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# Car Insurance: Take the High Road

Here are five of the most common blunders to steer around when choosing a policy to insure your wheels

by [Alex Halperin](#)

Recently **Five for the Money** took a look at some of the biggest mistakes consumers make when buying life insurance (see [BusinessWeek.com, 2/1/07, "Life Insurance Blunders to Avoid"](#)). This week we'll tackle car insurance. Auto insurance isn't as fraught a subject as life insurance; buying a sensible policy doesn't need to be a reminder of inevitable death. But that doesn't mean it's easy to negotiate. Having the wrong car insurance, or making the wrong claims, can put a serious ding in someone's financial health.

As with life insurance, some of the rules are straightforward: shop

around to ensure a fair deal and review your policy annually to make sure that it still fits your life and financial condition. Here are a few other common mistakes policyholders should swerve away from:

### **1. Don't assume the insurance salesman is your friend.**

The best insurance policies for consumers aren't necessarily the ones that bring in the best numbers and bonuses for salespeople, says Andrew Tignanelli, president of Luthersville (Md.)-based money management outfit Financial Consulate. Remember that the next time you go shopping for car insurance. Often it's in the salesman's best interest to sell the "least amount of insurance that they can possibly justify." Smaller policies leave insurers less exposed to risk and proportionately tend to be more expensive. As a result, they're more likely to be profitable for the insurer. Because of this conflict of interest and other factors, Tignanelli says he finds that even wealthy clients are often underinsured.

Make sure you have "liability" coverage, which is usually mandatory in most states and covers the costs of another person's car damage and injury. "Comprehensive" will protect you if your car gets stolen, catches fire, or is damaged without coming into contact with another car. And "collision" covers damages if your car collides with another vehicle or object, no matter who's at fault.

### **2. Don't have a tiny deductible.**

When buying auto insurance, consumers frequently think of it as a way to protect themselves against every ding and scratch. That's a bad idea. "You should insure for what you cannot afford to lose," says financial planner Jeffrey Bogue of Bogue Asset Management. That means, don't have a miniscule deductible of \$100 or even \$250. "If you nickel-and-dime the insurance companies with these small claims, you may get socked with a premium hike or they may say 'we're not going to insure you,' " he says.

Policies with higher deductibles (Bogue says \$1,000 is often sensible) that extend to higher coverage levels are not necessarily more expensive and protect drivers from costs associated with more serious car problems. Higher-deductible policies also cost less.

### **3. Don't assume all cars need the same insurance.**

Just as you shouldn't waste insurance on minor incidents, Bogue says some cars just don't need the full insurance package. Drivers always need to maintain their liability insurance in case they cause an accident but some cars just aren't worth the hassle and expense. For example, Bogue's third vehicle is an old Toyota ([TM](#)) pickup that he uses sparingly. He wouldn't miss it if it "fell off a cliff tomorrow." Insuring it with a reasonable deductible would be useless, he says; it would irritate insurers without promising much upside in the event of a claim.

### **4. Don't ignore car ownership.**

This won't necessarily come up when buying insurance, but vehicle ownership can make all the difference in potential payouts. "There's absolutely no good reason to own a car jointly," says Dr. Steven Podnos, principal at Wealth Care, a financial planning and investment advisory firm in Merritt Island, Fla. If a husband and wife share ownership, both are exposed to liability if one causes an accident. Both can be sued.

Parents should be aware of the age of majority (usually 18) in their state. When the kids reach it they should assume title for their cars so that parents can avoid liability for any mishaps caused by drivers who are of age, but still young.

## **5. Don't forget your umbrella.**

Umbrella policies tend to be very cheap and can help drivers (and homeowners) weather the most severe storms. Say there's been a severe car accident that involves significant property damage extending beyond what a solid insurance policy covers. When this happens, policyholders need umbrellas to shelter them from liability extending beyond the limits of their standard policy.

Since these umbrella policies protect against only the worst accidents, they rarely pay out and so can be bought for very little, sometimes \$200 for a policy stretching from where the liability stops to around \$2 million in damages, according to John Discepoli of Discepoli Financial

Planning near Cincinnati. This could be an amount of car insurance coverage that allows most drivers a smooth ride.

*[Halperin](#) is a reporter for [BusinessWeek.com](#) in New York.*

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