification to suit your teaching situation. Sections of the content narrative lend themselves especially well to handouts and/or transparencies which you can prepare.

If you teach this as part of a course in which the lesson “stands alone,” encourage your students to continue to learn about No-fault automobile insurance and to build upon the knowledge that you help them develop in this single lesson. Supplementary activities are included at the end of this lesson plan. These are appropriate for extra-credit or extra-curricular learning activities and may be used with individual students or groups of students.

ABOUT THE INSURANCE INSTITUTE OF MICHIGAN

The Insurance Institute of Michigan is a nonprofit, public information and government affairs organization representing the property/casualty insurance industry. The association sponsors a number of programs designed to help consumers understand the often complex subject of insurance. These include:

- A guest speaker program for the classroom.
- Development of brochures and other printed material for educational purposes at no cost.
- A video loan library available at IIM’s website, www.iiminfo.org.
- Teacher seminars.



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WHO NEEDS AUTO INSURANCE?

Content Outline

This is an outline for your use. (You may want to follow the content narrative closely the first time or two you teach this lesson.) The suggested time intervals are based on a field test of the plan but will vary with the size of the class and teaching method employed. This plan assumes a teacher-controlled discussion as the teaching-learning method.

	Time Factor (In Minutes)
I. Getting into the subject	15
A. Some “key” questions	
B. Meet Louie Ledfut and Donna Driver	
1. Louie’s and Donna’s situations	
2. Louie’s accident	
3. Donna’s accident	
C. Risks faced when driving or owning an automobile	
1. What is a risk?	
a. Chance of the unexpected occurring	
b. Financial losses of risk	
2. Risks that are not insurable	
a. No financial consequences involved	
b. Risks that can be avoided	
3. Examples of risks covered in auto insurance	
a. List of risks covered in No-fault insurance	
(1) Risks always covered	
(2) Risks that may be covered	

D. What happened to Louie after the accident?

1. Louie's policy coverage
 - a. Minimum requirements under no-fault
 - b. Optional coverages not included
2. Louie's expenses and settlement
 - a. Louie's medical expenses
 - b. Damage to his auto
 - c. Premiums increased 10-20%

E. What happened to Donna after the accident?

1. Donna's family policy
 - a. 100/300/50 limits
 - b. Collision and comprehensive
 - c. Deductibles of \$100
2. Expenses in Donna's accident
 - a. Medical expenses for the boy
 - b. Repair of "scratches" to family car
3. Settlement in Donna's accident
 - a. Repair of the auto
 - b. Property damage
 - c. Possible lawsuit
 - d. Premiums increased 10%, then 20% more

II. No-Fault Auto Insurance

A. Basic Principles

1. What is insurance?
 - a. Group of people who share risks
 - b. Insurance policy is legal contract
 - (1) Spells out the coverage

2. What “No-Fault” means
 - a. Michigan one of several states with “No-Fault” laws
 - b. Accidents can be avoided—at-fault still is determined
 - c. Payments are made quickly regardless of who is at fault

B. Michigan’s No-Fault Law

1. How it operates
 - a. Driver’s own insurance pays for that driver’s claim
 - b. Reasons for No-Fault law
 - (1) Assures claims are paid quickly and fairly
 - (2) Reduce number of lawsuits
2. The “have-to-have” coverage (technical term: mandatory coverage)
 - a. Personal injury protection
 - b. Property protection
 - c. Special protection if you should be sued (technical term: residual liability)
3. The “you choose” coverage (technical term: optional coverage)
 - a. Collision
 - (1) Regular or standard
 - (2) Broad
 - (3) Limited
 - b. Comprehensive
 - c. Uninsured motorist
 - d. Road service
 - e. Car rental
4. Small claims lawsuits – “mini-torts”

III. The Cost of Insurance

A. Rating Factors

1. Where you live

2. Age
3. Amount and type of driving
4. Type of car
5. Amount of coverage
6. Driving record

B. The Company's Risk

1. Company must be able to pay all claims filed
2. Transferring risk
3. Company is a business
4. Mutual and stock companies
5. Increasing cost of repairs
6. Relative cost of urban versus rural areas
7. Age of driver
8. Your own personal driving record

C. Keeping the Cost of Insurance Down

1. Don't drive more than necessary
2. Select automobile carefully
3. Coordinate accident, health and auto insurance
4. Choose higher deductibles for collision and comprehensive
5. Take advantage of insurance company discounts
6. Drive carefully

