

*Automobile Insurance  
Made Simple*



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***David Taylor***

**This book is not intended to be a recommendation of which insurance companies for the reader to choose or what coverages are most appropriate.**

**Every driver's situation is unique. You should consult with your auto insurance professional for the insurance company and coverages that are best for you.**

**This book is not intended to provide legal advice as related to automobile insurance claims or in any other situation. In the event of a claim, you may wish to consult with an attorney.**

## **Automobile Insurance Made Simple**

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## Chapter 1 - ABOUT THIS BOOK

It's a common phrase that "knowledge is power". Well, knowledge can also save you a lot of money.

If you're like most people, you're looking for ways to save money. When you are about to buy a big ticket item, say a stereo system or a car, you most likely go to two or three different places before you're confident that you are getting the best price.

Why should this be any different with auto insurance? Auto insurance has become a big-ticket item. If you live in New Jersey, chances are that you are paying more than \$1,000 per year for auto insurance, and that's just to insure one car! Yet when your renewal bill comes in the mail and it has gone up more than a few dollars over the last renewal, you just accept it and pay the bill. You think to yourself, "that's just the way auto insurance is", "you can't do anything about it", and "yeah, it stinks, but what can I do?"

There are some things that you can do to reduce what you have to pay for automobile insurance. Sometimes it involves trading off some coverage for a reduced premium. For example, you may know that a higher comprehensive or collision coverage deductible can save you some money, but do you have any idea how much?

Higher limits of liability coverage cost more money, but do you know how much or how little?

If you can't afford a Cadillac, you don't buy one. If you can't afford Cadillac insurance coverage, don't buy it.

This book contains many actual rating examples showing how a reduction in coverage can lead to substantial savings

in your automobile insurance premium. This book gives advice on shopping around and compares the actual premium charges of different insurers for the exact same coverage. You'll be surprised by the differences in the amounts that the companies want to charge.

There is a section in this book about discounts; discounts you are entitled to by law, discounts commonly offered by most insurers and some of the discounts that are a little more difficult to find.

This book provides tips on how to shop around. It explains the different marketing systems used by automobile insurance companies and provides advice on what material to bring with you when you want to purchase insurance coverage.

Finally, this book provides some tips on how not to let yourself become a victim of automobile insurance fraud. It does no good to save money when you have to pay your premium only to lose much more because you're the victim of insurance cheats.

<p>The investment that you make in this book may save you hundreds of dollars a year, maybe even thousands of dollars over your lifetime.</p>
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## **Chapter 2- MIDNIGHT IN THE GARDEN STATE OF GOOD AND EVIL**

For those of you who live elsewhere and are not aware, New Jersey's state nickname is the Garden State. Not exactly the first thing you think of when you come to New Jersey.

If you're like a lot of people, your first experience of New Jersey could have been landing at Newark Airport, driving south on the New Jersey Turnpike and smelling the wonderfully acrid smells of the oil refineries in Elizabeth. At that point, I'm sure you're thinking to yourself, "yes, this must be the Garden State".

OK, the "good" in New Jersey might be the beaches, the closeness to New York and to Philadelphia, and the culture. There is easy access to many professional sports teams. There's hiking and camping and good theatre and dining.

The "evils" are those smells emanating from certain areas of the state and the highest auto insurance rates in the country.

This book is written from a New Jersey point of view. Although this book is most valuable to the drivers of the approximate 4 million insured vehicles in New Jersey, it can be just as valuable to those that live outside of New Jersey too.

The concept of a deductible doesn't change simply because you've crossed over a state border. Higher limits of liability coverage will cost you more money wherever you go. Discounts that are mandated by New Jersey state law and regulation such as for anti-theft devices and defensive driver courses, are mandatory in many other states too. When one state passes a law that's good for consumers, other states aren't shy about copying that law.

Many rules that govern how your auto insurance policy is rated are countrywide rules. There are sometimes state exceptions, but often those state exceptions simply change the amount of the savings and discounts.

If you live in New Jersey, this book can be invaluable. If you live in another state, this book is still very worthwhile.

## Chapter 3 - TELL ME WHY

Why do you need automobile insurance?

