

Auto insurance can be complex. But a little knowledge can save you a lot of money and trouble. So let's get started. Almost every state in the US requires drivers have liability insurance. Liability insurance pays for other people's losses in accidents that you cause. Not your own losses.

The amount of minimum liability drivers are required to carry is going to vary from state to state. And there are two main types of liability insurance, bodily and property. For instance, in California drivers are required to carry bodily injury liability coverage of \$15,000 per person injured, which is at a maximum of \$30,000 per accident. California also requires drivers to have minimum property damage liability of \$5,000.

Auto liability policy limits are often expressed in three digit shorthand like this, 15/30/5. That's the one for minimum California coverage. As with other types of insurance, it's true, your premiums are going to be cheaper if you buy minimum coverage. But in the long run that strategy could cost you a lot, maybe even bankrupt you. And here's why. Let's say you live in California. You buy the bare minimum auto insurance policy of 15/30/5. One day you're out driving and the guy right in front of you slams on his brakes to avoid hitting a squirrel. It happens so fast you can't stop in time and you crash your car into the back of his brand new BMW. Not only is his car totaled but he's saying his neck hurts and he needs to go to the ER. The BMW drivers hospital bill ends up being about \$25,000. Hey, could be more with the cost of medical care these days. And your insurance only pays for \$15,000. So now you're on the hook for \$10,000 of your own money. As for property damage, replacing the total BMW could easily cost you \$35,000. And remember, you could be sued for things like lost wages, compensation for pain and suffering, funeral costs, and even legal expenses. You're \$5,000 property coverage and \$15,000 for one injury isn't going to go very far.

You know minimum auto insurance is simply too low. But how much do you need? One rule of thumb is to keep your liability insurance at least as high as your assets. That is your savings and the equity in your home. But you know if you've got a good paying career you might want more coverage since a judgment against you could result in a court order for you to make payments from your future paychecks.

Now if you think that you need more protection than auto insurance offers, look into buying an umbrella liability policy. It kicks in when your auto and your homeowners policies stop paying. Additional liability insurance might be a lot less expensive than you think. I looked up what it would cost a 64-year-old married man, driving a 2005 Honda Accord, and living in my neighborhood. In other words, someone like me. To increase bodily injury liability coverage from \$100,000 per person and \$300,000 per accident to \$250,000 per person and \$500,000 per accident. The additional cost is about \$25 a year.

Most states have what is called fault insurance. That means the person who causes an accident is responsible for paying all the damages. Medical bills, damaged property, lost wages, pain and

suffering, legal expenses, all of it. In no-fault states the person who caused the accident has to pay for damage to property but anyone who's injured is responsible for covering their own medical bills, lost wages, et cetera, regardless of who caused the accident. Not surprisingly then, if you lived in a no-fault state you're required to have personal injury protection insurance, which covers your medical expenses. No-fault insurance laws are designed to remove the need for lawsuits. But even in a no-fault state people can sue if their injuries are particularly severe. The laws vary from state to state. So check your state to decide whether you need residual bodily injury liability insurance. The courseware has links to information on which states are fault and no-fault states.

Now that we've covered the types of insurance you're legally required to buy, let's do the car insurance equivalent of organizing your sock drawer. We'll go through some of the options you might want to add to your auto insurance coverage. We'll also determine what you can do without to keep your premiums lower. In addition to liability insurance there are five more auto insurance add-ons you should consider, uninsured motorist, underinsured motorist, collision, comprehensive, and medical payments coverage. In the US, one out of every seven drivers is uninsured. They don't even carry minimum liability. So if you get into an accident caused by an uninsured driver there's nothing to cover your losses. You could try to sue them but if they don't have any money you're out of luck.

Most insured drivers have uninsured motorist coverage. It also covers losses from hit and run drivers and drivers of stolen vehicles. Underinsured motorist coverage covers you in case you're the victim of a serious accident caused by a driver with minimum insurance and very little money. If you decide to buy uninsured motorist coverage, and you should, make sure you also get underinsured coverage. They're sort of the peanut butter and jelly of auto insurance.

Collision insurance is similar to property damage liability, except for it pays for damage to your car not the other drivers. If you collide with another object, such as a tree or another car, collision will cover you, usually up to the book value of your vehicle, even if you're at fault. If you are at fault you pay your deductible and your insurance company pays for any additional repairs up to the book value of your car.

Comprehensive insurance covers damage to your car from things other than collisions. Theft, fire, vandalism, hail, or stones on the road cracking your windshield. Comprehensive may also cover damage to your car if you're hit by an animal, such as a deer. Though some policies treat those accidents as collisions.

Medical payments coverage is for medical expenses from car accidents for you and your passengers, regardless of who causes the accident. If you your family have good health insurance you probably don't need this coverage. So how do you know whether you should get collision or comprehensive insurance? Well take a look at your car. If you've got an older car that's not in very good shape you might want to think twice. With both of these options the most insurance companies are going to pay is the book value of your car. So if you could afford to replace your car using your emergency fund you might want to avoid collision and comprehensive so as to save money on your premiums. If you could not afford to replace your car, set your deductible as high as you reasonably can afford. The higher the deductible the lower the premiums.

Now how much money could you save by dropping collision and comprehensive on an old car? Well my daughter drives a 1998 Volvo with a lot of miles on it. This weeks courseware has links to sites

where you can look up your car's book value. I looked up the book value for this 1998 Volvo. It's around \$2,700. Suppose that my daughter had a policy in her name with both comprehensive and collision insurance and a deductible of \$250. If she dropped collision insurance she would save \$570 a year. True, if she had an accident she'd have to pay to repair the car herself. But the most the insurance company is going to give her for that car is \$2,700 minus the \$250 deductible. She'd be paying \$570 a year and if her car was totalled she only would get \$2,450. Unless you're a terrible driver or can't possibly afford to replace your car, this is a bad deal. Now if she were to drop both collision and comprehensive coverage she would save \$740 a year. I'll leave you with a few tips to keep in mind. If you have minimum liability coverage look into increasing it. It's surprisingly inexpensive and it could save you from financial disaster.

Before you buy auto insurance online make a plan and know what you actually need and what you can do without. And finally, as always, shop around for the best rates. Insurance companies offer a wide range of discounts and that could save you some money.

I'm recording this video a couple of months before the course will launch. But the course has already had a success story. Last week I got an email from Sarah who edits script for the course and draws the cartoon images in the videos. Hey, Sarah. After editing the script for auto insurance Sarah wrote, aside from income and learning stuff, this whole MOOC thing is turning out to be quite helpful in another way. I did a little figuring and I realized that at this level of auto insurance my house equity is way exposed if I bash into the back of a brand new BMW containing an injured driver with a good lawyer. So I upped my auto insurance to \$100,000 bodily injury liability per person and \$300,000 per accident. And I tacked on uninsured and underinsured motorist insurance. The whole thing increased my premium by \$12 per month.