D. The Family Policy

IV. Insurance for Everybody

A. Essential Insurance Act

1. Increase rates for accidents and convictions

2. Can't use gender or marital status for rates
3. Eligibility points (chart)
4. The high-risk pool

B. Rights Under Essential Insurance

1. Conference if you feel unfairly treated
2. Specific reasons for your rating must be given
3. Information for consumers about rates and charges

C. The Cost of Not Being Insured

1. Possible lawsuit
2. Misdemeanor—jail term and up to \$500 fine

V. Other Considerations

A. How to Buy Automobile Insurance

1. What you should check out (cost, coverage, service)
2. Making the decision
 - a. Make a checklist of coverages you want and are considering
 - b. Get price quotations from agents
 - c. Use a checklist such as the one in Price Quote Sheet—see Appendix

B. Filing a Claim

1. Medical attention
2. Notify police
3. Get information
4. Notify agent/company

C. Adding to What You Know

1. Get other information: keep up-to-date

TOTAL TIME

50 MINUTES

WHO NEEDS AUTO INSURANCE?

Content Narrative

I. GETTING INTO THE SUBJECT

- A. Some "key" questions for you to answer ("thought provokers").
- Are you a licensed driver?
- If not, will you soon be licensed to drive?
- Do you own your own car?
- If not, do you expect to own your own car in the near future?
- Do you occasionally or regularly drive your family car?
- Have you ever purchased car insurance?

If the answer to any of the above questions is "yes," this lesson contains some important information for you.

- B. Before we look into auto insurance, let's meet Louie Ledfut and Donna Driver. Louie is a car owner; Donna drives the family car as often as possible. Both need auto insurance protection; each has different kinds of insurance needs and coverage.

1. Louie's and Donna's Situations

Louie Ledfut is a Michigan teenager who lives in a medium-sized city. His part-time job has helped him save enough money to buy a car of his own; no more hassling to get the family car. He used all his savings to buy a six-year-old car. It is "all his!"

He knew he needed insurance, and purchased only what he had to have. He had no accidents or traffic tickets on his record, so his insurance costs about \$500 each six months. (Prices in this lesson plan are illustrative only. Actual premiums will vary from these hypothetical cases depending on individual circumstances.) This seemed like a lot to Louie, but he knew he had no choice in the matter. He presented his certificate of no-fault insurance when he bought his automobile license plates.

Donna Driver has completed driver education and last year got her license. She is a teenager who lives with her family in a medium-sized city in Michigan. She and her brother both drive the family car—a new full-sized four-door sedan—whenever they can get it. Her father has another car that is driven for business only.

2. Louie's Accident

A month later it happened: it was a busy intersection; brakes were applied hard and fast; tires squealed; metal hit on metal and glass; Louie's car was smashed and would run no more. A "total loss"? Yes, and Louie's savings went down with the wreck. Louie spent two days in the hospital and then was released for a few more days of recuperation at home. Safety belts saved Louie's life. How did Louie's auto insurance help in this situation? We'll find out shortly.

3. Donna's Accident

The family car had been washed and waxed and looked sleek and clean. How could that kid on the bike not see the car? Donna was a careful driver and was observing the landscape the way the driver education instructor had emphasized. But it happened anyway—she never saw the boy ride his bike out of the driveway. The boy was hurt badly.

The car? Just a few scratches and a couple of dents. The front bumper was bent a little and the grillwork pushed in a bit as she hit the flowering crab tree when driving up onto the lawn after hitting the bike. The police officer said that Donna should have seen the bike and rider.

As the ambulance sped away, Donna wondered if her father or mother would be sued, and for how much. What kind of trouble was Donna in legally? Who would pay the boy's hospital and medical bills? Donna wasn't too worried about the probable anger and disappointment that would occur at home, but how about these other concerns? How would the family's car insurance help in this case? Was Donna covered under the family policy? There were a lot of questions Donna had not thought about prior to this situation occurring. Now she would need some answers.

We will find out how insurance helped Louie and Donna, and how it can help you and others in a variety of situations. First, though, let's consider just what risks there are in driving a car and what insurance is all about.

C. Risks faced when driving or owning a car

1. What is a risk?

How would you define a risk? Here is one way: a risk is the chance that something unexpected is going to happen. What are some unexpected things that could happen to you today? You might fall and injure your hand or ankle. You might get hit and injure your face or eye. You could get sick; or a car could run into you. Life is full of risks that we face everyday.