The simple reason is that in most states it is illegal to drive without having your car insured for certain coverages. Penalties can be severe. There can be fines, you can lose your driver's license and your car may even be impounded. But besides it being the law, it's a good idea.

There are five fundamental automobile insurance coverages. They are:

1. Bodily Injury and Property Damage Liability coverage,
2. Personal Injury Protection coverage (sometimes called "No-Fault"),
3. Uninsured and Underinsured Motorists coverage,
4. Collision coverage,
5. Comprehensive coverage (sometimes called "Other Than Collision").

The first three coverages; 1. bodily injury and property damage liability coverage, 2. personal injury protection coverage, and 3. uninsured and underinsured motorists coverage, are required by law in most states.

The other two coverages; 4. collision coverage and 5. comprehensive coverage, are not required by law, but are usually required to be purchased under the terms of most finance contracts. That is, when you buy a new or used car and are financing the purchase through a bank or some other financial entity, they usually require you to purchase these coverages as a condition of the loan. Similarly, when you are leasing a car, the leasing company will often require comprehensive and collision coverage.

Automobile insurance may be required, but even if it weren't, it is still a good idea to have auto insurance. Here are some examples why.

### Bodily Injury and Property Damage Liability

Suppose you're driving down a busy city street in the wintertime. It's dark out. You hit a patch of black ice. Your car starts to skid. You hit a person walking across the street. He is injured, badly. Now, from your point of view the accident wasn't "your fault". You hit some ice and of course don't have any control over that. But, guess what, legally the accident is your fault. If you don't have bodily injury liability insurance, you could end up paying thousands of dollars out of pocket for just this one accident. A brief moment in time can ruin you financially forever. You can lose your savings, investments, or even your house.

You know another reason why it's a good idea? That innocent person walking across the street deserves to be compensated for his injuries. You could be ruined financially, but his life may be just ruined. Compensating him is fair and it's the right thing to do.

Let's take another example. As you drive, you approach an intersection. You come to a stop sign, signaling to make a left hand turn. A man in a car across the way waves you on. You start to turn and boom, he hits you. When the police arrive he denies ever having waved you on and even though it was just a minor fender bender, he is complaining of a severe pain in his back. Yes, this man is attempting to commit fraud. Illegal, but tough to prove.

Suppose you didn't have liability insurance. How are you going to pay the lawyers to defend your case? How are you going to prove fraud? It's just your word against his.

Bodily injury and property damage liability insurance also pays for your defense costs, for actions brought against you as a result of an auto accident. In addition, it is the insurance company's duty to investigate all cases of suspected automobile insurance fraud. Maybe this man committed fraud before and the insurance company has a record of it. Perhaps the insurance company can draw on expert witnesses to testify that given the very minor damage to the vehicles, no serious injury could have possibly been sustained.

Bodily injury and property damage liability insurance is a good idea. It protects you when an accident is your fault and when it's not your fault. It provides compensation to deserving victims of automobile accidents, and when an accident is staged and there is a case of fraud, a company with resources can investigate the claim.

### Personal Injury Protection Coverage

Suppose you're walking down the street, and as you cross at an intersection, a moving vehicle hits you. You get hurt, badly. Your personal injury protection coverage will pay for your medical expenses even though you were not in your vehicle at the time of the accident. Sure, you can sue the driver who struck you for your medical expenses, but how long would that take? Your personal injury protection coverage enables you to be reimbursed promptly for medical expenses incurred as a result of an auto accident and also provides for other basic coverages such as salary reimbursement.

Personal Injury Protection coverage is required by law, but besides that it's a good idea to have this coverage.

## Uninsured and Underinsured Motorists Coverage

Suppose you're driving on a highway, and another vehicle is merging from an on-ramp. He is supposed to yield, but doesn't. The other vehicle sideswipes your car and then drives on! You are the victim of a hit-and-run accident. You can't catch up to the other vehicle because of the damage to your own car. (Besides, it's probably not a good idea to chase after someone that just hit your car and took off, you may wind up getting in a more serious accident.) If you didn't have uninsured motorists coverage you wouldn't be compensated for the damage to your vehicle. You would have to pay out-of-pocket to get your car fixed. Not many of us could afford that.

