A GUIDE TO ARIZONA AUTOMOBILE INSURANCE COVERAGE

If you think you have "Full Coverage", you may be at risk without knowing it. "Full Coverage" means different things to different people; there is no one set definition. Following are some of your options when purchasing automobile insurance in Arizona.

Liability Coverage: Required by Law

Liability Coverage is insurance for when you are liable – for when there is bodily injury or property damage to others, and the accident is your fault. The minimum coverage required by law in Arizona is expressed as 15/30/10: $15,000 per person bodily injury, $30,000 per accident bodily injury, and $10,000 per accident property damage(Raised to 25/50/15 effective July 1, 2020). For coverage higher than 15/30, typical increments are 25/50, 50/100, 100/300 and 250/500. The third number, property damage coverage, can vary by insurer.

Some insurers offer coverage expressed as "CSL". This is Combined Single Limit coverage. For example, a policy with 300 CSL has a total of $300,000 available for all damages – injury and property damage combined. By comparison, coverage in the format "500/500/500" means that there is $500,000 available for all injuries, and a single person could receive the full $500,000 . . . *and* there is another $500,000 available for property damage.

How much insurance do you need?

"As much as you can afford" is one simple answer. People generally insure what they feel they have to lose, so the amount "you can afford" is tied in to what you believe you have to lose, as well as to how risk averse you are. If you can write a check for $15,000, then you need more than $15,000 coverage. If you own real estate other than your home, have your own business, more than one car, savings or investments, a well-paying job that leaves you with discretionary income – you need enough coverage to protect those assets in the event you are liable for severe injuries to others. Considering the high cost of many vehicles today, you might want higher levels of coverage for the property damage coverage alone.

Uninsured and Underinsured Coverage

Liability coverage protects you when the accident is your fault. When the accident is the fault of the other party, their liability coverage compensates you for your loss. But what if the other party has no insurance (it has been estimated that up to one-third of Arizona drivers have no insurance), but has caused you serious injuries? With all the uninsured drivers in Arizona, you absolutely, positively, must have uninsured motorist (UM) coverage.

If you are seriously hurt, a bad day in the emergency room or a helicopter ambulance flight can easily exceed the minimum $15,000.00 coverage of the other party. In this case underinsured motorist (UIM) coverage protects you. You make a claim for underinsured motorist benefits after getting whatever the other party has and showing it to be insufficient.

While your insurance rates may increase if an accident is your fault, Arizona law prohibits your insurance company from raising your rates just for using your UM or UIM coverage.

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Revised October 7, 2020

Arizona Revised Statutes § 20-263 reads:

> A. No insurer shall increase the motor vehicle insurance premium of an insured as a result of an accident not caused or significantly contributed to by the actions of the insured. Any insurer which increases the premium as a result of accident involvement shall notify the insured of the reason for such increase.

Various other coverages apply regardless of who is at fault.

Medical Payments Coverage or Personal Injury Protection

In Arizona we refer to this type of coverage as MedPay or MP. This is coverage under your automotive policy for the purpose of paying medical bills. Medpay is especially useful to pay for medical treatment such as physical therapy or chiropractic care, for which your health insurance may provide limited or no coverage. The cost of medpay coverage and the terms of coverage vary from carrier to carrier. Some insurance companies will claim that their medpay benefit covers only what your health insurance does not. This is referred to as "excess" medpay coverage. To collect on this coverage you generally have to provide proof of your out-of-pocket obligation to the medical provider. Some companies provide excess medpay coverage for free as a benefit of insuring with them. Some companies will pay only a portion of some bills, in the same way your health insurance would. Therefore, when you are shopping for insurance and considering this coverage, you will want to look closely and compare the rates and terms of several carriers.

The rules surrounding MedPay can be complicated. When you are in an accident, medpay may end up as extra money in your pocket – *or* it can result in you losing the benfit of your health insurance coverage, owing the provider additional money, and having to pay back your own insurance carrier.

