



# Auto Insurance: What Every Teen Driver Must Know

## Michigan Department of Insurance and Financial Services Quick Facts

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 to your vehicle or physical injury resulting from an automobile accident or other covered loss (theft, fire, etc.).

### 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, no-fault 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 if you drive without insurance.

### 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 in most situations.

For policies issued or renewed after July 1, 2020, Michigan drivers have new choices on the level of Personal Injury Protection (PIP) medical and Residual Bodily Injury and Property Damage Liability Insurance (BI/PD) coverages they can buy. The new PIP medical limit is the most your auto insurance company will pay for your medical expenses in an accident. If your bills exceed the PIP medical coverage limit selected on your policy, you may be personally responsible for any excess costs. The BI/PD portion of an automobile insurance policy is the amount your insurance will pay to an injured person if you are found legally responsible for damages in an accident.

### **What is the minimum insurance that I must have?**

The basic no-fault insurance policy has three mandatory parts:

1. **Personal Injury Protection (PIP).** PIP medical will pay all reasonable and necessary medical expenses for your lifetime up to the maximum coverage amount selected. PIP will also pay wage loss and replacement services for up to three years after the date of the accident. Replacement services pay for such things such as housekeeping and yard work.

After July 1, 2020, Michigan drivers will need to choose a PIP medical coverage level appropriate for their needs and budget. There are six PIP medical coverage levels available to Michigan drivers.

- Unlimited coverage
- Up to \$500,000 in coverage
- Up to \$250,000 in coverage
- Up to \$250,000 in coverage with PIP medical exclusion(s)
- Up to \$50,000 in coverage
- PIP medical opt-out for Medicare participants

If you do not choose a PIP medical option, the unlimited PIP medical option is selected by default.

2. **Property Protection Insurance (PPI).** This coverage 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).** Michigan's no-fault insurance protects insured persons from being sued as the result of an automobile accident, except in certain situations. This includes when the injured party does not have enough coverage to pay for treatment or payment must be made to compensate someone that was killed or seriously injured. This portion of your automobile insurance policy will pay up to the coverage limit of your policy if you are found legally responsible for damages in these situations.

After July 1, 2020, the new default BI/PD coverage limits are:

- Up to \$250,000 for a person who is hurt or killed in an accident.
- Up to \$500,000 for each accident if several people are hurt or killed.
- Up to \$10,000 for property damage in another state.

Drivers may have the option of purchasing other BI/PD coverage limits. However, the lowest limit they may purchase is:

- Up to \$50,000 for a person who is hurt or killed in an accident.
- Up to \$100,000 for each accident if several people are hurt or killed.
- Up to \$10,000 for property damage in another state.

Drivers should consider speaking with their licensed insurance agent on the options available.

### **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 to the insurance company 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.

### **How can I save money on automobile insurance?**

A licensed insurance agent can help you shop around for coverage. 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 teen drivers on the most expensive vehicle in the household while others may determine the rate based on the vehicle the teenager will drive.

Teens should take advantage of the lower insurance rates they receive as a result of being rated on their parent's automobile insurance policy as secondary drivers. The cost is much higher for a teen listed as the primary driver on a 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.

### **What types of discounts are available?**

Making sure you have all the discounts offered by your insurance company is a great way to lower your premium. Some of the discounts that may be available to reduce your rate include:

- Safe driver discount
- Low mileage driver
- Two or more cars on a policy
- Airbags or other safety equipment
- Anti-theft devices
- Multi-Policy Discount (Auto/home insurance on same policy or with same company)

After July 1, 2020, insurance companies are prohibited from using certain factors to rate your policy. These factors include:

- Sex
- Marital status
- Home ownership status
- Credit score
- Educational level
- Occupation
- Zip code

### **Questions**

Call the Department of Insurance and Financial Services (DIFS) toll-free at 833-ASK-DIFS or visit [www.michigan.gov/DIFS](http://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.