



Auto Insurance: What Does Your Policy Actually Cover?

Almost everyone who drives understands that automobile insurance is necessary. Far fewer people can explain exactly what all those lines on the policy declaration page mean.

The easiest approach is to divide auto insurance into two broad categories: coverage protecting you against liability to other people and coverage protecting your own automobile.

Liability Insurance Protects You Against Claims

If you cause an accident, **bodily-injury liability** can pay covered expenses associated with injuries to other people, up to the policy limits.

Property-damage liability can pay for covered damage you cause to someone else's automobile or other property.

States establish their own minimum insurance requirements. But a legal minimum isn't necessarily the amount of protection appropriate for a person's financial circumstances.

A serious accident can cost considerably more than a minimum policy limit.

Collision Protects Your Car in a Crash

Collision coverage generally pays for covered damage to your vehicle when it collides with another vehicle or object.

If you back into a pole, slide into a guardrail or collide with another automobile, collision is the portion of the policy you would normally look to for covered damage to your own vehicle.

Collision generally carries a deductible.

Comprehensive Covers More Than Collisions

Despite its name, "comprehensive" does not mean that absolutely everything is covered.

It generally covers specified damage to your automobile from causes other than a collision—such as theft, fire, hail, falling objects or certain weather-related events. Comprehensive coverage also commonly carries a deductible.

If a hailstorm dents your car, think comprehensive. If you run the car into the garage door, think collision.

What Exactly Is a Deductible?

Suppose repairing covered collision damage to your automobile costs \$4,000 and your collision deductible is \$500.

You pay the first \$500. Subject to the policy terms, the insurance company pays the remaining \$3,500.

If you had selected a \$1,000 deductible instead, you would absorb \$1,000 and the insurer would pay \$3,000.

Higher deductibles generally reduce premiums because you assume more of the risk yourself. The important question is whether you could comfortably pay that deductible tomorrow if an accident occurred.

What If the Other Driver Has No Insurance?

Uninsured and underinsured motorist coverage can provide protection when an at-fault driver has no insurance or insufficient coverage. The details and requirements vary by state.

Other available auto coverages can include medical payments, personal injury protection, towing and roadside assistance, rental-car reimbursement and gap coverage.

Don't automatically purchase every optional coverage. For example, you might already have roadside assistance through an automobile club or another service. Duplicate protection simply means paying twice for essentially the same benefit.

Review an Aging Car Differently

Collision and comprehensive coverage may deserve reevaluation as a vehicle ages and loses value.

If an automobile is worth relatively little, compare the annual cost of physical-damage coverage and the deductible with what the insurer could realistically pay after a total loss.

Liability insurance is another matter. An old automobile can cause just as much injury to somebody else as a new one.

Your car may depreciate. Your potential liability doesn't.