A risk for insurance purposes is the possibility that you may have to pay out money (having a "financial loss") due to an accident occurring. Hospital and doctor bills, or repair costs for items you own, are common financial losses.

2. Risks that are not insurable

There are some risks that insurance companies cannot or do not insure against. For instance, if you drive a car you may get a speeding or parking ticket. You can't insure against that. You can avoid the risk by driving carefully or putting enough money in the meter.

You may own your car and fail to budget your income and find you cannot afford to buy gas, oil, batteries, etc.; that also is not an insurable risk. If you drive your family car without your parent's permission, you may get grounded for a week. That is not an insurable risk either. Some risks are easily avoided, and others involve only small financial losses that don't call for insurance coverage. But there are a lot of risks for those who drive and/or own a car that are insurable. Let's consider some of them.

3. Examples of risks covered in auto insurance

You may run into someone else's car, or they may run into yours. You may hit a pedestrian or a parked car. You may run off the road and hit a tree or roll the car over. Your car could catch on fire. These and other risks can cause economic losses against which you can be insured.

Here is a list of some of the risks that can be covered in auto insurance policies. Some are always covered in a policy, some are not. Look the list over carefully.

(Teaching Tip: Don't spend too much time on this list; use it primarily as a "thought starter." This makes a good transparency or wall chart. You may want to cover the marks in the columns and have students select the appropriate answers.

RISKS AND AUTOMOBILE INSURANCE

<u>Risk</u>	<u>Covered by auto insurance</u>	
	<u>Always*</u>	<u>Maybe</u>
You as a driver are injured in an accident	X	
Passengers in your car are injured	X	
A pedestrian is hit and is injured	X	
Your car is damaged by the other car		X
Other car is damaged by your car		X
A building is damaged by your car	X	
You are sued for causing an accident	X	
Your car is stolen		X
Parts of your car are "ripped off"		X
A parked car is damaged by your car	X	
Your car catches on fire		X

D. What happened to Louie after the accident?

To see how insurance works, let's review Louie's situation after his accident. Louie's policy included the minimum coverage required under Michigan's No-Fault Law: personal injury protection, property protection and 20/40/10 residual liability limits. (You will learn more about each of these coverages later.) He did not have collision or comprehensive coverage, which are optional coverages in Michigan.

Louie's hospital bills were paid: they totaled \$1,800. The other driver's insurance paid for that driver's medical bills. But Louie collected nothing for his wrecked auto and it was worth only scrap value after the accident. Louie was mostly at fault in this accident, and he was sued by the other driver for \$500 to cover damages not paid for by the other driver's insurance.

Louie was ticketed for the accident. To make matters worse, his insurance company, as most others would, increased his insurance premium (often 10-20%). Without a car, though, he had no need for insurance right now.

After the accident Louie thought how good it would have been if he had included collision coverage when he bought his policy. After an accident happens, it is easy to see which coverage would have been advisable.

E. What happened to Donna after the accident?

Now let's see what happened in Donna's case. Donna and her brother were included in the family policy. Their policy had 100/300/50 residual liability limits--\$100,000 for one injury, \$300,000 for all injuries in a single accident—and \$50,000 for property damage occurring outside the state of Michigan. They also included limited property damage, comprehensive with \$100 deductible, broad collision with a \$500 deductible; emergency road service, uninsured motorist coverage, and rental reimbursement coverage. The six-month charge for their policy amounted to about \$600. None of the drivers included in this policy had any accidents or traffic tickets on their record; they were proud of that.

The few "scratches and dents" (as Donna called them) resulted in a repair bill of \$850. The automobile they rented while the family car was being repaired was covered by their insurance, as was the repair bill (except for the deductible). The lawn Donna drove onto had to be patched up. The tree which had snapped off had to be replaced. These costs were covered by their insurance also.

The boy on the bike was seriously injured. There was a chance that some permanent injury had been done. Hospital bills and continued medical treatment totaled \$400,000 or more. The insurance company covering the boy's parents (not Donna's) would have to pay for medical treatment for the rest of the boy's life. In addition, there was expected to be a lawsuit for the pain and suffering involved in this case. If so, Donna's policy would provide coverage.

