

THE CASE FOR RAISING AUTO INSURANCE MINIMUMS

JUNE 2024



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Executive Summary

- **Motor vehicle crash costs exceed \$340 billion per year, only half of which is covered by insurance:** Over 40,000 people are killed and more than 2 million are injured in motor vehicle crashes each year. The economic cost of these crashes exceeds \$340 billion a year, but only 54% of these costs are paid by insurance companies. Crash victims, health care providers, charities, and local governments end up bearing the rest of the economic burden.
- **Minimum levels of insurance are severely inadequate:** Many states set their minimum levels of insurance decades ago and they have not been changed to reflect increases in medical care costs, increases in motor vehicle repair costs, or even inflation generally.
- **Raising minimum insurance requirements does not increase drivers' premiums:** Despite fears that raising required minimum levels of insurance will increase premiums, states that have raised their minimum levels have seen the cost of auto insurance increase at a lower rate than the country as a whole over equivalent periods.
- **Raising minimum levels of insurance does not increase the number of uninsured drivers:** Higher minimum insurance levels are associated with lower rates of uninsured motorists. The majority of states that have raised minimums saw the proportion of uninsured drivers decrease.
- **Increasing minimum insurance levels protects victims:** Raising minimum insurance levels helps crash victims who would otherwise be left without full compensation for their losses and relieves the financial burden on health care providers, charities, local governments, and taxpayers.

Motor Vehicle Crash Costs Exceed \$340 Billion per Year, Only Half of Which is Covered by Insurance

In 2022, 42,500 people were killed in motor vehicle crashes, and another 2.4 million were injured. In 2019, the economic cost of such motor vehicle crashes in the U.S. exceeded \$340 billion a year—a 40% increase since 2010.¹

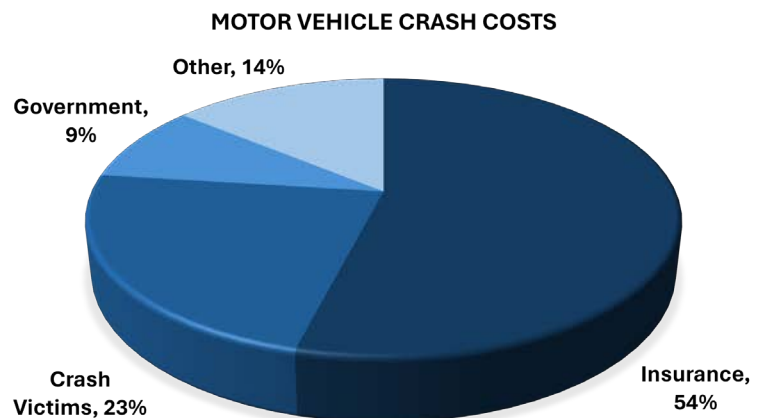
In 48 states and the District of Columbia, vehicle owners are required by law to purchase auto insurance to protect themselves and others in case of a crash. The minimum levels of insurance are set by each state and are comprised of three amounts: bodily injury or death of one person, bodily injury or death of two or more persons, and property damage. Florida has the lowest minimum requirements (\$10,000/\$20,000/\$10,000) while Alaska and Maine have the highest (\$50,000/\$100,000/\$25,000).

However, in most states these minimum levels were set decades ago and are now severely inadequate. Only 54% of \$340 billion in motor vehicle crash costs was paid by insurance companies. Crash victims end up paying 23% of crash costs, while the rest falls to charities, health care providers, local governments, and thus taxpayers.

Auto insurance – motor vehicle crash costs

Nearly half of all motor vehicle crash costs are not covered by insurance.

- The economic cost of motor vehicle crashes in the U.S. exceeds **\$340 billion a year**.
- Only 54% of these costs are paid by insurance companies. Crash victims end up paying 23% of crash costs, while the rest falls to charities, health care providers, local governments, and thus taxpayers.



Source: The Economic and Societal Impact of Motor Vehicle Crashes, 2019 (Revised), National Highway Traffic Safety Administration (NHTSA), February 2023.

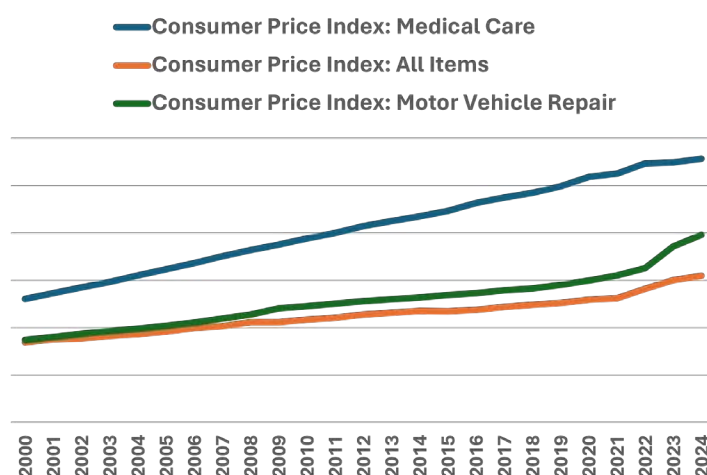
Minimum Levels of Insurance are Severely Inadequate

Part of the problem is outdated minimum insurance levels in many states, which haven't been adjusted for decades. Many of these minimums were established in the 1970s and haven't kept pace with the rising costs of medical care, vehicle repairs, or inflation.

Auto insurance repair costs

Medical care and motor vehicle repair costs have outpaced inflation over the last 25 years

- The increased complexity of cars, and the rising costs of parts and labor have resulted in repair costs outpacing inflation in the last few years.
- At the same time, medical care costs have significantly outpaced inflation, even as auto insurance minimums have largely remained unchanged.



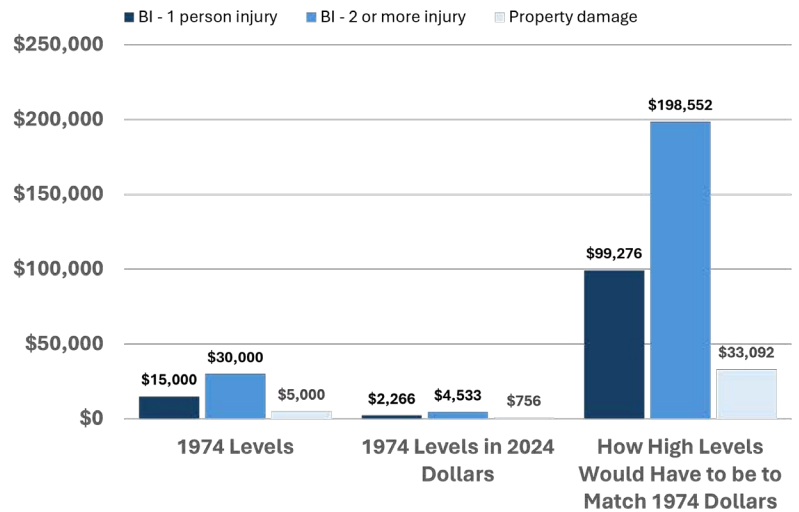
Source: FRED Economic Data, St. Louis Fed.

Minimum insurance levels have stayed largely the same even as the costs of medical care, vehicle repair, and property damage have increased. The result is that drivers involved in motor vehicle crashes do not have enough coverage to cover the costs of crashes. Drivers deemed at fault in a crash may then find themselves having to pay out of their own pocket to cover the difference between their insurance and the other driver's expenses, or the injured parties themselves may be left to cover the costs of a damaged vehicle, medical bills, and lost wages.

