

Costly Auto Insurance Mandates in Governor's Budget

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Issue Brief

Impact of Governor's Mandates:

- Forces families to pay over 33% more for auto insurance they don't need.
- Mandates regressive costs that would fall most heavily on low- and middle-income families.
- Drives Wisconsin from the 3rd lowest cost auto insurance state to one of the highest cost states.
- Increases the number of uninsured motorists.
- Establishes Wisconsin as the state with the highest mandatory limits in the nation. Only four states even require limits greater than Wisconsin's current limits.
- Wisconsin's current 25/50/10 limits are sufficient to cover over 90% of all claims. This bill forces consumers to purchase thousands of dollars of unneeded coverage.
- Premiums will increase under this bill. Wisconsin "solvency" regulations require insurance companies to charge premiums that reflect risk to maintain the financial stability to pay claims.

Regressive Mandate on Low-and Middle-Income Families:

- Responsible low- and middle-income families paying the current minimum auto insurance levels would see their costs rise 33% to 43%. High income families who already choose higher coverage levels would be less affected but would still see premium increases.
- Families would pay between \$96 and \$309 more for insurance with the largest dollar increase falling on families in the Milwaukee area.
- Rural families, especially in western Wisconsin, would have the highest percentage increase in their premiums.
- Low- and middle-income families bear a disproportionate share of the current economic crisis in terms of plant closings, layoffs and home foreclosures. These regressive cost increases mandated in the Governor's Budget would hit them hardest.

Increases Cost through Unnecessary Mandates:

- Mandates "stacked" insurance policies – This provision mandates that families pay extra to allow coverage limits from vehicles not involved in an accident to be "stacked" on the insurance for the vehicle in an accident.
- Prohibits reducing clauses – What the consumer is buying and the insurance company is selling is a guarantee that the consumer will have the selected amount of money should he/she need it because of an uninsured or underinsured driver. The elimination of the reducing clause will increase the rates charged for uninsured and underinsured motorist coverage.
- Eliminates "hit and run" requirements under current law – This would require uninsured motorist coverage for "phantom" (unidentified) vehicles. The provision will lead to an increase in insurance fraud resulting in higher rates.
- Prohibits "drive-other-car" provisions – This provision not only allows, but encourages families to reject insurance on all but one of the family vehicles.

Major Auto Insurance Provisions in Governor's Budget

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Mandate Families Buy More Auto Insurance – Wisconsin families are already struggling to make ends meet. The Governor's Budget would force these families to purchase unnecessary levels of insurance. Minimum levels of insurance would rise from 25/50/10 (\$25,000 each person, \$50,000 each accident, \$10,000 property damage each accident) to 100/300/25 – an increase of 300 percent! Underinsured motorist coverage would also be mandated and medical payment coverage increased ten-fold.

Because most consumers with the minimum level of insurance are those least able to pay higher premiums, the highest increases fall on the poor and unemployed.

- **The Cost** – The mandated increased limit by itself would increase insurance premiums for most families with minimum insurance levels by \$145-180 with some paying as much as \$269 more. The impact would be greatest on low-income families in the Milwaukee area.
- **The "Need"** – According to the Insurance Research Council, 96 percent of all bodily injury claims are \$15,300 or less. This is well below Wisconsin's current minimum of \$25,000. The average property damage claim in Wisconsin is \$2,500, well below the current minimum coverage of \$10,000.
- **The Nation** – Wisconsin's current mandatory minimum coverage is higher than minimums in all but four states. No state requires as much insurance coverage (100/300/25) as this bill mandates. Furthermore, the vast majority of states do not mandate underinsured motorist coverage.

Mandate Families Pay for "Stacked" Insurance Policies – Wisconsin law currently encourages separate insurance coverage for each vehicle. Families choose the level of coverage they want and can afford on each vehicle they own. This bill mandates that coverage limits from family vehicles not involved in an accident be "stacked" on the coverage limit for the vehicle in an accident. It effectively doubles/triples/quadruples (depending on the number of vehicles in the family) the coverage on each of the vehicles, again forcing families to pay for more coverage they may not need, want or can afford to purchase.