Donna was considered to be 100% at fault. She was ticketed, and this increased the family's insurance costs to about \$750 each six months. Donna did not like to

drive after that accident, but a few months later she was driving again in what she considered to be an “emergency” situation. She was in too much of a hurry and was ticketed for driving 37 miles per hour in a 25 mile per hour zone. That added three more points to her insurance eligibility record and her family’s insurance premium increased 20% more. Just one more point on her driving record and her family’s policy could be cancelled; then they might have to purchase insurance from the high-risk pool. Donna felt like never driving again.

II. NO-FAULT AUTO INSURANCE

A. Basic Principles

1. What is insurance?

Let’s consider what insurance is all about and what took place in Louie’s and Donna’s cases. Insurance basically involves a group of people agreeing to share risks. Today there are many forms of insurance. When you buy insurance, you join many others who pay money to an insurance company. The money is “pooled” and the insurance company uses that money to pay claims that are submitted by those who have purchased insurance.

When you buy insurance, you get a policy. That policy is a legal contract. It spells out in detail exactly what you are buying; it lists what is covered and what is not covered. It lets you know how much you must pay (the “premium”) and when it must be paid. You need to read your policy and try to understand it – even if it sounds complicated. You should also read and understand the “fine print” and ask questions about anything you do not understand. Insurance agents are very willing to explain an insurance policy and what it covers. They often even have simplified forms or charts that help you to understand what policies cover.

2. What “no-fault” means

Every state has many laws and regulations which affect how insurance is sold and what is contained in policies. Some states have “no-fault” laws; Michigan is one of several states which currently have such laws.

No-fault does not mean that people believe no one is at fault in an accident. Most accidents could be avoided; but trying to figure out who caused the accident—or how much the various persons in the accident contributed to it—often results in a lawsuit. Court cases take up a lot of time and payments often are delayed while decisions are being made.

No-fault insurance allows claims to be paid quickly. The payments made generally do not depend upon who is “at-fault” in the accident or how much they are at fault.

B. Michigan's No-Fault Law

1. How it operates

Michigan has had a no-fault law since 1973. Before no-fault if two drivers were involved in an accident, the insurer of the driver who was at fault had to pay for damages and/or injuries to the driver of the other car in the accident. Under no-fault, when an accident occurs the drivers file a claim against their own insurance company which then pays its policyholder's damages; who was at fault generally does not matter.

Why do we have no-fault? Two basic reasons: (1) to assure that all persons injured in auto accidents get their claims paid quickly and fairly for medical costs and lost income; and (2) to reduce the number of lawsuits which involve who should have to pay whom. In summary, your own policy takes care of you while the other driver's policy takes care of him or her.

2. The "have to have" coverage (technical term: mandatory coverage)

(Teaching Tip: Use the chalkboard, overhead projector, Transparency #1, or some other visual to help teach these coverages.)

Under Michigan's No-Fault Law every person who owns an automobile must have auto insurance. There is no choice on that. And there are certain things that must be included in every policy. Here is what you must have: (1) Personal Injury Protection; (2) Property Protection; and (3) Residual Bodily Injury if you should be sued.

Here is a brief explanation of each of those coverages:

a. Personal Injury Protection. These are benefits paid to an accident victim for the following:

- all reasonable and necessary medical expenses.
- work loss benefits, up to a maximum of \$4,713 per month (10/1/06) for three years. (This amount is subject to an annual cost-of-living adjustment.
- up to \$20 per day, for a maximum of three years, for "replacement services" which the injured person cannot perform, such as having to hire someone to mow the lawn, clean the house, or cook meals while injured.
- survivor's benefits for up to three years.
- up to \$1,750 for funeral and burial expenses

Personal injury protection coverage applies to accidents occurring throughout the United States and Canada. It covers you as a driver, passenger, or a pedestrian.

- b. Property Protection. This provides coverage for damage caused by your car to property of others, regardless of fault, up to a maximum payment of \$1 million dollars. Vehicles are excluded from coverage unless they are properly parked, and property protection does not apply to accidents occurring outside the state of Michigan.
- c. Residual Liability. This provides protection if you are sued or are legally responsible in accidents involving death, serious impairment of body function, or permanent serious disfigurement. It also applies when actual economic losses caused by an accident are more than the benefits paid under Personal Injury Protection coverage. It also can involve property damage in accidents occurring outside of Michigan.