Uninsured and underinsured motorists coverage protects you when you are the victim of a hit-and run accident or when an uninsured or underinsured vehicle strikes your car.

Except for under a basic policy, which is explained at the end of chapter 4, New Jersey state law requires uninsured and underinsured motorists coverage, but besides that it's a good idea to have this coverage.

## Collision Coverage

Now, suppose you're backing out of your driveway. You look both ways but fail to see an oncoming pick-up truck. You hit that truck, causing damage to his vehicle and yours. How are you going to pay to get your car fixed? You can't sue the other driver; the accident wasn't his fault. If you didn't have collision coverage, you wouldn't receive payment to get your car fixed.

Even though the law does not require Collision coverage, it's still usually a good idea to have this coverage for newer or more expensive cars.

## Comprehensive Coverage

What if your car is stolen? You buy a brand new car, bring it back from the showroom, and park it in your driveway and the next day it's gone. If you don't have Comprehensive coverage on your new vehicle, you wouldn't be compensated for the loss. How many among us can afford to pay for a new car twice?

Even though the law does not require Comprehensive coverage, it's still usually a good idea to have this coverage.

## Chapter 4 - TRIVIAL PURSUIT

I'll take "Auto Insurance" for \$100, Alex. Details, minutiae, fine points, trivia, the hard part...

Yes, we know the book is called "Automobile Insurance Made Simple". But, hey, if you bought this book you must have something going for you, right? You're smart enough to make a wise investment and you're also smart enough to understand some of the details about automobile insurance coverages.

Before you shop around, it's important to know exactly what you're paying for. This chapter describes coverages that are required by law in New Jersey and many other states. It also describes the "minimum limits" of liability coverage that are required by New Jersey law. This chapter ends with a discussion of the "basic policy" which provides less coverage than what has traditionally been required by law prior to March 22, 1999.

Let's look at the coverages in a little more detail.

**Bodily Injury** coverage involves cases in which another person is hurt or dies as a result of an auto accident. If you are legally responsible, it will compensate the other party for pain, suffering or other personal hardships, and will also pay for some economic damages, such as lost wages.

Let's say you're driving down the street, come to a stop sign and hit the car in front of you. The accident is clearly your fault. If the driver in the car that you hit is injured, Bodily Injury Liability coverage will pay for his pain and suffering, lost wages and certain other economic damages that he may sue you for in a court of law.

If you need an attorney as a result of a lawsuit, the insurer will pay for defense costs under this coverage portion of the automobile policy.

Defense costs, such as payments to an attorney, are not included within the limits of liability. Also, please keep in mind that when an insurer's payments reach the limit of liability, the insurer no longer has an obligation to pay for defense costs.

Let's say the **declaration page** of your auto insurance policy shows the minimum bodily injury limits required by law, \$15,000 per person and \$30,000 per accident. If the person in the other car sues you for a higher amount, say \$50,000, you may not have enough coverage to protect your assets.

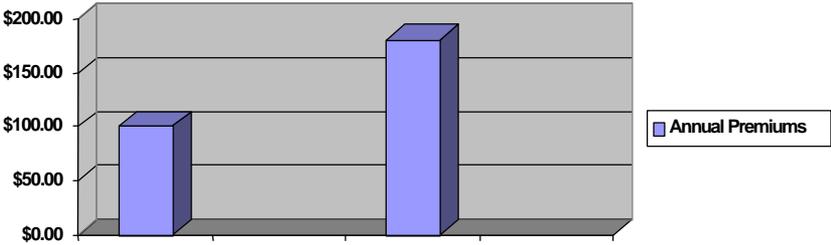
Higher limits of liability coverage are often a good purchase.

For example, bodily injury liability limits of \$50,000 per person and \$100,000 per accident do not cost twice as much as limits half as high, \$25,000 per person and \$50,000 per accident. This is because there tends to be more accidents leading to claim payments at lower limits. For every accident leading to a claim payment of \$100,000 there are many more that lead to claim payments of say \$15,000.

The Declarations Page of your automobile insurance policy shows important policy information, such as the vehicles insured, the limits and types of coverage purchased and the policy number. The Declarations Page personalizes the policy to describe the coverages that you have purchased.

