



## Wisconsin Insurance Alliance

### **Act 28: Impact of State Budget Mandates on Consumers in Wisconsin**

- Forces 1 in 5 Wisconsin 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. (Tied with Alaska and Maine for BI/Highest in Nation for UM/UIM).
- Wisconsin's previous 25/50/10 limits were sufficient to cover over 90% of all claims.
- Premiums are on the increase. 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 previous minimum auto insurance levels are seeing their costs rise 33% to 43%. High income families who previously chose higher coverage levels are less affected but are still seeing premium increases.
- Families are paying 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, 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 Act 28 hit them hardest.

### **Increases Cost through Unnecessary Mandates:**

- Mandates "stacked" insurance policies – This provision mandates that families pay extra to allow coverage limits for up to three 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.

## **Major Auto Insurance Provisions in State Budget**

**Mandate Families Buy More Auto Insurance** - Wisconsin families are already struggling to make ends meet. Act 28 forces these families to purchase unnecessary levels of insurance. Minimum levels of insurance rose from 25/50/10 (\$25,000 each person, \$50,000 each accident, \$10,000 property damage each accident) to 50/100/15. 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 many families with minimum insurance levels with some paying hundreds of dollars more. The impact is 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 previous minimum of \$25,000. The average property damage claim in Wisconsin is \$2,500, well below the previous minimum coverage of \$10,000.
- **The Nation** - Wisconsin’s previous mandatory minimum coverage is higher than minimums in all but four states.

**Mandate Families to Pay for “Stacked” Insurance Policies** - Wisconsin law previously encouraged separate insurance coverage for each vehicle. Families chose the level of coverage they wanted and could afford on each vehicle they own. Act 28 mandates that coverage limits from family vehicles not involved in an accident be “stacked” for up to three vehicles on the coverage limit for the vehicle in an accident. It effectively doubles or triples 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 will 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 previously could buy the insurance coverages and limits they needed and could 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** - This new law 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 previous definition of “underinsured motor vehicle” (UIM) used in most auto insurance policies compared 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 vastly increases the number of underinsured motorist claims, creating an atmosphere of perpetual litigation in the determination of damages, and increased rates.

- **The Cost** - Increased number of claims and claim costs through litigation causes increased premiums for families.
- **The “Need”** - Families previously could have chosen their underinsured motorist limits. If they wanted and could afford to have higher limits, they could have purchased higher limits. Under Act 28, they 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 costs for underinsured motorist. Combined with the other provisions of the Act, this increases mandated insurance levels beyond those of any other state.

**Other Provisions of Act 28** - In addition to the above, Act 28 contains a laundry list of provisions that reduce choice and increases costs 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 previous 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 Act 28, 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.
- **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.



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Old	New	Effective Date
Uninsured Motorist Minimum Limits: 25/50*	Uninsured Motorist Minimum Limits: 100/300*	Nov. 1 <sup>st</sup> 2009
Underinsured Motorist Minimum Limits: 50/100* May decline coverage	Underinsured Motorist Minimum Limits: 100/300* Mandatory	Nov. 1 <sup>st</sup> 2009
Medical Payments Minimum Limit \$1000 May decline coverage	Medical Payments Minimum Limit: \$10,000 May decline coverage	Nov. 1 <sup>st</sup> 2009
Liability Coverage Minimum Limits 25/20/10*	Liability Coverage Minimum Limits: 50/100/15*	Jan. 1 <sup>st</sup> 2010
Financial Responsibility Law with penalties for failure to have auto insurance after causing an accident	Auto insurance is mandatory and failure to comply subject to penalty regardless of whether or not an accident has occurred	June 1 <sup>st</sup> 2010

\*Each number represents a dollar amount in thousands, i.e., \$25,000/\$50,000/\$10,000. First amount is maximum paid to anyone injured person, second amount is maximum paid to all injured persons in a single accident, third number is maximum paid for damage to property.