

AUTOMOBILE INSURANCE - NOTES

Section 5-4

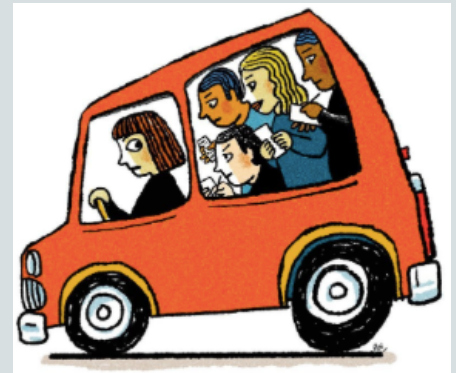
AUTO INSURANCE VOCAB WORDS

- **Liable**: responsible
- **Negligent**: at fault
- **Premium**: a fee the driver pays; the insurance company pays the rest.
- **Claim**: a request for money



LIABILITY

- Liability insurance:
 - Covers bodily injury and property damage to others as a result of a crash for which you are responsible
 - The most important car insurance to have since it is required by law. Each state sets their own minimum requirements.
 - Maine Law: the minimum required limits are \$50,000 per person/\$100,000 per accident for bodily injury, \$25,000 for property damage.
 - Do you need more???



LIABILITY

- **Bodily Injury Liability (BI)**: covers bodily injury. If you are at fault in an accident, you are responsible for paying the medical expenses of anyone injured. You can purchase as much BI as you want.
 - (max per accident company will pay any *one person*)/(max per accident company will pay *everyone total*)
 - Ex: I have 100/500 BI. If I get in an accident with Andrew, Tayler, and Sean (and it's my fault), the most my company would pay any of them is \$100,000. The most they would spend on Andrew, Tayler, & Sean all together is \$500,000.



LIABILITY

- Property Damage Liability (PD): pays for damage you cause to other people's property. You are financially responsible if you damage a telephone pole, fire hydrant, other car, etc..
- Uninsured/Underinsured Motorist Protection (UMP): pays for injuries to you or your passengers caused by a driver who has no insurance or does not have enough insurance to cover your medical losses.
- Personal Injury Protection (PIP): pays for physical injuries you or your passengers sustain while in the vehicle; compensates you regardless of who is at fault.

LIABILITY

- **Comprehensive Insurance**: covers the repair or replacement of parts of your car damaged by vandalism, fire, flood, hail, etc. It also covers your car if it is stolen.
- **Collision Insurance**: pays you for the repair or replacement of your car if it's damaged in a collision with another vehicle or object, or if it overturns, not matter who is at fault.
- **Car-Rental Insurance**: pays you for part of the cost of a rented car if your car is disabled because of a collision or comprehensive-covered repair
- **Emergency Road Service Insurance**: pays for towing road service when your car is disabled.



OTHER INSURANCE WORDS

- Actuaries: statisticians that predict how often customers will submit claims
- Surcharge: extra fee
- Deductible: the amount the policy owner must pay before the insurance company pays any money.



EXAMPLE I

Ken's annual premium is \$1,284. If he pays quarterly, there is a \$1 per payment surcharge. What is the quarterly payment?

Solution: *Quarterly* means it happens 4 times, so divide the annual premium by 4.

$$1284 \div 4 = 321$$

then, add the \$1 surcharge

$$321 + 1 = 322$$

Each of the 4 quarterly payments is \$322.

EXAMPLE 2

Stan has \$25,000 worth of property damage liability insurance. He caused an accident that damaged a \$2,000 fire hydrant and did \$5,600 worth of damage to another car. How much of the damage must Stan pay?



Solution: First, find the sum of the damages.

$$2,000 + 5,600 = 7,600$$

Since the total damages (7,600) is less than the amount for the liability insurance (25,000), the insurance company will pay the entire amount and Stan will not have to pay for anything.

EXAMPLE 3

Peter has \$1000 deductible collision insurance. Peter backs his car into his garage and causes \$4300 worth of damage to the car. How much will his insurance company have to pay?

$$4,300 - 1,000 = 3,300$$

The company must pay \$3,300.

EXAMPLE 4

Bob was in an auto accident caused by his negligence. He has 100/300 bodily injury insurance. The three people injured in the accident sued. One person was awarded \$140,000, and each of the other two was awarded \$75,000. How much does the insurance company pay?

Solution: Bob has a 100/300 BI, so the company pays a maximum of \$100,000 to any one person, and \$300,000 total to all people.

Total damages: \$290,000

Total coverage: \$300,000

– \$100,000 (for person 1)

\$200,000 (total for persons 2 & 3)

	<u>Person 1</u>	<u>Person 2</u>	<u>Person 3</u>
Suing for:	\$140,000	\$75,000	\$75,000
Insurance:	-\$100,000	-\$75,000	-\$75,000
Bob pays:	\$40,000	\$0	\$0

EXAMPLE 5

Danny has a policy with 50/150 BI, \$50,000 PD, and \$50,000 PIP. He causes an accident in which he hurts 7 people in a minivan and 4 people in his own car, including himself. The 11 people who are hurt have minor injuries and do not sue Danny. The total medical bill for all involved is \$53,233. How much does the insurance company pay?

Solution: Danny's PIP has a limit of \$50,000 per person. Remember: PIP takes care of medical payment without regard to who is at fault. As long as no individual requests more than \$50,000, the insurance company will pay the entire \$53,233.

