

AUTO INSURANCE: WHAT TEEN DRIVERS MUST KNOW

Obtaining a driver's license is an exciting time for teens. Along with this excitement and freedom comes the responsibility of operating a car. Statistics show that young drivers are involved in more car accidents, and many insurance companies consider them a greater risk. As a result, automobile insurance will be one of the most expensive costs teens will face in relation to obtaining their driver's license and earning the privilege to drive. Teens should do their homework so that they fully understand the costs associated with operating a car and ways to keep these costs as affordable as possible.

What is automobile insurance?

Automobile insurance is a contract that you buy from an insurance company that promises to pay for some or all damages that are the result of an automobile accident.

Why do I need automobile insurance?

In the state of Michigan, the law requires you to have no-fault insurance on your car. If you have an accident, this insurance pays for injuries to the people involved and for damages your car does to other people's property and properly parked cars. It is against the law to drive or let your car be driven without no-fault insurance.

Moreover, if you drive a friend's car, make sure that the car is properly insured. If you are caught driving without insurance, you could be fined up to \$500, sentenced to jail time, and have your license revoked. You can also be sued and held personally liable for damages that you caused in an accident.



What is no-fault insurance?

Michigan has a no-fault auto insurance system. Under a no-fault system, you usually don't sue the other driver if you are hurt or your car is damaged in an accident. You collect from your own insurance policy, regardless of who is at-fault in the accident. This system is designed to get your medical or car repair bills paid quickly, without the need to sue.

What is the minimum insurance that I must have?

The basic no-fault insurance policy has three parts:



1. Personal Injury Protection (PIP). It covers all necessary medical costs, as well as lost wages for up to three years, and may also pay for replacement services for up to three years if you are hurt in an automobile accident. Replacement services pay for such things as housekeeping and yard work.
2. Property Protection Insurance (PPI). It pays up to \$1 million for damage your car does in Michigan to other people's property. While it generally does not pay for damages to cars, it will pay for damages your car does to another vehicle if that vehicle was properly parked.
3. Residual Bodily Injury and Property Damage Liability Insurance (BI/PD). Subject to certain limitations, it pays your legal defense costs and any damages if you are sued and found liable as a result of an auto accident.

What insurance coverages are optional?

You can purchase optional coverages, such as collision and comprehensive insurance, to repair damage to your car. Collision insurance pays for repairs to your car when it is damaged in a crash. Comprehensive coverage pays for your car if it is stolen or damaged by a falling object, fire, flood, vandalism, or collision with an animal. Your insurance agent can explain these coverages further and determine what type would best meet your needs.

What is a premium?

The premium is the amount that you are required to pay for the insurance contract. Most auto insurance contracts are for six-month periods, but annual or even monthly policies may also be available. For the insurance contract to remain in force, you must make your premium payment on time.

What is a deductible?

A deductible is the amount of money specified in the insurance contract that you must pay **before** the insurance company pays for damages covered under your automobile insurance contract.

Discounts

Making sure you have all the discounts is a great way to lower your premium. For example, if you are an honor roll student, have a job, or are a member of an organization, some companies may offer a reduced premium. Other discounts that may be available to reduce your rate include:

- Safe driver discount: teens who have a clean driving record are considered less of a risk
- Low mileage driver
- Two or more cars on a policy
- Airbags or other safety equipment
- Anti-theft devices
- Auto/home insurance on same policy or with same company

Tips for Shopping Around and Cutting Insurance Costs

Teens are encouraged to work with a *licensed* insurance agent to help them shop around for coverage.

- Teens should take advantage of the lower insurance rates they receive as a result of being rated on their parents' automobile insurance policy as secondary drivers. The cost is much higher for a teen listed as the primary driver on a car.
- Rates insurance companies charge can vary dramatically so it pays to shop around when a teen driver is added to a policy. For example, if there is only one vehicle in the family and it is a newer, more expensive car, adding a teen driver may raise the premium considerably.
- In a multi-vehicle policy, some insurance companies may rate on the most expensive vehicle in the household while others may determine the rate based on the vehicle the teenager will drive.

Shopping for That First Car

Teens should keep certain factors in mind when purchasing their first car in order to save money on their insurance.

Cars are rated differently based on their **vehicle make, model, and style**. The type and value of the car you drive can make a big difference in the premium you pay. That sporty-looking car may be appealing; but, if it is a type of car that is frequently stolen, or has high repair costs due to body construction, it will cost more to insure.



Call the Department of Insurance and Financial Services (DIFS) toll-free at 877-999-6442 or visit www.michigan.gov/DIFS. Trained staff will provide you with information on how to make an informed decision about the types of auto coverage available and the requirements under Michigan insurance law.