Consumer Federation of America

Auto Insurance: A National Issue of Economic Justice

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In 2018, Americans spent about $240 billion – almost a quarter trillion dollars – on auto insurance.[1] As a product that government requires drivers to purchase, auto insurance deserves special attention and oversight to ensure that premiums are fair and affordable. This is especially the case because access to a vehicle proves critical to economic stability and mobility.[2]

Although auto insurance is a major monthly expense and difficult burden for tens of millions of Americans – and a product that consumer and civil rights groups have long sought to reform – it does not receive sufficient attention as an economic justice concern. In fact, mandatory auto insurance is unaffordable to millions of low- and moderate-income drivers and particularly so for people of color.[3] The significant challenges created by high cost and, often, unfairly priced auto insurance makes addressing the issue a matter of economic and social justice.

Around the country, state laws strictly enforce the purchase of auto insurance through severe fines, impounded cars, and even jail time for driving uninsured, but lawmakers and regulators devote much less energy to curbing unfair and excessive pricing by the insurance companies selling this coverage. Nor are policymakers working hard enough to develop new

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[1] https://www.iii.org/fact-statistic/facts-statistics-auto-insurance

[2] See, for example, Pendall, R., Hayes, C., George, A. T., McDade, Z., Dawkins, C., Jeon, J. S., ... & Smart, M. (2014). Driving to opportunity: Understanding the links among transportation access, residential outcomes, and economic opportunity for housing voucher recipients; Baum, C. L. (2009). The effects of vehicle ownership on employment. *Journal of Urban Economics*, *66*(3), 151-163; Lucas, M. T., & Nicholson, C. F. (2003). Subsidized vehicle acquisition and earned income in the transition from welfare to work. Transportation, 30(4), 483-501; and Taylor, B. D., & Ong, P. M. (1995). Spatial mismatch or automobile mismatch? An examination of race, residence and commuting in US metropolitan areas. *Urban studies*, *32*(9), 1453-1473.

[3] According to the U.S. Department of Treasury's Federal Insurance Office *Study on the Affordability of Personal Automobile Insurance* (2017), more than 18 million Americans live in ZIP codes where auto insurance is unaffordable.

ways to provide affordable coverage to the safe drivers who desperately need it, irrespective of the industry's responsibility for the high cost.[4] Whether lower-income folks drive uninsured with the constant fear of losing their license (and worse) or simply do not to drive and face the financial consequences of not having reliable transportation, financially strapped Americans know that the cost of auto insurance can be a major barrier to their aspirations and their families' opportunities.

Over the past several years, Consumer Federation of America (CFA) has undertaken an effort to research the cost of auto insurance with a particular focus on issues of access and affordability for low- and moderate-income Americans and people of color.

The research points to a few key findings:

- The cost of state-mandated basic liability insurance is higher than many lower-income Americans can afford;
- Insurers consider a variety of socio-economic rating characteristics for pricing that pushes premiums up for lower-income Americans despite their good driving records. As a result of these non-driving factors, the research shows that a good driver will pay more for coverage if they
    - have a blue-collar job rather than a professional title;
    - don't have a college degree;
    - are single, divorced, or widowed rather than married;
    - are female;
    - rent their home instead of own it;
    - had a break in auto insurance coverage; or
    - don't have an excellent credit score. (As *Consumer Reports* reported in 2015, in many states, a good driver with a low credit score will pay more for auto insurance than a driver with a drunk driving conviction so long as they had an excellent credit score!)

  When good drivers have several of these characteristics in combination, as is often the case, their insurance can be substantially more expensive than the premiums offered to otherwise similar drivers with higher socio-economic status; and
- Safe drivers in predominantly African American ZIP codes consistently pay much higher liability premiums than those in predominantly white communities, even after accounting for population density.

[4] See "An Auto Insurance Lifeline for Safe Driving, Lower-Income Marylanders" (Heller, 2019) for a discussion of new approaches to affordability. https://abell.org/publications/auto-insurance-lifeline-safe-driving-lower-income-marylanders

While auto insurance is generally a matter of state regulation, the federal government and national leaders can play a critical role by:

- Highlighting the economic toll of unaffordable coverage and discriminatory pricing and calling for action;
- Demanding the research into affordability ordered by the Wall Street Reform and Consumer Protection Act (Dodd-Frank) that has not been produced during this Administration; and
- Supporting Congressional efforts to stop unfair practices such as the use of credit history to raise good drivers' premiums.

