

REST INSURED



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Saving Money on Comp and Collision

Many people are experiencing challenges with their expenses and are looking for ways to save money on their auto insurance. One of the big portions of the auto insurance premium is the comprehensive and collision coverages known of as "physical damage coverage." But before you remove this coverage, let's talk about it.

What is comp and collision?

Your auto insurance is basically broken in to two parts:

- Liability coverages
- Physical damage coverages

Liability protects you if you are held financially liable for either bodily injury or property damage. If you hit someone or something with your car and cause damage, you are responsible for that damage. Assuming you are found guilty, you have to pay for their medical expenses or repairs. This is your most important coverage, as the potential for loss is *huge!* If you hit a \$500,000 Rolls Royce or a bus full of people, you will want to have very high limits.

Physical damage coverage is for your own vehicle. You are covered for a collision with any object. Most commonly, this is another car, but it could be a tree, a deer or a garage door as well. Comprehensive coverage is better referred to as "other than collision." This covers you for anything, uh, other than a collision. Most commonly this covers you for the theft of your vehicle, but also includes things like a tree falling on it.

So, you want to save money and drop your comp and collision. What is the best time to do this? Most importantly, there is no right "time" to do this. It has to do with what we call your *threshold of pain*. Although it can be expensive, the coverage on your car is a very good deal, financially, for all of the things it covers. Your car (in most cases) will depreciate over time and at some point you will remove the comp and collision because it just isn't worth it. This is when you have to figure out your *threshold of pain*.

Here are the economics of it. First you need to determine what is the *actual cash value* of the car. What can the car be sold for? Or more importantly, what will the insurance company pay for the car? There is no sure fire way to get this "right," but there are some ways to get close. First, try looking up the value in an industry price index, like Kelley Blue Book (online at www.kbb.com) This will help you to determine the "neighborhood" of the price range it will fall into. Be honest about the condition of the car, and use the lower value; remember, we are talking about insurance companies here! Then you can try looking at one of the online *Auto Trader* companies to see if you can find the exact year, make, and model of your car and try to get as close to the same mileage as your car. This is an excellent way to help prove why you think your car is worth what you think it is worth.

Once you determine the value of the car then factor in the following:

- Subtract your deductible, as that is the amount that will *not* be paid to you;
- Subtract your comp and collision annual premium, because you have also paid that out of pocket.

The balance is how much your comp and collision coverage is worth to you!

Look at this example: The cash value of your car is \$2,000 and you have a \$500 deductible, and your comp and collision premium is \$358 every six months or \$716 per year. If you lose your car, you will benefit only \$784. Now this number is your *threshold of pain* number. What this means is, is the \$716 savings worth the chance of not getting \$784? Most people would say yes!

But consider another example: Your car is worth \$8,400, and you have a \$500 deductible with \$716 in premium. Is a potential \$7,184 loss worth the \$716 savings? Definitely not!

For some people who have not had a claim in 10 years, the calculation becomes even more complex. If you can save \$716 per year for the next 10 years, then you have saved \$7,160, and the *threshold of pain* increases.

Everyone's *threshold of pain* is different when it comes to money, so it is a very personal decision. It is your policy, your premium dollars you're paying, so make the best decision for what you are comfortable with. If there is a loan or lien on the car, the bank will most likely not allow removal of the comp or collision.

Feel free to call our agency if you have any questions about what we can do for you, would like to know what it would cost to buy your insurance through us, or would like a question answered on any type of insurance.

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Check out our City Employees Club page on the United Agencies Website at: www.unitedagencies.com/cityclub

You can also see us on Fridays at the new City Club Store, where you can ask us any question in person, and get an instant quote!

Have a question? Is there something about insurance that you've always wanted to know, but were too ashamed to ask? Maybe something that you've just always been curious about? Feel free to send me an email at jgelineau@unitedagencies.com, and I will try to answer your question in one of our monthly columns.

Be safe and have fun!

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