The required limits under Michigan's No-Fault law are \$20,000 for one person's injury, \$40,000 for all persons injured in one accident, and \$10,000 for property damage (outside the state of Michigan). Higher limits can be (and perhaps should be) purchased.

3. The "you choose" coverage (Technical term: optional coverage)

In addition to what the No-Fault Law requires in each policy, there are other coverages you can decide on. They can be important to you; let's find out what they are:

- a. Collision. This pays for damage to your car if it rolls over or collides with something. Without collision coverage, damages to your car are not covered. Collision coverage comes in three forms:
 - **regular or standard** pays for damage to your vehicle, regardless of who is at fault, except that you always pay the deductible.
 - **broad** pays for damage to your vehicle regardless of who is at fault, except that you must pay the deductible if you are mostly at fault.
 - **limited** pays for damage to your vehicle only if you were not mostly at fault in an accident.

Collision insurance usually includes a deductible. This is an amount that you agree to pay toward the cost of repair or replacement. Your insurance pays the balance.

- b. Comprehensive. This pays for damage to your car resulting from causes other than collision, such as fire, theft and crashes with deer.
- c. Uninsured Motorist. This pays what you would be legally entitled to collect for injuries caused by an uninsured driver.
- d. Road Service. This pays for the cost of help when your car is disabled on the road. It includes towing charges and other emergency services.
- e. Car Rental. Pays for renting a car while yours is being repaired.

4. Mini-Tort

Although no-fault laws are aimed at reducing lawsuits, there is a provision in Michigan that allows you to recover up to \$500 for auto collision damage not covered by your policy—if the other driver is 50 percent or more at fault. Or, of course, you can be sued for up to \$500 if you are at fault. This is true when the damage to the other driver's automobile is not completely covered by his or her insurance. You can buy insurance to protect yourself against this risk.

III. THE COST OF INSURANCE

(Teaching Tip: Use transparency #2, 3 and 4 to visualize the main points in this section.)

A. So how do insurance companies figure out how much you have to pay for insurance?

What your insurance policy will cost depends upon a number of factors. The price of your policy—that is, the premium you must pay—is based on the risk you want your insurance company to assume and the rating factors that go along with those risks. The coverages you choose and your driving record are important among the elements that make up the cost of your insurance.

Here are some of the factors which an insurance company uses to set your rates: where you live; your age or driving experience; amount and type of driving you do; the car you drive; amount of coverage you select; and your driving record.

We cannot go into detail in this lesson on the specifics of all those factors, but we will discuss a few of them. Common sense tells us why most of these factors affect the cost of an insurance policy. Let's consider some of the risks that the insurance companies take on when you buy insurance from them.

B. The company from which you buy your insurance becomes responsible for paying certain losses which you cause when an accident occurs. That is what insurance is all about: transferring the economic consequences (losses) to a group who will share in those risks.

The insurance company is a business. Like most businesses, it must make a profit to continue to operate. So, it must charge enough to cover losses and expenses and make a reasonable profit. It assumes one important risk faced by all businesses: being efficient enough to stay in business. The insurance risks of the company are simple to understand: it must be ready to pay for whatever claims are made in keeping with the policies that are issued. To do this, it must predict what kinds of claims will be filed and how much they may have to pay out. Predicting this is "risky" in itself—but they do it scientifically, using current costs and previous experience.

Where you live and drive also is important to the company. If you live in a rural area where there is not much traffic, the chance of having an accident is less than if you live in an urban area where heavy traffic and freeway driving is common. Thefts and

vandalism are also more likely in urban areas. So, for example, the cost of theft coverage (under “comprehensive”) is much higher in larger cities, compared to rural areas.

Now we come to a factor you may wonder about: the age of the driver. Remember that insurance companies must use past experience to help determine what they must charge. Some age groups tend to have many more accidents than do others. For instance, young drivers have more accidents than do other groups. Here are a few facts:

- In Michigan, drivers under the age of 25 represent 16 percent of all drivers but they are involved in 21 percent of all fatal accidents.
- Twelve percent of drivers age 16-24 are involved in a traffic accident each year. By comparison 5 percent of 55-64 year olds are involved in a roadway crash.
- Losses resulting from young-driver accidents are much more costly than those involving older drivers. When an insurance company figures the cost of an insurance policy, they have to give consideration to the risk that goes along with your group. (Here is a table that presents information on accidents by age of drivers.)