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Below is a list of the reports (as hyperlinks) that CFA has issued since 2013, beginning with the most recent. Following the list is a brief summary of each report.

2019

- Low-Income Drivers Looking to Increase Auto Insurance Coverage Pay a Penalty Compared With Customers Who Already Had Higher Coverage
- Auto Insurance Regulation – What Works 2019

2018

- Auto Insurers Often Charge Identical Neighbors Considerably Higher Premiums Because of ZIP Code Differences
- Some Major Auto Insurers Provide No Discount to Low-Mileage Drivers

2017

- Most Large Auto Insurers Charge 40 and 60-Year-Old Women Higher Rates Than Men, Often More Than $100 Per Year
- 3 Major Auto Insurers Usually Charge Higher Prices to Good Drivers Previously Insured by Non-Standard Insurers
- Major Insurance Companies Raise Premiums After Not-At-Fault Accidents

2016

- Major Insurers Charge Moderate-Income Customers With Perfect Driving Records More Than High-Income Customers With Recent Accidents
- Major Auto Insurers Raise Rates Based on Economic Factors

- Good Drivers Pay More for Basic Auto Insurance If They Rent Rather Than Own Their Home

2015

- Price of Mandatory Auto Insurance in Predominantly African-American Communities
- New Research Shows That Most Major Auto Insurers Vary Prices Considerably Depending on Marital Status
- Auto Insurers Fail to Reward Low Mileage Drivers

2014

- Large Auto Insurers Charge High Prices, to a Typical Lower-Income Safe Driver with Car Financing, for Minimal Coverage
- High Price of Mandatory Auto Insurance for Lower Income Households
- Uninsured Drivers: A Societal Dilemma in Need of a Solution

2013

- CFA Analysis Shows Auto Insurers Charge Higher Rates to Drivers with Less Education and Lower-Status Jobs
- What Works: A Review of Auto Insurance Rate Regulation in America and How Best Practices Save Billions of Dollars
- Largest Auto Insurers Frequently Charge Higher Premiums To Safe Drivers Than To Those Responsible For Accidents
- Use of Credit Scores by Auto Insurers Adversely Impacts Low- and Moderate-Income Drivers

Below are brief summaries of each the reports listed above.

Low-Income Drivers Looking To Increase Auto Insurance Coverage Pay A Penalty Compared With Customers Who Already Had Higher Coverage

Consumer Federation of America (2019)

Auto insurance companies Allstate, Farmers, Geico, Liberty Mutual, Progressive, and State Farm, usually charge an average of $254 more annually for auto insurance to shoppers who currently have a minimum limits liability policy than companies charge to those who have previously purchased higher limits insurance. CFA reviewed premium quotes from the six companies in several cities around the country and found the practice to be unjust and actuarially unsound penalty on the poor.

Higher rates were not the only punishment imposed on lower-income drivers. In one instance, an insurance company did not provide a quote for the shopper with basic limits even though it offered a quote to the shopper who had more robust coverage. In another instance, it shifted the lower limits customer to its non-standard market affiliate.'

Auto Insurance Regulation – What Works 2019
Consumer Federation of America (2019)

Updating decades of research, the Consumer Federation of America reveals what data shows about the many different approaches to auto insurance market oversight and consumer protection in the United States and how some states have saved drivers billions, while others have allowed significantly increased costs for drivers.

Auto Insurers Often Charge Identical Neighbors Considerably Higher Premiums Because of ZIP Code Differences
Consumer Federation of America (2018)

Many good drivers in ten American cities tested by Consumer Federation of America (CFA) are paying far too much for auto insurance simply because of their home ZIP code, the organization reported today. CFA's research points to significant premium differences in each region among neighbors living within 100 yards of each other in adjacent ZIP codes, sometimes as close as across the street or even next door. In each city tested, the higher-priced ZIP code had a lower median income and a higher percentage of non-white residents than the neighboring, lower-premium ZIP code.

