Low-cost car insurance proposed in Michigan

Not being able to afford car insurance so you can legally drive to job interviews is a burden for unemployed residents of most states. And without a job, it's hard to come up with the money for car insurance.

In Michigan, state Sen. Virgil Smith is trying to solve that problem through legislation he introduced in June that would provide cheap, stripped-down car insurance to Detroit drivers who can't afford regular car insurance.

"Insurance rates in Detroit are flat-out astronomically high," Smith says.

Smith says he hopes his pilot program in Detroit would cut in half the average car insurance premium of $200 to $400 a month. His office estimates that as many as half of the city's drivers are going without car insurance because they can't afford it.

Similar plans in other states

California, Hawaii and New Jersey already have programs for low-cost or no-cost car insurance, with Hawaii's coverage being free for residents whose income is below the poverty level.

"Other states say, 'You have to have it,' and don't do anything to help people get it," Bob Hunter, director of insurance for the Consumer Federation of America, says of car insurance.

Minimum liability coverage is required for cars in every state except Iowa and New Hampshire.

Smith's plan would allow Detroit residents to opt out of the state's mandatory unlimited medical liability coverage for drivers if they earn less than $30,000 a year $67,000 for a family of four), drive a car worth $20,000 or less, and have a clean driving record. Smith hopes policies issued under his initiative would be about $100 to $200 a month, or about half of what minimal liability coverage costs now.

Michigan has no-fault insurance, which offers unlimited, lifetime benefits to people seriously injured in accidents, despite car insurance limits of $50,000 per person and $100,000 per accident. Some critics say Smith's plan would increase the number of accident victims using Medicaid or other public assistance.

The California model

The Michigan program would be modeled after California's Low Cost Automobile Insurance Program, which started as a pilot project in 2000 in Los Angeles and San Francisco and expanded statewide in

2007.
The California program offers policies with bodily injury limits of $10,000 per person and $20,000 per accident, and $3,000 for property damage liability. For a typical California driver, the minimum coverage is $15,000 per person, $30,000 per accident and $5,000 for property damage.
California drivers in the low-cost program must have cars valued at less than $20,000 and have a household income no higher than 2.5 times the poverty level, which equates to $55,125 for a family of four. Annual premiums in 2010 ranged from $248 in rural counties to $358 in Los Angeles County.
Drawbacks to low-cost programs
A bill that would have started a pilot program similar to California's recently died in the Nevada Legislature. The Nevada bill would have required drivers to pay 50 cents per registered vehicle each year to help subsidize the program.
Car insurance providers worried that the Nevada program would have hurt low-income drivers involved in accidents because they'd have higher out-of-pocket expenses for property damage that went beyond the $3,000 limit provided by the program. In Nevada, regular policies provide at least $10,000 in coverage for property damage.
One knock against California's program is that not many people use it, Hunter says, but that may be caused by lack of awareness about the coverage or lack of trust of car insurance companies. Or it simply could be an economic decision by drivers who can't afford car insurance no matter how little it costs, Hunter says.
Consumers are better off buying private policies instead of the low-cost state policies because they'll get better coverage with regular carriers, says Amy Bach, executive director of United Policyholders, a nonprofit group that helps people navigate the insurance questions. Still, having some car insurance is better than having no car insurance at all, Bach says, and buying car insurance may spur consumers to get other types of insurance that they may need.