Pennsylvania's minimum insurance levels (bodily injury or death of one person-\$15,000 / bodily injury or death of two or more persons-\$30,000 / and property damage-\$5,000) were set in 1974, for example. At the time, a Hershey's bar was 15 cents, a loaf of bread was 33 cents, the average car cost just under \$5,000, and the average house just \$36,000.²

Auto insurance minimums - Pennsylvania

- **Pennsylvania's minimum levels of insurance date back to 1974 and have not been updated.**
- **Those levels are significantly inadequate today.**
- **Minimum levels would have to be significantly increased to come close to their original value.**



Raising Minimum Levels of Insurance Does Not Increase Insurance Premiums

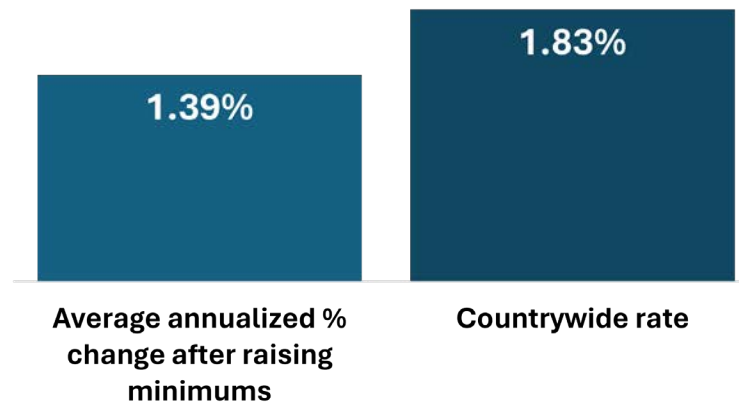
Lawmakers are often reluctant to increase minimum levels of insurance because of the fear that insurance premiums may increase dramatically. However, drivers in states that have raised their minimum insurance levels have not experienced spikes in their auto insurance premiums.

An analysis of industry data from the National Association of Insurance Commissioners (NAIC) shows that the average cost of auto insurance in states that raise their minimum levels of insurance increases at a lower rate than the country as a whole over the equivalent periods.³

Auto insurance rates

The cost of auto insurance in states that have raised minimum auto insurance levels has risen at a lower rate than the country as a whole.

Average annualized percentage increase in the average combined premium (liability, collision, and comprehensive) compared to the country as a whole over equivalent periods (2007-2021).



Source: data derived from the National Association of Insurance Commissioners (NAIC).

Nor is this a matter of cherry-picking data by, for instance, picking favorable time periods. States that raise insurance minimum levels saw one-year and five-year increases that were below national trends.

Academic work investigating insurance minimum levels has come to similar conclusions. Researchers from Widener Commonwealth University Law School found that the two primary objections to raising minimums—increased premiums and increased uninsured rates—were likely exaggerated. Actual premium increases after raising minimums were small and affected few drivers, while uninsured rates actually decreased.

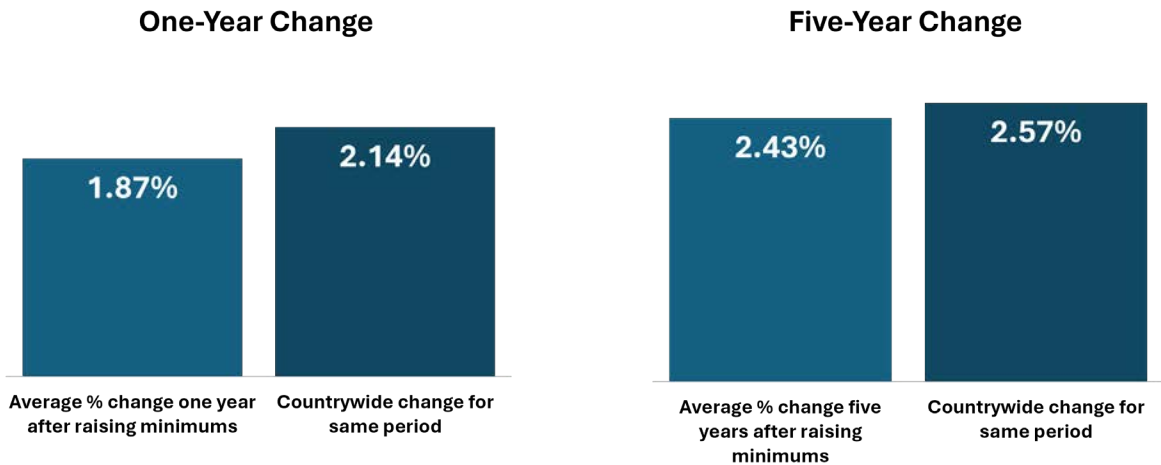
“Even the largest of the increases is not dramatic, and the increases seem

even less significant when viewed in context. It is not clear what portion, if any, of the increases are caused by raising the compulsory minimum amounts. For example, the largest annual increase, in Illinois, was \$33.03 after raising the minimum amounts, a 4.1% increase. The same year, however, the national percentage increase in annual insurance costs was 5.3%, over one percent higher than Illinois' increase. Ohio is a similar case; the year after the compulsory minimum amounts were raised, automobile insurance premiums increased \$23.34, a 3.5% increase. The same year, the national percentage increase in annual insurance costs was 3.2%, just a little below Ohio's percentage increase. Maryland (1.1%; national average 2.2%), Texas (decrease of 2.2%; national average increase of 2.2%), and Louisiana (.1%; national average .7%) all experienced a smaller percentage increase in cost than the national average the year after compulsory minimum amounts were increased.”⁴

Auto insurance rates

States that raised minimums did not experience short-term spikes in auto insurance costs.

Average (annualized) percentage increase in the cost of auto insurance in states that raised minimum insurance levels, compared to the country as a whole over the same periods.



Source: data derived from the National Association of Insurance Commissioners (NAIC).

Raising Minimum Levels of Insurance Does Not Increase the Number of Uninsured Drivers

Researchers from Widener Commonwealth University Law School found that uninsured rates actually decreased in six of the last seven states to raise their minimum insurance amounts, concluding:

“The percentage of motorists driving without insurance is not necessarily related to the compulsory minimum amounts imposed by a jurisdiction. In 2015, the latest year for which data are available, the jurisdiction with the highest uninsured motorist rate imposed the smallest required amounts of insurance and the jurisdiction with the lowest uninsured motorist rate imposed the highest required amounts of insurance. Florida imposes the least stringent limits among all of jurisdictions, 10/20/10, and yet in 2015 had the highest percentage of uninsured drivers, a staggering 26.7 percent. On the other hand, Maine requires 50/100/25, and had the lowest rate of uninsured drivers at 4.5 percent.”⁵

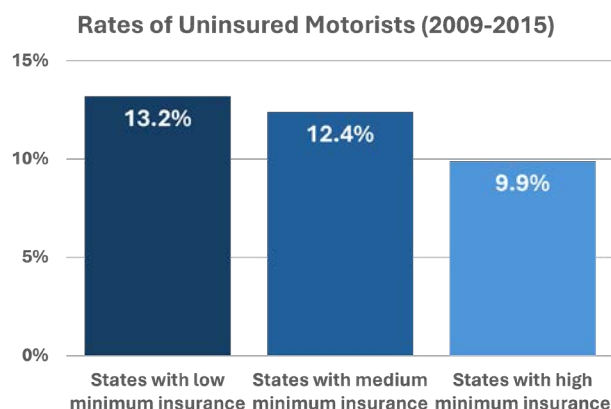
In a 2019 study conducted for the Insurance Research Council, the actuarial firm Milliman also found that higher minimum levels of insurance were not associated with higher levels of uninsured drivers. The researchers admitted that this was a surprise because their expectation was that, “high minimum insurance coverage requirements would create higher rates [and] would impose greater financial stress on individuals and cause more individuals to be uninsured.” However, their results indicated the opposite. States with higher minimum insurance levels had lower rates of uninsured motorists (UM). Indeed, states with the highest minimums had much lower UM rates.⁶

Auto insurance – uninsured motorist rates

States with higher minimum auto insurance levels have *lower* rates of uninsured motorists.