Some Major Auto Insurers Provide No Discount to Low-Mileage Drivers
Consumer Federation of America (2018)

In 11 cities tested outside of California, the nation's largest auto insurers generally offered little or no premium reduction to low-mileage drivers compared with high-mileage drivers, even though insurance research indicates that how much you drive is among the most important factors in predicting accidents. According to the research, Progressive and Farmers usually charge the same rates to someone who drives only 2,500 miles a year as they charge someone else who drives 22,500 miles a year – nine times as far – all else being equal. CFA noted that, in setting customers' premiums, insurance companies often give more weight to personal characteristics such as marital status and credit score than to key risk indicators such as mileage driven annually.

After reviewing 275 quotes for basic liability coverage from five large insurers, CFA found:

- Consumers save only $30 per year, or 1.6%, on average for every 5,000 fewer miles driven annually, excluding California drivers, who save $81 on average, or 8.7%.
- Outside of California, premiums for very low-mileage drivers (2,500 miles/year) are only $102 lower*, on average, than very high-mileage drivers (22,500 miles/year), a savings of about 6% annually. (*Excludes Allstate in Tampa, where minimum coverage quote was not provided.)
- In Los Angeles, very low-mileage drivers save $346, or 30%, compared to very high-mileage drivers.
- Outside of California, Farmers and Progressive provide no mileage-based savings in tested cities, Geico offers a small price reduction, while Allstate's and State Farm's lowest-mileage customers saw average savings of 11% and 13%, respectively, compared with the highest-mileage drivers.

Most Large Auto Insurers Charge 40 and 60-Year-Old Women Higher Rates Than Men, Often More Than $100 Per Year

Consumer Federation of America (2017)

Female motorists with perfect driving records often pay significantly more for auto insurance than male drivers with identical driving records and other characteristics the insurers use to price auto insurance. This finding contrasts with the public perception that men pay more than or the same as women for auto insurance. According to a national public opinion survey, less than a quarter of Americans correctly think that women pay more.

In ten cities studied, CFA found that 40- and 60-year old women with perfect driving records were charged more than men for basic coverage nearly twice as often as men were charged the higher rate. Premiums were lower for 20-year old women than for 20-year old men most of the time; however, GEICO charged young female drivers more than young male drivers in nine of ten cities. These price differences are particularly important, according to CFA, because every state except New Hampshire requires drivers to purchase basic liability insurance coverage.

3 Major Auto Insurers Usually Charge Higher Prices to Good Drivers Previously Insured by Non-Standard Insurers

Consumer Federation of America (2017)

Auto insurance giants Allstate, Farmers, and American Family often charge nine to fifteen percent higher premiums to good drivers previously insured by smaller, "non-standard" insurers than those who had coverage from State Farm or other primary competitors.

Allstate charged 15 percent ($235) more on average to good drivers previously covered by non-standard auto insurers such as Safe Auto Insurance and Equity Insurance Co. than if they had been previously insured by State Farm. Farmers charged nine percent ($260) more on average to customers coming from non-standard companies, including Titan Insurance and Access Insurance Company, than those hailing from State Farm policies. American Family Insurance, the nation's ninth largest auto insurer, charged nine percent ($166) more on average to customers previously with non-standard carriers, such as Direct General and Safeway Insurance.

Major Insurance Companies Raise Premiums After Not-At-Fault Accidents
Consumer Federation of America (2017)

Safe drivers who are in accidents caused by others often see auto insurance rate hikes. The research analyzed premium quotes in 10 cities from five of the nation's largest auto insurers. Among the cities tested, drivers in New York City and Baltimore pay out the most for an accident where the driver did nothing wrong, and customers in Chicago and Kansas City also face average increases of 10 percent or more when another driver crashes into them.

CFA's research over recent years has consistently found that good drivers with certain socio-economic characteristics that suggest lower incomes generally pay more for auto insurance than higher-income drivers with the same driving record. This pattern holds when it comes to penalizing drivers for accidents in which they were not at fault. Higher-income drivers paid $78 more on average after a not-at-fault accident, while moderate-income drivers paid $208 more on average after a not-at-fault accident.

Major Insurers Charge Moderate-Income Customers With Perfect Driving Records More Than High-Income Customers With Recent Accidents
Consumer Federation of America (2016)

Auto insurance prices are often more closely aligned with personal economic characteristics than with drivers' accident and ticket history. Testing premiums offered by the nation's five largest insurers in ten U.S. cities for drivers with different socio-economic characteristics and different driving records, CFA found surprising results, including: upper-income drivers with DUIs often pay less than good drivers of modest means with no accidents or tickets on their driving record; moderate-income drivers with perfect records pay more than upper-income drivers who caused an accident in which someone was injured; progressive and GEICO consistently charge upper-income bad drivers less than moderate-income good drivers; moderate-income good drivers often pay more than upper-income drivers with multiple points on their record.