If your carrier pays out more than $5,000.00 in medpay benefits, they are entitled to file a lien to recover the amount they paid in excess of the $5,000.00 threshold. Their recovery is only from the money you receive from the third party (defendant). Your carrier is not entitled to recover the excess medpay benefits from any money you receive from an <u>under</u>insured motorist claim, either from them or from another carrier.

Say you have Medicare. You go to the hospital and have a bill for $15,000.00. The hospital finds out you have MedPay. So instead of sending their bill to Medicare, getting paid $2,000.00 and you owing nothing, they send their bill to MedPay and get paid $10,000.00. Now you owe your insurance company the $5,000.00 they paid over your "threshold" $5,000.00 benefit, you owe the hospital the $5,000.00 they are short on their bill, and instead of your accident settlement going into your pocket, it goes to them.

It isn't as simple as this, of course; there are many exceptions and "what ifs" depending on the exact insurance policies involved, and even the timing of submitting for benefits. But you get the idea. This is why we *never* give *medical* people *car* insurance information.

If you have an <u>un</u>insured motorist claim, the carrier is permitted to offset - they can deduct whatever they paid as medpay from what they would have given you as an uninsured motorist settlement. Not so with an underinsured motorist claim. With an underinsured motorist claim, the carrier places an overall value on your claim and then deducts what you received from the third party's insurance company.

PIP coverage is similar to medpay, except that PIP benefits cover other related losses, not just medical bills. PIP coverage is generally seen with insurance policies that were purchased in other states.

Depending on the facts of the accident, you may be entitled to uninsured motorist, underinsured motorist and/or medpay coverage from more than one insurance policy. First you would be covered by the policy on the vehicle you were in at the time of the accident. Then you would be covered by any other policy on which you are a named insured. Finally, you would be covered by any policy held by a relative with whom you live. For the purposes of this "Resident Relative" coverage, some insurance carriers will regard your significant other/domestic partner as a relative. If you have multiple vehicle insured with different companies, all of those policies may come into play.

Collision

Collision coverage repairs or replaces your vehicle, less your deductible, regardless of fault. You need this coverage when there is no second vehicle involved, when the other vehicle is uninsured or there is a question as to coverage, when the other vehicle's property damage liability limit is insufficient, or when the other party's insurance company disputes liability.

After an accident, since you are required to repair or replace your vehicle as soon as possible, it is often advisable to go through your own insurance policy's collision coverage. Once the other party is determined liable, your insurer will attempt to get the money back from the other side – including your deductible.

Comprehensive

Comprehensive coverage is for damage to or loss of your vehicle by causes other than collision. This includes theft, fire, vandalism and flood. In Arizona, coverage to replace the glass in your vehicle, preferably without a deductible, is particularly desireable.

Gap Coverage

Depending on what you paid and on the finance terms, if your vehicle becomes a total loss, you may owe more than the vehicle is worth – there is a gap between what you owe and what you will be paid. This situation is also referred to as being "upside down". Gap coverage is intended to close that gap and leave you owing nothing. You still will need to get a new vehicle, but at least you will be starting out even again.

When do you need gap coverage? Think of the various situations where you are likely to owe more than the vehicle is worth. These are when you pay too much for the vehicle, when your interest rate is high, and when your payment amounts are too low to quickly enough pay down the principal owed. If your deal revolves around the salesman asking "How much do you want your payments to be?", consider yourself in need of gap coverage. The slogan "Buy here, pay here" is another red flag. Any time you buy a used vehicle from a dealer, you should be questioning whether you need gap coverage.

When purchasing gap coverage, an important question is whether the coverage is for the *entire* amount you may owe, including the amount you owed on your previous vehicle that was rolled into the loan for your current vehicle – as opposed to covering only the difference between the purchase price of your vehicle and its value at the time it is declared a total loss.

What Auto Insurance Should I Buy?

The first issue is to make sure you actually are buying real insurance. When you buy a vehicle and you do not already have insurance, often the dealer will sell you a policy referred to as collateral insurance. Your car is the collateral that secures your loan – the lender takes the car back if you don't pay. Collateral insurance protects the lender if the collateral is destroyed. Beware; this is not the liability insurance required by state law. If you have an accident and this is all you have, you may find yourself personally responsible for all of the other side's damages.

