



Insurance

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- [Background](#)
- [Liability Insurance](#)
- [Collision and Comprehensive Coverage](#)
- [Uninsured/Underinsured Motorist Coverage](#)
- [No Fault Insurance](#)
- [State-By-State Insurance Requirements](#)
- [Additional Resources](#)
- [Organizations](#)

Background

For anyone who has ever owned a car, auto insurance is something almost impossible to do without. Forty-six states and the District of Columbia now require automobile owners to carry some form of automobile insurance, and even if you are residents of one of the few states that does not require some sort of insurance policy on your car, it's a good idea probably if you to have insurance anyway.

Why? Because accidents do happen, they can be expensive, and auto insurance is often the only way for car owners to protect themselves from damages, liability, and possible a hefty court [SETTLEMENT](#). As with anything else so ubiquitous, there are different types of auto insurance designed to suit different types of drivers and cars. Auto insurance requirements vary from state-to-state, with some states requiring more coverage than others. Some states also have [NO FAULT](#) laws in place, which require insurers to pay for certain accidents no matter who is at fault. Whatever the case, it is good to know some of the basics of auto insurance before deciding on buying a specific policy for your car.

Liability Insurance

Liability insurance is the most basic form of insurance. It pays if the insured is at fault in an accident. Generally speaking, it covers medical injuries and property damage to the other driver. It can also cover for pain and suffering and legal bills of the other driver as well. Owners are required to carry liability insurance in the vast majority of states. It is also required for rental cars and for drivers of third-party owned vehicles.

What Is Covered?

Liability insurance usually covers the named insured on the policy, the named insured's spouse and children, any blood relative of theirs by marriage, or [ADOPTION](#), including foster children, and anyone driving the car with the insured's permission. It covers named vehicles in the policy, as well as added vehicles that the named insured replaces the original named vehicle with in the policy. Most of the time (though not always), it also covers non-named vehicles if the named insured was driving, and any additional non-named vehicle the named insured acquires during the policy period, providing the named insured informs the insurance company during a specified period.

Temporary vehicles that substitute for an insured vehicle that is out of service because of repairs or because it has been totaled are usually covered as well, though again, this is not always the case and an insured individuals should check their policies to determine the exact limits of their coverage.

Drivers who use a named vehicle without the named insured's permission are not covered by a liability policy, although the vehicle itself may be. Also rental cars that are not being used to replace a named vehicle being repaired may not be covered unless the named insured pays a special premium.

Liability Limits

In the 47 states and the District of Columbia that require liability insurance, a minimum amount of coverage is also required. Even the states that do not require liability insurance insist that when liability insurance is purchased in the state, it needs to meet a minimum requirement.

These minimum requirements are usually represented by a series of three numbers. The first number represents the amount of money (in thousands) an insurance company is required to pay for bodily injury for one person injured in an accident. The second number represents the amount an insurance company is required to pay in total for all the injuries in an accident. The final number represents the amount the insurance company must pay for property damage in an accident.

For example, the liability requirements of the state of Alabama are usually represented as 20/40/10. Thus, insured drivers in Alabama are required to carry a minimum of \$20,000 of medical coverage for a single person injured in an accident, \$40,000 of medical coverage for all people injured in an accident, and \$10,000 of coverage for property damage.

Insurance companies are not allowed to sell policies that are under the liability limits. In Alabama, a motorist could not buy \$10,000 worth of coverage for a single person injured in an accident or \$5,000 of coverage for property damage. Insurance policies must at least meet the minimum requirements, although they can offer more coverage than the requirements. States that do not mandate liability insurance also have liability minimums—insurers cannot sell policies in those states below the minimums.

Not all states require medical liability insurance to be carried by drivers: - in Florida and New Jersey, only property damage liability is mandatory. California also allows lower minimums for eligible low-income drivers in the California Automobile Assigned Risk Plan. In New York, drivers are required to carry a higher amount of liability insurance designed to cover injury from the accident which results in death.

States have different laws as to when proof of insurance must be presented. Some states oblige such proof to be offered when a car is registered, others ask for such proof only when drivers are charged with a traffic violation or have an accident on their records.

Collision and Comprehensive Coverage

Besides liability, drivers can get other coverage from auto insurance. Collision coverage insures drivers for the damage done to their own cars by an accident that was their fault. Collision insurance is the most expensive auto insurance coverage, and may come with a high [DEDUCTIBLE](#).