Major Auto Insurers Raise Rates Based on Economic Factors

Consumer Federation of America (2016)

In most states auto insurance premiums are driven in large measure by economic factors that are unrelated to driving safety, a practice that most Americans consider unfair. Among the most common of the individual economic and socio-economic characteristics used by auto insurers are motorists' level of education, occupation, homeownership status, prior purchase of insurance, and marital status. Because each of these factors are associated with an individual's economic status and because insurers consistently use each factor to push premiums up for drivers of lesser economic means, the combined effect of insurers' use of these factors can result in considerably higher prices for low- and moderate-income Americans, leaving many overburdened by unfairly high premiums and others unable to afford insurance at all.

Good Drivers Pay More for Basic Auto Insurance If They Rent Rather Than Own Their Home

Consumer Federation of America (2016)

Several major auto insurance carriers hike rates on good drivers who rent their home rather than own it. CFA tested the premiums charged by seven large insurers to a good driver in ten cities. For each test we only changed the driver's homeownership status and found that renters were charged seven percent more on average – $112 per year – for a minimum limits policy than insurers charged drivers who own their homes, everything else being equal.

Price of Mandatory Auto Insurance in Predominantly African-American Communities

Consumer Federation of America (2015)

CFA released research comparing auto insurance prices in predominantly African-American Communities with prices paid in predominantly white communities. Nationwide, in communities where more than three quarters of the residents are African American, premiums average 71 percent higher than in those with populations that are less than one quarter African American after adjusting for density and income. In Baltimore, New York, DC, Detroit, Boston and other cities, the disparity of premiums is more than 50 percent between predominantly African American and predominantly white ZIP codes.

New Research Shows That Most Major Auto Insurers Vary Prices Considerably Depending on Marital Status

Consumer Federation of America (2015)

CFA released research on how insurers utilize marital status in their pricing of auto insurance policies. CFA questions the fairness and relation to risk of this pricing by most major insurers, particularly their practice of hiking rates on women whose husbands die by 20% on average, the "widow penalty."

Auto Insurers Fail to Reward Low Mileage Drivers

Consumer Federation of America (2015)

CFA released research showing that large auto insurers frequently fail to reward drivers with low mileage despite a strong relationship between this mileage and insurance claims. The study found that three of the five largest insurers often give low-mileage drivers no break at all. In a 2012 nationwide survey conducted by ORC International for CFA, 61 percent of respondents said that it was fair for auto insurers to use mileage in pricing auto insurance.

Large Auto Insurers Charge High Prices, to a Typical Lower-Income Safe Driver with Car Financing, for Minimal Coverage

Consumer Federation of America (2014)

CFA found that annual auto insurance premiums are especially high for the estimated eight million low- and moderate-income drivers who finance their car purchases. These drivers must purchase the comprehensive and collision coverage required by auto lenders in addition to the liability coverage required by states. In the 15 cities CFA surveyed, annual premium quotes were almost always more than $900 and were usually more than $1,500.

In a related national opinion survey undertaken by ORC International for CFA, nearly four-fifths of respondents (79%) said that a fair annual cost for this auto insurance coverage was less than $750. One-half (50%) said that a fair annual cost was less than $500. Respondents were asked what they thought was a reasonable annual cost for a "30-year old woman with a modest income and ten years driving experience with no accidents or moving violations" for required liability, collision, and comprehensive insurance coverage.

High Price of Mandatory Auto Insurance for Lower Income Households

Consumer Federation of America (2014)

The country's five largest auto insurance companies do not make a basic auto insurance policy available to typical safe drivers for less than $500 per year in over 2,300 urban and suburban ZIP codes including 484, or more than a third, of the nation's lowest-income ZIP codes. In the report, CFA analyzed 81,000 premium quotes for State Farm, Allstate, Farmers, Progressive, GEICO and each of their affiliates in all ZIP codes in 50 large urban regions, which include urban, suburban and adjacent rural communities. CFA also reviewed the premium quotes from an additional 58 insurance companies – comprising a total of 207 insurance affiliates including those of the five largest insurers – which produced similar results.