Uninsured motorist rates in states with low, medium, and high minimum insurance levels.

Higher minimum insurance levels are associated with *lower* rates of uninsured motorists.



Source: Factors Associated with Differences in the Incidence of Uninsured Motorists, Milliman, March 11, 2019.

Conclusion

Raising minimum levels of insurance will better protect crash victims of motor vehicle crashes from being left with hefty bills to pay out of pocket. This simple policy change would bring insurance requirements in line with the real cost of motor vehicle crashes, and thus help to alleviate financial burdens on individuals and families affected by crashes. The perceived downsides to such public policy—increased insurance rates and increased numbers of uninsured drivers—turns out to be more myth than fact.

Methodology

Data on the average auto insurance cost (expenditures) per insured vehicle for the last 15 years (2007-2021) were taken from the NAIC's Auto Insurance Database Report and Auto Insurance Database Premium Supplement (various editions). The average cost refers to the total written premium for liability, collision, and comprehensive coverages divided by the liability written car-years (exposures). The average cost is an estimate of what consumers in the state spent, on average, for auto insurance. Increases in the cost and premium data for states that raised auto insurance minimum levels during this period were annualized (wherein the inflationary effect is converted into an annual percent change) and then compared to the countrywide data for the same respective periods.

Appendix

Average Spending on Auto Insurance, 2007-2021

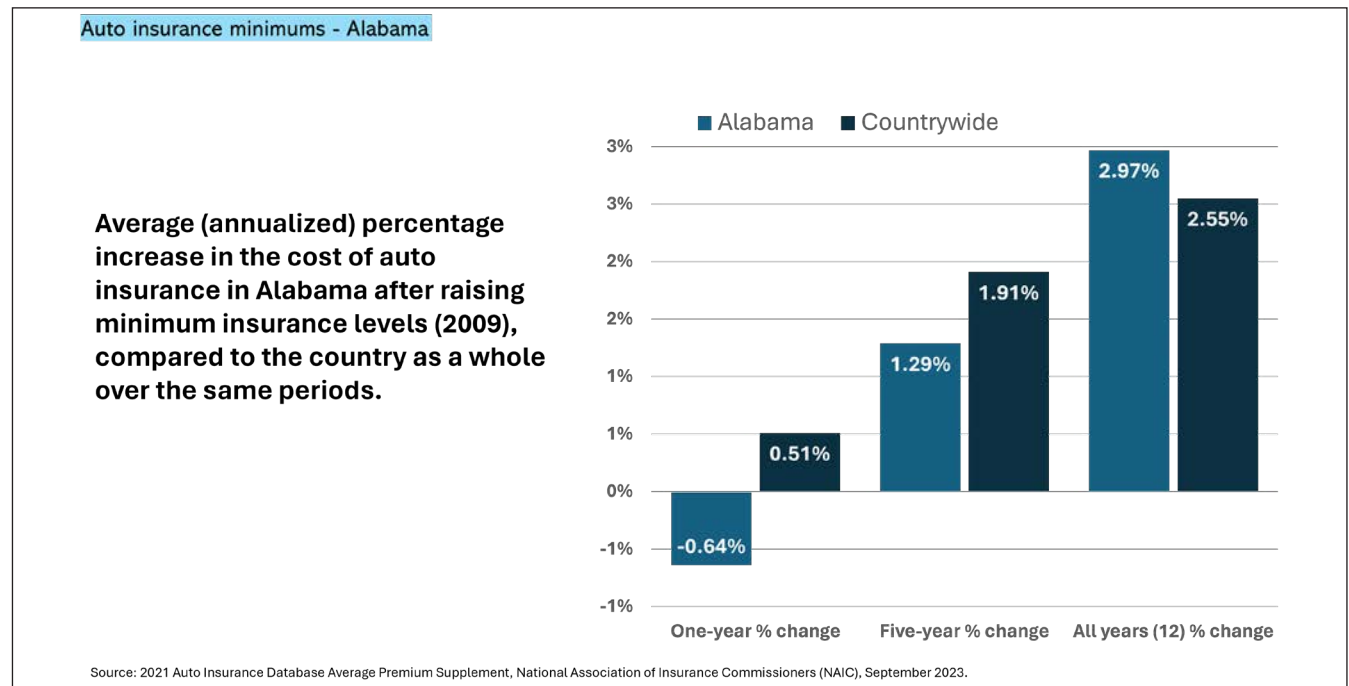
See also States that have Raised Minimum Insurance Levels (2007-2021) below for details on minimum insurance levels before and after changes.

STATE	Annualized % change after minimums raised	Countrywide annualized % change for the same period
Alabama	2.97%	2.53%
Arizona	3.07%	1.53%
Connecticut	0.71%	0.13%
Delaware	0.65%	1.29%
Illinois	2.09%	2.85%
Indiana	-0.17%	0.13%
Kansas	1.46%	1.29%
Louisiana	2.70%	2.71%
Maryland	2.30%	2.94%
Michigan	-7.81%	1.53%
Nevada	2.55%	1.29%
Ohio	2.06%	2.99%
Oregon	2.26%	2.53%
South Carolina	2.91%	2.06%
Texas	3.33%	2.94%
Utah	2.38%	2.53%
AVERAGE:	1.47%	1.95%

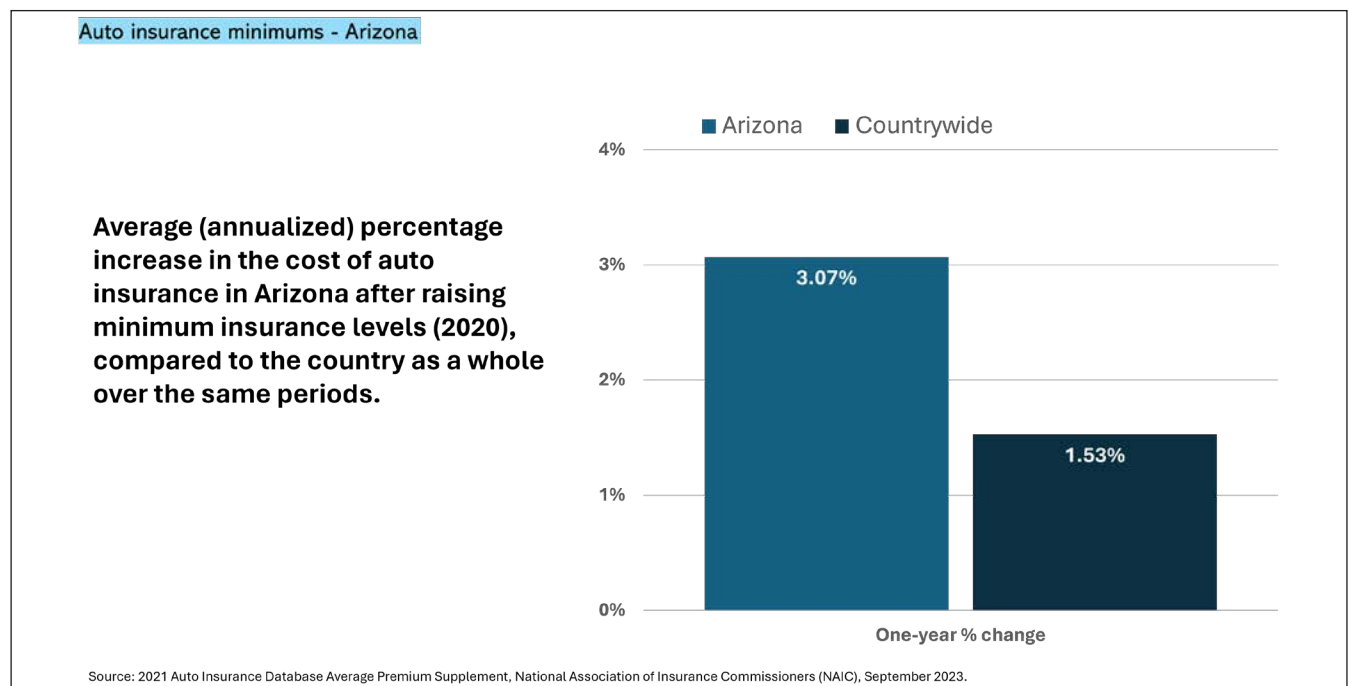
State Insurance Costs After Raising Minimums

Average (annualized) percentage increase in the cost of auto insurance in states after raising minimum insurance levels, compared to the country as a whole over the same periods.