Now, let's assume you are shopping for a new policy or are renewing your current policy with a recognized, name-brand insurance company. Here is one suggested way to go about the process of making insurance purchasing decisions. It is by no means authoritative; it is simply one possible way, based on the experience of reviewing the policies of many clients and then learning whether they understood what they purchased and whether they actually had useful coverage.

The first step is to decide whether to insure for collision and other damage to your vehicle. Remember, this coverage applies to all the situations when you do not have another driver with insurance that is able and willing to pay. If you decide to go without this coverage, you risk losing the value of the vehicle in the event of a crash. This is a choice you make by comparing the benefit to the risk.

Take what your car is worth and subtract the amount of your deductible. This is what you either recover or lose if the car is totaled(your deductible is lost either way). Now, what do you pay per year to avoid losing this amount? You are making a risk assessment – that is, you are making a bet as to what will happen first: Total your car, or pay as much in premiums as you would have received if the car *were* totaled. If you have a new or late model vehicle, this really isn't an issue. But as the value of your vehicle goes below $5000, this becomes more meaningful. With an older, high-mileage, low-value vehicle, the amount of the premium is a higher percentage of the value of the vehicle – and the vehicle is more likely to die of natural causes before it gets wrecked.

For estimating purposes, the Actual Cash Value of your vehicle will usually fall somewhere between the trade-in and private sale Blue Book values. Market conditions may influence the value. For example, larger vehicles become worth less when fuel prices are high.

Once you have decided whether to buy collision and/or comprehensive coverage, you need to decide on how much liability, uninsured motorist and underinsured motorist coverage to buy. Start with basic 15/30/10(now 25/50/15) liability coverage. Add the same amount of uninsured and underinsured coverage to protect yourself against drivers with no coverage or insufficient coverage. Remember, you want your UM and UIM coverage limits to be the same as your liability coverage limits. You buy liability coverage for when another person is hurt and it is your fault; why wouldn't you want just as much coverage for your own and your passengers' injuries?

Now, increase all these coverages until either you cannot afford to go any higher or you feel you have covered your risk exposure. Liability, uninsured motorist and underinsured motorist coverage are the Big Three. Medpay is much less important, and coverages for towing, roadside service and rental are strictly optional.

Review the discussion about medpay coverage above and compare what you pay and what you get with several companies. Remember, it almost never hurts you to have this coverage and it often helps, but also often you can end up not receiving the full benefit of this coverage due to the interplay between medpay, health insurance, and medical providers' desire to get your medpay money rather than go through your health insurance.

Consider purchasing medpay coverage the same way and at the same time you consider coverages like road service and rental car coverage. What do you get for your money, and is it a duplicate benefit? Do you have health insurance? Do you have AAA or OnStar, or does your vehicle come with some of this coverage?

Multiple Policies

Beware of this common pitfall. If you have a motorcycle, golfcart, ATV or other "fun" vehicle, you may be required, and it may be to your benefit, to have separate policies with separate insurance companies. If you have a motorcycle accident, you are more likely to be seriously injured, and you would want to have several different policies with uninsured motorist or underinsured motorist coverage available(you want to be able to "stack" the coverages).

However generally, it is cheaper to have all your vehicles on one policy rather than having a separate policy for each vehicle. If you have uninsured and/or underinsured coverage on multiple policies with the same company, you generally cannot "stack" the coverage amounts. You have to compare both ways and determine which way gets you the most coverage for the lowest cost.

Also, don't forget that if you own your home, you may be able to see substantial savings by having home and auto coverage with the same company. If you rent, you may find that the discounts result in your renter's policy costing little or nothing extra. If you desire high coverage limits, an "umbrella" policy will provide an additional $1million or more of liability coverage over both your home and auto policies, and some "umbrella" policies also offer additional uninsured and underinsured motorist coverage.

There are many additional coverages available; the terms as well as the combinations of coverages vary by insurer. If you are facing these purchasing decisions, have questions about your options and don't know who to ask, feel free to call us at 623-328-8567 for a free consultation.