Smart Shopping Can Yield Big Savings in Teen Auto Insurance

By Mark Ray

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If you think your auto insurance is expensive, consider the plight of Dr. Brian Monsma and his wife, Joy. Brian, a Louisville psychologist, and Joy, an advanced registered nurse-practitioner, have one teenaged driver, 17-year-old Tim, in the family and three more waiting in the wings—and they're all boys. Teenagers are four times as likely as older drivers to be involved in accidents on a per-mile-driven basis, so the insurance rates they pay up through age 24 are much higher than those of adults. And teenage boys pay the highest rates of all.

Faced with the prospect of one day having four teen drivers on their auto policy, the Monsmas realized early on that they needed to find ways to minimize the financial impact of auto insurance. Their strategy: shop around, take advantage of available discounts and give the kids a "very pedestrian, well-worn" car to drive. By following such a strategy, parents can easily cut their teens' insurance costs in half.

Shop Around

Getting quotes from several insurers is a must. A study last year by Progressive Insurance found that the variance between the highest and lowest rates quoted for identical coverage averaged $481 per six months—and that's the national average. In Kentucky, the variance was $711, the largest in the country. So, you could save hundreds of dollars just by shopping around.

In addition to getting quotes from several agents or talking to an independent agent who represents several companies, you can use the Internet to track down a lower-cost policy. At Web sites like InsWeb (www.insweb.com) you can create an online profile and request quotes from several insurers at the same time. Progressive Insurance's Web site (www.progressive.com) lets you try various "what-if" scenarios and generate quotes from both Progressive and its competitors. (For links to other online marketplaces and ratings of leading insurance companies, visit www.insure.com.)

Brian Monsma recommended checking rates on a regular basis. He said he shops around every three years or so and often ends up changing carriers as a result.

Look for Discounts

Just as insurance rates vary between companies, so do the discounts they offer preferred customers. With most companies, however, teens can expect substantial discounts if their grades are good and if they've completed driver training. According to State Farm agent Jonathan Gray of Louisville, "The driving-training discount plus the good-student discount is worth about 40 percent, depending on whether you're male or female."

Insurers generally require proof of a B average or better for the good-student discount, but driver training requirements vary widely, with some companies requiring as little as a single lesson. At Al Marlin Driving School in Louisville, that 90-minute lesson would cost you $75, an amount you could easily recoup in a couple of months of premiums.

In Tim Monsma's case, the Ballard High School senior got both the good-student and driver-training discounts. "It helped that his grades were at the point where he could get a discount," his dad said.

You may also qualify for a discount if you insure multiple vehicles through the same company (up to 30 percent) or also carry the company's life or homeowner's insurance (up to 15 percent). Another, lesser-known discount can help parents whose kids are away at college. Some companies offer discounts of up to 40 percent if a child goes to college at least 100 miles away—and leaves his car at home. Gray said State Farm doesn't offer this discount, however, since the student will probably drive, and possibly have an accident, when he's home on break.

While most agents will tell you about available discounts, some may not. So, it's important that you ask. According to Consumer Reports magazine, U.S. consumers fail to take advantage of more than $300 million in available discounts each year.

Stick with Older Cars

The third part of the Monsma family's strategy—giving the kids an older car to drive—is the first thing Allstate agent Chuck Knierim of Louisville recommends to his customers.

"Take a Honda Civic vs. a Z28. With the Z28, you'd probably be looking at $1000 more per six months," he said.

Besides being more expensive to insure, high-performance cars are more likely to get teen drivers into trouble. "You give teenagers 340 horsepower under the hood, and they're going to go out and do what that car was designed to do," Knierim said.

State Farm's Gray agreed. "Don't buy them a brand-new car. Get them a car that you're going to be able to put very minimal limits on," he said. If the car is worth only $1,000, for example, you might choose to drop collision or comprehensive coverage on it.

(Collision coverage pays for repairs to your car if it's involved in an accident, while comprehensive coverage protects you if the car is stolen or damaged by fire or vandalism. Neither type of coverage is required in Kentucky or Indiana. Keep in mind, however, that if you drop this coverage, you'll be responsible for any repairs to your car.)

For the Monsma family, the choice of cars was easy. "We took our oldest, least expensive car and made Tim the primary driver on it," Brian said. "The more pedestrian the better. No sports cars here!"

The car Tim drives, a 1991 Toyota Camry wagon, is probably not what he would have chosen, but it's safe, serviceable and relatively inexpensive to insure and operate. Tim pays for gas and shares in his insurance costs, as well as giving rides to his younger brothers when needed, while his parents take care of repairs, new tires and other major expenses.

What cars will Greg, 15, Ben, 13, and Rob, 11, be driving in a few years? Probably the same 1991 Camry, according to their dad. "We want to avoid at all costs becoming a four-car family," he said. "The Camry is identified as the boys' car, and Tim understands that he will go off to college without a car."

While older cars are cheaper to insure, there are some trade-offs. Most insurers offer discounts for safety features like automatic seatbelts, antilock brakes and airbags, features you're less likely to find on older cars. Security systems, especially those that disable the vehicle if someone tries to hot-wire it, are also good for a discount.

Drive Safely

Allstate agent Knierim offered one more piece of advice to teen drivers: keep a clean driving record. "The (accident) surcharge for a young driver can amount to $100 to $500 per six months depending on the severity of the accident, his or her age and the type of automobile it is," Knierim said.

According to State Farm's Gray, the parents' driving record can impact the teen's premium. "If the parents are in our Mutual Auto, the kids would be able to get our best rate," Gray said.

Brian Monsma emphasized that the example parents set can also have a profound impact on their children's driving habits. "If in the course of childhood kids can learn some reasonable driving skills—and especially how to handle road rage—that's going to preserve their health and keep insurance rates down," he said.

Fortunately, some insurers make allowances for less-than-perfect driving records. "Most insurance companies, including us, will give you a freebie," Knierim said. "But God help you if you have that second one."

How Discounts Can Cut Your Insurance Rates

The following chart demonstrates how much discounts can cut auto-insurance rates. By taking just four discounts, this hypothetical driver would reduce his premium by 32 percent. Other cost-saving measures, like sticking with older cars and choosing higher deductibles, would reduce the premium even further.

Base premium (before taxes and surcharges)	$1,536.40
Less good-student discount	-311.00
Less multiple-car discount	-62.20
Less multiple-line discount	-103.20
Less security-system discount	-12.60
Discounted premium (a 32% savings)	$1,047.40

Components of Auto Insurance Policies

When you buy auto insurance, you're actually buying a package of coverages, some of which are required by law and most of which are optional. Here's a brief rundown of the standard components:

Liability Coverage: Liability coverage protects you in the event that you cause injury, death or property damage with your car. Both Kentucky and Indiana require minimum coverage of $25,000/$50,000/$10,000. The first number refer to the maximum bodily-injury coverage per person and per incident, respectively, while the third number is the maximum property-damage coverage.

Medical Payments, Personal Injury Protection (PIP), and No-Fault Coverage: Pays for your and your passengers' medical expenses arising from an accident. Kentucky requires PIP coverage.

Uninsured/Underinsured Motorist Coverage: Pays for your injuries if you're hit by a hit-and-run driver, a driver who has no insurance or a driver who doesn't have enough insurance to pay for the damage he's caused. Kentucky requires this coverage.

Collision Coverage: Pays for repairs to your car when you're at fault in an accident.

Comprehensive Coverage: Pays for repairs to your car resulting from fire, vandalism and other non-accident causes.

Add-on Coverages: Most insurers also offer optional coverage for towing, rental-car replacement and other expenses indirectly related to accidents.