Comprehensive coverage pays for damage to a driver's car that was caused by events other than a car accident. Weather damage, theft damage, and fire damage are just some of the events covered by comprehensive. Many policies even cover damages from hitting a deer. Comprehensive coverage is not as expensive as collision, but

it is still more expensive than liability and usually comes with a deductible.

Determining Value of Car

With both collision and comprehensive, insurers will usually only cover the **ACTUAL CASH VALUE (ACV)** of the cost of the car. ACV is determined by taking the replacement cost of the vehicle—what it would cost to repair damage to the vehicle without deducting for depreciation—and subtracting the **DEPRECIATION**. So, if a car is bought for \$10,000, and is 10 years old, the ACV of the car would be substantially less than \$10,000.

Drivers willing to pay a higher premium can get insurance policies that will cover the replacement costs of the car. Depending on the age and condition of the vehicle, these kinds of policies may be worth it, although they are usually not recommended for older vehicles.

Uninsured/Underinsured Motorist Coverage

Uninsured motorist (UM) coverage provides coverage for the insured who is hit by a motorist who is uninsured or by a hit-and-run driver who remains unidentified. Since the injured party cannot get money for their injuries from the driver of the liable vehicle, uninsured motorist coverage picks up the bill. UM coverage is required in many states as part of a driver's liability coverage.

UM coverage pays for the driver or a relative who lives with the driver, or anyone else driving a named vehicle with a driver's permission, or anyone else riding with the driver in the named vehicle. UM coverage also covers the insured if they are passengers in someone else's car, although the passenger's UM insurance will not contribute until the driver's UM insurance is exhausted. For a hit-and-run, a driver is usually required to notify the police within 24-hours of the accident to receive the benefits of UM coverage.

Underinsured motorist (UIM) coverage operates in a similar fashion. With UIM coverage, the liability policy of the driver at fault is not enough to cover the injuries of the other driver or passengers. UIM coverage pays out the difference for the non-liable driver.

Generally speaking, UM or UIM coverage pays for only medical injury to the driver and passengers of the hit car. For a higher premium, it can cover property damage to the automobile as well. UM and UIM coverage is reduced by amounts the driver receives from other insurance coverage such as personal medical insurance or worker's compensation.

No Fault Insurance

Since 1970, many states have passed a no-fault insurance law. This law requires drivers to buy insurance that covers their injuries in an auto accident no matter who is at fault. No-fault laws, which were first enacted in Canada in the 1940s and 1950s, are an attempt to rein in **LITIGATION** by making the determination of fault irrelevant, thus allowing drivers to get reimbursed for their injuries faster and without court cost and delay.

Most no-fault insurance provides for very limited coverage—only providing for medical bills and lost income, and sometimes vehicle damage, though that is often paid outside no-fault by utilizing liability insurance. No fault does not pay for medical bills higher than the insured **PERSONAL INJURY** Protection (PIP) limits. If medical bills are higher, the insured must file a liability claim against the driver at fault. Some states put no restriction on an injured party's right to sue under no-fault; other states require the injured party to reach a certain threshold of injury, either monetary or physical, before the party can sue the other driver.

Encyclopedia of Everyday Law: Insurance

In addition, no-fault puts restriction on suing for pain-and-suffering damages. All states that have no-fault allow recovery for pain and suffering in the event of death; however, pain and suffering lawsuits may not be allowed for other injuries. Examples of injuries which no-fault states allow no or only limited recovery for pain and suffering include dismemberment, loss of bodily function, serious disfigurement, permanent injury or [DISABILITY](#), serious fracture and temporary disability or loss of earning capacity.

Two states, Pennsylvania and New Jersey, allow policy holders to determine if their no-fault insurance gives them the right to sue for pain and suffering expenses. If the drivers are willing to pay a higher premium, they have an expanded right to sue for pain and suffering.

State-By-State Insurance Requirements

The following is a list of state insurance liability requirements as of 2001, showing also whether the state is a no-fault state and whether uninsured motorist coverage is required. All liability minimums are in thousands of dollars, and the numbers are listed in the following order: coverage for injury per person, coverage for total injury, and coverage for property damage.

