

Auto Insurance

Four main types of auto insurance are available: liability, uninsured or underinsured motorist, collision and comprehensive, and personal injury. Most states require drivers to carry certain types of insurance.

Liability

Liability insurance is usually considered a necessity, and many states have a minimum legal requirement for liability coverage. This type of insurance protects against injury claims and property-damage suits brought by other drivers, pedestrians, or property owners if you are at fault in an accident. Your liability policy pays for injuries suffered by others and the costs of damage to other people's property, as well as legal costs, if necessary, up to a dollar limit.

You can choose a policy with an overall limit for all liabilities, or you can select one with separate limits for (1) individuals injured in an accident, (2) all injuries in the same accident, and (3) property damage.

Uninsured or Underinsured Motorist Coverage

A policy with an *uninsured* motorist provision will pay damages if an uninsured motorist or a hit-and-run driver injures you and/or your passenger(s). You cannot buy more coverage against an uninsured driver than you carry yourself in liability. For example, if you carry \$25,000 coverage per person and \$50,000 per accident, you can buy only up to those amounts of coverage against an uninsured driver.

For a nominal additional amount, you can also carry protection against *inadequate* insurance coverage by another driver who injures you or damages your property in an automobile accident. This provision means that your policy will pay for injuries or damage that his or her policy does not.

Collision and Comprehensive Coverage

Collision insurance reimburses you for repair costs resulting from a collision that has been deemed to be your fault. Collision insurance is usually the most expensive part of your policy. Comprehensive coverage is for damage due to fire, storm, vandalism, or theft.

If a lender holds a lien on your car, the lender will probably require you to pay for both collision and comprehensive insurance. To lower the cost of this kind of insurance, you may choose a \$500 to \$1,000 deductible, instead of the usual \$100 to \$250. Although this increases your out-of-pocket expenses in the event of an accident, it may cut the cost of your premiums substantially.

Personal Injury Protection

Residents of states with “no-fault” insurance must buy personal injury protection. Personal injury insurance will pay your medical expenses in the event of an automobile accident, regardless of who was at fault. By purchasing this protection, you agree not to sue for any suffering or injury you may sustain.

Whether or not your state requires certain types of auto insurance, it may be a good idea to purchase multiple types to ensure that you are covered for many possible situations. In the event of a traffic collision, you don't want to be left with bills that you cannot pay.