AUTO ACCIDENT INVOLVEMENT BY AGE

<u>Age Group</u>	<u># Licensed Drivers</u>	<u># of Drivers Involved In Accidents</u>	<u>Rate of Driver Involvement In All Accidents</u>	<u># of Drivers Involved In Fatal Accidents</u>	<u>Rate of Driver Involvement In Fatal Accidents</u>
16-24	1,015,282	121,764	1:7	350	1:2900
25-34	1,053,578	92,242	1:11	286	1:3683
35-44	1,182,474	93,297	1:12	296	1:3994
45-54	1,248,145	84,023	1:14	303	1:4119
55-64	952,396	51,151	1:18	200	1:4761
65-74	556,209	22,558	1:24	92	1:6045
75+	468,501	16,558	1:28	120	1:3904

* Annual rate of driver involvement in accidents and fatal accidents by age group (1:8 means one of every seven drivers in this group was involved in an accident during 2006)

Source: Michigan Department of State Police – 2006

Your personal driving record is also a factor. You can't do anything about the age group you are in, but you can do something about your driving record. You will be rated on your record: the more at-fault accidents you have and the more convictions you have for speeding and other violations, the more you will have to pay for insurance.

- C. Your budget may not allow much for insurance premiums. So, what can be done to keep the cost as low as possible? Here are a few suggestions:
1. Don't drive more than you have to, since rates are based partly on the amount and type of driving you do. Rates are usually higher, for example, if you drive a car back and forth to work.
 2. Select your automobile carefully since rates are based on its type, cost, repair- ability, and the protection which it offers in a crash.
 3. If you have other accident and health insurance, have your automobile insurance pay after your other policies pay their part. This is called "coordinating coverages."
 4. Choose higher deductibles on collision and comprehensive coverages. Higher deductibles subtract from the cost of your insurance. It makes good sense to be willing to pay for the first \$250, \$500 or more of the cost of repairs and to have your insurance pay the balance. In fact, the deductible idea is basic to the idea of risk sharing in insurance. And, often the amount you save in the premium can (in a few years) equal or even exceed the amount of the deductible you agree to pay. Check out the savings with deductibles when you talk with your insurance agent. Of course, if you have an older car, you may decide not to buy collision and/or comprehensive coverage at all.
 5. Take advantage of discounts offered by insurance companies, such as those for seat belt use. The use of safety belts, which are standard equipment, has proven to be a good way to reduce injuries in accidents—and in some cases, help to avoid an accident. With safety belts, your chances of being killed in an accident are 60 percent less. Your chances of being seriously injured are 57 percent less. Buckle up.
 6. Finally—and most important—drive carefully. Avoid driving when you are not physically fit to drive, due to illness, drugs, or drinking alcoholic beverages. Safe driving requires that you be at your best. Traffic convictions and at-fault accidents will make the cost of your insurance go up.
- D. You may not have to purchase your own automobile insurance; you may be covered under your parents' policy. The same factors just discussed still apply, and your driving record also affects the premium your parents must pay. You may have an opportunity to help your parents decide on what coverage is needed; if so, keep in mind what you are learning about auto insurance. The cost of your parents' policy will increase considerably when you are added as a driver.

IV. INSURANCE FOR EVERYBODY

Michigan’s No-Fault Law requires that all drivers must be covered by automobile insurance. But can everyone, no matter how bad their driving record or how high their claim experience, get automobile insurance? The answer is “yes,” if they have a valid driver’s license. The reason: Michigan’s Essential Insurance Act.

A. Essential Insurance

The Essential Insurance Act covers a lot of things that deal with how insurance companies operate and how they set rates. For example, the law says that companies must have a plan for setting your rates which is based on convictions for traffic violations—and/or accidents which are mostly your fault. Also, the Essential Law prohibits companies from using a person’s sex or marital status to set rates for auto insurance. In the past, young single females paid lower rates because they have fewer accidents than young single males. And, young married people paid less because they usually drive more safely than single people. Those rate differences have now been eliminated. When the Essential Insurance Law took effect, premiums for young, single females increased, for example, while those for young, single males decreased.

If you’re a good driver with no traffic violations or crashes, you can buy coverage from any company you choose. But if you have a bad driving record, you may have to get insurance from the Michigan Automobile Insurance Placement Facility—often called the “high risk pool.”