ALABAMA: Liability insurance required; liability minimums 20/40/10

ALASKA: Liability insurance required; liability minimums 50/100/25

ARIZONA: Liability insurance required; liability minimums 15/30/10

ARKANSAS: Liability insurance required; liability minimums 25/50/25

CALIFORNIA: Liability insurance required; liability minimums 15/30/5

COLORADO: Liability insurance required; liability minimums 25/50/15, no-fault state

CONNECTICUT: Liability insurance required; liability minimums 20/40/10

DELAWARE: Liability insurance required; liability minimums 15/30/5

DISTRICT OF COLUMBIA: Liability insurance required; liability minimums 25/50/10, uninsured motorist coverage required

FLORIDA: Liability insurance required for property damage only; liability minimums 10/20/10, no fault state

GEORGIA: Liability insurance required; liability minimums 25/50/25

HAWAII: Liability insurance required; liability minimums 20/40/10, no fault state

IDAHO: Liability insurance required; liability minimums 25/50/15

ILLINOIS: Liability insurance required; liability minimums 20/40/15, uninsured motorist coverage required

INDIANA: Liability insurance required; liability minimums 25/50/10

IOWA: Liability insurance required; liability minimums 20/40/15

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KANSAS: Liability insurance required; liability minimums 25/50/10, no fault state, uninsured motorist coverage required

KENTUCKY: Liability insurance required; liability minimums 25/50/10, no fault state

LOUISIANA: Liability insurance required; liability minimums 10/20/10

MAINE: Liability insurance required; liability minimums 50/100/25, uninsured motorist coverage required

MARYLAND: Liability insurance required; liability minimums 20/40/15, uninsured motorist coverage required

MASSACHUSETTS: Liability insurance required; liability minimums 20/40/5, no fault state, uninsured motorist coverage required

MICHIGAN: Liability insurance required; liability minimums 20/40/10, no fault state

MINNESOTA: Liability insurance required; liability minimums 30/60/10, no fault state, uninsured motorist coverage required

MISSISSIPPI: Liability insurance required; liability minimums 10/20/5

MISSOURI: Liability insurance required; liability minimums 25/50/10, uninsured motorist coverage required

MONTANA: Liability insurance required; liability minimums 25/50/10

NEBRASKA: Liability insurance required; liability minimums 25/50/10

NEVADA: Liability insurance required; liability minimums 15/30/10

NEW HAMPSHIRE: Liability insurance not required; liability minimums 25/50/25, uninsured motorist coverage required

NEW JERSEY: Liability insurance required; drivers may choose standard or basic policy. For basic policy, minimums are 10/10/5 and only property damage is mandatory. For standard policy, minimums are 15/30/5 and all liability is mandatory. No fault state, uninsured motorist coverage required

NEW MEXICO: Liability insurance required; liability minimums 25/50/10

NEW YORK: Liability insurance required; liability minimums 25/50/10, liability must rise to 50/100/10 if injury results in death. No fault state, uninsured motorist coverage required

NORTH CAROLINA: Liability insurance required; liability minimums 30/60/25

NORTH DAKOTA: Liability insurance required; liability minimums 25/50/25, no fault state, uninsured motorist coverage required

OHIO: Liability insurance required; liability minimums 12.5/25/7.5

OKLAHOMA: Liability insurance required; liability minimums 10/20/10

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OREGON: Liability insurance required; liability minimums 25/50/10, uninsured motorist coverage required

PENNSYLVANIA: Liability insurance required; liability minimums 15/30/5, no fault state

RHODE ISLAND: Liability insurance required; liability minimums 25/50/25, uninsured motorist coverage required

SOUTH CAROLINA: Liability insurance required; liability minimums 15/30/10, uninsured motorist coverage required

SOUTH DAKOTA: Liability insurance required; liability minimums 25/50/25, uninsured motorist coverage required

TENNESSEE: Liability insurance not required; liability minimums 25/50/10

TEXAS: Liability insurance required; liability minimums 20/40/15

UTAH: Liability insurance required; liability minimums 25/50/10, no fault state

VERMONT: Liability insurance required; liability minimums 25/50/10, uninsured motorist coverage required

VIRGINIA: Liability insurance required; liability minimums 25/50/20, uninsured motorist coverage required

WASHINGTON: Liability insurance required; liability minimums 25/50/10, uninsured motorist coverage required

WEST VIRGINIA: Liability insurance required; liability minimums 20/40/10, uninsured motorist coverage required

WISCONSIN: Liability insurance not required; liability minimums 25/50/10, uninsured motorist coverage required

WYOMING: Liability insurance required; liability minimums 25/50/20

Additional Resources

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Organizations

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