

Auto insurance: Downshift with caution

CNN Money

For the average driver, premiums are up 23% over five years vs. 7% for overall inflation. A 40-year-old man now typically pays \$1,510 and up to \$2,700, says Insure.com.

Perhaps you're thinking that if you just drive down your limits a bit, or switch to another insurer, you'll recoup some of the increase. Not so fast, Andretti: "You might save a few hundred bucks, but what will you cost yourself in protection?" says Mark Romano of the Consumer Federation of America.

Make sure cutting costs doesn't cut coverage in these critical areas:

Liability

If you're in an accident, the liability portion of your policy covers damages you cause to another car, as well as that party's medical bills, lost wages, plus pain and suffering. States require \$10,000 to \$50,000 in coverage, but you probably need more with increasing medical costs and lawsuits. If the injured party's bills top your limit, he can go after your assets, says Romano.

Meanwhile, as this is the most costly part of the policy, trimming coverage here may have seemed like easy savings. Or the agent who sold you the policy may have skimmed to make the quote look competitive.

Protect yourself:

Analyst Laura Adams of InsuranceQuotes.com suggests buying a value equal to your nonretirement savings, as that's what would be at risk in a lawsuit. At the least, Romano advises, get \$100,000 per person/\$300,000 per incident.

"I've seen too many auto injury cases," he says; "\$100,000 for a settlement is nothing." Rates are based on your risk as a driver.

Uninsured motorist

One in seven drivers is uninsured, the Insurance Research Council says. Additionally, 20% of insured drivers buy only the minimum liability required, reports data firm ISO. Uninsured and underinsured motorist coverage helps with your tab if one of these folks hits you.

Only 15 states mandate this coverage, however, and UM/UIM insurance is so confusing, says advocacy group United Policyholders, that many people underestimate their needs.

For one thing, in some states you buy the two pieces together; in others, they're separate. Then there's "set-off": Say your family incurs \$75,000 in damages in an accident. The at-fault driver has \$25,000 of liability; you have \$50,000 in UIM. You're fully covered, right? Nope. In 27 set-off states, insurers subtract the other guy's liability from your UIM. The remainder is the max you can collect, leaving you \$25,000 short.

Protect yourself:

UM/UIM limits of \$100,000 per person and \$300,000 per accident would cover expenses in all but 5% of accidents, according to ISO. However, if you live in a set-off state — your insurer can tell you — you may want higher limits to account for the other driver's coverage being subtracted.

UM rates depend on the percentage of drivers who go bare. In Fort Lauderdale, Fla. — a state where a hefty 24% are uncovered — upping limits from \$50,000 per person and \$100,000 per accident to \$100,000/\$300,000 raises that part of the annual premium \$68, to \$340, says agent Susie Krix.

Repairs

You probably figure that if your car needed repairs, your policy would pay for new parts. Not necessarily. Insurers increasingly require body shops to use cheaper recycled or aftermarket parts. Consumer advocates warn that certain used or knockoff structural parts such as bumpers) don't perform as well as originals.

Trade group Property Casualty Insurers Association of America (PCI) counters that insurers don't require shops to use aftermarket parts that would compromise safety — though, in January, the California Department of Insurance said an investigation found defective safety-related parts like hood latches being used.

PCI also says premiums would rise 2% if aftermarket parts were banned.

Protect yourself:

Read the "limit of liability" section of your policy. Most insurers pay for new parts on cars up to a year old, some up to three years. A few don't use aftermarket parts at all, says analyst Greg Horn of repair data firm Mitchell.

Yours does? Tell the body shop you prefer original parts; the insurer may approve it. Or see if your insurer sells a rider to extend the time factory-fresh parts are covered. This adds about 10% to the comprehensive and collision premium, but can save more if it prevents a return to the repair shop.