A regular company can decide not to sell you insurance if you have too many “eligibility points.” These are points based on convictions for traffic violations and accidents in which you were mostly at fault. They are similar to—but not the same—as points which go on your Motor Vehicle Record (state driving record).

For example, two or four insurance eligibility points are assessed for speeding violations. The first at-fault accident would create three points and a second, within a three-year period, would mean four points. The law says a company can refuse to insure you if your record shows seven eligibility points within a three-year period.

INSURANCE ELIGIBILITY POINTS

<u>Violations</u>	<u>Points Assigned</u>
Driving more than 15 mph over the speed limit or careless driving	4
Driving 11-15 mph over the speed limit	3
Driving 10 mph or less over the speed limit	2
Driving 15 mph or less over the speed limit on freeways which used to have a maximum speed of 70 mph	2
Other moving violations	2
The first accident in which you are more than 50% at fault	3
The second and all following accidents in which you are more than 50% at fault	4

The driver may then have to purchase insurance from the Auto Insurance Placement Facility. Although rates may be higher in this “pool,” anyone with a valid driver’s license can buy auto insurance—even if they have a terrible driving record.

Louie picked up 3 eligibility points because of his accident. About a year later he was driving again and got convicted for driving 42 miles per hour in a 25 mile per hour zone; that added 4 more points to his record. He was informed that his insurance would be cancelled; he now would have to buy a policy from the “pool.” Louie didn’t like this, but the company was correct in doing what they did.

B. Rights Under Essential Insurance

First, if you believe that you have been unfairly denied regular insurance or charged a rate that is not correct, you can request a conference with a representative of the insurance company. If that is not done, or if the results of the conference are not satisfactory, you can appeal the matter to Michigan’s Commissioner of Financial and Insurance Services.

You also must be given the specific reason(s) for any action taken. You must be told the factors on which you have been rated, and you must be allowed to see the detailed rating information.

The law also requires an insurance agent to tell you the lowest price that is available for the auto insurance you want to buy. Many insurance agents represent more than one company, and they must offer you the lowest price possible. At least once a year, you receive information that explains how the amount you are being charged has been calculated.

C. The Cost of Not Being Insured

There are, of course, always a few not-so-intelligent persons who drive without being covered by insurance. If you are involved in an accident and don’t have coverage, you could be sued for a lot of money. In most cases, young drivers have little savings or things of value with which to pay lawsuit judgments; but their future wages can be used to pay the judgment. You also could be required to pay lawyer fees and court costs. Being found guilty of driving without no-fault insurance is a misdemeanor; you could be subject to jail for up to one year and have to pay a driver responsibility fee of \$500 for two years.

The cost of not having no-fault insurance is too great. If you cannot afford to purchase the insurance you need, you cannot afford to drive!

V. OTHER CONSIDERATIONS

A. How to Buy Automobile Insurance

So how do you get the “best buy” in insurance? Insurance companies are competitive businesses. Even though rates are regulated by the Insurance Commissioner, charges made by companies for various coverages can differ quite a bit. It pays to shop around.

1. What you Should Check Out

There are three basic things you need to consider when buying automobile insurance: Coverage, Service and Cost.

At first you may think that **cost** is the only consideration. You do want to pay a fair price, but you will find that the other two are just as important. What you will want is the best combination of those three.

Coverage is important because you must be able to first understand and then select the insurance you need and want. There are several “you choose” coverages that you will have to decide on. Do you want the most expensive collision coverage (Broad), for example? Or will Regular or Limited coverage meet your needs?

The **service** reputation of the company and agent is also very important. You can check these things out by asking friends or relatives about various companies/agents and experiences they have had. In other words, ask other people for their recommendations.

2. Making the Decision

When you are ready to begin buying insurance, make a checklist of the coverages you want. Include the “have to have” coverage but also keep in mind the “you choose” insurance. Then contact agents to find out what each coverage on your list costs. You should include coverages you might want, but will not know for sure until you know the cost.

If an agent suggests some additional coverages or some changes in your list, change them if you agree. But get quotes on the same coverages from each agent. This is the only true way to compare cost.

B. Reporting An Accident – Filing A Claim

If you should be involved in an accident, there are a few things you should always do (if you are seriously injured, someone else should do these for you). Whether or not you are one of the drivers, these tips will help you avoid problems later.

- See that all injured persons receive medical attention immediately.
- Notify the police. This is not required in all situations, but a police report can become an important record on what happened.
- Get from the other driver his or her name, address, telephone number, vehicle license number, insurance company, and insurance policy number.
- Get the names, addresses and telephone numbers of passengers and other witnesses to the accident.