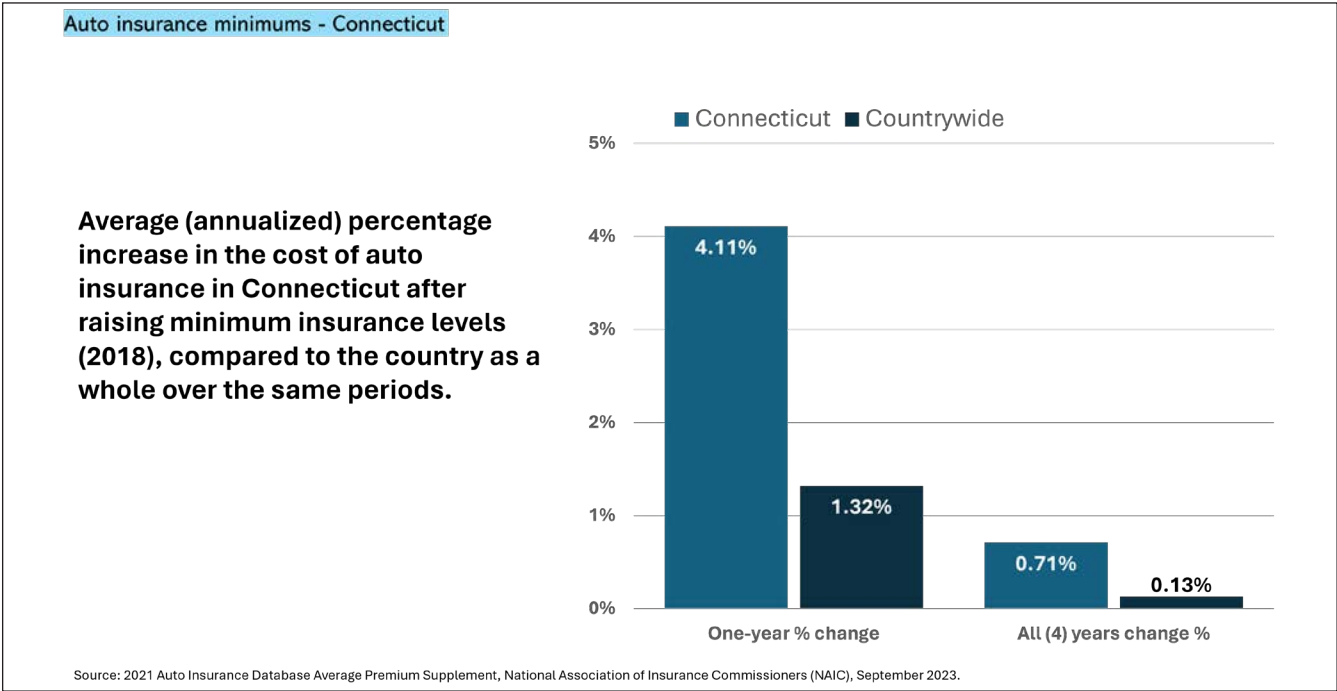
Alabama



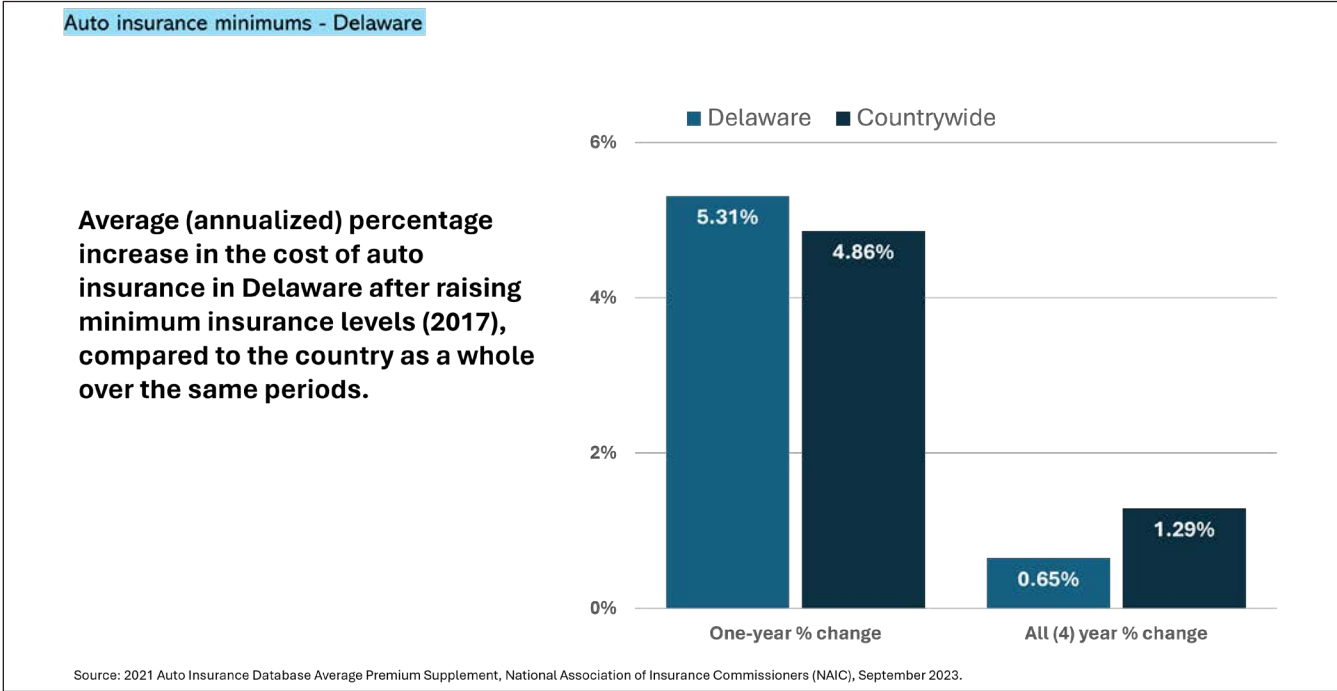
Arizona



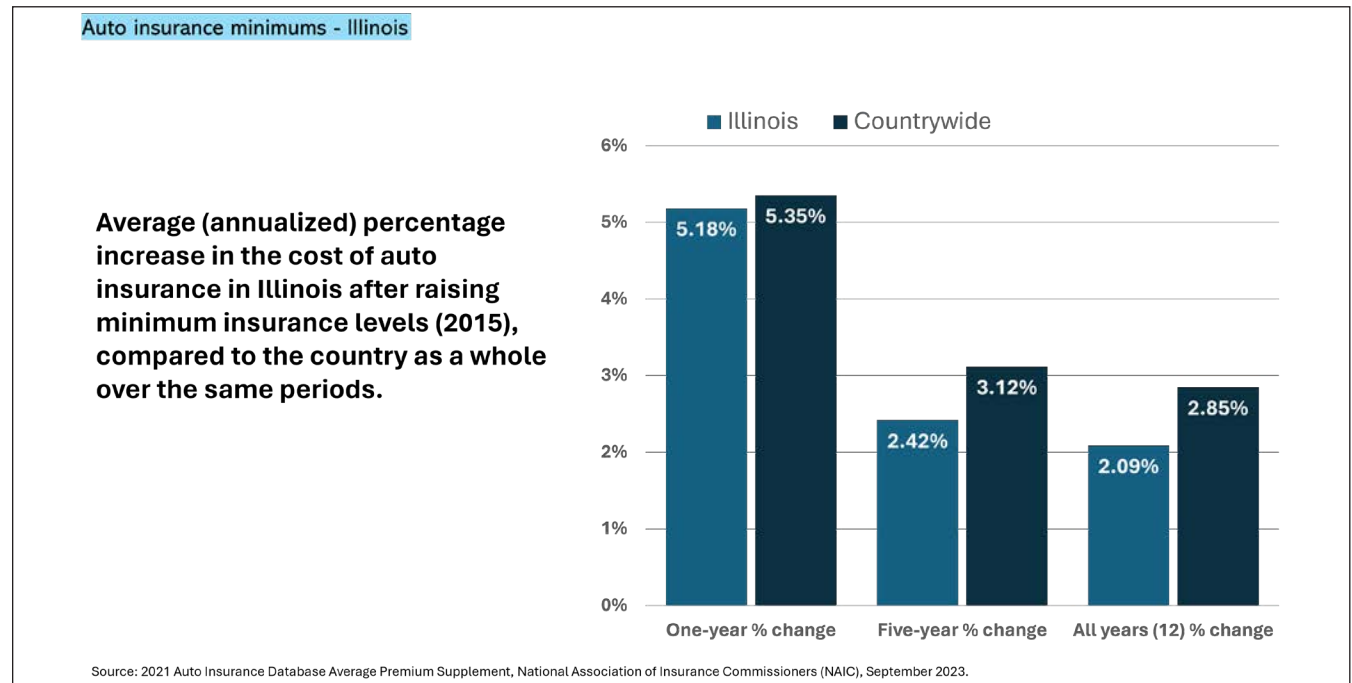
Connecticut



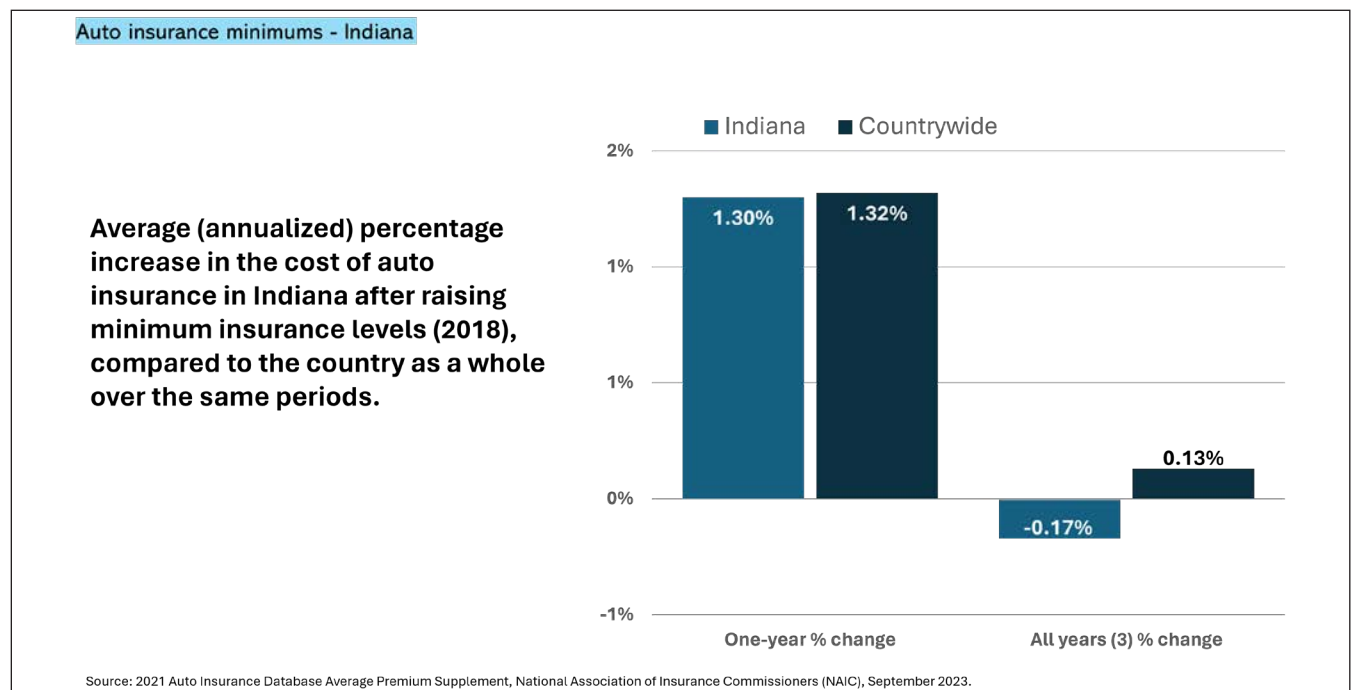
