Are You Really Covered?
Your Biggest Exposure
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What is the most likely event that would cause you financial ruin? Answer: A car accident that causes a serious injury to someone else. Getting behind the wheel poses the biggest exposure and the most probable risk to loss of your personal assets. Insurance companies spend billions on incessant advertising talking about saving money on your car insurance. But what often goes missing in the conversation is something far more important ... getting the right coverage. While getting a competitive rate is always a priority, saving a few dollars on premiums by compromising coverage could be a costly mistake.

Auto insurance covers three major sections: liability, first party benefits, and damage to your auto.

Liability remains the critical section. This is the limit of coverage that stands between you and the person you may injure or property you may damage with your auto. If these limits aren't enough to cover the damages or judgment against you, the court may force the liquidation of your personal assets. A recommended limit here is $500,000 minimum with at least a $1 million personal umbrella on top.

You may think, "I'm a safe driver, this won't happen to me!" But what if you allow your friend, neighbor, or relative to drive your car? And what about that young driver in the house asking to borrow the car keys? Remember, the buck stops with you ... the owner of the car. You will be held ultimately responsible, and your assets are the ones at risk.

The next section, first party benefits, pays the medical bills if you're injured in an auto accident regardless of who is at fault. Pennsylvania law requires at least $5,000 medical coverage on every auto policy. This may seem ridiculously low, but after $5,000 your health insurance pays, and the purchase of more medical coverage on your car policy may be redundant.

Another decision you're faced with is choosing between "full tort" or "limited tort." By giving up some of your rights to sue the other guy, the insurance company can offer you a lower premium by providing "limited tort" coverage. In choosing limited tort, you promise not to sue for pain, suffering, or loss of use of bodily function unless your injury is recognized as serious.

And there's the rub. Who decides whether your injuries are serious? Not you, but the Commonwealth of PA. What you think is serious (remember, you're the one in pain) may be completely different from what the court thinks is serious. The other thing many people are not aware of is that if you give up your rights to sue, you're also giving up those rights for unlicensed children in your household. A few dollars in savings may seem insignificant if you find yourself or your child in a situation where you wish you had not given up those rights. This is a decision that should be made carefully and with the help of a good agent ... not a gecko or a caveman.

There is another "you" coverage on your auto policy that deserves attention ... Uninsured and Underinsured Motorist (UM/UIM). Although this does not cover damage to your auto, it does cover injury to you or others in your vehicle. Suppose for a moment you are injured seriously, and the other driver, who caused your injury, has no or very little insurance. Let's assume your doctor and hospital bills are all paid, but you may be permanently disabled, scarred for life, or suffer severe pain and suffering. These "other than medical" things have a dollar value, which you would rightfully want to collect from the responsible party. If that party is driving around without insurance or has the state minimum of $15,000 of liability coverage, chances are there aren't a lot of assets to go after either. So what are you going to collect? Sadly, the answer is little to nothing.

This is where UM/UIM coverage comes into play. It may be the only place you have to go when it comes to collecting for these "other than medical" items, which often have a value that far exceeds your medical bills. This is why you should carry the same limits of UM/UIM that you carry for liability.

The final major section, also known as "damage to your auto" is often called full coverage. Not to be confused with "full tort" which we've already discussed, covering your auto for damage comes in two parts: comprehensive and collision.

Comprehensive covers damage to your car from most things "other than collision." It won't cover mechanical or maintenance issues, but does cover fire, theft, vandalism, flood, glass breakage, falling objects, and hitting an animal along with a host of other perils. This coverage typically carries a small deductible and is relatively inexpensive.

Collision coverage involves the cost of repairs if you crash into something or another vehicle crashes into your car. This coverage usually carries a deductible of $500. Buying a lower deductible here results in a surcharge, and the small savings for going with a higher deductible is rarely worthwhile. You'll also want to check that you have rental car coverage if you need one due to a covered loss to your vehicle.

The question we often hear from clients is, "How long should I carry this coverage?" If there is a bank interest or lien on the vehicle, you have no choice ... the lien holder requires full coverage to protect his interest. But if the car is paid off and you hold clear title, then the choice is yours as to whether or not to carry damage to the vehicle.

This decision boils down to the book value of the car. Since insurance companies pay depreciated value when a car is a total loss, full coverage is less attractive on older models. To assess your risk, take the good condition Kelly Blue Value and subtract out your deductible and full coverage premium. That leaves you with your maximum exposure to loss. If you can handle that kind of financial hit, then you may want to consider dropping full coverage and spending these dollars on additional liability limits.

So, bottom line, how much do you need when it comes to car insurance? The liability coverage is vital to your financial security; invest significantly here. Don't give up your rights, and buy coverage for damage to your car if you can't afford to fix it yourself.

Remember, there are countless ways to find yourself in front of a judge or jury without committing a crime. Getting behind the wheel of an automobile is one of the biggest. This is where spending just a few minutes with an independent insurance professional can make all the difference between having a solid plan of protection and getting left out in the cold.