

How Much Auto Insurance Do You Need?

ONE TRIED AND true way to reduce your [auto insurance premium](#) is to hike the deductible on your collision coverage and skimp on your liability coverage. Sometimes this can make sense, but often it's not worth the extra risk. In this section we'll explain several of the coverages you're likely to be offered as you shop for insurance (some are mandatory). Then we'll help you figure out how much to carry of each type.

Bodily Injury Liability

This coverage, which is required in most states, compensates the driver of the other car and its passengers in the event you get into an accident. It also covers the passengers in your car. The main consideration here is protecting your assets against lawsuits that arise from auto accidents. "But I'm a careful driver," you say. It doesn't matter. You can get sued even if the accident is not your fault.

Bodily injury liability is sold in standard increments that designate both how much coverage you have *per person* in an accident, with an additional limit *per accident*. For example, if you buy bodily injury worth \$100,000/\$300,000, each of the people you injured could be compensated \$100,000, but only up to \$300,000 per accident.

How much coverage you need is a function of what assets you have to protect. If you make \$30,000 a year and rent your apartment, \$50,000/\$100,000 should suffice. But if you make more than \$75,000 a year, own a house worth \$150,000 and have \$40,000 in [mutual funds](#), you should consider at least \$100,000/\$300,000 of coverage. Our [Net Worth Calculator](#) can help you estimate just how much coverage you should get.

How much you'll pay to increase your bodily injury [liability coverage](#) depends on several factors, including your age, marital status and driving record. It also depends on where you live. For example, in rural Cortland County, New York, a 35-year old married male would pay an average of \$87 annually to boost his coverage from \$25,000/\$50,000 to \$100,000/\$300,000, according to the New York State Department of Insurance. In Manhattan, however, where the frequency of bodily injury is much higher, that same man would have to shell out an average of \$251 more a year.

One more option: If you have substantial assets, buy \$300,000 in bodily injury on your [auto policy](#) and \$300,000 on the liability portion of your homeowners policy. Then spend another \$150 to \$300 for a \$1 million umbrella policy, which covers you against all manner of liability claims. Should you want still more coverage, the cost for an additional \$1 million in coverage is minimal: It's typically \$75 to increase your coverage to \$2 million, and then \$50 for each million after that, according to the Insurance Information Institute.

Property Damage Liability

This coverage will pay for the repair and replacement of the other guy's car or property in the event of an accident. State-required minimums are as low as \$5,000, but if you total somebody's Lexus, that won't begin to cover the damage.

You're better off with a minimum of \$50,000 for each vehicle you own. And to be truly safe, you should have a total of \$100,000 coverage.

Personal Injury Protection

This is definitely one coverage you can skip on. PIP coverage pays for the medical and funeral costs associated with an accident for you and your family — regardless of whose fault it was. But if you already have separate health, life and disability policies, you can probably forgo this one altogether. Check those policies first, but chances are those sort of expenses are already covered.

Uninsured or Underinsured Motorist

This coverage pays for medical and funeral costs for you and your family in the event you get in an accident with either a hit-and-run driver or a driver who doesn't have enough auto insurance. These policies usually cover bike and pedestrian accidents, too. Given the prevalence of uninsured drivers nationally, this coverage is essential. On average, it costs less than \$40 a year for \$100,000 worth and will make up for anything your medical insurance doesn't cover.

Collision and Comprehensive

Collision reimburses you for the full cost of repairs or replacement of your car after an accident. Comprehensive covers you in the event your car falls victim to a natural disaster, vandalism or theft. With either coverage, the lower the deductible you choose, the more the policy will cost you. We recommend that you always choose the highest deductible you can afford (\$1,000 is fine). After all, the purpose of insurance is to protect you against big losses, not to make you whole to the last dollar. If you have an older car, you might drop this coverage altogether.

Collision and comprehensive — which can account for 30% to 40% of your total premium — are cash-value coverages. That means if your car is damaged, the most you'll recoup is the Kelley Blue Book value, which declines precipitously as your car ages. Here's a good rule of thumb: If the cost of your collision and comprehensive is more than 10% of your car's Blue Book value, it probably makes sense to drop these coverages and save a tidy sum. With most cars, you should approach this limit as the car turns five years old. Understand, however, that if you eliminate the coverages, you'll have to foot the repair bill if you get in an accident that's your fault, or if the car is totalled or stolen.

Extras

While insurance companies will try their hardest to sell you any number of extras to go along with the essentials, most of them aren't worth it. Consider rental-car reimbursement, which pays a paltry \$15 or so a day while your car is in the repair shop after a collision. Not only is the reimbursement small, the odds you'll need it are remote. The chances are at least even that the other guy will be at fault, and his insurance will pay the full cost of this. Another dubious extra is towing coverage. It costs \$25 or more per year on a policy, money you'd be better off putting toward an auto-club membership that would be exponentially more useful. One extra that is worthwhile: Full glass coverage. Auto glass is expensive and an errant stone can ruin a \$500 windshield in the blink of an eye.