- **The Cost** – According to a nationwide comparison of stacking and non-stacking states, this provision would increase uninsured and underinsured motorist costs alone by over 38 percent. The resulting rate increase would hit families and small businesses hardest. A single person with one vehicle would not be affected. If you add a minivan for the family or add a second vehicle to grow your business, you automatically have more coverage whether you want it or not and you must pay more whether you can afford it or not.
- **The "Need"** – Wisconsin consumers currently can buy the insurance coverages and limits they need and can afford for each vehicle they own. This provision raises expenses when families can least afford it by mandating unnecessary coverage levels for families who own more than one vehicle.
- **The Nation** – No state mandates the coverage levels in this bill on one vehicle, much less multiplying that impact with each family vehicle. This bill denies consumers their right to choose the levels of coverage they need for each vehicle and it imposes on them the cost of these multiple and unnecessary limits.

Expand "Underinsured Motor Vehicle" Definition – The current definition of "underinsured motor vehicle" (UIM) used in most auto insurance policies compares the at-fault driver's liability coverage limit to the insured's underinsured motorist coverage limit. This comparison makes sense because the purpose of underinsured motorist coverage is to give the insured peace of mind that he/she will always be covered up to the amount he/she chooses. If the at-fault driver's liability coverage is lower than the insured's underinsured motorist coverage limit, then the at-fault driver is underinsured and the insured's underinsured motorist coverage is triggered. Mandating that the underinsured motor vehicle definition compare liability limits to the insured's damages would vastly increase the number of underinsured motorist claims, create an atmosphere of perpetual litigation in the determination of damages, and increase rates.

- **The Cost** – Increased number of claims and claim costs through litigation would cause increased premiums for families.
- **The “Need”** – Families currently can choose their underinsured motorist limits. If they want and can afford to have higher limits, they can purchase higher limits. Under this bill, they would lose the choice to control their own insurance protection and the cost of that protection.
- **The Nation** – States that use the “damages” definition have substantially higher rates of underinsured motorist. Combined with the other provisions of the bill, this would increase mandated insurance levels beyond those of any other state.

Other Provisions of the Bill – In addition to the above, this bill contains a laundry list of provisions that reduce choice and increase cost to families:

- **Prohibits Reducing Clauses** – When consumers purchase underinsured motorist coverage, they select an amount of coverage they think will be sufficient to cover them in an accident if the other driver does not have enough insurance. What the consumer is buying and the insurance company is selling is a guarantee that the consumer will have the selected amount of money should the consumer need it. The amount of underinsured motorist coverage purchased is therefore “reduced” by the amount of coverage the “at fault” driver has on his or her car. The current underinsured motorist provisions not only provide consumer choice but are cost effective as well. Prohibiting the use of reducing clauses will increase the rates charged for underinsured motorist coverage. And, under this bill, Wisconsin consumers will have no choice but to purchase underinsured motorist coverage at the increased rates because the law will mandate its purchase – in effect, a “double whammy” on consumers just at a time when it will be the hardest to pay.
- **Eliminates the “hit and run” requirements in current law** – This would require uninsured motorist coverage for “phantom” (unidentified) vehicles, encouraging fraud and raising rates. The Wisconsin Supreme court has recognized the underlying policy of current law to prevent fraudulent claims from being brought by insured drivers who are involved in an accident of their own making. The provision will lead to an increase in insurance fraud and result in higher rates.
- **Mandates written rejection of uninsured or underinsured motorist coverage in umbrella policies** – This provision adds unnecessary, costly paperwork between the company and the policyholder. In addition, it overturns a compromise between regulators, insurers and trial lawyers that resulted in a rule that is less than one year old.
- **Prohibits “drive-other-car” provisions** – This provision encourages uninsured motor vehicles because it not only allows, but encourages families to reject insurance on all but one of the family vehicles.
 - **The Cost** – The state of Wisconsin has solvency requirements to ensure insurance companies charge enough in premiums to allow payment of potential claims. This consumer protection requires higher premiums for higher limits and increased risk. Each mandate above would increase the cost of insurance for Wisconsin families because they raise either the limits of insurance or the risk that insurers must assume. Rather than encouraging the purchase of insurance on every motor vehicle, the effect is to make insurance prohibitive for many.
 - **The “Need”** – Wisconsin insurers are in the business of selling insurance. Wisconsin families have hundreds of insurance options to choose from that meet or exceed the coverage mandated in this bill. Those who have the means and wish higher protection can purchase it. Those who want to be protected but can afford only Wisconsin’s current minimums will still have insurance that will cover 96% of all accidents. The provisions in the Governor’s Budget eliminate the ability of families to budget the level of insurance they choose.
 - **The Nation** – Wisconsin’s insurance burden is the 3rd lowest in the nation, yet our current insurance requirements equal or exceed many other states’ requirements. Wisconsin’s low rates keep our uninsured motorist population in line with other states. Each mandate raises the cost and increases the likelihood of uninsured drivers.