In 24 of the 50 urban regions, there was *at least one* lower-income ZIP code where annual premiums for a minimum limits policy exceeded $500 from every major insurer. In nine of these 50 areas – Miami/Ft. Lauderdale, Detroit, Minneapolis/St. Paul, Tampa/St. Petersburg, Baltimore, Orlando, Jacksonville, Hartford, and New Orleans – prices exceeded $500 in *all* lower-income ZIP codes.

This report included the finding from a recent national survey that more than three-quarters of Americans (76 percent) believe that a "fair annual cost" for state-mandated insurance for a typical good driver with no accidents and no tickets should be less than $500.

Uninsured Drivers: A Societal Dilemma in Need of a Solution
Consumer Federation of America (2014)

This report found that most uninsured drivers in America have low incomes and cannot afford to purchase the mandatory minimum liability coverage required by their state. The report also revealed that these low-income drivers are increasingly adversely impacted by state and local government actions, including raising liability requirements (driving up premiums), more rigorous enforcement, and stiffer penalties. However, there is little difference in uninsured rates between those states that penalize uninsured drivers harshly and those that do not. The report reviewed penalties for driving without auto insurance in every state and found some of these very harsh penalties for lower-income Americans who truly cannot afford the required insurance:

- Fourteen states allow jail sentences for a first offense.
- Thirty-two states allow for the possibility of license suspension for a first offense.
- Thirty-three states have possible fines of $500 or more for a first offense.

CFA Analysis Shows Auto Insurers Charge Higher Rates to Drivers with Less Education and Lower-Status Jobs
Consumer Federation of America (2013)

Several major auto insurers place a heavy emphasis on their customers' occupation and education when setting prices, forcing lesser educated, blue collar workers with good driving records to pay substantially higher premiums than drivers with more education and higher paying jobs. For example:

- GEICO charges a good driver in Seattle 45% more if she is a factory worker with a high school degree than if she is a plant superintendent with a bachelor degree;

- Progressive charges the factory worker 33% more in Baltimore; and
- Liberty Mutual charges the worker 13% more in Houston.

The reported also highlighted a national survey that found that about two-thirds of Americans believe that it is unfair to use education and occupation when pricing insurance policies.

What Works: A Review of Auto Insurance Rate Regulation in America and How Best Practices Save Billions of Dollars

Consumer Federation of America (2013)

Over the past quarter century, auto insurance expenditures in America have increased by 43 percent on average and by as much as 108 percent. These increases occurred despite substantial gains in automobile safety and the arrival of several new players in the insurance markets. Only in California, where a 1988 ballot initiative transformed oversight of the industry and curtailed some of its most anti-consumer practices, did insurance prices fall during the period, resulting in more than $4 billion in annual savings for California drivers.

This report used NAIC data to assess the impact of different types of insurance market oversight (prior approval, file and use, use and file, flex rating, and deregulation) on rates, industry profitability, and competition. It also provided a detailed analysis of California's experience with the nation's most consumer protective rules governing the auto insurance market.

Largest Auto Insurers Frequently Charge Higher Premiums To Safe Drivers Than To Those Responsible For Accidents

Consumer Federation of America (2013)

CFA analyzed premium quotes from the five largest auto insurers in twelve major cities and found that two-thirds of the time, insurers would charge a working class driver with a 45 day lapse in coverage and a perfect driving record more than companies charged an executive with no lapse in coverage but a recent at-fault accident on their record. In 60% of the tests, the lower-income good driver was charged at least 25% more than the higher-income driver who had caused an accident.

Use of Credit Scores by Auto Insurers Adversely Impacts Low- and Moderate-Income Drivers

Consumer Federation of America (2013)

Holding all other factors constant, the two largest auto insurers, State Farm and Allstate, charge moderate-income drivers with poor credit scores much higher prices than drivers with excellent scores. Using data purchased from a third party vendor of insurance rate information, this report showed that State Farm increased rates for the low credit score driver an average of 127 percent over the high credit score customer and Allstate raised rates by 39 percent, costing State Farm and Allstate customers an average of more than $700 and $350, respectively, based solely on credit scores.

The report also pointed to a recent national survey conducted for CFA that found that, by a greater than two to one ratio, Americans reject insurer use of credit scores in their pricing of auto insurance policies.

The Consumer Federation of America is a nonprofit, nonpartisan association of more than 250 nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education.