Delaware



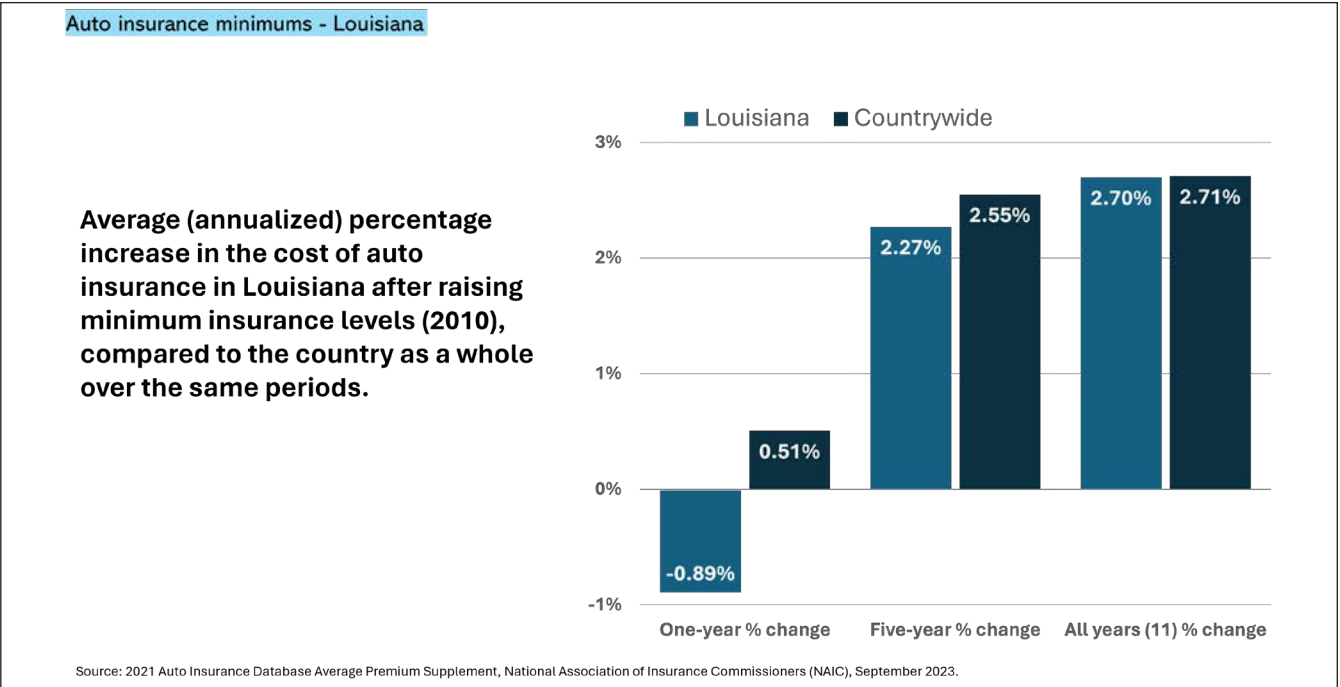
Illinois



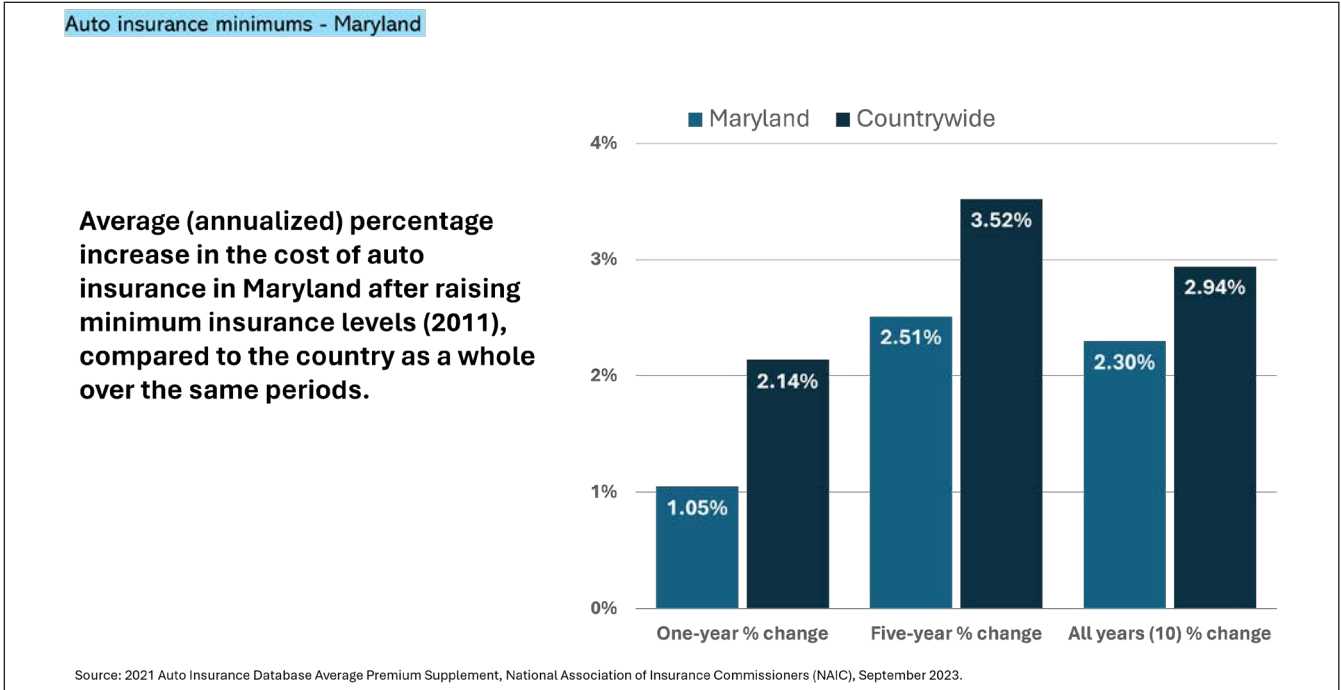
Indiana



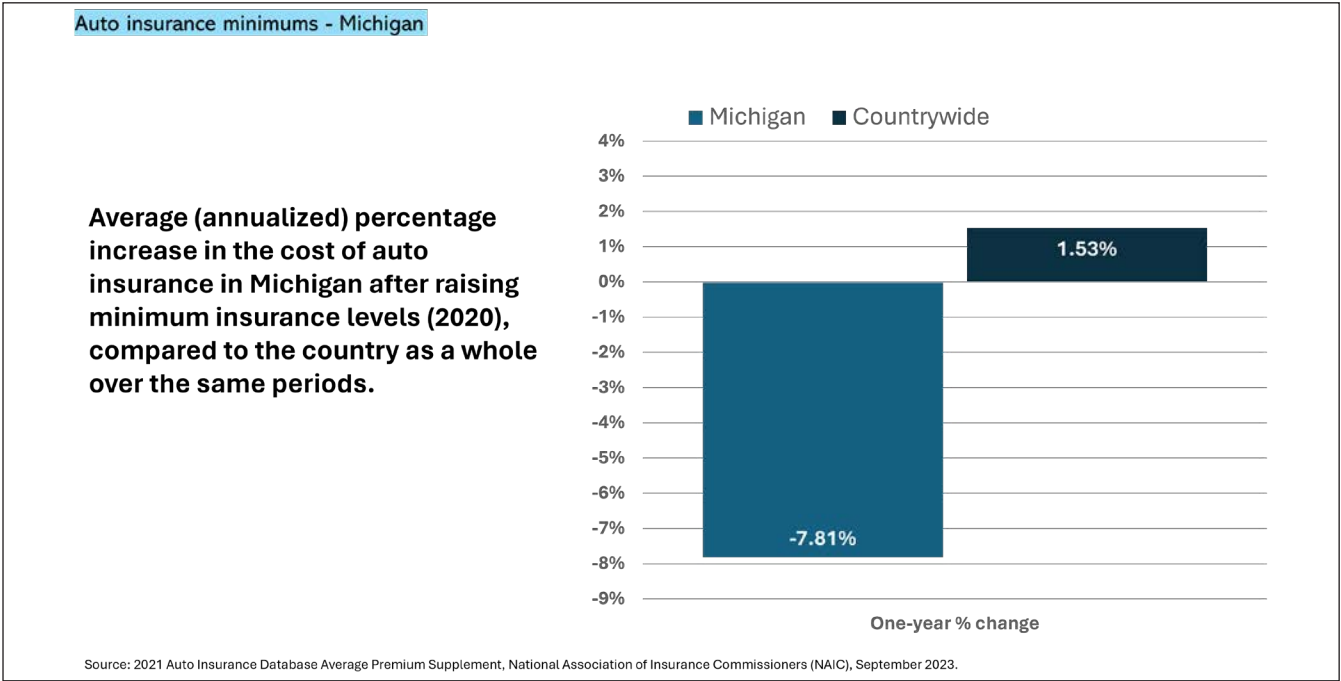
Louisiana



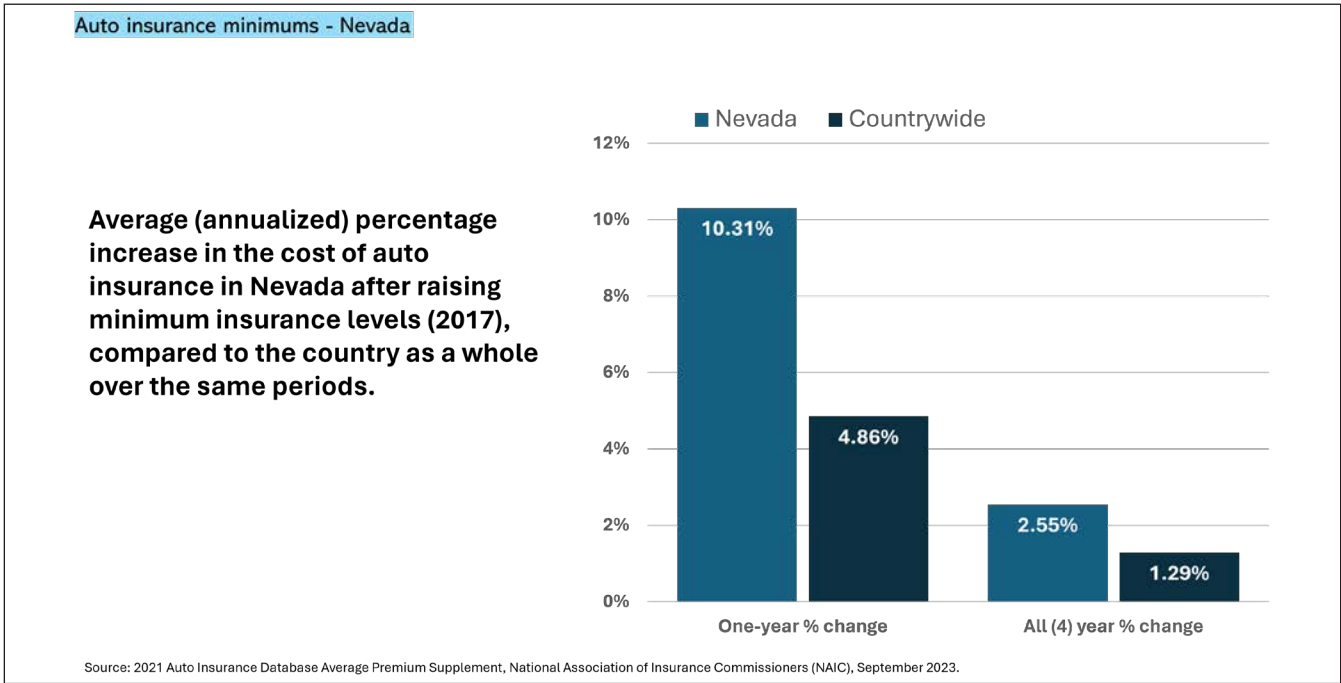
