

## October 16, 2023 – Wealth Planning Commentary

### Auto Insurance Rates are Up!

According to Forbes, auto insurance rates increased by about 18% in the US between 2022 and 2023. Certain states, like Nevada and New Jersey, are seeing rate hikes that are more substantial, ranging from 34% to 38%. To make matters worse, further rate increases are expected soon.

The recent surge in auto insurance rates is attributable to many factors. Inflation has led to higher expenses for maintenance, labor, and parts. Medical costs that are linked to accidents that must be reimbursed by insurance companies have risen. Incidents of auto theft have increased, and a greater number of cars are declared total losses by insurance providers. Additionally, the growing volume of vehicles on the roads has inevitably led to an increase in traffic violations and accidents. Lastly, insurance companies are grappling with greater losses caused by natural disasters like floods and fires.

Ironically, higher auto rates may be compounding the issue. An increasing number of people are opting to forgo coverage, even in states where auto insurance is legally required. This has led to a growth in the number of uninsured drivers on the road, resulting in a higher frequency of hit-and-run incidents. Consequently, individuals with insurance coverage must file claims under their uninsured/underinsured motorist portion of their policies. This coverage is used when the 'at fault' driver does not have insurance or is underinsured and can save the victim from paying out-of-pocket expenses. We strongly recommend reviewing your policies to confirm that you are covered for uninsured/underinsured motorist coverage.

The impact of rising auto insurance rates is substantial. There is a noticeable increase in car owners' self-insuring. The number of individuals seeking full-coverage policies has dropped by more than 50%. Families are allocating a larger portion of their income to cover insurance expenses. Household spending on auto insurance now ranges from about 2.5% to 4.5% of gross income.

Fortunately, there are strategies to help counter rising insurance rates. Insurance companies often provide discounts for bundling various policies, such as home, auto, and umbrella coverage. Additionally, maintaining a clean driving record and avoiding unnecessary claims can help drivers mitigate rate increases. Insurance companies tend to reward lower risk drivers that do not have a record of accidents or traffic violations. This is also an opportune moment to compare auto rates with competing providers. Consider exploring potential discounts such as those associated with alumni associations, completion of defensive driving courses, good student discounts and low mileage usage.

Finally, opting for a higher deductible on a full coverage policy can offset the increase in premiums by shifting more of the financial responsibility to you in the event of a claim. This is especially effective for older vehicles where aesthetics may be of less concern. For older cars, it's worth considering the pros and cons of reducing coverage to liability only or liability with comprehensive coverage.

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