Let's look at a rating example that shows how relatively inexpensive higher limits of bodily injury coverage are as compared to the minimum limits required by law.

### Bodily Injury Coverage - Typical Example



**Minimum  
Limits  
15,000 per  
person  
30,000 per  
accident**

**Higher  
Limits  
50,000 per  
person  
100,000  
per  
accident**

In this typical example for Actual Insurance Company, you can see that minimum limits Bodily Injury Liability coverage costs about \$100 per year. Limits about three-times as high cost less than twice as much or about \$180. Remember, this coverage is to protect you in case you are sued as the result of an auto accident.

Higher limits of Bodily Injury Liability coverage are usually a good purchase.

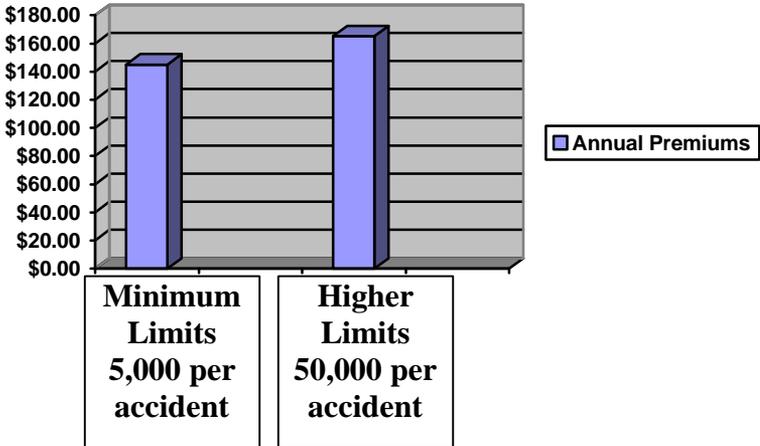
Bodily Injury Liability coverage also provides **supplementary payments** such as up to \$250 for the cost of bail bonds required because of an accident, including related traffic law violations or up to \$200 a day for loss of earnings because of attendance at hearings or trials at the insurer's request.

**Property Damage** coverage will reimburse other people if you are legally liable for damage to other's belongings as a result of an auto accident.

Let's change the above example. You're coming to a stop sign, see the car in front of you and swerve to avoid the car. Unfortunately, you run up on someone's lawn, damaging a tree. Property Damage Liability coverage will pay for repair to the person's lawn and tree. Coverage is provided up to the amount you purchased as specified in the declarations page of your policy. Again defense costs are not included within this limit.

Let's change the example again and say you ran into a store front, breaking a big glass window and some merchandise that was on display. If you purchased only the minimum limits required by law, \$5,000 per accident, you may not have enough coverage to protect your assets if the damage amounted to \$50,000. Again higher limits of coverage are available for a relatively low cost. Let's look at another rating example:

**Property Damage Liability Coverage - Typical Example**



In this typical example for Actual Insurance Company, you can see that minimum limits Property Damage Liability coverage costs about \$145 per year. Limits ten–times as high cost only about \$20 more or about \$165. Remember this is to protect you in case you are sued as the result of an auto accident.

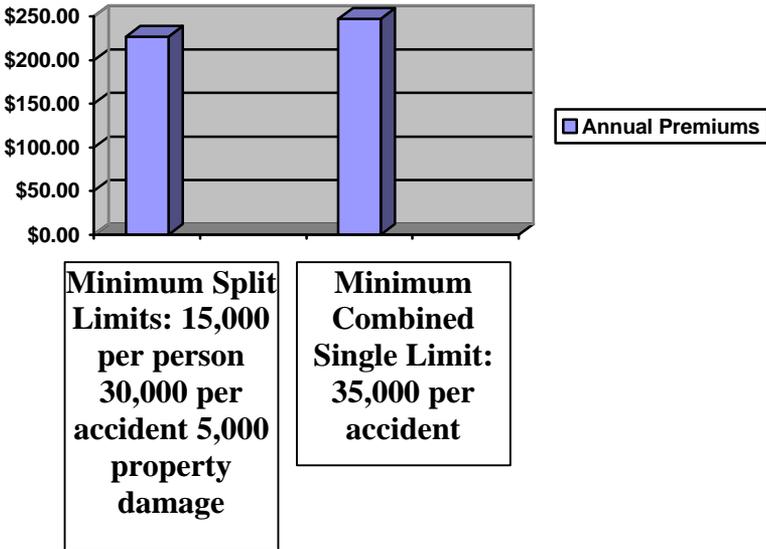
Higher limits of Property Damage Liability coverage are usually a good purchase.

