Driving Fewer Miles? How to Pay Less in Auto Insurance

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NEW YORK, May 21, 2015 â€”The Consumer Federation of America (CFA) continues to assert mistakenly that low-income drivers pay too much for auto insurance, according to the Insurance Information Institute (I.I.I.)**.**

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In a teleconference held earlier today**,** the CFA stated insurers do not want to sell auto insurance to low income drivers and that low income drivers drive less and are not getting the low mileage discounts they deserve. The CFA also took the industry to task for charging different rates for the same risk.

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â€œNone of these criticisms has any merit. Auto insurers want more businessâ€”as their heavy advertising suggests. They are certainly not looking for ways to sell less insurance. In addition, low mileage discounts are widely advertised, and usage-based insurance policy offerings have grown dramatically in recent years,â€• stated Dr. Robert Hartwig, president of the I.I.I. and an economist. â€œMoreover, the very fact there is an array of rates being offered to the same person is an indicator of a robust, competitive auto insurance marketplace. Competition is good for all drivers, no matter their income, as they can shop around for an insurer who will sell them a policy that meets their specific needs at a good price.â€•

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Despite the CFAâ€™s focus today on miles driven as a risk factor, the number of miles someone drives each year is only one of many variables an auto insurer considers when establishing the cost of a policy. A few auto insurers do not even use miles driven as a risk factor.

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Those consumers who feel the low mileage discount is important should shop around for an auto insurer that makes this criterion a more important factor in pricing the policy, according to the I.I.I. Miles driven, however, is an imperfect predictor of insurer losses, many underwriters believe. Someone residing in a densely populated area may drive fewer miles and end up in more crashes. Those crashes might also be more costly, on average. The opposite is true in rural areas.

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The CFA believes auto insurers should give more weight to factors an individual has more control over. The CFA asserts, for instance, that consumersâ€™ policies should be priced primarily on the basis of miles driven and their driving record, with less weight given to factors such as age and gender.

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â€œGiven this stance, Iâ€™m surprised the CFA is wary of pay-as-you-drive products, also known as usage-based or telematics programs, believing they are an invasion of privacy,â€• said Hartwig. â€œThose programs give drivers a financial incentive to drive less, and more carefully, depending upon what information is collected.â€•

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In addition to low-income drivers, the CFA says older drivers are charged too much for auto insurance. Those aged 70-plus generally do drive fewer miles but also have higher fatal crash rates than any other age group, except for the youngest U.S. drivers, according to a February 2014 Insurance Institute for Highway Safety report. This has remained the case even as older driver crash rates have dropped in recent years.

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To reduce their auto insurance expenses, 34 states and the District of Columbia mandate premium discounts for older drivers who take defensive driving, or other driversâ€™ education courses, the National Association of Insurance Commissioners found. A number of insurers also give a discount to older drivers with good driving records.

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Besides miles driven, and the consumerâ€™s driving record, age, and gender, the other major factors an auto insurer considers when pricing a policy include:

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1. Where you live, and where your car is parked overnight

2. Your years of driving experience

3. The make/model and year of your vehicle

4. Your credit-based insurance score; a handful of states disallow its use as a rating factor

Â 5. The type and amount of coverage you purchase

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Drivers, no matter their age, should ask their insurance professional if they qualify for a low mileage discount. Low mileage discounts typically apply if you drive no more than 7,000 to 7,500 miles a year.

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