Maryland

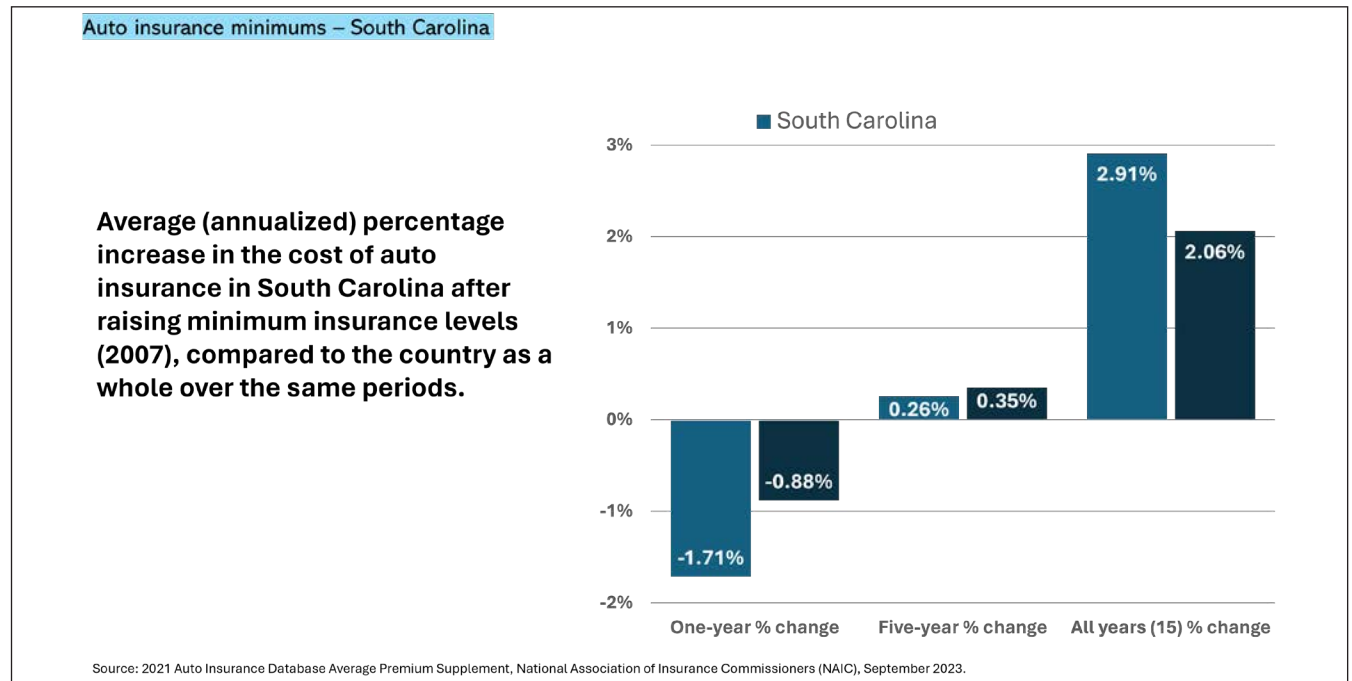


Michigan

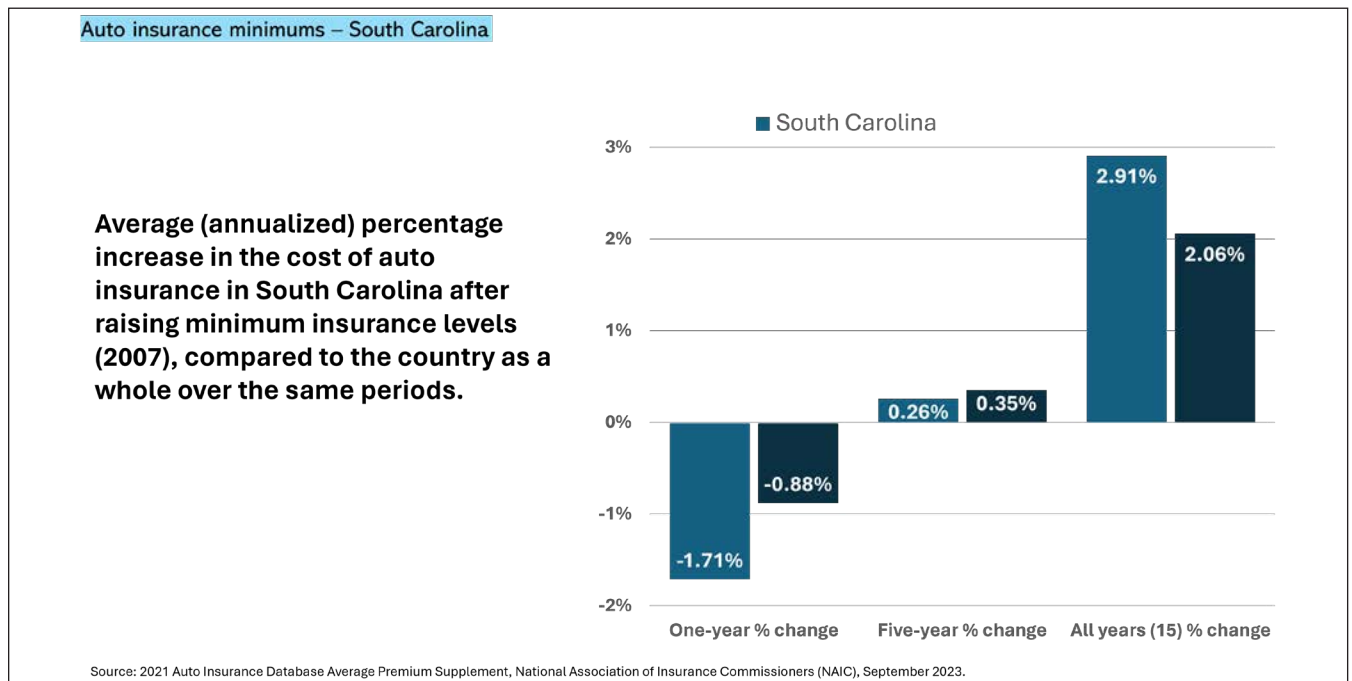


Nevada





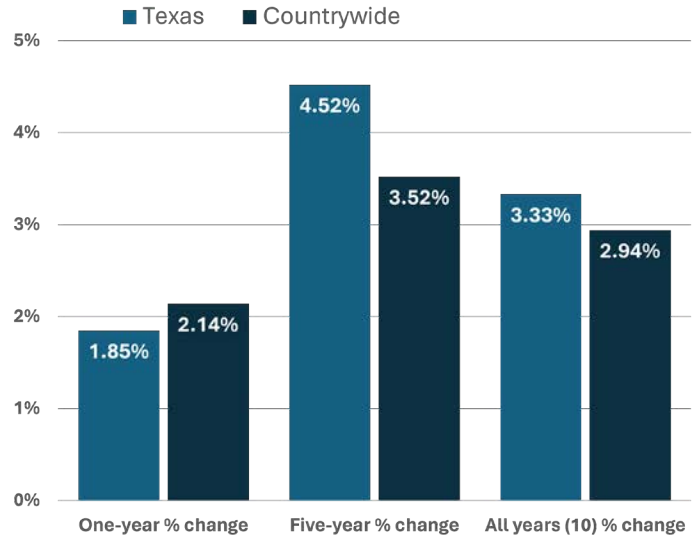
South Carolina



Texas

Auto insurance minimums - Texas

Average (annualized) percentage increase in the cost of auto insurance in Texas after raising minimum insurance levels (2011), compared to the country as a whole over the same periods.