Some companies offer what is referred to as a **Combined Single Limit** policy. Instead of **Split Limits** of Bodily Injury and Property Damage limits of \$15,000 per person, \$30,000 per accident and \$5,000 property damage, the minimum Combined Single Limit required by law is \$35,000.

Take the same accident we described above, but instead there is now a passenger in the vehicle in addition to the driver. The driver sustains \$20,000 worth of injuries; the passenger sustains \$10,000 worth of injuries. There is \$5,000 worth of property damage. A combined single limit policy with a limit of \$35,000 would cover the entire claim. A minimum split limit policy would leave \$5,000 of the driver’s injuries uncovered because the cost to compensate him for his injuries exceeds the \$15,000 per person limit on the policy.

A Combined Single Limit refers to one limit of liability that covers both Bodily Injury and Property Damage Liability. A Combined Single Limit Policy generally provides more coverage than a Split Limit Policy and therefore is priced a little bit higher.

## Combined Single Limit Liability Coverage – Typical Example



Here is a rating example from a typical insurance company. This insurer sells both Split Limit policies and Combined Single Limit policies. As you can see, the combined single limit policy, which provides more coverage costs a few dollars more, roughly \$250 instead of \$230.

Some insurers offer only a Combined Single Limit policy, some insurers offer only a Split Limit policy, a few insurers offer both. As a consumer, you have to shop around for the coverage that is best for you and decide if it is worth the extra cost.

Whether you purchase Split Limit Liability coverage or Combined Single Limit coverage, you must also choose what governs your right to sue if you are involved in an auto accident.

Under the **Limitation on Lawsuit Option** (also known as “**Verbal Threshold**”), you agree not to sue the person who caused an accident for your pain and suffering unless you sustain one of the injuries that appears on this list:

*death;*

*dismemberment;*

*significant disfigurement or significant scarring;*

*a displaced fracture;*

*loss of a fetus;*

*or permanent injury within a reasonable degree of medical probability other than scarring or disfigurement. Any injury shall be considered permanent when the body part or organ, or both, has not healed to function normally and will not heal to function normally with further medical treatment.*

Sounds real legal doesn't it? Sorry, but there's no way around it. Oftentimes, it will be up to a court of law to decide whether injuries that you may have sustained in an auto accident “pierce” the verbal threshold and allow you to sue for pain and suffering.

Under the **No Limitation on Lawsuit Option** (also known as “**Zero Threshold**”), you can sue the person at fault in an accident for pain and suffering for any injury, no matter how minor.

Let's turn our little claim example around and say it was the other driver that hit you while stopped at a stop sign. It was clearly his fault. If you choose the "limitation on lawsuit option" you cannot sue him for pain and suffering unless you have sustained one or more of the injuries listed above. Let's say you have a minor sprain of your wrist. Courts would probably rule that you can not sue the other driver for pain and suffering, but you can sue for other economic damages. For example, if you lost wages because you're a tennis pro and can't work until your wrist heals.

However, if you chose the "no limitation on lawsuit option" you can sue for pain and suffering for the injury no matter how minor. It's then up to the courts to determine the amount of damages to award. You enjoy playing tennis as a leisure activity and think that you deserve compensation for not being able to play your favorite sport. You decide to sue for pain and suffering.

Unlike higher liability limits, the choice for the unlimited right to sue can come with a pretty steep price tag.
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In the rating examples that we examined, the premium charges for unlimited right to sue were anywhere from **\$300 to \$500 higher** on an annual basis with all other coverages being the same!

Let's state this another way. You can save up to \$500 per year by switching from an unlimited right to sue for pain and suffering, to a limited right to sue. Keep in mind, that with either option you can sue for medical costs and lost wages. The limitation option governs only your ability to sue for pain and suffering. Is it worth the money? This is something you must decide.