- Make notes about what happened, weather conditions, time of day, etc., -- all the “little things” that you may have to remember later.
- (It is best not to discuss the specifics of your insurance policy other than the name of your insurance company and your policy number.)
- Notify your insurance agent or company as soon as possible. He or she will help you with the filing of the claim with the company.

C. Adding To What You Know

There is a lot to learn about insurance of any kind, especially automobile insurance. There are books, magazines, brochures, etc. that contain information which can be used to add to what you know about auto insurance. It is wise to be alert to changes in insurance laws and practices that can help you buy the best policy; newspapers often report these changes.

If you have questions that cannot be answered by your teacher, librarian, or insurance agent—or if it is not convenient to contact them, there is an insurance hotline that is available to you free of charge. Call 1-800-777-8005. You can call that number toll-free from anywhere in the state of Michigan. This service is available 8:30 a.m. to 4:30 p.m., five days a week. You can also visit the Insurance Institute of Michigan website at www.iiminfo.org

OTHER REFERENCES

“No-Fault: An Overview of Michigan’s Unique Auto Insurance Law.” *Insurance Institute of Michigan*

“On the Road to Getting Your Driver’s License: A Guide to Auto Insurance for the New Driver.” *Insurance Institute of Michigan*

“Simple Math: Alcohol + Drugs + Driving = A Deadly Combination.” *Insurance Institute of Michigan*

“You Can Control What you Pay For Insurance.” *Insurance Institute of Michigan*

Insurance Consumer Alerts (*Michigan Office of Financial & Insurance Services, Lansing, Michigan*)

- No. 3 “The Three Types of Collision Insurance”
- No. 4 “How to Reduce Your Auto Insurance Premium”
- No. 5 “Brief Explanation of Michigan No-Fault Insurance”
- No. 14 “Auto Insurance Fraud – Buyer Beware!”
- No. 17 “Auto Insurance: Are You Eligible?”
- No. 18 “The Michigan Automobile Insurance Placement Facility
- No. 19 “Mini-Tort: An Exception to No-Fault”

WEBSITES:

www.iiminfo.org (Insurance Institute of Michigan)

www.michigan.gov/ofis (Michigan Office of Insurance and Financial Services)

www.iii.org (Insurance Information Institute)

MICHIGAN NO-FAULT

“HAVE TO HAVE” COVERAGE

PERSONAL INJURY PROTECTION

PROPERTY PROTECTION

RESIDUAL LIABILITY

“YOU CHOOSE” COVERAGE

COLLISION

Regular

Broad

Limited

COMPREHENSIVE

UNINSURED MOTORIST

ROAD SERVICE

CAR RENTAL

MINI-TORT

THE COST OF INSURANCE IS
DETERMINED BY:

- **WHERE YOU LIVE**
- **YOUR AGE AND DRIVING EXPERIENCE**
- **THE AMOUNT AND TYPE OF DRIVING YOU DO**
- **YOUR CAR (AGE, COST, REPAIRABILITY)**
- **AMOUNT OF COVERAGE YOU SELECT**
- **AT-FAULT ACCIDENTS**
- **TRAFFIC VIOLATION CONVICTIONS**

WHY ARE YOUNG DRIVER RATES SO HIGH?

<u>Age Group</u>	<u>Percent of drivers involved in an auto accident each year</u>
16-24	25%
25-34	19%
35-44	19%
45-54	17%
55-64	11%
65-74	5%
75+	4%

INSURANCE ELIGIBILITY POINTS

<u>VIOLATION</u>	<u>ASSIGNED POINTS</u>
DRIVING MORE THAN 15 MPH OVER THE SPEED LIMIT OR CARLESS DRIVING	4
DRIVING 11-15 MPH OVER THE SPEED LIMIT	3
DRIVING 10 MPH OVER THE SPEED LIMIT	2
DRIVING 15 MPH OR LESS OVER SPEED LIMIT ON FREEWAYS WHICH USED TO HAVE A MAXIMUM OF 70 MPH	2
OTHER MOVING VIOLATIONS	2
THE FIRST SUBSTANTIALLY AT-FAULT ACCIDENT	3
SECOND AND ALL FOLLOWING SUBSTANTIALLY AT-FAULT ACCIDENTS	4