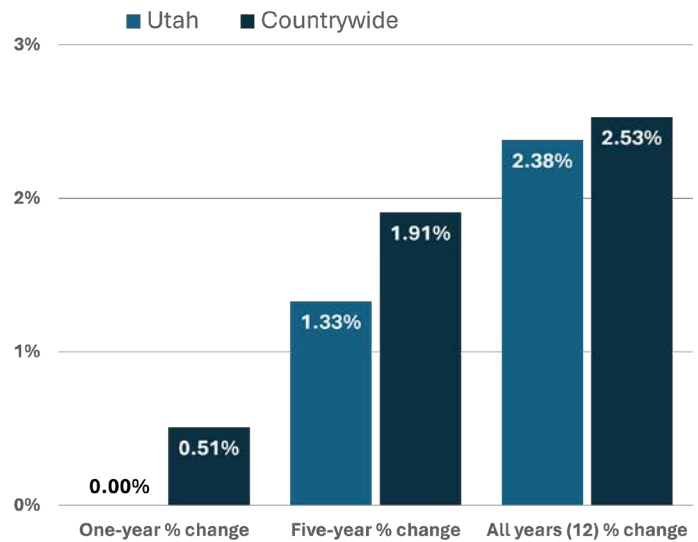


Source: 2021 Auto Insurance Database Average Premium Supplement, National Association of Insurance Commissioners (NAIC), September 2023.

Utah

Auto insurance minimums - Utah

Average (annualized) percentage increase in the cost of auto insurance in Utah after raising minimum insurance levels (2009), compared to the country as a whole over the same periods.



Source: 2021 Auto Insurance Database Average Premium Supplement, National Association of Insurance Commissioners (NAIC), September 2023.

States that have Raised Minimum Insurance Levels (2007-2021)

State	Liability Limit Requirements	Last updated
Alabama	25/50/25	2009
Arizona	25/50/15	2020
Connecticut	25/50/25	2018
Delaware	25/50/10	2017
Illinois	25/50/20	2015
Indiana	25/50/25	2018
Kansas	25/50/25	2017
Louisiana	15/30/25	2010
Maryland	30/60/15	2011
Michigan	50/100/10	2020
Nevada	25/50/20	2017
Ohio	25/50/25	2013
Oregon	25/50/20	2009
South Carolina	25/50/25	2007
Texas	30/60/25	2011
Utah	25/65/15	2009

Annual Economic Cost Due to Motor Vehicle Crashes by State⁷

State	Deaths (2021)	Deaths per 100,000 Population	Annual Economic Cost Due to Motor Vehicle Crashes
Alabama	983	19.5	\$4.47 billion
Alaska	67	9.1	\$592 million
Arizona	1,180	16.2	\$4.183 billion
Arkansas	693	22.9	\$2.386 billion
California	4,285	10.9	\$19.998 billion
Colorado	691	11.9	\$4.173 billion
Connecticut	298	8.2	\$4.880 billion
Delaware	136	13.5	\$684 million
District of Columbia	41	6.1	\$859 million
Florida	3,738	17.1	\$10.75 billion
Georgia	1,797	16.7	\$10.787 billion
Hawaii	94	6.5	\$577 million
Idaho	271	14.2	\$886 million
Illinois	1,334	10.5	\$10.885 billion
Indiana	932	13.7	\$6.375 billion
Iowa	356	11.1	\$2.188 billion
Kansas	424	14.4	\$2.445 billion
Kentucky	806	17.9	\$4.363 billion
Louisiana	972	21	\$5.691 billion
Maine	153	11.1	\$1.303 billion
Maryland	561	9.1	\$4.476 billion
Massachusetts	417	6	\$5.835 billion
Michigan	1,136	11.3	\$9.599 billion
Minnesota	488	8.5	\$3.057 billion
Mississippi	772	26.2	\$2.718 billion
Missouri	1,016	16.5	\$5.560 billion
Montana	239	21.6	\$898 million
Nebraska	221	11.3	\$1.295 billion
Nevada	385	12.2	\$1.978 billion
New Hampshire	118	8.5	\$1.374 billion
New Jersey	699	7.5	\$12.813 billion
New Mexico	481	22.7	\$1.769 billion
New York	1,157	5.8	\$15.246 billion
North Carolina	1,663	15.7	\$7.909 billion
North Dakota	101	13	\$706 million
Ohio	1,354	11.5	\$10.125 billion
Oklahoma	762	19.1	\$2.910 billion
Oregon	599	14.1	\$1.768 billion
Pennsylvania	1,230	9.5	\$5.851 billion
Rhode Island	63	5.7	\$1.599 billion
South Carolina	1,198	23.1	\$4.045 billion
South Dakota	148	16.5	\$720 million
Tennessee	1,327	19	\$5.6667 billion
Texas	4,498	15.2	\$17.044 billion
Utah	328	9.8	\$1.725 billion
Vermont	74	11.4	\$538 million
Virginia	973	11.2	\$4.998 billion
Washington	670	8.7	\$4.469 billion
West Virginia	280	15.7	\$1.482 billion
Wisconsin	620	10.5	\$4.546 billion
Wyoming	110	19	\$788 million

ENDNOTES

- 1 *The Economic and Societal Impact of Motor Vehicle Crashes, 2019 (Revised)*, National Highway Traffic Safety Administration (NHTSA), February 2023, <https://crashstats.nhtsa.dot.gov/Api/Public/ViewPublication/813403>.
- 2 *Prices Rising 5c on Some Chocolate Bars*, The New York Times, October 28, 1976, <https://www.nytimes.com/1976/10/28/archives/prices-rising-5c-on-some-chocolate-bars-prices-increasing-on.html>; *Average Price of a New Car*, *Transportation Energy Data Book*, Oak Ridge National Laboratory, <https://tedb.ornl.gov/>; *New Single-Family Home Prices: 1964-Present*, U.S. Department of Housing and Urban Development, <https://www.huduser.gov/periodicals/ushmc/winter2001/histdat08.htm>.
- 3 See Methodology for details on NAIC data used.
- 4 *Raising Compulsory Automobile Insurance Minimum Amounts: A Case Study from the United States*, Insurance Review, 2019, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3558165.
- 5 *Raising Compulsory Automobile Insurance Minimum Amounts: A Case Study from the United States*, Insurance Review, 2019, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3558165.
- 6 *Factors Associated with Differences in the Incidence of Uninsured Motorists*, Milliman, March 11, 2019.
- 7 *Fatality Facts 2021*, Insurance Institute for Highway Safety and the Highway Loss Data Institute (IIHS HLDI), May 2023, <https://www.iihs.org/topics/fatality-statistics/detail/state-by-state>; *The Economic and Societal Impact of Motor Vehicle Crashes, 2019 (Revised)*, National Highway Traffic Safety Administration (NHTSA), February 2023, <https://crashstats.nhtsa.dot.gov/Api/Public/ViewPublication/813403>.

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